An Introduction to Christian Economics

By

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THE CRAIG PRESS
1973

Library of Congress Catalog Card Number 73–75292
Printed in the United States of America

DEDICATION

This book is dedicated to WAYNE ROY, a teacher who has always believed in the principle of Christian economics, and to FREDERICK NYMEYER, a publisher who sacrificed time and money to help lay the foundation for such an intellectual reconstruction.

ACKNOWLEDGMENTS

The following chapters appeared originally in *The Freeman*, published by the Foundation for Economic Education, Irvington-on-Hudson, New York 10533, a monthly free journal of free market ideas: 4-10, 20(b), 21, 23-27.

Other journals are *Coin Mart* and *COINage*, Behn-Miller Publishers, 16250 Ventura Blvd., Encino, Calif. 91316; *Numismatic News Weekly*, Krause Publications, Iola, Wisc. 54945; *The Commercial and Financial Chronicle*, 25 Park Pl., New York City 10007; *Modern Age*, 743 N. Wabash Ave., Chicago, Ill. 60611; *International Reformed Bulletin*, 1677 Gentian Dr., Grand Rapids, Mich. 49508; *The Alternative*, Rural Route 11, Box 360, Bloomington, Ind. 47401. *The Whole Earth Catalog* is now defunct; however, its address is, or was, 558 Santa Cruz Ave., Menlo Park, Calif. 94025.

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INTRODUCTION

Is there such a thing as a distinctively Christian economics? Yes. Are there explicitly Christian economic teachings that no secular economist has written about? So far, probably not. The uniqueness of Christian economics is that the Christian economist has specific, concrete biblical revelation concerning the limits of economic theory and practice. A secular economist may see the relationship between monetary inflation and fraud, but he does not stand with the authority of the Bible behind him, and he is, in the mid-twentieth century, utterly unable to convince ninety-nine percent of his academic colleagues (and no minister of finance) of the validity of his critique. Thus, the monetary theories of a Mises or a Rothbard lie unused in academic circles. The proponents of the economics of the full gold-coin standard are unaware that their theory rests on certain God-given external conditions. They simply accept these limitations of nature as "given," and they do not bother to inquire as to the source of them. Such investigations, every secular economist would tell us, are not relevant, are not scientific, cannot be demonstrated by ethically neutral, rationalistic presuppositions. Of course, if we are to judge by the state of the economics profession, nothing can be demonstrated in this fashion, because none of them agrees with all the rest on any issue. But God, *a priori*, is irrelevant to economic reasoning, even among the *a posteriorists*.

God has cursed the earth (Gen. 3:17-19). This is the starting point for all economic analysis. The earth no longer gives up her fruits automatically. Man must sweat to eat. Furthermore, among the able-bodied, Paul wrote, "if any would not work, neither should he eat" (II Thess. 3:10). All of the speculations of Marxist economists will not find a way for the post-revolution utopian world to avoid the curse of scarcity imposed by the first principle, and none of the government welfare schemes of professional welfare economists will escape the ethical limits of the second. These are two of the "givens" in the universe. All the Ph.D.'s in the world, working ten hours a day (inconceivable for tenured Ph.D.'s), will not find any escape from these limitations. The society which attempts to legislate away these limitations will reap the built-in whirlwinds.

But why has God cursed us? Because on the day man alienated himself from his creator, he alienated himself from himself and from other men. Adam chose to rebel ethically from God. He brought death into the world (Rom. 5:12). All those who hate God love death (Prov. 8:36). Mankind needs external restraints to restrain him in the working of evil. One of these is the division imposed by language (Gen. 11). Another is the existence of legitimate higher authorities (including, but not exclusively, civil government) (Rom. 13: 1-7). The marriage bond limits each individual's autonomy (I Cor. 7:4). The restraining hand of God limits men's rejection of the truth (John 9:4). The curse of the earth is the means of forcing men to cooperate with each other if they wish to increase their wealth; the division of labor increases productivity in a world that has limited resources.[1] Furthermore, the universal climate which existed prior to the flood (mammoths are found in the ice of Siberia and Alaska with tropical foliage still preserved in their stomachs[2]) undoubtedly acted as a disincentive to trade, since geographical differentiation, and therefore geographical specialization, were minimized. By imposing cultural, linguistic, and national barriers on men, God reduced their ability to cooperate in building the society of Satan.[3] But in separating them geographically, and by providing the varying external conditions of climate, God simultaneously introduced incentives for cooperation. The economic burdens of isolation and war were therefore directly increased. Thus, the balance between the one and the many—total political unification and total autarky and social atomism—could be maintained.[4] Scarcity came as a direct result of the original human rebellion; the foundation of geographical specialization (at least with respect to climate) was

1. On the relationship between scarcity and economic cooperation, see Frank H. Knight and Thornton W. Merriam, *The Economic Order and Religion* (London: Kegan Paul, Trench, Trubner & Co., 1948), pp. 78-79. It is ironic that this observation was made by Knight, the atheist, rather than Merriam, the religious liberal.

2. Donald Patten, *The Biblical Flood and the Ice Age Epoch* (Grand Rapids: Baker Book House, 1967), discusses the mammoths at some length. Cf. Henry M. Morris and John C. Whitcomb, *The Genesis Flood* (Philadelphia: Presbyterian and Reformed Publishing Co., 1961), pp. 281-291; Alfred Rehwinkel, *The Flood* (St. Louis: Concordia, 1951), chap. 15. Morris is correct when he writes that the Bible *is* a textbook of science: *Studies in the Bible and Science* (Philadelphia: Presbyterian and Reformed Publishing Co., 1966), chap. 11. Christians who argue otherwise are philosophical dualists, intellectually schizophrenic, and theological compromisers.

3. R. J. Rushdoony, "The Society of Satan," *Don Bell Reports* (Aug. 14, 1964).

4. R. J. Rushdoony, *The One and the Many* (Nutley, N. J.: The Craig Press, 1971).

laid as a result of the evil of the pre-flood culture; the division of labor was enhanced with the very act of cultural, national, and geographical separation that came as a consequence of the Tower of Babel. The separation restrains men in the evil that they would do as a monolithic unit, yet the division of labor restrains men in the evil that they would do as atomistic, autonomous individuals. Economic burdens are associated with the shedding of another man's blood.

Because of the hypothetical, fraudulent, and self-proclaimed neutrality of modern science, scientists have generally avoided the really crucial question, "why?" This is true of the economics profession. Economic analysis can demonstrate a great deal about the nature of the division of labor, the problem of scarcity, the structure of trade. Economics can deal with "what" but not "why." The modern economist is capable of studying the results of the curse of the ground, the curse of the flood, the curse of the Tower; he is able to find the positive uses that men can make of each curse. But he is epistemologically incapable of regarding these "givens" as originally ethical in origin. He cannot say with confidence that were it not for the fall of man and its ramifications, both ethically and in the physical realms of physiology, agronomy, and geography, the science of economics would not exist (or would have radically different "givens"). Economists occasionally explore the ethical implications of their discipline (Frank H. Knight, for example), but on the whole they limit themselves to general statements about the marvels of efficiency, or an occasional word favoring voluntary contracts. They are utterly silent about the fact that economics is what it is because of God's response, directly and personally, to the ethical rebellion of man.

Is the "why" of economics relevant? Does the question of origins add anything to economic analysis? Would demand curves slope any differently for a Christian economist than for an atheist? These seem to be one question, but they are not. No, demand curves will continue to slope downward and to the right for Christian economists. But economic analysis will be applied to a different series of questions, and practical recommendations that flow from economic analysis will be different. Technical skills can be applied to many tasks and many questions. I would assume that Christian economics would not be concerned with questions relating to the better way of debasing the monetary unit, whether by a central fractional reserve bank or by the government's treasury department. Christian economics will be concerned with examining the best ways of organizing an economy in which no inflation of the money supply can be practiced, either by the State or by a quasi-governmental central bank. In the same way that a Christian would not have concerned himself with the most efficient means in 1916 of exterminating Armenians under Turkish rule, or with transportation economics in transporting Jews to gas chambers in Germany in 1943, Christians would, if consistent to their presuppositions, refuse to devote a lifetime to discovering ways of making monetary debasement work better. Christian economics grasps the fact that technical skills are not neutral, that each man is responsible before God for the use he makes of his skills, that biblical revelation can, at crucial points, determine what is and what is not a legitimate avenue of inquiry or application for economists.

