

A Monthly Newsletter

THE

# Libertarian Forum

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VOLUME VI, NO. 10

OCTOBER, 1974

US-ISSN0047-4517

## The Ford In Our Present, Or Can Greenspan Save Us?

For the libertarian there is no period more nerveracking than the inevitable "honeymoon" that attends each new President's inception in office. Of course one knows that each of these honeymoons is doomed, but in the meantime one has to grit one's teeth and sweat it out: endure all the sickening adulation heaped on the Leader from left, right, center and all points of the political compass. Happily, in the case of President Ford the universal honeymoon was the shortest-lived in history, so much so that I was able to sail right through it while cut off from political news in Europe. Hardly had I a chance to suffer the "honeymoon" than the brief "nightmare" (to use a term wrongly applied to Watergate) was happily over. The egregious blanket pardon granted to our disgraced ex-President was enough to liquidate the honeymoon and bring us back to a healthy distrust of government and the Executive. Surely the best comment on the pardon was the hilarious headline in the *English Guardian*: "Ford Absolves Nixon of All His Sins".

Fortunately, I was also able to escape most of the blather about the much-ballyhooed "economic summits", properly dubbed by the New Left economists as a "charade" (though not for the right reasons.) In all the thousands of words of hogwash about the summits, by far the best was the excellent article by the increasingly libertarian columnist Nicholas von Hoffman (*Washington Post*, September 16). In his typically scintillating fashion, von Hoffman wrote that "the front page of the *New York Times* says the (summit) conference will represent almost the 'entire spectrum' of American economic thought, but it's not so. The difference between John Kenneth Galbraith and Milton Friedman isn't from A to Z but from A to B and that's as wide a gap as will be turning up in Washington." Von Hoffman goes on to pose the truly radical, "Austrian"-free-market alternative to the summitteers. As von Hoffman adds, "The Secretary of the Treasury will be able to slink off, as he recently did, to secret meetings with the heads of foreign central banking systems to enter into who knows what kind of horrendous agreements, while we are given Jerry Ford on television playing 20 questions with 20 professors rounded up by Nelson Rockefeller's talent scouts from the softest centers of American erudition."

But how about Greenspan? When I left for Europe in mid-August, Alan Greenspan, an Objectivist, had been chosen as head of the Council of Economic Advisors, to the hosannahs of many libertarians who felt that Greenspan would save us all from economic perdition. (My own early extreme skepticism about this prospect can be found in the *October Reason*.) At any rate, the first time I flipped on the TV after returning in early October, who did I see but Greenspan testifying before the Senate. Despite Ayn Rand's having bestowed her avowed disciple with the accolade of "heroic", Greenspan looked like anything but a Galtian hero. Not only was there no clear-eyed self-esteem, no 100-page speeches on epistemology or A is A or even natural rights, but there was only

mumbled confusion, failure to answer questions, and the assertion that a tax cut had to be opposed unless it were made up by higher taxes somewhere else!

So this is our John Galt come to save us from statism, and his sole contribution is to oppose a tax cut!? What we have here is not simply the abject failure of the Randian Movement to come up with a Hero to come within a thousand miles of the Galtian model. What we have is the logical conclusion of the Randian theory of strategy, which, in contrast to the fine rhetoric about liberty, voluntarism, and the non-initiation of force as a matter of remote ideals, is in practice the servant of cautiously pragmatic gradualism. The great insight of William Lloyd Garrison that "gradualism in theory is perpetuity in practice" is once again shown to be all too chillingly true. Alan Greenspan's role as an apologist for our crippling level of taxation supplies the answer as to why the Establishment — and all of its economists, from left to right — were perfectly happy with the Greenspan appointment. The Establishment cares not a farthing about an official's ultimate ideals — be they Buddhist or Randian — provided that those ideals do not affect or show up in the person's concrete day-to-day proposals. Following the disastrous Randian strategic theory of gradualism, the result is that Greenspan — in practice — sounds no different from all of his failed predecessors: all the "free-market" servitors of Power from McCracken to Shultz to Stein.

None of these gentry seems to realize that to advocate high taxes in order to stop inflation is like advocating the guillotine as a cure for cancer. Regardless of how bad a high price is, say, for a loaf of bread, it is still better than a tax, for at least one can eat the bread, whereas a tax provides no service to the consumer whatsoever. In fact, of course, the situation is still worse, because a tax is only used to build up the coercive machinery of the Leviathan State. It is incumbent, then, on any libertarian or free-market economist worthy of the name, to advocate any tax cut anywhere, and thereby a cut in coercion and parasitic burdens on the economy. Greenspan's advocacy of high taxes is eloquent testimony to the severe split between ideals and practice, or what Randians would call a "mind-body split", that permeates Randian strategic theory.

Moreover, Greenspan's gaffe is still further evidence of what had been clear from his public interviews earlier this summer: that he does not understand the cause of inflation in the government's expansion of the supply of money. Instead, Greenspan is what might be called a "right-wing Keynesian", placing the blame for inflation on budget deficits, which leads him to put first priority on balancing the budget — a priority even higher than reducing the burden of tax coercion and theft. In short, Greenspan does not understand the point agreed upon by both the Friedmanites and the Austrians: that the government and its central

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# LP Platform

The official platform of the national Libertarian Party, as adopted in its June convention this year in Dallas, is an enormous improvement over the first, 1972 platform. The basic problem with the old platform is that it was neo-Randian, and therefore studded with such phrases as "the proper function of government is . . ." For those of us who believe that the only proper function of government is to disappear, such phrases were like red flags to a bull. They were a standing affront to the substantial body of anarchists in the Party. The new platform has happily expunged these provocative phrases and reworded its principles and planks to say: "the government may not do" X, Y, and Z. In that way, without explicitly calling for anarchism, the new platform provides a commodious home which both anarcho-capitalists and laissez-faire limited statist can live with. For the new platform neither calls for abolition of the State nor does it explicitly endorse government; by confining itself to the negative function of attacking the depredations of government, it can be endorsed by all anarchists and laissez-faire liberals who do not wish to drive the members of the other camp out of the party.

As an example, instead of the old formulation: "We . . . hold that the sole function of government is the protection of the rights of each individual", the new platform says, "We . . . hold that where governments exist, they must not violate the rights of any individual". The anarchist insight that all governments necessarily violate the rights of the individual is left in abeyance, neither affirmed nor denied.

