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The Mysterious Fed

BY MURRAY N. ROTHBARD

Alan Greenspan has received his foreordained reappointment as chairman of the Fed, to the smug satisfaction and contentment of the entire financial Establishment. For them, Greenspan's still in his heaven, and all's right with the world. No one seems to wonder at the mysterious process by which each succeeding Fed chairman instantly becomes universally revered and indispensable to the soundness of the dollar, to the banking and financial system, and to the prosperity of the economy. When it looked for a while that the great Paul Volcker might not be reappointed as Fed chairman, the financial press went into a paroxysm of agony: no, no without the mighty Volcker at the helm, the dollar, the economy, nay even the world, would fall apart. And yet, when Volcker finally left the scene years later, the nation, the economy, and the world, somehow did not fall apart; in fact, ever since, none of those who once danced around Volcker for every nugget of wit and wisdom, seem to care any longer that Paul Volcker is still alive.

What was Volcker's mysterious power? Was it his towering, commanding presence? His pomposity and charisma? His strong cigars? It turns out that these forces really played no role, since Alan Greenspan, now allegedly the Indispensable Man, enjoys none of Volcker's qualities of personality and presence. Greenspan, a nerd with the charisma of a wet mackerel, drones on in an uninspired monotone. So what makes him indispensable now? He is supposed to be highly "knowledgeable," but of course there are hundreds of possible Fed chairmen who would know at least as much.

So if it is not qualities of personality or intellect, what makes all Fed chairmen so indispensable, so widely beloved? To paraphrase the famous answer of

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Mob Rule

BY BRADLEY MILLER

Maybe Reagan was *warning* us seven years ago with "you ain't seen nothin' yet." Now the United States is broke, and who can fix it? Perhaps psychoanalysis has an answer. At least some of its terms could be useful in analyzing democracy.

"Symptom substitution," for example. If you eliminate a symptom but not its cause, another symptom of the same cause is supposed to "substitute" for it. Thus even if I stop, say, getting drunk, I am hardly cured if I then take up marijuana.

From the evidence I've seen, the symptom-substitution theory has little validity when applied to individuals, but it may be a useful way of looking at democracy in America, where politicians are constantly prescribing aspirin to relieve brain tumors. They do so not chiefly because they're stupid but because it's politically expedient. It is politically expedient because democracy, in its modern incarnation, rewards those who pander to ignorance and self-interest.

Though the cause can rarely be addressed—it offends the press's vanity to hear that the public is indifferent to its electrifying coverage of public affairs—the baleful symptoms are addressed in acres of

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The Political Business Cycle

From the President

BY LLEWELLYN H. ROCKWELL, JR.

It's September 1992 and Federal Reserve chairman Alan Greenspan announces a big increase in the discount rate and bank reserve requirements. Interest rates and unemployment increases, the economy goes into a deeper recession, and Bush is defeated. But Greenspan has no apologies: as a nonpartisan servant of the public, his policies must "focus only on what's good for the economic health of America. The boom was hurting our country; we had to purge the malinvestments to make way for long-lasting growth."

That scenario is about as likely, of course, as Madonna joining Mother Theresa. Greenspan will do what Fed chairmen always do: the White House's bidding. Thus he has artificially lowered interest rates for most of 1991, leading to more economic troubles after the election.

The first economists to examine thoroughly the political business cycle, Stephen Haynes and Joe Stone, found "strong four-year cycles in unemployment and inflation, with peaks and troughs consistent with the four-year electoral cycle" from 1951 through 1980, the last year they looked at.

Why isn't this as big a scandal as the October Surprise? It almost was, in the early 1970s, when Richard Nixon appointed Arthur F. Burns, beloved economist and party hack—the Greenspan of his time—as chairman of the Fed's board of governors. In making the announcement, Nixon said, "I respect his independence. However, I hope that independently he will conclude that my views are the ones that should be followed." The audience applauded, and Nixon turned to his old friend. "You see, Dr. Burns, that is a standing vote for lower interest rates and more money." It was the only vote needed.