Man, for example, is not omniscient, nor can his computers ever make him omniscient. Therefore, any system of economics or pseudo-economics that requires omniscience in order to operate effectively is perverse. It rests on a fatal, ethically rebellious, assumption: that man can remake himself through the application of neutral science. Man, in short, can become God. Members of the Union for Radical Political Economics, some 1,200 strong, who can argue for the abolition of all corporate profits or the abolition of price tags for eighty percent of the goods in the American economy, hold such a view of man. They see in the central planning commission the operation of knowledge approaching God's.[5] Christian economics would simply reject, *a priori*, the possibility of a society of such abundance that goods could become free—i.e., that at zero price, the demand for a majority of goods and services would not exceed supply. Genesis 3 denies this as an operating hypothesis. To use such a hypothesis as an operating model of economic behavior is to pursue a demonic economics, an economics of "stones into bread."

Christian economics is a virtually unexplored field. The eroding effects of secularism, intellectual dualism, pietism, and social antinomianism have crippled the work of Christians in their extension of the Kingdom of God. Not only have they failed to extend the revelation of the Bible into the realm of society, they have even

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5. Martin Bronfenbrenner, "Radical Economics in America: A 1970 Survey," *Journal of Economic Literature*, VIII (Sept., 1970); "The Unorthodox Ideas of Radical Economists Win a Wider Hearing," *Wall Street Journal* (Feb. 11, 1972); *Business Week* (March 18, 1972), pp. 72, 74. The featured celebrity of the latter articles is Dr. Howard Sherman, professor of economics, University of California, Riverside. I studied under Dr. Sherman as a graduate student. He was always fair enough in listening to conservative views, although they generally appalled him. He once told me that the favorite course he ever taught was an adult university extension course in science-fiction literature. That, somehow, seems to speak for itself.

failed to "occupy till I come," Christ's injunction to His people (Luke 19:13). Christians have been in retreat from the realm of economic reconstruction, in theory and in practice, since the closing years of the seventeenth century. If nobody but confessing Christians were returned to Congress next year, it is unlikely that the economic advisors would change or that the legislation would be fundamentally reversed. In fact, the Christian would be wiser to vote for any number of atheists than for some of the neo-evangelical economic interventionists, who are, sadly, already in Congress! Christian economics is more than a "right attitude" held by the economist as he works out his model for an operating system of price and wage controls. It is more than a "cosmonomic orientation" when voting for another federal welfare program.

The essays in this book were written primarily for secular journals and newspapers. The validity of parts one and two rests on the validity of the first chapter, "The Biblical Critique of Inflation." If this chapter is erroneous, then the remainder of the two sections must rest on indirectly Christian grounds, i.e., the assumption of scarcity, the impossibility of stones into bread, and so forth. I have chosen to follow the lead of Mises and Rothbard in monetary theory, but it is my contention that the writings of Mises and Rothbard on monetary affairs are accurate because their presuppositions concerning the proper "givens" of economic analysis are in fact the same "givens" set forth by the Scriptures. They are correct, as Van Til says about secular philosophers, only insofar as they operate in terms of borrowed premises.[6] But these men are to be preferred in their explanations of how an economy functions to those economists who borrow even fewer of the Bible's premises. In short,

> Christianity claims to furnish the presuppositions without which a true scientific procedure is unintelligible. Chief of these presuppositions is the idea of God as expressed in the doctrine of the ontological Trinity. In addition there are the doctrines of creation, of providence, and of God's ultimate plan with the

6. Summarizing Van Til's position, Rushdoony writes: "Autonomous man is thus like some Western families, whose sole means of support is in swinging a wide rope. Such men emphatically deny that they rustle cattle, although they have no other visible means of support, while at the same time living entirely on the rancher's stock. Thus natural man does have knowledge, but it is borrowed knowledge, stolen from the Christian-theistic pasture or range, yet natural man has no knowledge, because in terms of his principle—the ultimacy of his thinking—he can have none, and the knowledge he possesses is not truly his own. If the rustler were faithful to his own presuppositions, he would either admit that he has no knowledge whatsoever and can know nothing, or he would turn to the ontological trinity as the sole source of knowledge the only true principle of interpretation. The natural man has valid knowledge only as a thief possesses goods." *By What Standard?* (Philadelphia: Presbyterian and Reformed Publishing Co., 1958), p. 24.

> universe. Christianity claims that the very aim and method of science require these doctrines as prerequisites. . . . Christian apologetics cannot be indifferent to a system of philosophy or of science which, by its presuppositions and implications, as well as by its open assertions, rejects the doctrine of the ontological Trinity, the doctrine of creation, the doctrine of the fall of man and of his redemption through Christ. On the other hand Christian theology can well afford to offer lend-lease assistance to such systems of philosophy and science as are consistent with these doctrines.[7]

The essays that follow are repetitious, due to their publication in numerous periodicals over several years. Repetition, as I found in teaching, seldom loses a reader, and the failure of students to get things straight the first time is humbling to an instructor. The person who knows the structure of an argument, and who can predict what the next point in an argument is likely to be, is a person who has grasped the author's theory. If he can reproduce the argument a year later, he has been educated. Most people, on most topics, are uneducated.

The reader will note how heavily I rely on an exegesis of Isaiah 1:22 for my critique of inflation. Years after I wrote my original exegesis. I discovered that a very similar analysis had been made by Hugh Latimer, in 1549, in a sermon delivered before the young King Edward VI.[8] Thus, my "revolutionary insight" is rather old fashioned after all.

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7. Cornelius Van Til, *Apologetics* (Syllabus, Westminster Seminary, 1959), pp. 24, 25.
8. William Letwin, *The Origins of Scientific Economics* (Garden City, N. Y.: Doubleday Anchor, 1965), p. 85 f.

PART I

MONETARY THEORY

Chapter I

THE BIBLICAL CRITIQUE OF INFLATION

The Hebrew prophets came to Israel and Judah with the call to repentance. Invariably, the call was expressed in concrete terms. God, they announced, requires repentance from specific, concrete sins. That is the reason why they were so unpopular. R. H. Tawney, in his study of Puritan origins, comments that "No church has ever experienced any great difficulty in preaching righteousness in general: no church has found a specific to disguise the unpalatableness of righteousness in particular. . . ."[1] The same problem faces modern critics of society who come to God's people (let alone the religious rebels) to demand that they amend their specific ways of doing business or operating the civil government. All the flabby moral platitudes that roll off the tongues of hired servants in the pulpits—those vague calls to godliness devoid of concrete guidelines of daily behavior—receive the automatic "amens" from the congregations that do the hiring. Let the preaching become specific, and "the preacher is meddling in areas that he knows nothing about." What the congregations pay for is a weekly affirmation of their status quo. Of course, their status quo may be somebody else's revolution, so they may regard themselves as being very, very daring, very hip, very chic, the vanguard of change; always, however, *their* status quo is left undisturbed. That is what they pay for, just as the people of Israel paid for it in the eighth century, B.C. (Ezek. 14). The result for the people of Israel was captivity.

There is an unfortunate tendency for modern commentators to emphasize the spiritual and personal aspects of the prophetic message to the people as individuals, and to ignore the stated transgressions of the nation as a whole. The pietistic inheritance of social antinomianism runs deep in modern Christianity. It is, as Rushdoony has called it, the heresy of the faithful.[2] Yet it was the message of the

1. R. H. Tawney, "Introduction," Thomas Wilson, *A Discourse Upon Usury* (London: Frank Cass, [1925] 1969), p. 114.
2. R. J. Rushdoony, *The Biblical Philosophy of History* (Nutley, N. J.: The Craig Press, 1969) [chap. 32, below].

prophets to the kings as national leaders that got them into so much trouble with the civil governments of the day. Their critique of Hebrew life involved all the spheres of life in the Hebrew commonwealth: politics, religious idolatry, economics, jurisprudence.

The prophet Isaiah presented a catalogue of sinful practices to the people of Israel. These charges against the nation are found in the first chapter of the book of Isaiah. If the nation continues in its defiance of God's civil law-order, he announced, then the people will be carried into captivity by a gentile nation. Transgression, in short, requires punishment; if rebellion is national and collective, then the punishment will be national and collective. This has great importance today: similar sins should produce similar punishments.

