The Free Market

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Government vs. Natural Resources

by Murray N. Rothbard

It is a common myth that the near-disappearance of the whale and of various species of fish was caused by "capitalist greed," which, in a short-sighted grab for profits, despoiled the natural resources—the geese that laid the golden eggs—from which those profits used to flow. Hence, the call for government to step in and either seize the ownership of these resources, or at least to regulate strictly their use and development.

It is private enterprise, however, not government, that we can rely on to take the long and not the short view. For example, if a private investor or business firm owns a natural resource, say a forest, it knows that every tree cut down and sold for short-run profits will have to be balanced by a decline in the capital value of the forest remaining. Every firm, then, must balance short-run returns as against the loss of capital assets. Therefore, private owners have every economic incentive to be far-sighted, to replant trees for every tree cut down, to increase the productivity and to maintain the resource, etc. It is precisely *government*—or firms allowed to rent *but not own* government-owned resources—whose every incentive is to be short-run. Since government bureaucrats control but do not own the resources "owned" by government, they have no incentive to maximize or even consider the long-run value of the resource. Their every incentive is to loot the resource as quickly as possible.

And so, it should not be surprising that every instance of "overuse" and destruction of a natural resource has been caused, not by private property and the free market, but by government intervention or crippling of such a market. In particular, either by government ownership or by government failure to protect private property rights in natural resources. Destruction of the grass cover in the West in the late 19th-century was caused by the federal government's failure to recognize homesteading of land in large-enough technological units to be feasible. The 160-acre legal maximum for private homesteading imposed during the Civil War made sense for the wet agriculture of the East; but it made no sense in the dry area of the West, where no farm of less than one or two thousand acres was feasible. As a result, grassland and cattle ranches became land *owned* by

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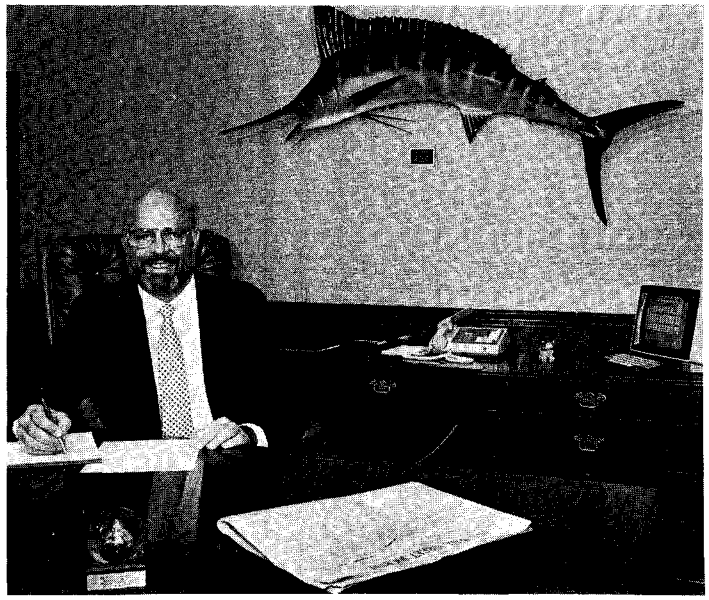

Dr. William A. Dunn of Dunn Commodities, Inc., is a recipient of the Mises Institute's Honorary Distinguished Fellow Award.

The Austrian Entrepreneur: An Interview with William A. Dunn

Mises Fellow Jeffrey A. Tucker, a graduate student at George Mason University, recently talked with Dr. William A. Dunn of Dunn Commodities, Inc., in the second of our interviews with successful entrepreneurs influenced by Austrian economics.

Q: You have a world-class record in commodities management since starting your company 12 years ago—up 1,701%, the equivalent of 27.2% compounded a year. But before we talk about investments, can you tell us something about your background?

A: I received my BS from the University of Kansas in engineering and physics, and my PhD from Northwestern University in theoretical physics.

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From the President

Just Say Whoa!

by Llewellyn H. Rockwell, Jr.

At the Institute's recent Federal Reserve conference, former Congressman Ron Paul talked to Dr. Mark Skousen about the anti-drug hysteria that government is using to raise spending and curtail our liberties:

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RON PAUL: I'm very concerned about the Reagan Administration's "money-laundering" bills, one of which lowers the cash transaction reporting requirement (CTR) from $10,000 to $3,000.