In addition to this heartening and basic change, the first section, on Individual Rights and Civil Order, has been greatly strengthened. Added is a clause stressing that the major purpose of criminal punishment is to force the criminal to make restitution to his victim. Furthermore, an excellent section has been added opposing any form of involuntary mental commitment. Added, too, is a clause attacking any discrimination violating equality of rights by the government, while also opposing any governmental attempts to regulate private discrimination. The "protection of privacy" clause has been notably strengthened as well. The old platform unaccountably waffled by saying that "electronic and other covert government surveillance of citizens should be restricted to activity which can be shown beforehand, under high, clearly defined standards of probable cause, to be criminal . . ." Shown to whom? And what "showing" can justify such clear invasion of the rights of person and property? The new platform clearly states that "the government should not use electronic or other covert surveillance of an individual's actions on private property without the consent of that property owner." Also, the previous very weak clause on the right of secession, which limited that right to one "supported by a majority within the political unit" (what "unit"?), and other qualifications, has been replaced by a clear "We support recognition of the right to political secession. Exercise of this right, like the exercise of all other rights, does not remove legal and moral obligations not to violate the rights of others."

The only weak clause remaining in this section is the one on the "Volunteer Army", which unfortunately goes beyond a simple call for abolition of the draft to positively hailing "a well paid volunteer army" as a "more effective means of national defense". "Well paid", of course, means at the expense of the taxpayers, especially since the clause does not call for a voluntarily financed army. Furthermore, there is still no recognition of the serfdom involved even in a "voluntary" army structure that does not allow voluntary resignation which all other jobs, including police, do allow. Furthermore, the call for unconditional amnesty is still limited to draftees and does not yet include non-draftee deserters.

The "Trade and the Economy" section is also strengthened by calling, as "immediate reforms", for "drastic reduction" of taxes and government spending instead of the old, weak "reduction". Furthermore, the old, weak-kneed "Those who have entered into . . . activities with promises of government subsidy will be forewarned by being given a cutoff date . . ." has fortunately been excised. The party of principle must stick to principle and not concede the immorality of "cutoff dates" for theft. The clause calling for "eventual repeal of all taxation" has been strengthened by support for constitutional challenges to taxation, and by opposition to the withholding and other compulsory tax collections as involuntary servitude. A timely clause has also been added opposing all government control of energy pricing and subsidies to energy research, as well immediate repeal of the egregious 55 m.p.h. speed limit. The major

weakness here is still the failure to call for return to the gold standard, i.e. for return of the people's gold confiscated by the federal government in 1933.

The "Domestic Ills" section has also been greatly strengthened. Naderite regulations are now specifically opposed, as well as compulsory "self-protection laws", and drug regulations or prohibitions. There is a clear-cut call for the abolition of the Food and Drug Administration. The "Population" clause has been strengthened by attacking special tax burdens on single people or on the childless. Also, welcome clauses have been added: opposing all compulsory or tax-supported health insurance, attacking medical licensing and other interference with free medical choice, opposing all government control of land use, and demanding the repeal of the crippling OSHA.

The "Foreign Policy" section has also been greatly improved by eliminating the Wilsonian call for diplomatic recognition of only "legitimate" governments in the old platform, and substituting the genuine isolationist policy of non-intervention and de facto recognition to all other governments. However, the "currency exchange rates" clause is still unfortunately Friedmanite, in calling for freely floating exchange rates rather than currencies tied to a non-governmental, market commodity such as gold. But another excellent change is the elimination of the old platform's call for U.S. military alliances with non-"despotic governments", including even a "nuclear umbrella". Instead, the new platform clearly states that "American foreign military policy must be directed toward avoiding involvement of the United States in war." It also includes an eloquent attack on the horrors of aggressive war, with the mass murder and economic statism that such wars inevitably breed. Also, the previous call for "sufficient nuclear capacity" as a deterrent is eliminated, and replaced by a simple "we shall support the maintenance of a sufficient military force to defend the United States against aggression." More needs to be done in calling for disarmament of nuclear and other weapons of mass slaughter, as well as a questioning of whether such threats of aggression against the United States actually exist. However, the condemnation of war and the call for its avoidance is a

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## Ford In Our Present —

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bank's continuing expansion of the money supply — its legalized counterfeiting, to be blunt about it — is the only cause of inflation. Higher taxes, even in balancing the budget, will only redistribute money and income from private to governmental hands, and will not solve the cancerous problem of governmental money growth.

All of this also highlights another crucial strategic point which neither the Randians nor the Friedmanites understand: you cannot roll back or whittle away statism — whether it be the government's inflation, its budget, or its numerous depredations and controls on the economy — by getting a few "good guys" in there to speak Truth to Mr. President. Elitist conversations behind closed doors will only provide conservative and "libertarian" blessings to the evil march of the Leviathan State. The government is going to keep expanding and legalized counterfeiting because it is in the economic interests of the government and its "ruling class" allies to do so. He who is given the power to counterfeit will do so unless stopped by counter-pressure. In the case of the State, the only thing that will roll back State power in any and all areas is the growth of a mass movement from below, i.e. among the public outside of and subjected to State power. Only a mass movement from below and outside: either by individual or organized actions, by ad hoc organizations, or by a Libertarian Party, or by all together, can hope to exert the pressure necessary to roll back the State. The sooner we all realize this, the sooner we will stop playing cozy games with Power and the sooner we will start to channel the increasing sentiment among all strata of the population for greater liberty into an effective force to reverse the statist tide. But to do so, we must have no more Greenspans or other collaborators in the seats of Power. □

# Austrian Economics On The Rise

By Richard M. Ebeling

During the week of June 15-22, 1974, the quaint and rustic Vermont village of South Royalton came alive in a way that it probably hasn't since the Revolutionary War. Under the auspices of the Institute for Humane Studies, fifty professors and students from the United States, Australia and England, gathered for a Conference on Austrian Economics.

Slightly over 100 years ago the Austrian School of Economics was founded by Carl Menger. One of the pathfinders to break asunder the myth of the Labor Theory of Value that had dominated Economics from the time of Adam Smith, Menger developed the Subjective Theory of Value. The value of a good, Menger explained, was not determined by the input of labor into the product, but rather the labor was given value by the intensity felt for the product by the individual who would finally consume it. And since individuals valued things differently and by different scales, there was no way to objectively determine value other than relating it back to the individual valuer.