In August 1971, with price inflation running at 4%, Nixon severed the dollar's final tie to gold and imposed price and wage controls. Under that stunningly opportunistic cover, Burns hiked money growth from 3.2% in the last quarter of 1971 to 11% in the first quarter of 1972, the election year. The economy boomed, prices were artificially restrained, and Nixon was reelected in a landslide. After the election, he removed some of the controls, price inflation soared to 12%, and Burns stepped on the monetary brakes, bringing on a recession.

Such economic offenses are more difficult to prove these days, since Burns abolished the practice of taking detailed minutes of the meetings of the Federal Open Market Committee.

Recorded or not, however, Greenspan also does the president's bidding. After all, as Arthur Burns once explained to a German reporter, "If the chairman didn't do what the president wanted, the Federal Reserve would lose its independence." Steve Axilrod, former staff head of the Open Market Committee now making his fortune on Wall Street, told me that was "the most damaging statement ever made by anyone connected with the central bank." Damaging, of course, because true.

The Fed serves two masters, the government and the big banks. In matters of the government's core interests, i.e., elections, *it* calls the tunes—not that it gets any opposition from the big banks on inflating.

At its inception, the Federal Reserve's proponents said it would be above politics. Thus its "independence." But this has always been disinformation. The Fed is the quintessentially political agency in D.C.

Not that Fed policy is the only way Washington, D.C., gets its way. For example, politicians also have fiscal policy at their disposal, which is to say they can spend more of our money on public works, welfare, etc. And trade regulators can wipe out whole classes of imports to create boomlets for select domestic manufacturers.

All these strategies seem to improve the economy, only later turning out to be deadly. By then, the politicians are safely reelected.

The cost in human suffering of the political business cycle and related political manipulations is incalculable—but we can know that most Americans are poorer, and most businesses shakier, than they would be without government central banking, high spending, and regulations. ♦

Writers

IN THIS ISSUE

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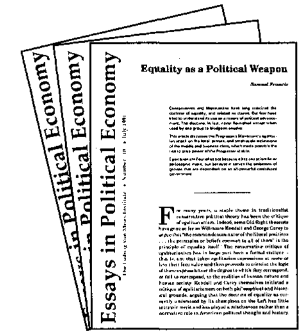
Publications of the Month

Three of our new *Essays in Political Economy* are just out, and this month, you can get them for $10, including postage and handling. Dealing with some of the cutting-edge issues of our time, in a definitely non-politically correct way, are "Equality as a Political Weapon" by Dr. Samuel Francis of the



Washington Times; "Egalitarianism, Centralization, and the Debasement of American Education" by Dr. Thomas Fleming of *Chronicles* magazine; and "Handicapping the Economy: State Intervention for the 'Differently Abled' " by Dr. Thomas DiLorenzo of the University of Tennessee at Chattanooga. ♦

Subsidizing Unemployment

BY MORGAN O. REYNOLDS

News item: over the last year employment slumped 1.5 million and the official unemployment count climbed two million to 8.5 million, boosting the official jobless rate to 6.8% in July 1991.

What's a compassionate Congressperson to do? Tax and spend, of course. By voice vote in the Senate and 375-45 in the House, Congress approved 26 to 46 weeks extra jobless benefits, at a cost of $5 billion and as many as three million new beneficiaries.

The "read my lips" president had it both ways again, signing the bill but refusing to declare the emergency necessary to tap the new barrel of spending. He stoutly affirmed, "I won't bust the budget." Democratic leaders will push for an even bigger unemployment bonanza this fall.

What is the economic logic of Congress? Unemployment on the rise? Then subsidize it more lavishly. Intensify it and spread it around, goes the bipartisan chorus. This is especially dangerous stuff because the unemployment problem has been the biggest stick of all to beat on capitalism.