MARK SKOUSEN: So am I. . . . The new form will put you on a suspected drug dealers list. I fear for the innocent people who are going to be caught in this drug net.

PAUL: What's the answer to the drug problem?

SKOUSEN: The drug problem is no different from the alcohol problem: prohibition doesn't work. There should be no laws controlling these substances. What we need is a reawakening of moral commitment in our country through families, churches, and schools. Prohibition just creates a mystique that invites people to try something out. Few were interested in crack until the media jumped on the issue and exploited it.

PAUL: How much *is* a creation of the media or election-year politics?

SKOUSEN: A lot. And there's also the conspiracy to force anti-privacy legislation down our throats. The long-term goal of the government is to gain complete knowledge of, and control over, our financial affairs. They want to know every detail of where our money is, how we got it, and what we do with it. The anti-drug bills give politicians and bureaucrats carte blanche to attack our privacy.

PAUL: What about the drug-testing mania?

SKOUSEN: Random or mass drug testing violates the basic American judicial principle of probable cause. And it's a violation of personal integrity, plus it's humiliating. Innocent people have to give a urine sample under the direct supervision of a bureaucrat. And the tests have a 20% error rate.

* * * * *

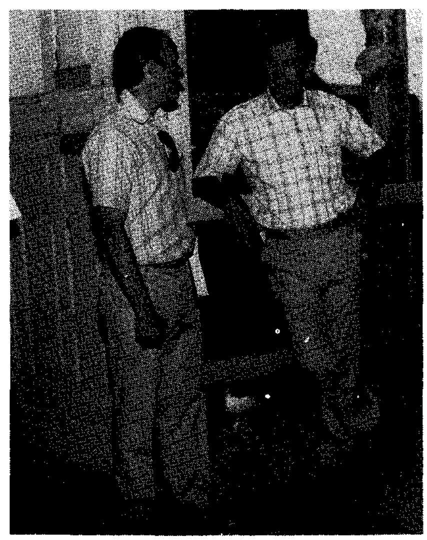
Does this mean we shouldn't be concerned about drug abuse. No, but we also have to be eternally suspicious of government. It, not cocaine or marijuana, is always the threat to what we hold dear.

As on so much else, Ludwig von Mises said what ought to have been the last word on this subject almost 40 years ago in *Human Action*:

"Opium and morphine are certainly dangerous, habit-forming drugs. But once the principle is admitted that it is the duty of the government to protect the individual against his own foolishness, no serious objections can be advanced against further encroachments. A good case could be made out in favor of the prohibition of alcohol and nicotine. And why limit the government's benevolent providence to the protection of the individual's body only? Is not the harm a man can inflict on his mind and soul even more disastrous than any bodily evils? Why not prevent him from reading bad books and seeing bad plays, from looking at bad paintings and statues, and from hearing bad music? The mischief done by bad ideologies, surely, is much more pernicious, both for the individual and for the whole society, than that done by narcotic drugs." ■

For a free sample copy of Ron Paul's or Mark Skousen's investment letter, write to *The Ron Paul Investment Letter*, 1120 Nasa Boulevard, Suite 104, Houston, Texas 77058, or *Mark Skousen's Forecasts and Strategies*, Phillips Publishing Company, 7811 Montrose Road, Potomac, MD 20854.

Scenes from the Jekyll Island Federal Reserve Conference



Mark Skousen and Ron Paul in J.P. Morgan's Jekyll Island Club, now being renovated, where the Federal Reserve Act was drafted.

Institute members, faculty, and students examine the library table where the Federal Reserve Act was written.

Rothbard . . . continued from page 1

the federal government but used by or leased to private firms. The private firms had no incentive to develop the land resource, since it could be invaded by other firms or revert to the government. In fact, their incentive was to use up the land resource quickly to destroy the grass cover, because they were prevented from owning it.