Menger was soon followed by two disciples who refined Austrian theory to such a point that it became a major force in the world of ideas. First, Friedrich von Wieser, who explained the Theory of Imputation and Opportunity Cost, by which is meant that supply is, in reality, indirect demand, for we value the resources necessary for making a product in relation to the forgone uses (demands) that cannot now be carried out with them. And second, Eugen von Bohm-Bawerk, who expounded on the Theory of Subjective Value and related them to the problems of Capital and Interest.

In this century, the Austrian approach was extended by Ludwig von Mises. Mises applied Subjective Value Theory to the area of money and out of this developed the Austrian (or Circulation Credit) Theory of the Trade Cycle. Government manipulation of bank credit and the money supply disturbed the rate of interest (which acts as the allocator of goods between those produced in the present and those in the future), thus, creating shifts in the ratio of consumer goods vs. capital goods and, therefore, causing the business cycle. Mises also showed that under Socialism, the elimination of money and private ownership of the means of production, would put insurmountable barriers in the way of rational economic calculation. And, finally, Mises developed the methodology of Praxeology, e.g., the science of human action. Praxeology declares that men carry out rational action to achieve ends through chosen means. Thus, unlike the natural sciences, the social sciences have as their subject matter the purposeful action of reasoning individuals.

Further developments in Austrian theory were the product of the versatile mind of Friedrich von Hayek. Besides adding his own contributions to Business Cycle Theory, Methodology and Capital Theory, Hayek presented a radically different Theory of Competition. Market activity was seen, not as a disturbance to equilibrium, but, rather as a never ending discovery process for knowledge as men pursue their ends.

The Institute for Humane Studies brought to Vermont three of the leading Austrian theorists living today. Professor Murray Rothbard of the Polytechnic Institute of Brooklyn, author of *Man, Economy and State*, *America's Great Depression* and *Power and Market*. Professor Israel Kirzner of New York University, author of *The Economic Point of View*, *Market Theory and Price System* and most recently *Competition and Entrepreneurship*. And, Professor Ludwig M. Lachmann, of the University of Witwaterstrand, South Africa, author of *Capital and its Structure* and *Macro-economic Thinking and the Market Economy*. Also among the Conference attendants were such notables as, Henry Hazlitt, W. H. Hutt, D. T. Armentano, Sudha R. Shenoy, Walter Block, Gary North and William Peterson.

The first day was highlighted by an opening evening banquet. In the late afternoon, Milton Friedman, who resides in Vermont, arrived at the South Royalton Inn, the site of the Conference. Surrounded by a multitude of people, he declared that the optimum government policy would be one to insure zero inflation. When someone asked if it wouldn't be mere optimal for the money supply to be kept constant and allow prices to gently fall with greater productivity, Friedman grudgingly conceded that it probably would be the more optimal choice. Soon afterwards, Friedman led the group out to the hotel porch where he proceeded to wax eloquent over the merits of "indexing." (For a critique of indexing, see

"Uncle Miltie Rides Again," *Libertarian Forum*, May, 1974). After listing economists from 1702 to the present who have supported an index program, someone asked if we can now see a pure application of the program in the military dictatorship of Brazil? To which Friedman conceded, yes. He was then asked if this verified what his son, David, said at a meeting of the Philadelphia Society, that he (Milton) had latent Fascist tendencies? Friedman muttered that he felt that David had been unfair.

At the dinner that evening, Henry Hazlitt reminisced about how he first met Ludwig von Mises in the 1940's. W. H. Hutt talked about the contributions that Mises made to economics and Murray Rothbard related some of the anecdotes Mises told during his graduate seminars at NYU. When Milton Friedman was asked to make a few comments, he admitted that Mises had made a few contributions, but that he was much too "extreme." And, besides which, Friedman added, there was no such thing as "Austrian Economics," only good economics and bad economics. (A rather unusual statement, because just a few weeks before he had been on public television and spent several minutes explaining the special characteristics of "Chicago Economics.")

Starting the next day, a week of rigorous and incisive lectures began dealing with every facet of "Austrian" theory. Professors Rothbard and Kirzner laid the foundation by explaining the implications of Praxeology. The study, Rothbard pointed out, begins with the fundamental axiom that man acts, that conscious action is taken to achieve chosen goals. This also implies that all action is purposeful and rational from the point of view of the actor. All action, besides which, occurs through time. Action is taken now with the expected attainment of some result in the future. It also means that man acts without omniscience, for if an individual knew what the future would be, then his action to replace one state of affairs with another would be pointless. With a guaranteed and certain future, action becomes worthless, because nothing can be changed in that future.

The fact that action is purposeful, chosen and subjective, also means that any statistical or historical studies that attempt to measure or predict human activity must be seen as worthless. Professor Kirzner used the example of a man from Mars looking down at the earth through a telescope. The Martian observes that out of a box every day comes an object that enters another rectangular box that then moves away through a maze of canals and intersections. The Martian notices that on certain days the object that comes from the first box moves rapidly to catch up to the second, rectangular box. He then draws up a statistical study showing that 1 out of 10 times the object will move rapidly to reach the rectangular box and uses this for predictions of "earthly" activities. What has been totally overlooked by this method is that the first box happens to be an apartment building out of which comes an individual who goes to the street corner to catch the morning bus to work. The fact that on occasion the individual in question oversleeps and has to rapidly chase after the bus, so as not to miss it, does in no way guarantee that he may not get a better alarm clock, go to sleep earlier, or in the future, oversleep even more often. Nor does one individual's actions determine how another individual will act in the same circumstances. Thus, to base ones understanding of Man on statistics and historical studies is to ignore that human action is volitional, purposeful and changeable, dependent on

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## LP Platform — (Continued From Page 2)

giant step forward in the new platform. Unfortunately, specific isolationist and anti-war clauses passed by the Platform Committee, including: withdrawal of foreign-based U. S. troops, the ending of U.S. alliances and foreign military aid, and strict neutrality in the Middle East, were stricken by the Hospers-Nathan neo-Randian forces on the floor of the convention.

All in all, however, the national LP platform, despite room for improvement, is now one which both anarchists and laissez-faire liberals should be able to accept and work with. ■

## Austrian Economics —

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the goals and means of the acting individual.