The Congressional majority completely misdiagnosed the problem. As Benjamin Anderson put it, "We can have just as much unemployment as we want to pay for." The past provides horrifying examples. Attracted by jobless relief at all time highs relative to wages, huge volunteer armies of unemployeds in interwar Britain and Germany led a puzzled John Maynard Keynes to a new theory of "aggregate demand deficiency" and opened the path for Adolf Hitler. Perhaps we should be thankful that Congress has not made jobless benefits more generous or extended them, say, to owners of nonlabor assets temporarily idled or lacking "full sales."

Unemployment insurance (UI), passed as part of the Social Security Act of 1935, is mislabeled. Unemployment is not a disagreeable event like being sick. People enjoy being jobless. Everyone prefers leisure to work. As economist Nassau Senior wrote, "nothing is so much disliked as steady, regular labor." What people miss is the money income from work. Disagreeable or not, the condition of being unemployed is inherently uninsurable, as a few corporations and unions discovered in their private unemployment insurance programs of the 1920s.

In a free market, unemployment is a matter of choice. It is "voluntary," that is, within an individual's control. And the availability of government money without work stimulates appetites for leisure and dampens them for work. Nor is there ever any shortage of "jobs" in a free market. There is an unlimited amount of work to do, and labor always remains a scarce factor of production, even in the severest business downturn. When people say there are no jobs, they mean they cannot find a "decent," "American," high-wage job.

Unemployment boils down to a question of pricing. Employment is a labor service which is purchased or sold. Unemployment is a labor service offered at too high a price for potential takers. Prices must please both buyer and seller before a voluntary transaction can occur—labor services included.

Before the 1930s, recessions and depressions were short-lived. Sellers, including labor unions and workers, had to accommodate themselves to new market conditions if they wanted to continue working, earning, producing, and eating. Prices and wage rates adjusted more quickly to market-clearing levels because there was not much choice. This flexibility restored full employment more quickly.

Today we have an elaborate income-support mechanism supplied by the modern welfare state, slowing adjustment in prices and wage rates whenever a spending slowdown occurs. The system, in the words of Ludwig von Mises, allows the unemployed to "overrate themselves." People are not so pressured to accept lower wages or less desirable jobs because the rewards of being jobless are not bad, at least for awhile. Fishing, golf, deer hunting, repairs around the house, and the underground economy beckon.

Evidence shows that labor supply prices fall about 1% per month during unemployment bouts. But when unemployment benefits are exhausted, they drop 15%. And job acceptances dramatically increases, something not observed for job searchers not eligible for benefits. To extend UI for 20 more weeks, as Congress proposes, would raise the average duration of unemployment about four weeks.

Today, the high unemployment rates in Europe persist largely because of their generous replacement rates for wages and longer periods of eligibility. For example, the average duration of continuing jobless spells in the United Kingdom in 1984 was 63 weeks versus 18 weeks in the United States.

State UI programs try to limit these perverse incentive effects by restricting benefits to those who lost their job "through no fault of their own," requiring registration for work with the state Employment Service, mandating acceptance of a "suitable job," replacing "only" half of wages on average, limiting benefits to six months, and penalizing high lay-off firms with higher UI tax rates (so-called experience-rating).

But these damage control weapons don't usually work. For example, the UI tax structure is shot through with cross-subsidies that raise unemployment. One study found that tightened administrative standards lowered benefits paid substantially during the 1980s, suggesting much more could be done. Alarmed that in recent years a majority of unemployeds do not collect benefits, leftists cry that we have a perilous "hole in the safety net."

Outside of government itself, unions are the main interest group behind UI benefits. Members are concentrated in cyclical industries, and the U.S. Department of [Organized] Labor proudly proclaims that unemployment insurance prevents "a breakdown in labor standards." Translation: paying people to be jobless keeps labor off the market and protects cartel wage rates. But inflexible labor prices impoverish the nation by reducing total employment and output. Truly generous unemployment benefits would eliminate nearly all constraints on union pricing policies.