Water, rivers, parts of oceans, have been in far worse shape than land, since private individuals and firms have been almost universally prevented from owning parts of that water, from owning schools of fish, etc. In short, since homesteading private property rights has generally not been permitted in parts of the ocean, the oceans and other water resources have remained in a primitive state, much as land had been in the days before private property in land was permitted and recognized. Then, land was only in a hunting-and-gathering stage, where people were permitted to own and keep what they gathered or shot on the land, but were not permitted to own or transform the land itself. Only private ownership in the land itself can permit the emergence of *agriculture*—the transformation and cultivation of the land itself—bringing about an enormous growth in productivity and increase in everyone's standard of living.

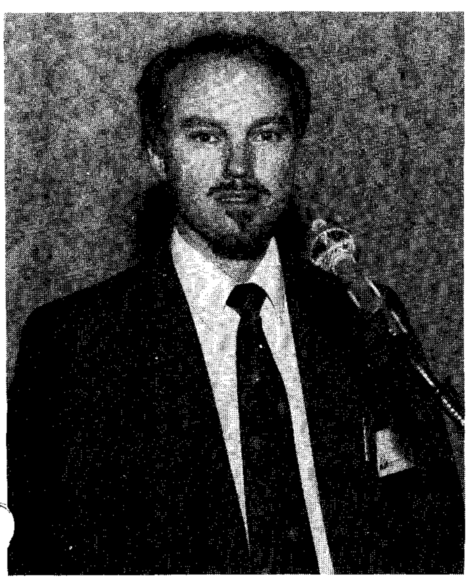
The world has accepted agriculture, and the marvelous fruits of such ownership and cultivation. It is high time to expand the dominion of man to one of the last frontiers on earth: *aquaculture*. Already, private property rights are being developed in water and ocean resources, and we are just beginning to glimpse the wonders in store. More and more, in oceans and rivers, fish are being "farmed" instead of relying on random supply by nature. Whereas only three percent of all seafood produced in the United States in 1975 came from fish-farms, this proportion tripled to twelve percent by 1984.

In Buhl, Idaho, the Clear Springs Trout Company, a fish-farm, has become the single largest trout producer in the world, expanding its trout production from 10 million pounds per year in 1981 to 14 million pounds this year. Furthermore, Clear Springs is not content to follow nature blindly; as all farmers try to do, it improves on nature by breeding better and more productive trout. Thus, two years ago Clear Springs trout converted two pounds of food into one pound of edible flesh; now Clear Springs scientists have developed trout that will convert only 1.3 pounds of food into one pound of flesh. And Clear Springs researchers are in the process of developing that long-desired paradise for consumers: a boneless trout.

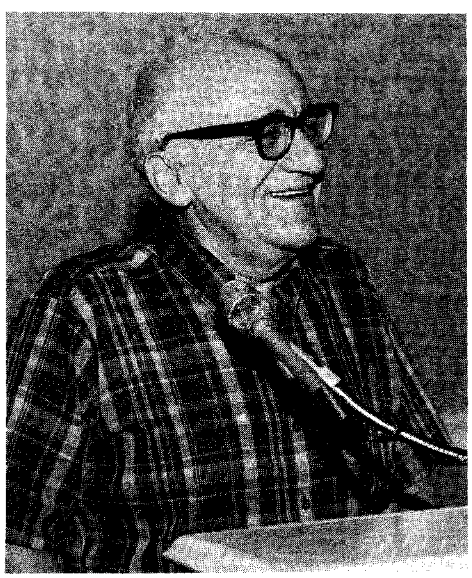
At this point, indeed, all rainbow trout sold commercially in the United States are produced in farms, as well as forty percent of the nation's oysters, and ninety-five percent of commercial catfish.

Aquaculture, the wave of the future, is already here to stay, not only in fishery but also in such activities as offshore oil drilling and the mining of manganese nodules on the ocean floor. What aquaculture needs above all is the expansion of private property rights and ownership to all useful parts of the oceans and other water resources. Fortunately, the Reagan Administration rejected the Law of the Sea Treaty, which would have permanently subjected the world's ocean resources to ownership and control by a world-government body under the aegis of the United Nations. With that threat over, it is high time to seize the opportunity to allow the expansion of private property in one of its last frontiers. ■