In verse 21 of the first chapter, we read that judgment and righteousness once lodged in the faithful city, but now murderers inhabit its streets. Verse 23 is equally specific: the nation's princes consort with thieves, seek after bribes, and render corrupt judgments. But for our purposes, verse 22 is the key passage: "Thy silver is become dross, thy wine mixed with water."

It is a sign of the social and cultural impotence of contemporary Christianity that commentators interpret this verse in a so-called "spiritual" fashion. It is supposed to refer only to the souls of individual citizens. Passages such as Psalms 119:119 or Ezekiel 22: 18-19 can be cited as "proof" of this thesis. The problem with this interpretation is that the prophets used known social and economic deviations in order to point out to the people their spiritual sins, a device used by Christ in many of the parables. They went from the concrete sin of the defrauder to the ethical deviation of the citizenry. If the legitimacy of the prophetic charge against the economic practice in question is denied, then the impact of the critique of men's souls is thereby undercut. Verse 22 appears between concrete criticisms of specific political and social deviations, yet commentators are afraid to take verse 22 as referring to equally concrete sins. This is not the way to exegete the Bible.

Precious metals, then as now, were considered valuable economic resources. Well over 350 references to gold appear in Strong's *Concordance*, and about the same number of references to silver. Even in Genesis 2:11, prior to the fall of man, we read of the wonders of "the whole land of Havilah, where there is gold," and the next verse informs us that "the gold of that land is good. . . ." Abram's wealth was counted in "cattle, in silver, and in gold" (Gen. 13:2). Gold played an important role in worship, whether godly

(Ex. 25; 26; 28; 37) or pagan (Ex. 20:23; 32). The glories of the judgments of God are compared to fine gold; they exceed the value of gold, gold apparently being the most commonly understood commodity of historic value (Ps. 19:9-10). Similarly, godly wisdom is compared favorably with gold, and is said to be even more desirable (Prov. 3:14; 8:10, 18, 19). Both silver and gold functioned internationally as money. Benhadad, king of Syria, when he beseiged Israel, sent messengers to Ahab announcing Syria's sovereignty over Israel's gold and silver (I Kings 20:3).[3] Payment was made by the king of Syria to the king of Israel when he wanted the leprosy of Naaman, his commander, cured (II Kings 5:5). There is no question that gold and silver were the money of Israel and Judah (II Kings 12, esp. vs. 13).

The constant concern of Old Testament law with the honesty of weights and measures was equally applicable to honest money. The talent and the shekel were units of weight in the Old Testament.[4] Thus Professor Daniel-Rops writes:

> Exactness of weight was important not only for dealings in corn and other goods, but also as a guarantee of the soundness of the currency. The Proverb "Scale and balance are emblems of the Lord's own justice; no weight in the merchant's wallet but is of divine fashioning" (Prov. 16:11) refers both to honest weight and to good money. Long before money in the sense of coins struck with a symbol or a likeness existed in Israel, men had settled their debts by producing a given weight of precious metal: it was in this way that Abraham at Ephron weighed out four hundred shekels of silver, warranted silver, to buy the field and cave where his wife Sarah was buried. The word shekel was derived from the root *sekel*, which in both Assyrian and Hebrew conveyed the notion of counting as well as weighing. The practice of weighing money rather than counting it was still general in the Palestine of Jesus' day, as it was all round the Mediterranean. The scales also served to ensure that the coins were of the true metal and that they had neither been filed nor clipped; indeed, this inspection was one of the banker's and money-changer's

3. The Assyrians used gold and silver for taxation, for tribute, and for booty: Georges Contenau, *Everyday Life in Babylon and Assyria* (New York: Norton, 1966), pp. 136, 138, 148, 153, 155.

4. Common weights (as distinguished from royal weights) of the Old Testament were in two varieties, heavy and light. The light weights were as follows:

Talent	30 kilograms
Mina	500 grams
Shekel	8.33 grams

Heavy weights were:

Talent	60 kilograms
Mina	1 kilogram
Shekel	16.67 grams

See *The Interpreter's Dictionary of the Bible* (New York: Abington, 1952), I, p. 831.

> chief tasks. It must have been far from easy, when one thinks of the variety of coins current in Palestine at the time.[5]

Coins did not exist in Palestine in the days of the prophets, or so the archeological evidence indicates. They came into use only after the exile. The precious metals were probably in the form of ingots. In the time of Isaiah it appears that the people were resorting to an ancient practice; they were debasing the ingots and metallic ornaments with cheaper metals.

Counterfeiting has to be punished. If private citizens do it, the State must intervene and punish the violators, since fraud and theft are both involved. Yet the State is also to be limited by this law of honest weights and measures; it must not force its citizens to accept a unit of money which is worth less in exchange than its face value. In short, legal tender laws are immoral; currency debasement is immoral; printed unbacked paper money is immoral. To mix cheap metals with silver or gold and call the result pure gold or pure silver is totally fraudulent. Yet this is what was being done in Isaiah's day. Ezekiel warned them of the consequences of such gross (or dross) immorality:

> Son of man, the house of Israel is to me become dross: all they are brass, and tin, and iron, and lead, in the midst of the furnace; they are even the dross of silver. Therefore thus saith the Lord God; Because ye are all become dross, behold, therefore I will gather you into the midst of Jerusalem. As they gather silver, and brass, and iron, and lead, and tin, into the midst of the furnace, to blow the fire upon it, to melt it; so will I gather you in mine anger and in my fury, and I will leave you there, and melt you. Yea, I will gather you, and blow upon you in the fire of my wrath, and ye shall be melted in the midst thereof. As silver is melted in the midst of the furnace, so shall ye be melted in the midst thereof; and ye shall know that I the Lord have poured out my fury upon you (Ezek. 22:18-22).

In short, "I will turn my hand upon thee, and purely purge away thy dross, and take away all thy tin" (Isa. 1:25).

The link between the debasement of precious metals and the immorality of government had been made long before Isaiah's day. The Proverbs record this warning: "Take away the dross from the silver, and the smith has material for a vessel; take away the wicked from the presence of the king, and his throne will be established in righteousness" (Prov. 25:4-5, RSV). Weights and measures are to be kept honest; silver is not to be mixed with tin; wine is not to be

5. Henry Daniel-Rops, *Daily Life in the Time of Jesus* (New York: Hawthorn Books, 1962), pp. 222-223.

mixed with water; and kings are not to consort with wicked men. This is concrete preaching.

Currency debasement is the oldest form of monetary inflation. It is not surprising that Isaiah should, in the same verse, refer to the debasement of silver and the debasement of wine. Monetary inflation is very often accompanied with a disastrous fall in the quality of economic goods, especially in the last stages of the inflation. Professor Rothbard has described this interrelationship, and it is a grim picture:

> To gauge the economic effects of inflation, let us see what happens when a group of counterfeiters set about their work. Suppose the economy has a supply of 10,000 gold ounces, and counterfeiters, so cunning that they cannot be detected, pump in 2,000 "ounces" more. What will be the consequences? First, there will be a clear gain to the counterfeiters. They take the newly-created money and use it to buy goods and services. In the words of the famous *New Yorker* cartoon, showing a group of counterfeiters in sober contemplation of their handiwork: "Retail spending in the neighborhood is about to get a needed shot in the arm." Precisely. Local spending, indeed, does get a shot in the arm. The new money works its way, step by step, throughout the economic system. As the new money spreads, it bids prices up—as we have seen, new money can only dilute the effectiveness of each dollar. But this dilution takes time and is therefore uneven; in the meanwhile, some people gain and others lose. In short, the counterfeiters and their local retailers have found their incomes increased before any rise in the prices of the things they buy. But, on the other hand, people in remote areas of the economy, who have not yet received the new money, find their buying prices rising before their incomes. Retailers at the other end of the country, for example, will suffer losses. The first receivers of the new money gain most, and at the expense of the latest receivers.
>
> Inflation, then, confers no general social benefit; instead, it redistributes the wealth in favor of the first-comers at the expense of the laggards in the race. And inflation is, in effect, a race—to see who can get the new money earliest. The latecomers—the ones stuck with the loss—are often called the "fixed-income groups." Ministers, teachers, people on salaries, lag notoriously behind other groups in acquiring the new money. Particular sufferers will be those depending on fixed-money contracts—contracts made in the days before the inflationary rise in prices. Life-insurance beneficiaries and annuitants, retired persons living off pensions, landlords with long-term leases, bondholders and other creditors, those holding cash, all will bear the brunt of the inflation. They will be the ones who are "taxed."
>
> Inflation has other disastrous effects. It distorts that keystone of our economy: business calculation. Since prices do not all change