The public has always been skeptical about the wisdom of making cash payments to the jobless. Most people rightly believe that they subsidize loafers. That's why a majority of every population group consistently favors making UI laws stricter. In a rare popular referendum, the CIO, after failing to gain the liberalized benefits it wanted from the Ohio legislature, took its cause to the voters in 1955 and lost two-to-one. After that experience, unions learned to act more covertly.

There is no evidence that unemployment benefits help recipients find better jobs, so there is no hoped-for "social" return attributable to UI payments. Nor does UI redistribute much income to the poor; half the benefits are paid to families with incomes above the median family income before UI benefits.

Does the UI program need reform? In fact, it should be abolished. Politically impossible, you say? Too sensible?

Of course. Then work to partially abolish it. Here are four suggestions: 1) delay receipt of initial benefits four, six, or eight weeks; 2) convert it to a loan program repayable from subsequent earnings in whole or in part; 3) pay benefits in lump sums to eliminate the incentive to continue to be jobless to draw benefits; 4) link UI tax rates more closely to layoff experience. These measures would be solid steps toward the goal of eliminating prizes for not working, restoring wage flexibility and the ability of the economy to rebound more quickly from recessions.

But who can be optimistic about Congress, legislatures, and administrative bureaucracies doing the right thing? ♦

The Deadly Tax

BY WILLIAM MURCHISON

The theologians classify envy as one of the Seven Deadly Sins—deadly in the sense that it imperils one's opportunities for eternal life. Pope Gregory I said that envy is captured in a secret question: "Where am I less than this or that one? Why am I not superior or equal to them?"

Envy, it seems only reasonable to note, is likewise an economic sin. The envious do stupid things, economically speaking. They do them proudly, boldly, applying a high-minded gloss to acts of pettiness and folly.

The idea that informs the envious is that the rich have too much money. This being the case, they should be pleased to share their bounty. Oh, they *aren't* pleased? Well, let's just have the government take it from them so as to spread it around and Do Good.

The socialists, against whom Ludwig von Mises strove so brilliantly and effectively, are the 20th-century's grand cases in point. But you don't have to believe in across-the-board confiscation of wealth to advocate envious and blockheaded policies. It suffices to be an ordinary member of Congress in a nation committed nominally to a marketplace economy.

Congress presently affords a striking example of the roots and fruits of envy. The 1990 budget agreement—the product of President Read-My-Lips' conversion to tax increases—was aimed theoretically at decreasing the federal deficit. A medley of measures was supposed to do the job, among them a new 10% excise tax on the purchasers of high-end yachts, cars, aircraft, furs, and jewelry. On boats the tax would kick in at $100,000; on planes, at $250,000; on jewelry, at $10,000.

Various congressmen would have loved to bump up the top income tax bracket, but this would have upset the symmetry, such as it was, of the 1986 tax "reform" bill. Better just to leave the brackets alone and find other ways of hitting the bloated plutocrats.

The claims made for the new luxury tax were enticing. The Joint Committee on Taxation said the tax would raise $1.5 billion during the budget agreement's five-year life. This is not major cash, by the prevailing standards of Washington, D.C., but it's not chickenfeed either. And anyway, weren't we all supposed to be in there working for economic justice—the rich right alongside the poor?

The Committee had things all figured out. The boat tax, for instance, would raise in fiscal 1991, $42 million in fiscal 1993, and $50 million in fiscal 1995. Revenues from the plane tax were projected to soar from $1 million to $20 million during this same period. This was budget-balancing with a social vengeance.

And how has it all worked in real life? About the way it could rationally have been expected to work. The tax has been a flop and a failure. Thousands of Americans are poorer because Congress decided to soak the rich. In late August, the Congressional Budget Office cleared its throat. Ahem, the budget deficit, which last year's agreement was supposed to have fixed is expected now to rise from $279 billion this year to $362 billion next year. Sin—economic and theological—sure doesn't pay.

Curious to know what was going on with the luxury tax, Senator Connie Mack (R.-Fla.)