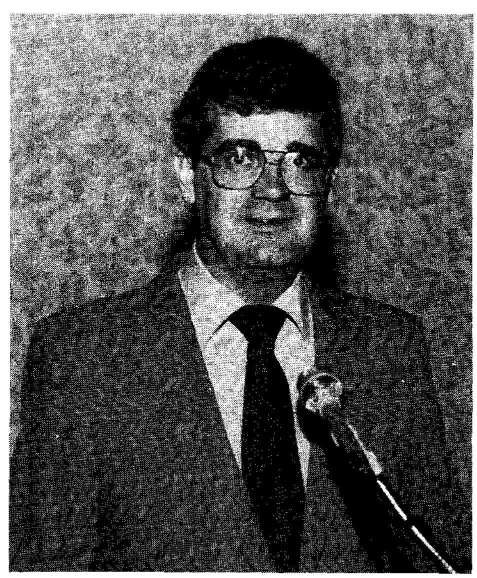
Dr. Rothbard, S.J. Hall Distinguished Professor of Economics at the University of Nevada, Las Vegas, is the Institute's vice president for academic affairs.



Joe Cobb of the U.S. Congress's Joint Economic Committee



Murray N. Rothbard of the University of Nevada, Las Vegas



Roger W. Garrison of Auburn University

A: We don't believe in cycles, only in historic price trends. If cycles exist, they will show up on our model. We have developed rules to determine if a commodity is in an uptrend or a downtrend and we wait for signals from the price data to tell us when to switch our positions—and it's all on computer.

Q: What about fundamentals like monetary inflation or debt?

A: They are reflected in price movements. Markets move very fast, long before you or I know what is happening, or why.

Q: I often hear people talk about the "proper ratio" between two commodities, for example gold and silver.

A: The gold-silver ratio makes as much sense as the wheat-grapefruit ratio. Of course, if the government has fixed the ratio, we have to take it into account, but when the prices are free to move, there is no "proper ratio."

Q: Do you make predictions about market behavior?

A: No, never. We just follow trends. And we stay in as many liquid markets as possible. We diversify, so if we are surprised by one development, something else is doing better, and it evens out.

Q: Has your background in physics helped?

A: Very much. First, I am able to do all the computer programming. Second, as a trained scientist, I don't fool myself. I think of myself as working on a big statistical problem in physics.

Q: Do you find that government interference affects markets in consistent ways?

A: Yes. The role of government in the economy causes more problems than acts of God like floods or plagues. Governments can mess up a lot more for a lot longer time than God apparently chooses to.

Q: Does that make your job harder or easier?

A: Easier. But, of course, markets would be more efficient if people didn't have to guess how some government or semi-government is going to influence supply or price. Think of dramatic price changes like the one we have recently seen in oil. But in the long run, markets win and governments fail.

Have you noticed that when these idiots in the government impose wage and price controls, they always take the current prices and fix them? Even they know better than to attempt to reorganize market-created pricing arrangements. Of course, prices are dynamic, so the politicians are always forced to give up eventually. Nixon tried controls. Reagan would try them if he felt he needed to. He may even manufacture a crisis and blame it on some foreign enemy, as the Arabs were blamed for the "energy crisis."

Q: You mean governments lie, and will do so again?

A: Just follow the trend line. ■

For more information, write: Dunn Commodities, Inc., River One, 309 East Osceola Street, Stuart, Florida 33494.

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postmarked on December 31st. However, gifts of appreciated securities require special attention to assure timeliness.

If the stock certificate is endorsed and the stock sent to the Institute, the gift can be mailed on December 31st. However, if the stock is sent to the donor's bank or broker or to the issuing corporation, the gift is not treated as made until the Institute's name is listed on the books of the corporation.

If any Institute Members have questions, they or their attorneys may call me directly at 205-328-2200. ■

Mr. Duke, a practicing tax attorney in Birmingham, Alabama, is counsel to the Mises Institute. He welcomes calls from Members or their attorneys about the tax consequences of gifts to the Institute at 205-328-2200.

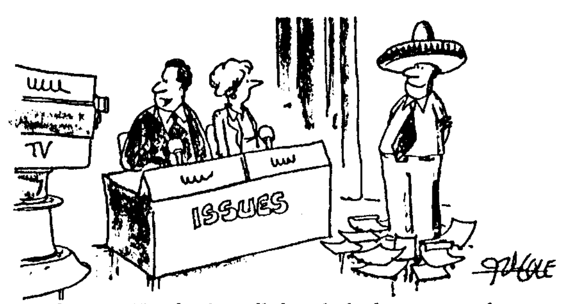
Tax "Reform" and Charitable Giving

As the accompanying article by Institute Counsel J. Richard Duke points out, a contribution in 1986 can be far more valuable from a tax standpoint than a 1987 contribution.