The inability of the economics profession to grasp the mainsprings of human action has resulted from the adoption of economic models totally outside of reality. In the "models" put forth as an explanation of market phenomena, equilibrium, that point at which all market activities come to rest and all market participants possess perfect knowledge with unchanging tastes and preferences, has become the cornerstone of most economic theory.

Professor Lachmann, in an illuminating lecture, explained that the market is not a series of equilibrium points on a curve, but rather, it's a constant process kept moving because the underlying currents of human action never rest. Men, lacking omniscience, integrate within their plans the information provided by a constant stream of knowledge, about changes in resource availabilities, the relevant action of other man and unexpected occurrences. But because each man's perspective and interpretation of this stream of knowledge will be different, what seems relevant to one individual will be discarded as insignificant by another. The unknowableness of the future means that individuals draw conclusions based upon expectations of what will happen over time. Divergent expectations and unexpected change, therefore, results in potential inconsistency of interpersonal plans. And when errors become visible to individuals, each market participant will learn different lessons from the revised, available information. And, thus, we are again faced with the possibility of inconsistency of different market plans.

But, if the plans of market participants can never be expected to smoothly and automatically mesh, what forces in the market tend towards an equilibrating, or dovetailing of human action? At this point, Professor Kirzner's follow-up lecture offered the clue. Acting man is not merely a blind "taker" of prices and resource offerings; rather, because of the fact that unexpected change occurs in an uncertain future, man is also "watchful." Alertness to previously unseen opportunities serves as the key to the equilibrating market force. This human capacity for alertness, said Kirzner, is the entrepreneurial role. It is not merely the difficult task of knowing when to hire and where to place the worker. It's a much more subtle and rarified knowledge; it's the ability of knowing where to get knowledge, of picking up bits of information that others around you have passed up and seeing the value of it for bringing into consistency a human plan or plans that otherwise would have remained in disequilibrium. The chance to profit from information about market opportunities that others have failed to see acts as the incentive for people to keep their eyes open for inconsistencies in human plans.

This train of thought was continued the following day with lectures by Professors Lachmann and Kirzner on the Austrian Theory of Capital. Capital is the intermediate product used to produce a goods for consumption. Yet, the many attempts to measure and quantify "society's" capital stock falls apart when we once again emphasize the nature of purposeful action. For a goods is seen as a production good only within the context of the human plan. That which is seen as a capital good in one instance may become totally worthless or shift to a consumer good dependent upon the subjective valuation of the actor. The elusiveness of market equilibrium often means, as well, that, as Lachmann pointed out, a tendency of structural integration of interpersonal plans may exist, but some combinations that are found not to fit within re-evaluated plans may result in a scrapping of certain goods and, therefore, are "not really capital," in the eyes of the valuer. Kirzner continued the discussion with an excellent critique of John Hicks' recent attempt to place all theorists either in the category of "materialists," e.g., those who measure the quantity of physical "capital" objects, or as "fundists", e.g., those who attempt to sum up market values to measure capital goods. Rather, pointed out Kirzner, capital is the complex of "half-baked cakes," the interim form the resource takes in the process of a human plan.

Professor Rothbard delivered an interesting and comprehensive lecture on the Austrian Theory of Money. It was Ludwig von Mises, Rothbard pointed out, who first applied the principles of marginal utility to money, showing how money originated and how exchange values were established on the market. Professor Rothbard suggested three areas for possible future research: 1) How to separate the State from money; 2) The question of free banking vs. 100% gold dollars; and 3) The defining of the supply of money.

He followed up with a lecture on "New Light on the Pre-History of the

Austrian School," and showed the development of marginal utility theories through the Middle Ages in Spain and Italy.

Professor Lachmann finished his series of lectures with critiques of Macro-economics and the recent Neo-Ricardian Counter-Revolution. One of the errors, Lachmann suggested, was that macro-economics too often assumes a Walras-Paretian long-run equilibrium price structure. But, the basis of national income statistics is not long-run market outcomes but the output flows of "market-day equilibrium" prices. Prices that are affected by changing streams of knowledge and data that result in constantly shifting patterns of prices and equilibriums. The attempt to find consistent aggregate macro-variables is impossible.

The inability to successfully explain the workings of the economy from a macro foundation has resulted in a counter-revolution of "Ricardian" economists. A redevelopment of cost of production theories, a "methodological egalitarianism" which overlooks the entrepreneurial contribution and an ignoring of the nature of diversity and expectations are their main contributions. But, says Lachmann, the neo-classical establishment (e.g., Samuelson, Hicks, Halm, etc.) are unable to give a satisfactory response within the macro framework. Here is where the Austrians must step forward and present the micro-economic solution. The methodological individualism that will enable an understanding of how the economic process unfolds through human action. Lachmann offered the Conference participants the slogan of calling ourselves "Radical Subjectivists."

On the last day of the Conference, Professors Kirzner and Rothbard summed up the Austrian approach within a consideration of the "Philosophical and Ethical Implications of Austrian Economic Theory." Kirzner restated the principle of Wertfrei, value-free, economic analysis. As an economist, the Austrian theorist does not make judgements on ends chosen. Rather, following the lead of Mises, he says, suppose someone wishes to enhance the economic welfare of the community. The economist need take no stand on the end chosen, but he can say whether the means chosen for that end will be successful. And, thus, he can make a judgement of "good" or "bad" within the context of the goal chosen by the valuer.

While admitting this, Professor Rothbard wondered if the economist could be totally value-free in all instances. What if a politician has as his end the economic impoverishment of the nation so as to use demagoguery for gaining political power? Are we to tell him that this is a "good" means to achieve his end? Thus, Rothbard concluded, it may often be necessary to have certain value-laden principles to judge ends as well as means.

Some extremely interesting papers were delivered in informal sessions during the week by other conference participants as well. Edwin Dolan, S. Pejovich and E. Clayton discussed the changes from central planning to quasi-markets in socialist countries. Roger Garrison delivered an interesting paper on "Technique Reswitching and Capital Reversing." In a very well received paper, Gerald O'Driscoll analyzed Austrian Theories of Competition and Business Cycles in a lecture on "F. A. Hayek and the Neo-Classical Synthesis." Other topics included, "Empirical Testing of Austrian Models" by Art Carol, "Subjectivism, Marginal Utility and the Marginal Revolution," by M. Rizzo and H. Young and a talk on the success of free trade in Hong Kong by Sudha R. Shenoy.