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and Representative Olympia Snowe (R.-Me.), had the Joint Economic Committee's Republican staff prepare a study, which showed that the luxury tax has cost 9,400 jobs in the manufacturing and retail ends of the boat, plane, and jewelry industries. (The study omitted cars and furs.)

The federal government had expected to rake in an extra $5 million in fiscal year 1991 from just these three industries. The government finds itself instead more than $19 million down. Now, we might normally rejoice at the government's loss of revenue, except when we remember its source is a loss in private productivity and not tax cuts.

The authors of the study worked to avoid tarring with too broad a brush. They knew a recession was on. They sought to distinguish between jobs lost due to hard times and jobs lost because of the excise tax. Still, the latter are significant: 7,600 jobs in the boat industry alone and a net loss to the Treasury of $18.2 million. "This exceeds the JCT estimate of revenue expected from the tax by a margin of six-to-one," the study notes dryly.

As for the tax on aircraft, it is expected to cost the industry 1,470 manufacturing jobs this year with a loss to the government of $5 million in tax revenues. The Joint Committee on Taxation had expected to rake in $1 million this year from luxury airplane buyers. ("Most aircraft affected by the tax can hardly be categorized as 'luxury,'" one industry spokesman told the authors of the study, "since they are essential to the livelihood of many small businesses and used much of the time for non-extravagant missions such as pilot training, agricultural spraying, radio and tv traffic watch, police patrol, cattle herding, and other industrial roles.") The total effect of the new luxury tax, the study says, "is to spend nearly five dollars to raise one."

All of which was thoroughly predictable. Austrian School economists have argued for years that taxes are not really attached to goods and services themselves, but rather to the production and consumption of goods and services. Taxes are not automatically accepted by producers and consumers; people change their working, buying, and selling habits in light of higher taxes.

More than 100 members of Congress have since asked the Joint Committee on Taxation for new estimates of the tax's effects on revenues, including the cost of administration and enforcement. Bills to repeal the luxury tax have been introduced. Maybe something will get done.

Or maybe not, on account of the symbolism involved here. The theologians may be right: envy puts down deep and abiding roots, in all times and places. (Mises noted those "dreams of vengeance which have been so deeply embedded in the human soul from time immemorial.") The envious take psychic pleasure in hurting the objects of their envy.

The poet Ovid wrote that "the residence of Envy, spattered with black pus, is at the end of a pit, empty of sun, where the air does not reach, sad, flooded by an inert cold, lacking fire and covered with fog." It is frightening to think how much economic policy, even in the post-communist era, is predicated on the idea that various people have more money than they need and should swiftly be severed from at least a portion of it.

The income tax itself, the foundation of federal revenue policy, as well as the revenue policy of most states, represents the politics of envy. Taxes on income, even at the mildest level, are expressions of social resentment. The underlying idea is to confiscate and redistribute what someone else has earned. Income taxes on the wealthy raise comparatively insignificant amounts of revenue. The middle class pays most of the tab. This probably feeds the desire of the middle class, or, likelier, its putative spokesmen in Congress, to sock it to the rich.

Sin—economic and theological—sure doesn't pay.

It's traditional to kick the rich around. And when one is desperate for revenues, it's all the easier to pretend that economic behavior isn't affected by taxes—that you just decree a tax and everybody pays up cheerfully. This desperation for revenues is what gives dumb and futile devices like the luxury tax their ominous character.

Yes, experience shows that reductions in tax rates can produce more revenue from the wealthy than do higher rates. But here is the deficit, climbing like Jack's beanstalk. Congress, afraid or unwilling to cut spending, already is looking hungrily at those tax sources with the fewest votes and the fattest hides. We may start hearing in due course about those two-martini lunchers whose tax breaks, as Jimmy Carter assured us, contributed in a major way to our economic perplexities.