If you do not itemize, your donation to the Institute is tax-deductible if your check is dated December 31st or before. For non-itemizers, charitable gifts will not be deductible at all in 1987.

If you do itemize, 1986 contributions are much more valuable from a tax standpoint than 1987 gifts.

The Institute needs your help. For the sake of the free market and sound money, and to lower your taxes, please consider making the most generous contribution possible by December 31st.



"And now, Senator Humbucke will do a little dance around our questions."

Dunn . . . continued from page 1

Q: How did you become interested in the Austrian school of economics?

A: Through libertarian and conservative newsletters like those of the Mises Institute. Then I read the works of Ludwig von Mises, like *Socialism*, *Planned Chaos*, and, of course, his masterpiece, *Human Action*. Next I read Hayek and Rothbard. And I will always appreciate Hazlitt's *Economics in One Lesson*.

Q: What aspects of Austrian thought have really stuck with you through the years?

A: That there cannot be a "random-walk" market, thanks to purposive human action. I have also been strongly influenced by the ethical aspects of free markets. I don't believe it's moral to force a person to do something he chooses not to do, unless he's aggressing against someone else's property or life. If people, and governments, respect this, a market system of voluntary trade naturally develops.

The Austrian school has also taught me that government intervention does only harm to society and the economy. As Mises says, policy makers would have to be omnipotent to be as smart as the market. Only the free market can properly coordinate the actions of millions of individuals. When the government intervenes, we get chaos—*planned* chaos.

Q: Why haven't most economists and policy makers figured this out?

A: They don't want to figure it out. If they admitted that they don't know what they're doing, and that they cause only harm, they would be out of jobs.

Q: How can we bring about change? Is education the answer?

A: Yes, but not in the conventional sense. Government schools will never teach that government is the source of our problems. We have to rely on unconventional education to teach Austrian economics—as the Mises Institute does.

Q: Tell us about the time you met Ludwig von Mises.

A: I helped arrange a speech for him at Northwestern in 1964. His subject was monopoly theory—that there can be no monopolies except those enforced by the government. He talked about power companies, phone companies, and the worst, the money monopoly. More than 500 students heard him speak.

What a tremendously delightful person he was: so very kind, not at all bitter about the maltreatment he had received almost all his life because of the unpopular ideas he held. He was positive, warm, friendly, and casual. When he delivered his speech, he took off his coat, came out from behind the podium, and walked up and down the aisle fielding questions—like he was at a senior colloquium.

Q: Did any of the students challenge him?

A: Certainly. But he responded with a gracious spirit, more like an uncle or father than the typical professor. No put downs. At the reception afterwards, he was delighted to talk to the students and answer their questions. As you can imagine, he was very persuasive.

Q: What did you do after you received your PhD?

A: I spent two years teaching physics, then I went to Washington, D.C., to do defense consulting. My hobby, however, was analysis of stocks and bonds and market trends.

Q: Any lessons from your time with the government?

A: Yes—how horrible it all is! A total waste of money and resources. The military would have us study various weapon systems and make recommendations, but nothing was ever done with our work. We had only one purpose: to make it possible for the bureaucrats to tell Congressmen and Senators, "We've considered all the alternatives, and we must have this new weapons system." The only important factor in the decision process was which good-old-buddy sold them the last airplane. Not surprisingly, the Department of Defense doesn't operate any differently from any other part of government.

Although I had started my market analysis as a hobby, after a while I realized I could support myself doing it. I started in my basement in Fairfax, Virginia, and the business just grew and grew.

Q: What type of analysis do you do?

A: I trade in the futures markets and use technical analysis entirely. All a trader can really do is observe the past and profit in the future from what is observed. I follow trends. It's like a roulette wheel, and we're the house. Sometimes we win and sometimes we lose, but on balance we win. We started with $375,000 of other people's money. Now we're up to $65 million.

Q: Your record shows you've made money in both up and down commodities markets.

A: That's right. We've made money both ways. We never hold neutral positions. We are always in, either long or short. This way we get both sides of the market. It's always exciting—minute to minute.