In 1892, Friedrich von Wieser stated that, "The actual calculation of the economic world constitutes an unsurpassable work of art in which nothing is isolated or unconnected, and it is not completely grasped by theory so long as anything in it seems to be without connection with other portions of the system."

It is perhaps because Austrian theorists have always taken Wieser's words to heart, that while other economists were gaining notoriety with "tracts for the times," they were studiously building an edifice of economic theory to explain all human action.

While other economists were trying to find the origin of economic crises in sunspots and statistical comparisons, Austrian thinkers listened to Bohm-Bawerk that, "A theory of crises can never be an inquiry into just one single phase of economic phenomena. If it is to be more than an amateurish absurdity, such an inquiry must be the last, or the next to last, chapter of a written or unwritten economic system. In other words, it is the final fruit of knowledge of all economic events and their interconnected relationships." The result was the building of a theory of money and credit on the foundation of subjective marginal utility by Ludwig von Mises.

In the United States, the Austrians have been in a theoretical  
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# Davidson And 'Women's Lib'

By Linda V. Seawright

I would like to comment on James Davidson's article titled *In Search of the Old Curmudgeon* (August issue) with reference to his comments on women's liberation.

I am not sure what Mr. Davidson's motives are for taking the attitude that he does towards women's liberation but there is nothing very unique in this approach as it has been going on for centuries.

He says that it may well be that there is a fundamental difference between male and female which explains the observable phenomena of all human cultures — that the males as a rule — predominate. As he does not go on to explain further here, he creates an impression that the more "privileged" role of the male is justified somehow or other.

Of course there is a difference and it is not so mysterious either. Until recently women have had little option but to be the child bearers. To-day the situation is still not what it might be, as this responsibility is not a shared one and methods of contraception fall short of the ideal. In addition, social attitudes lag behind the times and conditioning and social pressures play their part in sending women down this path. Maybe the child-bearing capacity is not necessarily inherently unfortunate but throughout history its practice has imposed obvious restrictions on freedom and has taken its toll in terms of life, health, energy and time. While paying rather hypocritical tribute to women as mother, society has not compensated for the drawbacks of this role but has in reality aggravated the drawbacks. Also it is a fact that on average men are stronger in terms of muscular strength. This has probably been a factor favouring the role they have traditionally played and gave them the edge in any situation that may have bordered on confrontation. Furthermore, I suspect that men are inherently somewhat more aggressive (the sex hormone testosterone increases aggression) but I think that this difference is magnified many times by a society that makes a virtue out of male aggression.

Mr. Davidson refers throughout his article to mysterious hormonal differences and attributes a great deal of weight to this, while dismissing the power of indoctrination. The only hormonal difference between the sexes that may have any significant effect on behaviour is the one I mentioned above, and while I do not dismiss this difference and think it may help explain the origins of sex-roles, I consider it much less important than indoctrination. Unfortunately most people are quite susceptible to the cultural indoctrination that is so prevalent, but they are often unaware of this. As much of this goes on in childhood and young adolescence, much of the information is absorbed in the subconscious and the individual is not aware of how much he has absorbed. I have known men who believe that they are enlightened about women and yet in their personal (and sometimes public) lives act out oppressive behaviour without dealing with the contradiction.

Mr. Davidson says that what especially galls the "women's libbers" (a rather belittling term by the way) is that being a woman has some decisive meaning which is distinct from being a man. I think that if all cultural indoctrination and role-playing were removed the decisive meaning would evaporate into something less significant — but not completely. Gender difference is but one of many differences that may exist between individuals. It is possible that two suitably matched individuals of the opposite sex may, on occasion, have more in common from a hormonal point of view than with an unsuitably matched person of their own sex as sex hormones are only part of the hormonal picture (there may even be an overlap there on occasion).

I would also like to take issue with Mr. Davidson's point that sex-roles help safeguard individuality in society. Indeed, I have always seen matters in the opposite light. It appears to me that sex roles interfere with individuality because they emphasize the sex difference over individuality and shape the members of the one group into one mold and the members of the other group into another mold. This helps to create difference, but not an individual one. This happens to men (who may be less aware of it) but even more so to many women. I consider one of the most unfortunate aspects of sex roles to be the confinements they attempt to place on a woman's individuality. The less of an individual she is, the less she suffers under this system. While gender may be a part of

identity, I consider that the most individualistic of all people are those whose identity is not formed and seen primarily in relation to the "opposite sex" but as a person — a human being. It is much more difficult to be a real person, with the courage that implies (especially in this society) than to take refuge under the umbrella of one's sex-role.

It is rather distressing to see Mr. Davidson use principles of individuality to support a system which is opposed to those goals. I would have thought that libertarian philosophy would be compatible with the goal of the freedom to be human which is what the more enlightened women in this world are looking for.

I offer these comments in a spirit of goodwill and hope that they receive fair consideration and are not treated with derision. ■

## Austrian Economics —

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underworld in an environment dominated by Keynesianism. But as the structure of Establishment economics has fallen more and more into disrepute, individuals have discovered an alternative approach that explains more clearly the workings of reality. Building up momentum slowly, the Austrian School has silently been finding adherents around the country, as well as the world.

Sensing the rightness of the times, the Conference on Austrian Economics was planned as a catalyst for expanding interest in the Praxeological approach. To this end, the Conference must be declared a resounding success. It opened up lines of communication among individuals who were developing ideas along similar lines but did not know of each other's existence, let alone the work being done. It probably can safely be said that every participant, whether totally convinced of the Austrian method or not, went away desiring to give careful thought to this theoretical framework.

The Keynesian macro model has lost its credibility. Socialist economics has long ago proven itself defunct. Only the market economy can offer solutions to the economic problems the world faces. But its acceptance will be dependent on the case offered for its adoption. The Austrian framework offers such a case. Starting from the foundation of economic activity, the subjective choices of acting individuals, all economic phenomena cannot only be explained but easily comprehended. For all men act, all men choose, all men plan. It is a theoretical construction self evident to all thinking men.

As a further step in developing interest and understanding of Austrian theory, Percy L. Greaves has put together a comprehensive glossary of Ludwig von Mises' *Human Action*, entitled *Mises Made Easier*. As an added treat, an appendix has been included with a never-before-in-English critique by Mises of Bohm-Bawerk's Time-Preference Theory. The volume is scheduled to be in print this fall.