More politically generated attempts to excite envy, greed, and jealousy, more legislative measures giving force to those raw and rank emotions—is this what we need? We know better in our sober moments. It is the flightier moments we have to beware of, when our representatives whisper to us of all those rich guys, with their boats and jewels—and when immemorial passions start to stir within. We're in trouble at that point. So is the economy. ♦

Lessons from the Fizzled Coup

BY YURI N. MALTSEV

The endemic Soviet disease is statism undergirded by socialist ideology, and the failed coup attempt was just what the doctor ordered. It has improved the attitudes of the Soviet political leadership, increased the people's appetite for freedom, and improved the prospects for serious economic and political reform.

Much depends, however, on Gorbachev either being unseated—perhaps to teach economics at Berkeley, where they still believe in democratic socialism—or being forced to adopt real free-market policies. At his first news conference after the coup, he promised: "I will struggle until the very end for the renewal of this party. I am a true believer in socialism." He could not have delivered a greater insult to the Soviet peoples, who quickly resumed their demands that he resign.

For six and a half years, Gorbachev has straddled the fence between reform and the status quo. He began his tenure as an old guard communist—albeit a debonair one—cracking down on drinking and black marketeers, and campaigning for "labor discipline." When that didn't work, and facing the end of the pathetic socialist economy, he turned to a group of young reformers, myself among them.

But he wouldn't listen to our advice. He insisted that the Soviet Union preserve the "socialist choice." He swore allegiance to the communist system that brought him to power, while at the same time wanting to use market incentives to improve its economic efficiency. That's impossible, but thanks to Western aid, he kept his mixture of oil and water well stirred.

As part of his effort to carve out this third way, he gathered around him a group of hard-line communists. Eventually, they became his closest advisers and the most powerful people in the country—militarily, economically, and politically.

It was this same old guard that overthrew Gorbachev on August 19, 1991. Had he conducted himself as he ought to have during his six and a half years in power, he could have spared himself and his country this harrowing experience.

Six of the Gang of Eight who organized the coup were directly appointed by Gorbachev. Before he elevated them to power, they were lightweights.

For example, Gennadi Yanayev, president for a day, was appointed by Gorbachev as secretary of trade unions and then promoted to vice president. A well-known bully, alcoholic, and hard-line operator, he was an opportunist who fawned on those above him while stepping on those below. He had an insatiable lust for power and used his position to cozy up to the KGB. Prime Minister Valentin Pavlov implemented all of the economic blunders of the past year, including the price hikes, the ruble reform, and the excessive money creation. None of these harmful policies brought the Soviet economy any closer to a market economy, and all were endorsed by Gorbachev.

In the Soviet Union, as everywhere, compromising the truth for political expediency leads to disaster. Gorbachev's compromises might have killed freedom in the Soviet Union for decades more. Even if the coup had not occurred, his path would have led to stalemate and stagnation. If a political leader is really interested in change for the better, he does not gather enemies of change around him.

We can hope that Gorbachev has learned his lesson, or that Yeltsin—who behaved so magnificently during the coup—will reinforce the lesson by insisting that all enemies of freedom be denied office in the future.

Gorbachev should also have learned that there is no third way between freedom and tyranny, as Mises pointed out. The only option, absent totalitarianism, is a free market.

But the achievement of political power is never enough for final success, and this lesson not only applies to the Soviet Union. Free marketeers all over the world ought to be wary of colleagues whose goal is first the achievement of political power. Free-market revolutions are intellectual revolutions first, and political ones only later.

Everyone in the higher reaches of power has known for some time that a coup against Gorbachev would be easy. One evening in Moscow, I discussed the possibility with a friend of mine, a general in the Soviet Army. He told me that an actual coup would be the easy part. "We could take power in ten minutes," he said. "But then what? We have no sausages, no bread—nothing to offer the people."

Ironically, the failed coup illustrates that communist economic ideology has no power. The coup leaders never once spoke of Marx or Lenin. They spoke instead of continuing market reforms, however insincere they may have been.