Q: What's the most important technical factor?

A: There's only one: historic price patterns. With them, we analyze as much of, say, the soybean market as there is on record. We find out what we would have done in the past, and we do that for the future.

Q: That sounds almost like a cycle or wave theory.

Charitable Giving and Tax Planning in 1986

by J. Richard Duke, Esq.

The new tax bill will strongly affect Institute contributors. For example, contributions in 1986 will mean larger tax benefits than in 1987. For an individual in the 50% tax bracket, a $1,000 gift to the Institute in 1986 means a $500 tax savings. In 1987, with that individual in the 38.5% bracket, the savings would be $385.

If a donor is considering a gift of appreciated securities, 1986 is also the year. Beginning in 1987, the appreciation could be subjected to the alternative minimum tax. If stock which cost $6,000 but now is worth $10,000 is given to the Institute, the result is a $10,000 deduction. The savings to an individual in the 50% tax bracket is $5,000. Plus the donor avoids paying $800 in taxes on the $4,000 appreciation (at the current 20% rate).

Beginning next year, when appreciated property is contributed to the Institute, the unrealized appreciation is treated as a tax-preference item for the 21% alternative minimum tax. This can be a problem if you have other tax-preference items, such as passive losses from tax shelters.

One method of maximizing contributions in 1986 is through an inter vivos (lifetime) charitable lead trust. The donor gets an immediate deduction even if the trust is established at year end, and if appreciated property is used to fund the trust, there is no alternative minimum tax for 1986.

The trust provides the Institute with a guaranteed fixed percentage of the annual value of the trust for a number of years (not to exceed 20). At the expiration of the term, the property reverts to the donor, or passes to the beneficiary.

For example: a donor establishes a ten-year trust to provide the Institute with a guaranteed annuity of $10,000. If the property transferred to the trust earns 8% annually, this requires $125,000. Under the IRS tables, the donor may claim a charitable deduction in 1986 of $61,446. If the donor is in the 50% tax bracket in 1986, the tax savings will be $30,723. If delayed until 1987, the tax savings will decrease to $23,657.

To claim the deduction, the donor must be the owner of the trust so that the income earned by the trust is taxed to them. However, they will be in the 38.5% tax bracket in 1987 and in the 28% tax bracket in 1988. So the donor gains a current deduction in the high tax bracket against taxable income in the lower tax bracket spread over ten years. (This tax may be avoided if tax-exempt securities are used to fund the trust.)

Although the overall tax savings from a trust versus the direct contributions (giving $10,000 a year for ten years, are not so dramatic ($30,723 versus $29,050), the benefit is in the total earnings on the tax savings.

Assume the $30,723 tax savings from the contribution through the trust earns 8% simple compounded interest. After ten years, this will grow after-tax (assuming an effective tax rate of 38.5% in 1987 and 28% thereafter) to $53,360. The after-tax accumulation on the tax savings from direct contributions after ten years is $40,425, or $12,935 less than the trust.

However, the deductions cannot exceed 30% of adjusted gross income; but if they do, such excess can be carried forward and deducted for up to five years under the same 30% limitation.

Owners of closely held corporations can give part of their stock to the Institute and benefit from an immediate income-tax deduction even though the corporation is in effect making the contribution. If properly structured, this can be done without any loss of corporate control by the owner, and it can be used as a last-minute strategy for making an Institute gift.

For example, a shareholder wishes to make a gift to the Institute using stock in the corporation. There are two choices: (1) have the corporation redeem (purchase) such stock and donate the proceeds to the Institute; or (2) donate the stock directly. Both result in the same charitable deduction, but the first means that the shareholders must report income on the redemption.

To avoid this, the shareholder gives the stock directly to the Institute. Then the corporation redeems the stock at fair-market value by paying cash or a downpayment with a note (bearing a reasonable interest rate) to the Institute. The shareholder claims a deduction for the year when the contribution is made.

The potential danger is that the IRS will "recharacterize" the transaction as alternative (1), so the redemption is taxable income to the shareholders. To avoid this, the Institute must be under no obligation to surrender the stock for redemption.

Individuals have until midnight, December 31, 1986, to make Institute contributions deductible for 1986. Cash contributions may be made by check dated and

(Continued on page 4)

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