Also, Bettina Bien Greaves, a senior staff member of the Foundation For Economic Education, has recently translated three works by Mises never before available in English.

The first of these translations, entitled *Stabilization of the Monetary Unit—Considered from the Point of View of Theory*, was published in 1923, shortly before the total collapse of the German currency. In this essay, Mises explains the redistributing effects of inflation to those who first receive the new money at the expense of the others who face higher prices before their incomes rise. Also, the fact that as the depreciation progresses, a "flight" from money becomes so general that "The monetary units available at the moment are not sufficient to pay the prices which correspond to the anticipated future demand for, and supply of, monetary units . . ." This "phenomena of advanced inflation . . . is the other side of the 'crack-up boom'." Mises dissects the "Balance of Payments" Doctrine and the "Inflationist Argument" that it is more painless to depreciate the currency than raise taxes. Finally, Mises declares that the "first condition of any monetary reform is to halt the

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# Science And Human Liberty

By Tibor R. Machan

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Many people who are thinking about political matters today assert that science has demonstrated the need for the planned society. Among these people we find economists, psychologists, sociologists and other members of the community of social scientists. Is there truth in this belief about the scientific displacement of freedom in favor of a planned, centrally organized, fully regimented political system?

From what I have said above it may seem that advocacy of the planned society has only recently begun to be based on so called scientific discoveries. Actually there have been many advocates of centralized political systems in past centuries equally enamoured of science. Such well known philosophers as Thomas Hobbes, August Comte, and, yes, Karl Marx defended their case for the collectivization of human affairs on what they believed were scientific grounds. But only recently did this case gain popular support — mainly because many people acknowledge the tremendous benefits of science and technology. Thus, for instance, Professor B. F. Skinner of Harvard University starts his most recent book, *Beyond Freedom and Dignity*, with the following statements:

In trying to solve the terrifying problems that face us in the world today, we naturally turn to the things we do best. We play from strength, and our strength is science and technology.

From this observation Dr. Skinner develops his case for a society governed by behavioral technologists. In the process of building the case for the centrally planned and governed society, Dr. Skinner, whose book was on the *New York Times*' best seller list for several months, rejects human rights, the literature of freedom and dignity, and a host of other ideas that are central to the free society.

The question is, does a scientific approach to human affairs really contradict the values of freedom, dignity, human self-responsibility, and individualism in general? Before I answer this question I should mention that not everyone who respects science believes that it must lead to the abolition of human liberty. The philosopher Michael Polanyi, who acknowledges the enormous value of science and technology, is a staunch defender of the free society. Drs. Milton Friedman, Yale Brozen, Harold

Demsetz, James Buchanan and others have been some of the most fervent advocates of liberty. Nevertheless, in other circles and in the population as a whole there lingers a strong belief about the basic antagonism between science and human liberty. So it would be worthwhile to explore the issue of whether such an antagonism is real or imaginary.

What is science? Such a question does not rest easy with many thinkers — no more than does the question "What is art?" or "What is philosophy?" Yet, based on what mankind has learned about these matters, and with the realization that developments in human knowledge may require the revision of our ideas, it is possible to answer such questions with a high degree of accuracy. Science is the systematic, rational, conscientious activity of investigating the nature and character of distinct and identifiable realms of reality. There are many sciences because there are many discernible realms of reality. Not all of these realms of reality have come under successful and mature scientific scrutiny, but many have. The question we are concerned with is whether the activity of science contradicts the ideas and ideals of a free human community. To answer, we must first find out what makes it appear that science opposes these ideas and ideals. If these appearances turn out to be correct, then we must assent to a rejection of beliefs in support of human freedom. But are they correct?

During the 17th and 18th centuries science and the physical sciences in particular began to grow at a tremendous rate. Physics, chemistry, astronomy and biology developed more rapidly than ever before. What produced this is not generally agreed upon, although ironically enough these were the times of human history when the ideas and ideals of human liberty captured the attention and imagination of mankind. So it is not unlikely that science developed in part, because of the greater freedom of investigation that was made possible by the lessening of state and church authority over the activities of people in general, and those curious about nature in particular.

With the rise of science a great many thinkers — not always scientists themselves — began to extrapolate from certain scientific findings to

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printing presses" and "refrain from financing government deficits by issuing notes, directly or indirectly." Inflation, Mises concludes, is always the "product of human action and man-made policy." It is a part of the total politico-economic and socio-philosophical ideas of our time. A sound monetary system must firmly be "grounded on a full and complete divorce of ideology from all imperialist, militarist, protectionist, statist and socialist ideas."

The second essay is his 1928 work *Monetary Stabilization and Cyclical Policy*. Mises states the problem of the day as the attempt to stabilize the value of money, the attempt to preserve the "price level." Mises explains at length that any goods that are the products of human action, like money, cannot have their value "fixed." "There is no such thing as a stable purchasing power, and never can be . . . only an economy in the final state of rest, where all prices remained unchanged, could have a money with fixed purchasing power." It also shows, says Mises, that measuring changes in purchasing power is impossible as well. Exchange ratios on the market are constantly subject to change and for a measurement " . . . we must imagine an unchanging man with never-changing values." Mises then offers a critique of Fisher's index number proposal for adjusting changes in purchasing power. Everything Mises says about Fisher's idea can equally be said about Friedman's Indexation plan. Since purchasing power cannot be scientifically measured, points out Mises, any index program would become a political issue. Governments would be pressured to index purchasing power favorable to some groups at the expense of others. Also, changes in money prices don't affect all commodities at the same time and to the same extent. Only gradually does the change in purchasing power work its way through the

economy. And because the price changes will bring shifts in income distribution, the exchange ratios will be different from what they started. Even if the indexing attempts to be "precise" by measuring on a narrow month to month basis, "the step-by-step emergence of changes in purchasing power" are accruing during the month. Thus, the "adjustment calculated at that time is based on the index number of the previous month when the full extent of that month's monetary depreciation had not been felt because all prices had not yet been affected."

Mises, in the second half of this essay, develops in complete detail his famous Trade Cycle Theory. He explains why price stabilization results in a "destabilizing" of price-ratios and brings about the imbalance of capital goods and consumer goods by credit expansion artificially lowering the rate of interest. And how the end result of such policies must be an eventual readjustment of the structure of production, representing the actual savings and consumption of market participants.