> uniformly and at the same speed, it becomes very difficult for business to separate the lasting from the transitional, and gauge truly the demands of consumers or the cost of their operations. For example, accounting practice enters the "cost" of an asset at the amount the business has paid for it. But if inflation intervenes, the cost of replacing the asset when it wears out will be far greater than that recorded on the books. As a result, business accounting will seriously overstate their profits during an inflation —and may even consume capital while presumably increasing their investments. Similarly, stock-holders and real estate owners will acquire capital gains during an inflation that are not really "gains" at all. But they may spend part of these gains without realizing that they are thereby consuming their original capital.
>
> By creating illusory profits and distorting economic calculation, inflation will suspend the free market's penalizing of inefficient, and rewarding of efficient, firms. Almost all firms will seemingly prosper. The general atmosphere of a "sellers' market" will lead to a decline in the quality of goods and of services to consumers, since consumers often resist price increases less when they occur in the form of downgrading of quality. The quality of work will decline in an inflation for a more subtle reason: people become enamoured of "get rich quick" schemes, seemingly within their grasp in an era of ever-rising prices, and often scorn sober effort. Inflation also penalizes thrift and encourages debt; for any sum of money loaned will be repaid in dollars of lower purchasing-power than when originally received. The incentive, then, is to borrow and repay later than save and lend. Inflation, therefore, lowers the general standard of living in the very course of creating a tinsel atmosphere of "prosperity."[6]

Rothbard's analysis indicates why God so opposes monetary inflation, whether practiced directly by the State or simply private fraud which is tacitly sanctioned by the State. Currency debasement is theft. It involves the redistribution of wealth. Those on fixed incomes suffer. The quality of production tends to decline. Monetary inflation (currency debasement) is a fraudulent, invisible tax, and the Bible prohibits it. The nation which permits monetary inflation to persist, as if it were not a terrible moral evil, will suffer the consequences described by Isaiah and Ezekiel.

Multiple Indebtedness

The Bible regards debt as a form of slavery.[7] "The rich ruleth over the poor, and the borrower is servant to the lender" (Prov.

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6. Murray N. Rothbard, *What Has Government Done to Our Money?* (Colorado Springs: Pine Tree Press, 1964), pp. 28-29. Available from the Foundation for Economic Education, Irvington-on-Hudson, New York 10533.
7. R. J. Rushdoony, *Politics of Guilt and Pity* (Nutley, N. J.: The Craig Press, 1970), pp. 204-205, 250 ff.

22:7). Thus, the New Testament lays down this rigorous principle: "Owe no man anything, but to love one another . . ." (Rom. 13:8a). The message of the Scriptures is not perfectionist, however, so that this general principle may legitimately be transgressed under certain emergency situations, but very definite restrictions are placed upon every believer's entry into debt.[8]

> The believer cannot mortgage his future. His life belongs to God, and he cannot sell out his tomorrows to men, nor bind his family's or country's future. This means that long-term personal loans, deficit financing, and national debts involve paganism. What we cannot do to ourselves we cannot permit either our families or our fellow believers to do to themselves. A country which is Christian is similarly to be governed. But we cannot expect unbelievers to live by our faith or by God's law; and to allow them the liberty of their way is no sin, providing we deal justly with them.[9]

This is why it was legitimate to take interest from the unbeliever, but not from the believer (Lev. 25:36-37; Deut. 23:19-20). The unbeliever is, by definition, a slave to sin; the believer is not.

In Exodus 22:25-27, we find one of the key passages dealing with indebtedness. It lays down two general rules: no interest shall be taken from fellow believers for a charity loan; and the collateral, if it is necessary for the debtor's existence, must be returned to him when he needs it. In the first case—the loan to a believer—the foregone interest constitutes a charitable donation to the one in need. That seems clear enough; the lender could have used the goods or money for his own purposes during the period of the loan, yet he forfeits his right to receive compensation for the loss of the use of his goods. The second clause, however, is not generally understood.

The raiment taken by the creditor as collateral must be returned to the debtor in the evening. This is a very peculiar kind of collateral. The more common kind is the kind that I once heard a priest used for loans in his predominantly Mexican-American parish: he took two of the car tires. There was a great incentive, he said, for the family to get its loan paid off. But a garment which must be returned to the debtor each evening, and taken by the creditor during the day, is strange, on the surface. It does the creditor no visible good, and the debtor does not forfeit the use of his collateral when he really needs it, i.e., during the cold of the night. If anything, it seems to be a nuisance for the creditor.

The collateral ("surety") in this case is a benefit to the creditor

8. *Ibid.*, p. 243 ff.

9. *Ibid.*, p. 249.

only indirectly. Its real function is to limit the indebtedness of the borrower. The man who needs a loan is permitted to indebt himself and his family only up to the value of his collateral. His immediate property determines the extent of the mortgage on his future. While his collateral is in the possession of one creditor, it cannot simultaneously be used as collateral for additional loans from other creditors. The benefit to the creditor is indirect: his possession of the collateral during the day guarantees him that the debtor is not in debt beyond his probable capacity to repay. The size of the loan (and therefore the extent of the debtor's enslavement) is limited by the debtor's general economic capacities. He is forbidden to indebt himself too far.

The general principle of biblical debt is simply this: multiple indebtedness is prohibited. Debts may not be incurred beyond the value of one's immediate assets. A man (and, by inference, an institution) may not mortgage its future beyond very definite limits. This protects the creditor from extending loans to unreliable, overextended, basically wasteful debtors. It protects the debtor from going into debt beyond his reasonable capacity to repay.

It should be understood that one's "immediate assets" include such things as integrity, past performance in repaying debts, and potential capacity to repay in the future. Henry Hazlitt, in his excellent little book, *Economics in One Lesson*, has commented on the nature of credit:

> There is a strange idea abroad, held by all monetary cranks, that credit is something a banker gives to a man. Credit, on the contrary, is something a man already has. He has it, perhaps, because he already has marketable assets of a greater cash value than the loan for which he is asking. Or he has it because his character and past record have earned it. He brings it into the bank with him. That is why the banker makes him the loan. The banker is not giving him something for nothing. He feels assured of repayment. He is merely exchanging a more liquid form of asset or credit for a less liquid form. Sometimes he makes a mistake, and then it is not only the banker who suffers, but the whole community; for values which were supposed to be produced by the lender are not produced and resources are wasted.

Therefore, a person who is not destitute (unlike the case of the poor man who wants an interest-free charitable loan from his brother in the faith) has assets with which to bargain for a loan. But the Bible is clear: it is best not to be in debt at all (Rom. 13:8), and a six-year debt limitation is the maximum that is morally legitimate (given the provisions of the sabbatical years regarding the cancellation of all debts, as well as the jubilee year; Deut. 15:1-6, 12-18; Lev. 25).

The importance of this law for monetary affairs cannot be overstated. Contemporary society—indeed, society since the Middle Ages—has ignored this restriction on multiple indebtedness with impunity. From an economic standpoint, the chief private violators institutionally are the fractional reserve banking system and the limited liability corporation. The entire public sphere of civil government rests on the violation of the principle. The whole structure of modern credit is based upon the idea that men should never escape from perpetual debt. The public debt of the federal government, already approaching half a trillion dollars (*excluding* future commitments like Social Security payments, bank insurance, and other "agency" debt), is steadily eroding the monetary unit, in the process described by the nineteenth century theorist, Charles Holt Carroll, as "the organization of debt into currency," or the monetization of debt.[10] The central bank of every nation—the Federal Reserve System in the United States—prints up the money to finance the deficits of the central government, and in return for this fiat currency, the government gives an interest-bearing bond to the bank. The Federal Reserve System receives about $4 billion a year in this way at the present time, and it will go higher as time (and unsalable government indebtedness) continues. (The government pays out over $20 billion in interest altogether—to insurance companies and other institutional investors, including local banks, as well as to citizens. The FRS returns most of its interest payments to the Treasury each year, however.) From a biblical standpoint, this is utterly corrupt: "The wicked borroweth and payeth not again" (Ps. 37:21a). The civil authorities do not intend to reduce this debt and repay the principal. They favor perpetual indebtedness. Laws that are transgressed in God's universe will be found to contain their own built-in punishment. The French Revolution came when the king had to assemble the *Estates-General*, for only they could raise needed new taxes, and the interest of the bloated French national debt was absorbing half the revenues of the kingdom annually. The British interest payments were about the same in this same period.[11] It had been the attempt of the British government to impose new taxes on the American colonies that had triggered the American Revolution. Massive national indebtedness is highly dangerous.