Conventional wisdom has long said the Russians are genetically inclined toward passivity, authoritarianism, and envy. Hendrick Smith has made a career out of promoting this idea. The heroic actions of the people during the coup tell the real truth. The Russians are like people everywhere: they want freedom. They are victims of a tragic past, but their desire to smash the chains of slavery shows they will have a different future.

It's time to do what's right: decentralize power, privatize property, and repeal central planning. If Gorbachev doesn't do it, the next Soviet coup may be run by lovers of liberty. ♦

The Mysterious Fed

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Sir Edmond Hilary, who was asked why he persisted in climbing Mt. Everest, it is because the Fed chairman is there. The very existence of the office makes its holder automatically wonderful, revered, deeply essential to the world economy, etc. Anyone in that office, up to and including Lassie, would receive precisely the same hagiographical treatment. And anyone out of office would be equally forgotten; if Greenspan should ever leave the Fed, he will be just as ignored as he was before.

It's too bad that people aren't more suspicious: that they don't ask what's wrong with an economy, or a dollar, that supposedly depends on the existence of one man. For the answer is that there's lots wrong The health of Sony or Honda depends on the quality of their product, on the continuing satisfaction of their consumers. No one particularly cares about the personal qualities of the head of the company. In the case of the Fed, the acolytes of the alleged personal powers of the chairman are never specific about what exactly he does, except for maintaining the "confidence" of the public or the market, in the dollar or the banking system.

The air of majesty and mystery woven around the Fed chairman is deliberate, precisely because no one knows his function and no one consumes the Fed's "product." What would we think of a company where the President and his P.R. men were constantly urging the public: "Please, please. Have confidence in our product—our Sonys, Fords, etc." Wouldn't we think that there was something fishy about such an enterprise? On the market, confidence stems from tried and tested consumer satisfaction with the product. The proclaimed fact that our banking system relies so massively on our "confidence" demonstrates that such confidence is sadly misplaced.

Mystery, appeals to confidence, lauding the alleged qualities of the head: all this amounts to a con-game. Volcker, Greenspan, and their handlers are tricksters pulling a Wizard of Oz routine. The mystery, the tricks, are necessary, because the fractional-reserve banking system over which the Fed presides is bankrupt. Not just the S&Ls and the FDIC are bankrupt, but the entire banking system is insolvent. Why? Because the money that we are supposed to be able to call upon in our bank deposit accounts is simply not there. Or only 10% of that money is there.

The mystery and the confidence trick of the Fed rests on its function: which is that of a banking cartel organized and enforced by the federal government in the form of the Fed. The Fed continually enters the "open market" to buy government securities. With what does the Fed pay for those bonds? With nothing, simply with checking accounts created out of thin air. Every time the Fed creates $1 million of checkbook money to buy government bonds, this $1 million quickly finds its way into the "reserves" of the banks, which then pyramid $10 million more of bank deposits, newly created out of thin air. And if someone sensibly wants cash instead of these open book deposits, why that's OK, because the Fed just prints the cash which immediately become standard "dollars" (Federal Reserve notes) which pay for this system. But even these fiat paper tickets only back 10% of our bank deposits.

It is interesting that, of the rulers of the Fed, the only ones that seem to be worried about the inflationary nature of the system are those Fed regional bank presidents who hail from outside the major areas of bank cartels. The regional presidents are elected by the local bankers themselves, the nominal owners of the Fed. Thus, the Fed presidents from top cartel areas such as New York or Chicago, or the older financial elites from Philadelphia and Boston, tend to be pro-inflation "doves," whereas the relatively anti-inflation "hawks" within the Fed come from the periphery outside the major cartel centers: e.g., those from Minneapolis, Richmond, Cleveland, Dallas, or St. Louis. Surely, this constellation of forces is no coincidence.