The third essay, entitled *Causes of the Economic Crisis: an Address*, was delivered by Mises in 1931 and represents his analysis of the causes and prolonging of the depression. He gives an incisive critique of the mass unemployment problem, "easy money" policies, price supports and tax policy. Mises concludes that the only lasting solution is to give " . . . up the pursuit of policies which seek to establish interest rates, wage rates and commodity prices, different from those the market indicates."

The essays have been organized under the title *Money, Inflation and the Trade Cycle: Three Theoretical Studies* by Ludwig von Mises. Besides being translated by Bettina Bien Greaves, they have been edited by Percy L. Greaves and a special introduction to the volume is planned by him. Present plans are for the book to be published some time next year.

With a Conference on Austrian Economics and newly translated works by Ludwig von Mises soon to be available to the public, a turning point in the economics profession may be just before us. □

## Hayek And The Nobel Prize

The grant of a 1974 Nobel Prize in Economic Science to the great Austrian free-market economist Dr. Friedrich A. von Hayek comes as a welcome and blockbuster surprise to his free-market admirers in this country and throughout the world. For, since the death last year of Hayek's distinguished mentor, Ludwig von Mises, the 75-year-old Hayek ranks as the world's most eminent free-market economist and advocate of the free society. The Nobel award comes as a surprise on two counts. Not only because all the previous Nobel prizes in economics have gone to left-liberals and opponents of the free market, but also because they have gone uniformly to economists who have transformed the discipline into a supposed "science" filled with mathematical jargon and unrealistic "models" which are then used to criticize the free enterprise system and to attempt to plan the economy by the central government. F. A. Hayek is not only the leading free-market economist; he has also led the way in attacking the mathematical models and the planning pretensions of the would be "scientists", and in integrating economics into a wider libertarian social philosophy. Both concepts have so far been anathema to the Nobel Establishment.

We can only speculate on the motivations of the Nobel committee in this welcome, if overdue, tribute to Friedrich von Hayek. Perhaps one reason is the evident and galloping breakdown of orthodox Keynesian "macroeconomics", which leads even the most hidebound economists to at least consider alternative theories and solutions. Perhaps another

reason was a desire to grant a co-Nobel Prize to the notorious left-wing socialist Dr. Gunnar Myrdal, and granting one to Hayek out of a recognized need for political "balance". Thus, in granting prizes to these two polar opposites, the Royal Swedish Academy of Sciences cited both Hayek and Myrdal "for their pioneering work in the theory of money and economic fluctuations and for their pioneering analysis of the interdependence of economic, social and institutional phenomena."

At any rate, regardless of the motivations of the Nobel committee, we can only hail their richly deserved tribute to the towering contributions and achievements of Friedrich von Hayek. Hayek's first monumental contribution to economics was his development of the "Austrian" theory of the business cycle, based on the pioneering outline of von Mises. Appearing in the late 1920's, on the basis of which Mises and Hayek were among the very few economists in the world to predict the 1929 depression, Hayek's two great works on the business cycle appeared in English as *Monetary Theory and the Trade Cycle* (1933) and the more technical *Prices and Production* (1931). During the early 1930's, when Hayek had immigrated from Austria to teach at the London School of Economics, the Mises-Hayek theory of the business cycle began to be adopted widely in England and even in the United States as an explanation of the Great Depression; unfortunately, this Austrian Theory was swept aside in the jubilation of the Keynesian Revolution (1936)

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other areas of human interest. This meant that laws and principles discovered about some areas of nature, were extended to explain things and events in other, not yet fully investigated areas. Many people who were justifiably impressed by Sir Isaac Newton's laws (that explained the behavior of physical objects) lifted these laws from the realm where they actually applied and imported them into other realms, making it appear that not just the behavior of physical objects but everything in nature conformed to these laws. In fact, even today many people believe that the laws of mechanics, although no longer fully adequate to explain the behavior of all of physical reality, suffice to explain everything that happens in all of reality.

Having achieved great success in the attempt to understand and explain the things and events of physical reality, many people believed that the same scientific principles that yielded this result should be used to understand and explain — even control — human affairs. Thus there were influential thinkers, among them the "father of sociology," August Comte, who advocated that human action and the affairs of society be subjected to a scientific analysis. But at this point the term "scientific" changed its meaning considerably. Instead of taking a fresh and inquisitive look at human affairs, many believed that it would be enough simply to accept the laws of physics, astronomy, and chemistry, and impose them on a conception of human affairs.

The important idea here is that in imposing these principles and laws on a conception of human affairs, a crucial feature of the scientific approach to nature is violated. No longer is it accepted that scientists should discover principles and use them only to explain things within the realm in which the discoveries were made. Many thinkers have advocated the imposition of these principles on yet unexplored areas, including on human affairs. But this in fact was very unscientific. Lest the idea of science be taken to be virtually meaningless — as it would be if mere control, regulation, and organization of something were to be construed as sufficient to be scientific — it is important to realize that a scientific approach must be based on discovery, first and foremost. Yet today virtually anything that has a semblance of organization, control or the like seems to acquire the understandably honorific term "science." We have "sciences" such as transcendental meditation, scientology, psychiatry, and many more, all of which are highly controversial, lack precision and common standards of method, and admit members with extremely divergent views on what their fields imply, what their findings are, and what is included within their scope.

Underlying the proposal that science contradicts the ideals and ideas of human liberty we find the belief that science requires that everything in

nature is made of physical matter and contain nothing different from what stones, rocks, metals and other physical materials contain. But this is not really a requirement of science as such. Despite what many thought, this belief has more to do with what some philosophers have assumed about the implications of science than about what science in fact has discovered. As mentioned before, following the successes in physics (and other sciences which studied the physical aspects of reality), many hopeful and ambitious thinkers advocated that these successes be utilized in human affairs. By exporting the principles of Newton and others into meagerly examined realms of reality, they also exported some of the concrete findings of these special sciences. Since the laws of physics apply to physical reality, exporting these laws into human affairs without qualification leads to the view that human beings are no more than complicated constructions composed of physical materials. Thus by way of the imperialism of the special sciences, the general philosophy of materialism gained considerable prominence. Many began to think that everything in nature conformed only to laws that material objects conformed to.