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10. Charles Holt Carroll, *The Organization of Debt Into Currency* (New York: Arno Press, 1971).

11. R. R. Palmer, *A History of the Modern World* (3rd ed.; New York: Knopf, 1965), p. 338.

The modern banking system is based upon the use of fractional reserves. Few citizens seem to understand the mechanism involved. With a ten percent reserve requirement (imposed by the central bank, itself a quasi-governmental agency), a single deposit of $100 can be used to create $900 worth of loans throughout the entire banking system. Fractional reserve banking has vastly outstripped the State's printing of paper money as a means of inflation, even as paper money vastly outstripped outright coin clipping and the debasement of money metals after the sixteenth century. All it takes for the process to begin is for a citizen to make a deposit of $100 in his local banking account, either checking (demand deposit) or savings (time deposit). In his lucid discussion of fractional reserve banking, Professor Wilhelm Roepke makes it plain that the existence of modern banking rests upon the systematic violation of the biblical prohibition on multiple indebtedness.

> We find, too, that the same sequence of credit expansion which is associated with the issuance of bank notes occurred in the case of demand deposits. Thus, to the extent to which demand deposits circulated as money, the banks felt themselves freed of the obligation of maintaining a 100 per cent cash reserve behind these deposits, despite the fact that they are debts of the bank subject to payment on demand (hence the name "demand deposit"). To provide the necessary minimum liquidity (the ability to meet expected demands for cash) it was deemed sufficient to maintain a supply of money equal to, let us say, 10 per cent of the total demand deposits outstanding. The banks could loan out the remaining 90 per cent and earn enough in the process to administer the deposits without charge or even to pay a small amount of interest on them. Henceforth, the whole art of banking management consisted in effecting a daily compromise between the two opposed principles of liquidity and profitability, with the over-all goal being the maintenance of minimum liquidity and maximum profitability. Small errors of calculation could be corrected by recourse to the so-called "money market." Thus, the whole system is truly "minutely adjusted to reflect the smallest increment in weight which it can just support." We can now observe what an important bearing banking has on the entire monetary system. Prior to the development described above, only cash money circulated. Thenceforth, demand deposits circulated simultaneously with the greater part of the cash which gave rise to these same deposits. The circulation of demand deposits or check money was equivalent in short to the "creation" of an additional supply of money.
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> There is yet another angle from which we can observe how the modern banking system affects the supply of money. A businessman, for instance, may establish a demand deposit (checking account) not only by depositing hard cash in the bank, but by getting the bank to extend him a loan for this purpose. Thus, by

adhering to a proportion of 1:10 between cash reserves and outstanding demand deposits, with 90 per cent of the actual currency paid in being loaned out, the bank can, by granting credits, create new checking accounts (demand deposits) to an amount nine times greater than that which has been paid into it. It is clear in this case that the bank, following the same procedure as a bank of issue, grants credits not out of preceding savings, but from additional resources obtained by the creation of credit. To what extent is a bank capable of creating credit? This depends on the bank's liquidity requirements, that is, upon the amount of the reserve which the bank must maintain to meet the demands for the conversion of check money into actual cash. This preoccupation with the maintenance of liquidity, which no bank can safely ignore, more or less effectively limits the bank's power to create credit. The liquidity requirements of banks fluctuate with the degree of confidence placed in banks, with the amount of the payments made to those who are outside the circle of the bank's regular clients (payrolls, small payments to retail merchants, farmers, etc.), and with the turnover of individual bank accounts. But more significantly, the fluctuations to which bank liquidity is subject—and *pro tanto* the fluctuations to which the total supply of credit is subject—coincide to a very large extent with the *cyclical fluctuations of prosperity and depression.* In a period of expansion the economy's supply of credit increases, while the banks' liquidity is proportionately lowered (credit expansion); in a period of depression the banks seek greater liquidity and are forced, in the process, to contract credit (deflation).

It is of great importance that we thoroughly understand the above relationships, for without such understanding we cannot adequately comprehend the perils and the problems which currently beset our economic system. Hence, no effort should be spared in getting to the bottom of these relationships. One way of doing this is to imagine an economy where all payments are effected without the use of actual currency. Evidently, in such case, there would no longer be any limit to the power of the banks to create credit. The more widely extended is the system of transactions effected without cash, the greater becomes the power of the banks to "manufacture" credit. Yet again, we may compare a bank with the cloakroom of a theatre. In both cases we deposit something: in the bank, currency and in the cloakroom, our hats; in both cases in exchange for a receipt which authorizes us to reclaim what we have deposited. But while the cloakroom employees cannot count on the theatre-goer's *not* presenting his receipt because he regards it as just as good as his headgear, the bank may safely assume that its clients will in fact consider their receipts (i.e., their right to claim their deposits) to be equally as good as their deposits. A bank is in consequence an institution which, finding it possible to hold less cash than it promises to pay and living on the difference, regularly promises more than it could actually pay should the worse come to the worst. Indeed, it is one of the essential features of a modern bank that alone it is

> unable to meet a simultaneous presentation for payment of all the debts owed by it ("run on the bank").[12]

What is Roepke saying? The banks operate under the assumption that its creditors—in other words, its depositors—will not call on the bank simultaneously for their money. Banks then proceed to indebt themselves far beyond their immediate assets, by loaning money to borrowers, who have their own checking accounts established for them by the bank. Then they start to spend their money on new furniture, or a new car, or on tools, or whatever. Those who sell to them then take *their* money to their bank, and the whole process continues. If a bank run occurs, either on a single bank or on all the banks in the system, creditors are left in the cold. The hope in "bank insurance" is a stupid hope; the assets of the Federal Deposit Insurance Corporation consist almost entirely of government bonds! In case of a really serious money panic, these assets could be converted into cash only through the printing of unbacked paper money by the Federal Reserve System; in short, by monetary inflation. Elgin Groseclose has disposed of the FDIC quite effectively:

> The deposit guarantee provision can be disposed of briefly. The merits of the scheme are not easy to appraise, since the country has experienced no credit crisis since its establishment. As constituted, a government controlled institution, the Federal Deposit Insurance Corporation, was created with capital supplied to the extent of $150 million by the Treasury, by member banks to the extent of ½ per cent of their deposits, and by Federal Reserve banks to the extent of half their surplus on January 1, 1933. Membership in the insurance scheme was compulsory for members of the Federal Reserve System, and depositors were eventually to be insured as to the first $10,000 of their deposits and to a lesser proportion for deposits beyond $10,000 (75 per cent between $10,000 and $50,000 and 50 per cent beyond $50,000).
>
> In the years since (through 1962) the Corporation collected some $1.9 billion in assessments; it incurred net costs of $30.5 million in losses (while disbursing some $365 million in connection with the liquidation of insured banks) and accumulated total assets of $2,645 million, all but $10.5 million of which was invested in U. S. government bonds. The fund represented (as of the end of 1962) 1.4 per cent of insured deposits; of total deposits of $297 billion in insured banks, $179 billion were insured.
>
> Three inferences may be drawn from these statistics: (a) the fund is another convenient source of government deficit financing;

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12. Wilhelm Roepke, *Economics of the Free Society* (Chicago: Regnery, 1963), pp. 91-93. This is a fine introductory study of economics.

> (b) the fund, together with its collateral supervisory activities, has stemmed bank failures, both by reducing the extent of loose banking and by discouraging panics; and (c) the fund would be inadequate in the event of any major credit crisis.[13]

The "gold crisis" of the United States since 1960 was produced by the disparity between the stated promise of the United States to redeem all dollar claims held by foreign central banks at a rate of $35 per ounce and the steady persistence of deficit federal budgets, financed increasingly through indebtedness to the Federal Reserve System. We have seen the creation of vastly more IOU's to gold (dollars) than there is gold to back them up. Hence, the steady shrinkage of the nation's supply of gold; hence also the series of international monetary panics, most notably in March of 1968 and August of 1971. Multiple indebtedness brings with it bank runs, whether the banker is the fellow on the corner or the government of the United States.