Of course, anyone who thinks that these regional bank presidents are insufferable anti-inflation "hawks" ain't seen nothing yet. Wait till they meet some Misesians! ♦

Mob Rule

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commentary every day. Detailed and occasionally sensible proposals for addressing virtually every public-policy problem have been around forever, and the heyday of think tanks has brought huge proliferations in both the proposals and the problems. What gives the game away is that all of this must be offered in the name of the "common man," the "little people," the "silent majority," "mainstream Americans," etc. So great is the sway of the democratic imperative that even tyrants invoke its rhetoric.

The result has been the "tyranny of the majority" against which the Founders warned and tried to build protections. Of all the majoritarian debasements of the republic the Founders established 200 years ago, perhaps the killer was the discovery, most famously exploited by FDR, that with universal suffrage you can buy votes with public money. Why work for a living when you can vote or demagogue for one? Though this attitude was widely considered unethical even a generation ago, it soon became clear, with the public payrolls expanding exponentially, that actually trying to do anything about it put one in the position of preaching self-restraint to a convention of televangelists.

Hence the dirty little secret you'll never hear mentioned in a stump speech is that under democracy the people are in large part to blame for the outrages for which the White House and Congress are so loudly denounced. If we really had all this "basic decency and common sense" to which every politician claims to appeal, why do we elect the swine? Why, indeed, do we keep *re*electing them at rates so high that it makes the politburo's turnover rate seem high?

Even if the answer weren't self-evident, we have reams of data that should put it beyond dispute: few of us either know or care anything about public policy. Forget issues; only a minority know their representatives' *names*.

Worse, the few who are informed are usually so out of self-interest. Among many special interests, indeed, a politician could advocate nuking Kansas without damaging his popularity providing he promise not to disturb their places at the public trough. And should he expand them, of course, he rises beyond political impregnability to the democratic equivalent of statesmanship.

Is this really the system compared to which Churchill said every other was worse? Part of the trouble is that in the 20th century left-wingers who have dared to denounce democratic lunacy have tended to be dismissed as Commies, and right-wingers as Nazis. At the least, many have been accused of playing into the hands of Nazis and Commies. Churchill surely had Nazism and Stalinism in mind, compared to which, obviously, feudalism is progress.

But rarely these days are critics of democracy accused of giving aid and comfort to those impotent evils. Today the favorite debate-silencing epithet is "elitist." Since you can't talk about the root of many of our woes without violating the rigid etiquette of public discourse, you're reduced to talking about the effects, i.e., the woeful policies politicians keep foisting on us.

Yet many have devised non-totalitarian alternatives to this mess, and foremost among them were our own Founding Fathers. That they were wrong in limiting the suffrage to white male property-holders is hardly an argument for placing *no* limits on it. Even under democracy, after all, politics is the sole field where it is viewed as not only sensible but obligatory to seek solutions through majority rule. No one would hire, say, a car mechanic by majority vote, or hold a referendum, even among mechanics themselves, to determine whether to replace the spark plugs.

Is it not time to acknowledge the point made by such realists as the 19th-century British historian William Leckey: "Nothing in ancient alchemy was more irrational than the notion that...the best way to improve the world...is to place government more and more under the control of the least enlightened classes." Which, of course, was why the Founders built so many safeguards against this tyranny—suffrage limitations, checks and balances, individual rights. The only safeguards today are those "blue-ribbon commissions" of technocrats Congress occasionally creates to provide the political cover democratic politicians need to survive the rare occasions when they take leave of their senses and try to do what's right.

Were the Founders wrong? Is there really some basis for believing that mass displays of ignorance make for progress? Are most public-policy problems really simpler than, say, tuning your engine, hence best resolved by popularity contests? If so, the costly and fraud-ridden formality of the plebiscite should give way to the increasingly refined techniques of our leading pollsters.

But all the evidence runs in the other direction, as the last barriers to majoritarian tyranny crumble and the ochlocracy descends, exploited by hipsters and grant-seekers, solidified by bureaucrats and politicians now seeking what could be democracy's ultimate and cruelest triumph: exporting it to the rest of the world so no one can escape. ♦

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