By now it is clear what the answer to our question will be. Only if we allow mistaken ideas of science to flourish do we commit ourselves to the belief that science contradicts the idea of human liberty, of the freedom of the individual to choose, and of his moral responsibility to choose right over wrong. Science, as such, says nothing that contradicts the view that human beings can choose what they will do. Not unless one assumes, quite unscientifically, that human beings must conform in all respects to the laws that we have discovered about physical objects.

I have not tried here to develop a justification for human liberty. There is no room for that in a short comment. It is important, however, to dispel the widely held dogma that science stands in opposition to the ideas and ideals of the free society — especially its basic thesis that human beings are free and can be responsible. But it is worth noting that there are those in various sciences who have given support for the case of human liberty on scientific grounds. Several scientists in the fields of psychophysics, neurophysiology, psychobiology and biochemistry, have made discoveries that support the view that human beings, unlike inanimate objects or even plants and most animals, have capacities that justify the belief that man is a creative, active being, an agent of his conduct, and responsible, in the main, for what he does. What with the powerful philosophical defense of the idea of free will — including the idea that without the capacity to choose we could not tell the difference between truth and falsehood even in the sciences — it appears to be entirely consistent with science to advocate the free society. And so with the corresponding ideas and ideals of the freedom of the individual to govern his own life and be responsible for how well he brings off this task. □

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without being even considered, much less refuted by the statist Keynesians. Now that Keynesianism is crumbling both theoretically and empirically, the world of economics should be ripe to consider the Austrian theory seriously again, for the first time in forty years.

Briefly, the importance of the Hayek theory of the business cycle is that it puts the blame for the boom-bust cycle squarely on the shoulders of the government and its controlled banking system, and, for the first time since the classical economists of the nineteenth century, completely absolves the free-enterprise economy from the blame. When the government and its central bank encourages the expansion of bank credit, it not only causes price inflation, but it also causes increasing malinvestments, specifically unsound investments in capital goods and underproduction of consumer goods. Hence, the government-induced inflationary boom not only injures consumers by raising prices and the cost of living, but also distorts production, and creates unsound investments. The government is then faced repeatedly with two basic choices: either stop its monetary and bank credit inflation, which then will necessarily be followed by a recession which serves to liquidate the unsound investments and return to a genuinely free-market structure of investment and production; or continue inflating until a runaway inflation totally destroys the currency and brings about social and economic chaos. The relevance of the Hayek theory to the present-day should be glaringly obvious, as any hint of recession causes the government to panic and turn on the inflationary taps once again. The point is that, given any inflationary boom, a recession is painful but necessary, in order to return the economy to a sound state.

The political prescription that flows from the Hayekian theory is, of course, the diametric opposite of the Keynesian: stop the artificial inflationary boom, and allow the recession to proceed as fast as possible with its work of readjustment. Postponement and government attempts to stop or interfere with the recession process will only drag out and intensify the agony, and lead to our current and probably future turmoil of inflation combined with lengthy recession and depression. The Mises-Hayek analysis is not only the only cogent theory of the business cycle; it is the only comprehensive free-market answer to the Keynesian morass of government planning and "fine tuning" that we are suffering from today.

But F.A. Hayek did not stop with this monumental contribution to economics. In the 1940's he widened his approach to the entire area of political economy. In his best-selling *Road to Serfdom* (1944) he challenged the pro-socialist and pro-Communist intellectual climate of the day, showing how socialist planning must inevitably lead to totalitarianism, and demonstrating examples in the way in which the socialistic Weimar Republic paved the way for Hitler. He also showed how the "Worst Always Get to the Top" in a statist society. In his brilliant series of essays in *Individualism and the Economic Order* (1948), Hayek pioneered in demonstrating how socialism cannot rationally calculate because it lacks a free market pricing system, particularly

since the free market is uniquely equipped to transmit information from every individual to all other individuals. Lacking a genuine price system, socialism is necessarily devoid of such crucial information. Furthermore, in the same work, Hayek brilliantly dissected the unrealistic orthodox model of "perfect competition", demonstrating that the real world of free competition is far superior to the absurd call for "perfection" by trust-busting lawyers and economics. As a corollary, Hayek in this work began a devastating series of attacks on the mathematical economists' model of "general equilibrium", showing how absurd and unrealistic such a criterion was with which to beat free enterprise over the head.

In 1952, Hayek published his superb *Counter-Revolution of Science*, which remains the best attack on the pretensions of would-be planners to run all of our lives in the name of "reason" and "science." Two years later, in the very readable *Capitalism and the Historians*, Hayek contributed to and edited a series of essays which showed conclusively that the Industrial Revolution in England, spurred by a roughly free-market economy, enormously improved rather than crippled the standard of living of the average consumer and worker in England. In this way, Hayek led the way in shattering one of the most widespread socialist myths about the Industrial Revolution. Finally, in his *Constitution of Liberty* (1960), *Studies in Philosophy, Politics and Economics* (1967), and *Law, Legislation and Liberty* (1973), Hayek, among other notable contributions, upheld the forgotten ideal of the rule of law rather than men, and emphasized the unique value of the free market and the free society in creating a "spontaneous order" which can only emerge from freedom. As merely one of his achievements, his much anthologized article, "The Non-Sequitur of the 'Dependence Effect'", demolished J. K. Galbraith's *The Affluent Society* in pointing out that there is nothing wrong with individuals learning and absorbing values and consumer desires from one another. And in his scintillating essay, "The Intellectuals and Socialism", F. A. Hayek set forth the proper strategy for libertarians to follow: the importance of having the courage to follow the socialists in being consistent, in refusing to surrender to the short-run dictates of compromise and expediency; only in that way will we be able to roll back and defeat the collectivist tide.

We could go on and on. But enough has been said here to point to the great scope, erudition, and richness of F. A. Hayek's contributions to economics and to political philosophy. Like his great mentor Ludwig von Mises, F. A. Hayek has persisted with high courage in opposing the socialism and statism of our time. But not only has he unwaveringly opposed the current fashions of Keynesianism, inflation, and socialism; he has, with nobility, courtesy, and great erudition, pursued his researches to provide us with the alternative concepts of the free economy and the free society. F. A. Hayek richly deserves, not only the Nobel Prize, but any honors which we can bestow upon him. But the greatest tribute we can make, to Hayek and to Mises, is to dedicate ourselves to rolling back the statist tide and proceeding onward to a society of freedom.

\*This essay is reprinted from *Human Events*. □

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