The other institution that has been created by the advent of multiple indebtedness is the limited liability corporation, which has flourished in the industrialized West for almost a century. The corporation, in distinction from a partnership, is responsible only for the value of its assets. Creditors can collect, in case of a corporate bankruptcy, up to the value of the corporation's property, but they cannot gain access to the funds of the legal owners, i.e., the shareholders. In a partnership, the individual owners are responsible for all debts incurred by the company, and they may be sued for losses in case of the bankruptcy of the company. Thus, the limited liability corporation tends to become a huge, impersonal structure in which effective ownership is separated from management. Rushdoony's comments are significant:

> Liability is inescapable; by limiting the liability of the company which contracts a debt, or permits a fraud, the liability thus shifts responsibility away from the responsible to society at large. A partner or shareholder in a company will exercise cautious and conscientious control over his company, if his liability for the debts and frauds of that company are not limited to the extent of his investment. The result is sound, moral, and careful management of a company by the actual owners. But, with limited liability, a premium is placed on profit irrespective of responsibility. The shareholder is less concerned with buying responsible ownership and more concerned with buying a share in profits. And then, as the state further protects the shareholder, against liabilities in his irresponsible pursuit of profits, the shareholder be-

13. Elgin Groseclose, *Fifty Years of Managed Money* (New York: Books, Inc.; London: Macmillan, 1966), p. 198. The State *could* pay off the FDIC debts by printing money: repressed depression, leading to mass inflation.

> comes less and less concerned with the responsible and moral management of his company.[14]

Furthermore, Rushdoony argues plausibly, "limited liability has, in the long run, assured a greater readiness by corporations to assume debt."[15] Given the presence of fractional reserve banking, this propensity to borrow adds to the money supply, since ninety percent of the loan capital is created by the bank out of thin air (if the reserve requirement is ten percent, as it generally is today for demand deposits).

The separation between property and ownership, between ownership and management, has no doubt been overemphasized in the last three decades. So long as there is the possibility of the corporate take-over, there will be pressures on managers to operate an efficient firm.[16] Nevertheless, there has been an erosion of personal responsibility within the framework of large, impersonal firms, which in turn has come from government intervention into the operation of these firms.[17] Limited liability laws are one form of this intervention, and in the long run it may end, as Joseph Schumpeter has predicted, in the dissolution of capitalism and the free market. In a moving, terrifying section of his important book, *Capitalism, Socialism, and Democracy*, Schumpeter writes:

> On the other hand, the capitalist process also attacks its own institutional framework—let us continue to visualize "property" and "free contracting" as *partes pro toto*—within the precincts of the big units. Excepting the cases that are still of considerable importance in which a corporation is practically owned by a single individual or family, the figure of the proprietor and with it the specifically proprietary interest have vanished from the picture. There are the salaried executives and all the salaried managers and submanagers. There are the big stockholders. And then there are the small stockholders. The first group tends to acquire the employee attitude and rarely if ever identifies itself with the stockholding interest even in the most favorable cases, i.e., in the cases in which it identifies itself with the interest of the concern as such. The second group, even if it considers its

14. Rushdoony, *Politics*, pp. 256-257. For a nineteenth century theologian's critique of the limited liability corporation, see Robert L. Dabney, *Discussions: Philosophical* (Richmond, Va.: Presbyterian Committee of Publications, 1892), III, p. 329 ff. The main defect in Dabney's discussion is his hope that further government intervention can cure the problems caused by the original government intervention, namely, the establishment of limited liability laws. But his general criticism of limited liability is sound: it overstimulates the creation of high-risk ventures: p. 333 ff. This is the kind of Christian teaching which the twentieth century Protestant pietists have utterly abandoned.

15. Rushdoony, *Politics*, p. 260.

16. Cf. Henry Manne, *Insider Trading and the Stock Market* (New York: Free Press, 1966), chap. 8.

17. North, "Statist Bureaucracy in the Modern Economy," *The Freeman* (Jan., 1970) [chap. 20, below].

connection with the concern as permanent and even if it actually behaves as financial theory would have stockholders behave, is at one remove from both the functions and the attitudes of an owner. As to the third group, small stockholders often do not care much about what for most of them is but a minor source of income and, whether they care or not, they hardly ever bother, unless they or some representatives of theirs are out to exploit their nuisance value; being often very ill used and still more often thinking themselves ill used, they almost regularly drift into an attitude hostile to "their" corporations, to big business in general and, particularly when things look bad, to the capitalist order as such. No element of any of those three groups into which I schematized the typical situation unconditionally takes the attitude characteristic of that curious phenomenon, so full of meaning and so rapidly passing, that is covered by the term Property. . . .

Thus the capitalist process pushes into the background all those institutions, the institutions of property and free contracting in particular, that expressed the needs and ways of the truly "private" economic activity. Where it does not abolish them, as it already has abolished free contracting in the labor market, it attains the same end by shifting the relative importance of existing legal forms—the legal forms pertaining to corporate business for instance as against those pertaining to the partnership or individual firm—by changing their contents or meanings. The capitalist process, by substituting a mere parcel of shares for the walls of and the machines in a factory, takes the life out of the idea of property. It loosens the grip that once was so strong—the grip in the sense of the legal right and the actual ability to do as one pleases with one's own; the grip also in the sense that the holder of the title loses the will to fight, economically, physically, politically, for "his" factory and his control over it, to die if necessary on its steps. And this evaporation of what we may term the material substance of property—its visible and touchable reality—affects not only the attitude of holders but also that of the workmen and of the public in general. Dematerialized, defunctionalized and absentee ownership does not impress and call forth moral allegiance as the vital form of property did. Eventually there will be *nobody* left who really cares to stand for it—nobody within and nobody without the precincts of the big concerns.[18]

Limited liability laws have produced the era of the huge, impersonal corporations that have produced unquestioned material prosperity, but at the same time these laws are now producing something very foreign to free enterprise. The giant socialist bureaucracy seems less threatening to men who have grown up in the midst of impersonal economic structures. They no longer are willing to fight for private property if that property is depersonalized. The drift into socialism

18. Joseph Schumpeter, *Capitalism, Socialism, and Democracy* (New York: Harper, 1950), pp. 141-142.

continues, for it is socialism, above all other systems, which destroys personal responsibility and removes power from ownership. The people have come to live with and even enjoy limited liability and multiple indebtedness. They have learned to use the bankruptcy laws, like the couple who went into debt to the university loan programs for over $8,000, and then went to the university for a $500 loan—to be used to declare bankruptcy![19] Socialism promises paradise to such people, and these are the people being produced by a society which denies human responsibility before God, and therefore has even less respect for human responsibility before men. Monetary inflation, multiple indebtedness, and limited liability are an unholy economic trinity; they are eroding the very foundation of Western culture.

19. This is not a fictitious example. A friend of mine says that he was in the student loan office the day this couple made an application for their student loan. They did not tell the loan officials what they planned to do with the money, of course. They knew him, and confided in him. He, like I, regarded it as legal, but immoral.

Chapter II

THE INTELLIGENT WOMAN'S GUIDE TO INFLATION

[This piece was written just prior to the great stock market decline which began in the spring of 1969. It was aimed (naively) at some woman's magazine; it wound up in The Commercial and Financial Chronicle *(May 29, 1969), a New York banking and stock brokers' trade paper. One branch of the Bank of America ordered a hundred copies for distribution to its customers, and there were a few friendly responses. I even got a nice letter from an old friend who is on President Nixon's staff; he showed it to his wife. Given the way the economy has gone since 1969, with the re-establishment of monetary inflation as a policy of the federal government, I am afraid he did not show it to Mr. Nixon. Maybe he did, however; those were the days of the old new Nixon, whereas today we have the new new Nixon, who declared to Howard K. Smith, just after the television cameras switched off on their nationally televised interview, "I am a Keynesian." That's not quite true. Nixon is a pragmatist; monetary inflation represses depression; and Keynes was a great advocate of the policies of repressed depression. Keynesianism "works"; unfortunately, five percent of the work force doesn't. That, by the way, does* not *include permanent welfare recipients.]*

Any woman who is serious about her task as a homemaker is aware of prices. Prices do for her exactly what they do for economic planners at the top levels of government and industry: they serve as economic indicators of supply and demand. She knows, merely by the $30 price tag, that a certain dress is not an original creation by a prominent French designer; it is a mass-produced copy. The price is low because the supply is large. Similarly, Christmas cards sell for less on the first of January than they do on December 15; the supply may be smaller, but demand is even less. Actually, in the day-to-day affairs of buying and selling, a woman may be better attuned to the facts of supply and demand on American markets than her husband is.

Nevertheless, by definition, women are supposed to be utterly incapable of grasping the simplest concepts of economics. If a woman asks her husband about some current economic issue, such as the hike in the prime interest rate or the gold crisis, he can usually silence her by saying, "Look, sweetheart, it's too technical for me to explain to you. You'd never understand." Which is another way of saying, "I can't figure it out, either, but I'm a man and I'm supposed to understand these things, so don't embarrass me by asking."

In today's world, the issue of inflation is probably the most pressing economic question. No one can afford, literally, to be ignorant of what is going on. If we fail as citizens to diagnose the problem, it is unlikely that the solutions drawn up for us by our elected representatives will work very well. That is the burden of democracy: it assumes that the electorate is informed and responsible.

The first thing we need in any consideration of the inflation problem is a working definition. This in itself is a problem, since a "working definition" depends upon who is working with it and for what purposes. The economics profession has never come to a generally recognized, "scientific" definition of inflation. It is just one more case of that old adage, "Where there are five economists, there will be six opinions." There are two basic definitions: (1) an increase of the money supply; and (2) a rise in the general level of prices which is caused by an increase in the money supply. The latter definition is the one most familiar to the shopping housewife, since rising prices seem to be a fundamental fact of her existence today. For purposes of analysis, however, I prefer to use the first definition: inflation is simply an increase in the supply of money.

What constitutes money? Why is money different from any other commodity? One thing which distinguishes money from all other commodities is that it is not used up through consumption. It is desired for the things which can be purchased with it, either now or at some later date, but it is not desired for its own sake (except by a few misers). But why should one commodity (gold, for example) be preferred by people for use as money rather than some other economic good? It is because some commodities possess the four basic properties that all monetary commodities must have. First, money must be *durable*. It would be hard to use ground beef as money, since it spoils too fast. Second, money must be *transportable*. Third, it should be *divisible* into equal parts for the purpose of accurate counting. Gold dust used to serve this purpose during the gold rush days in California and Alaska; bags of salt still function as money in some parts of Africa. Fourth, money must be relatively *scarce*. This is extremely important. If money were as plentiful as, for example, air, it would no longer function as money. There would be too much of it in relation to demand. Of course, air might function as money on the airless moon or when it is "conditioned," but that is precisely because in these cases it is a scarce commodity that would be in heavy demand.

Certain commodities have functioned historically as money better than others because they possess these four qualities: durability, transportability, divisibility, and scarcity. Gold is obviously one of these. It is very scarce, absolutely impervious to rust or decay, and so divisible that in its pure state it can be cut with a knife. Silver is another such commodity, although being in greater supply, its value has generally been less than gold. In some communities, cattle or other livestock may serve as a means of exchange. There have even been cases in which women have served as money (the big defect here is clearly the divisibility factor: half a woman is worse than none at all).

In ancient times, governments would stamp gold or silver coins with the official seal, testifying to the honesty of the coinage. This worked very well so long as the governments remained honest. Greed, however, is not a monopoly of those private citizens referred to as counterfeiters; governments can play the same game for exactly the same reasons: people like to spend more than they earn. The collapse of the Roman Empire was intimately linked with the practice of the emperors of adding cheap metals into the molten gold or silver, yet calling the resulting coins pure. This enabled the Roman state to expand its expenditures without increasing the *visible* rate of taxation. But as more and more of these phony coins were turned out by the mint, the value of any individual coin began to fall. As the supply of the coins went up, the purchasing power of any given coin dropped lower. After a while, no one wanted the coins any more. The economic system actually reverted to barter in some areas after the second century A.D., as people traded corn for tools, bread for labor, etc.

During the later Middle Ages (*c.* 1200), a new development took place. The specific practices varied from place to place and from one era to the next, but the general pattern is easy enough to explain. Certain individuals within the local community became known as men who would store precious metals. In many cases, these were goldsmiths or metalworkers. Individuals would come to these establishments in order to deposit their coins for safekeeping; the goldsmith in return would present the owner with an IOU of some kind. The IOU's issued by the firm could be used as money, just as the coins had been used earlier. The paper IOU's (which later developed into checking accounts) were therefore *money substitutes* at first; they were valuable only because the coins they represented had value.

Obviously, only men of means would use these services. The prestige of these local men of affairs in time was transferred to their "bankers," as the goldsmiths came to be called. Within the community, trust began to build up in the safety of the IOU itself. People who received one of the paper notes in payment for goods or services ceased to return to the goldsmith to demand the gold or silver. It was easier just to leave the gold in the vault, and use the IOU instead. Thus, the man issuing the IOU's learned a neat trick: he could issue more IOU's to gold than he actually possessed to redeem the paper bills. These bills would circulate as money just as well as the "100 percent reserve" IOU's circulated. They all looked the same. These new bills could be loaned out to businessmen for investment purposes; they, in turn, would pay the lender interest on the money. So long as the banker did not issue too many of the unbacked IOU's he was safe; people did not grow suspicious, and the value of the individual bills did not fall enough to call their validity into question.

Here we see the origin of modern banking. It rests on a fundamental assumption, that all the bearers of the IOU's will not arrive at the bank simultaneously to trade in the IOU's for their gold or silver. So long as people trust the bank, there will be no trouble; but when other bankers or average private citizens who hold the claims lose confidence in the ability of some bank to meet its obligations, a *bank run* ensues. Everyone wants his money *now*. This is what happened during the 1930's. People demanded cash for their deposit entries, and many banks folded under the pressure [9,000 of them].

It is at this point that we discover the central flaw of all inflationary policies. By voluntary agreement, citizens decided to trade certain money metals for scarce consumer goods and services. They later consented to use paper claims to money metals as convenient substitutes. But paper and ink are in large supply, unlike gold and silver; it is far easier to print an IOU for a thousand silver dollars than it is to mine the silver, smelt it, and form it into the actual thousand coins. In this way, the door is left open to the destruction of one of money's key properties: scarcity. When governments increase the quantity of money in circulation, or if governmentally licensed and protected private banks do the same, the value of the individual monetary unit will fall. Or, saying the same thing in different words, prices go up (or they fail to drop as they would have had the new money not been injected into the system).

As the purchasing power of money falls, the squeeze is put on those families and small businesses that have relatively fixed incomes. Civil service workers, pensioners, and others who do not have built-in "cost of living" clauses in their contracts are hurt. Here is where the *invisible tax* of inflation is paid, by all those who are forced to restrict their purchases. Naturally, some groups will profit from the inflation:

politicians who are elected by promising new welfare expenditures, bankers who can make more profit-producing loans with the newly created money, and those who supply the government with goods and services. But others must pay for their benefits. The old rule holds true: no one gets something for nothing. Too many people are beguiled by the so-called "benefits" of inflation; as a result, they abandon their own common sense.

In the long run, no one profits from inflation. The process of inflation completely distorts the operation of the price system. The purpose of the price mechanism is to indicate to all consumers and producers just what the conditions of supply and demand really are. What good is a price system if it fails to tell us how much things cost? Obviously, even an inflationary price system will tell us how much things cost in paper money, but that is not what we are really concerned with. What we want to know is how much we will have to give up of one consumer good in order to obtain another. If a person goes to New York City for a vacation, he must forego adding a room on his house. If he sends his children to a private school, he cannot afford a new car. An investment made in some high-risk new company keeps one from purchasing a "sure thing" blue chip stock. These are the kinds of decisions we make every day. What we are comparing are prices of things; money therefore helps us to make very complex kinds of comparisons. But in tampering with the money supply, we create distortions in our system of measurement. Prices are now affected by the supply and demand for money, too, rather than simply the supply and demand for goods and services. An absolutely "neutral" money is impossible, but we can have reasonably stable money. By inflating, we find ourselves in the position of a woman who would measure the hem of a dress she wants to make when the units of measurement in her pattern keep changing.

Consider what happened in Germany in the early 1920's. Here inflation reached astronomical heights. Over 300 paper mills and 2,000 printing establishments were kept operating on 24-hour shifts just to supply the national bank with its notes. Wives would go to work with their husbands; when the paychecks or cash were distributed (wages were paid daily toward the end of the inflationary period), the wives would take the paper and rush out to buy anything they could: flowerpots, chairs, *anything*. By that evening, the paper money was worth only a fraction of what it had been worth in the morning. On the final day of the inflation (November 20, 1923), one American dollar would purchase, at the official exchange rate, 4.2 *trillion* marks; the black market rate of exchange was a fantastic 11.7 trillion marks per dollar. You can imagine what happened to prices. A loaf of bread cost 1.25 trillion marks; a hotel room cost one American dime per day. The German middle classes went through the wringer; savings were wiped out, men were jobless, money was worthless. In the late 1920's, the depression hit, and the combination of mass inflation followed by brief prosperity and then a depression made Adolph Hitler's task that much easier. He had a large body of alienated, fearful voters waiting for his brand of political salvation.

The United States has seen nothing like the German inflation since our Revolutionary War. But the last decade has brought us considerable inflation, as any housewife knows. In October, 1958, there was a total of $206 billion in circulation (if we count bank savings accounts that are supposedly convertible on demand); in October, 1968, the total was $391 billion, an increase of ninety percent in a decade. Most of the increase has come since 1961. In 1968, a staggering 9.3 percent increase in the money supply took place. If the inflation keeps on at this pace, our money supply will double every seven years.

The cost of living will reflect this kind of inflation. The official figures released by the government reveal that for 1968, the economy experienced a 4.7 percent rise in the cost of living. The costs of the war in Vietnam and other massive government expenditures are contributing factors in this increase. The loss of purchasing power of the dollar is the invisible tax that pays for the increase of expenditures. The inflation tends to hide the actual burden of taxation; what we do not pay for on April 15 we pay for in higher prices. The government cannot get something for nothing; when it increases expenditures, the public must reduce its consumption or investment. Higher prices accomplish this goal: the citizens reduce their purchases as the government increases its purchases. That is why inflation is a tax.

The war in Vietnam (or any war, for that matter) is doubly inflationary. It tends to be paid for with inflationary policies of deficit financing (borrowing newly printed money from the banking system). This increases prices, as more dollars are chasing the available consumer goods. Second, the raw materials and labor used to construct weapons cannot be used to build consumer goods. Thus the size of the pile of available goods is reduced, so that buyers with more dollars are pushing an even smaller quantity of products. The result is obvious. Prices go up.

Now, we've all heard about the gold crisis. It is simple to explain, at least in the fundamentals (the actual operations are frighteningly complex). The United States has been printing up more IOU's to gold than it has gold to redeem them. We have promised foreign central banks and governments the right to purchase all the gold they want at a price of $35 per ounce. It is because of that guarantee that Europe has been willing to take our dollars in trade for their goods and services. We have also given many billions away to the world through our foreign aid programs and military aid, over $122 billion, 1945-1966.

At present, Europeans and other nationalities hold claims to at least three ounces of gold (and probably more) for every ounce we have to redeem them. This potential "bank run" has acted as a partial restraint on our rate of inflation, since the government has been afraid to print so much money that foreign investors and governments would lose faith in our ability to manage our own economic affairs. Throughout the last decade, however, foreign bankers and governments have put increasing pressure on the American government to curtail the inflation; if this is not done, they threaten to demand payment in gold. This has been going on since 1958; from a reserve of $25 billion in gold, we have come to have some $10 billion, and even less if we consider our short-term gold debts to the International Monetary Fund. De Gaulle was not alone, by any means, in the "gold rush" of the sixties.

What can a foreign citizen do with the dollars he holds? There are four options: (1) buy our products; (2) invest in American securities and bonds; (3) exchange dollars for their own national currencies; (4) invest the dollars in the "Euro-dollar" market, where American money is used to build factories in Europe. Once the third option is decided upon, the foreign central bank faces the same issue: what to do with the money? It has the same options, plus the critical extra: central banks can buy our gold.

Our inflationary policies have forced up the prices of our domestic goods. Thus, we tend to price ourselves out of European markets. This reduces one of the options available to Europeans who hold our dollars. Foreigners spend fewer of their dollars on our goods. Simple? Here is where the trouble begins.

In order to encourage foreigners to buy our securities and bonds (and thus to discourage them from buying our gold), we have to offer them high rates of return for their money. This means we have to pay out high interest rates. But high interest rates adversely affect the rate of growth in our economy. We have to pay more for the loan that enables us to buy a new house or a car; businessmen are forced to pay more to obtain the funds necessary to build new factories and employ more workers. In short, as interest rates creep higher, there is a tendency for people to restrict purchases. Money gets too "tight"—too expensive to borrow—and fewer people can afford to borrow it. Then we get a recession. No one wants a recession, especially Mr. Nixon.

On the other hand, if we keep interest rates low by pumping new paper money and credit into the economy, foreign central banks demand their gold. Make no mistake about it, it is *their* gold. We promised them the right to redeem dollars for gold, and they own those dollars. The inflation reduces the purchasing power value of their dollars, and simultaneously it reduces interest rates, thus reducing the profitability of their investments in American stocks and bonds. They are just like all of us; they are not happy about being paid off in cheap dollars. So they demand gold itself.

We are caught, therefore, in a "scissors effect." If we raise interest rates, thus slowing the inflation (by reducing the number of loans made by banks that create the money) and encouraging foreigners to keep their dollars invested in America, then we create a recession or a depression. (A recession is where your neighbor is out of work; a depression is where you're out of work.) But if we lower the rate of interest by inflating further, we may keep the economic boom going, but foreign bankers and political leaders grow uneasy and demand their gold, shrinking our reserves. This, in turn, tends to force down the value of the dollar in Europe in relation to less inflationary currencies. Then we have pressure to *devalue* the dollar.

What is devaluation? It involves two things for the United States. First, it means that we raise the price of gold. We no longer give out an ounce of gold for $35; maybe we charge $42 or $50. This means, of course, that we have defrauded all those foreign banks that have kept American securities as backing for their own currencies instead of holding the actual gold. When we raise the price of gold, their reserves are depleted, since they can no longer get as much gold as they could before the price was raised. Second, devaluation of the dollar would mean that the dollar would be less valuable in Europe. Today we can buy four German marks for a dollar; after a devaluation we might only be able to buy three. Many countries would follow by devaluing their own currencies, though Germany and Switzerland might have to devalue by a smaller percentage than we did. For those countries devaluing their currencies by a smaller percentage, Americans would have to spend more dollars to buy the same amount of imported goods. Our Volkswagens and Opel Cadets and Elna sewing machines would cost us more. This will tend to raise prices even higher in America. Such a devaluation would hurt our prestige abroad in Europe, especially if we were to devalue without a prior consultation with our allies. No one wants to lose prestige, especially Mr. Nixon.

The only alternative, in the short run, is to establish what economists call floating exchange rates. This sounds very technical, but it only means that the free market would decide how much a dollar is worth in relation to a French franc or an English pound. At present, the exchange rates (comparative values) of the currencies are fixed by law within very rigid limits. The governments and their central banks make the decision, and it is difficult to change these prices. This would mean that prices of foreign goods might fluctuate a lot more, as one country deflated its currency or inflated it, but there would be no more "dollar shortages" or "franc gluts" on the markets. You could get all the foreign currencies you could want if you were willing to pay the going price. Many economists, notably the University of Chicago's Milton Friedman, have advocated such a plan, but governments, until quite recently, have not wanted to adopt such a measure. It would take power out of their hands, and it would also make inflationary policies much more obvious to the public, as inter-currency prices would fluctuate rapidly in response to such policies. But fear of an international monetary crisis has made flexible exchange rates appear somewhat more desirable than before. Flexibility is often preferable to intermittent, but violent, crises.

Flexible exchange rates will not solve our long-run problem. If the gold continues to drain out of our Treasury, we will eventually run out of gold. It cannot be mined rapidly enough to replace what is being purchased abroad. Yet if we absolutely refuse to pay out the gold, the value of the dollar will be undermined abroad. Europeans will assume (perhaps correctly) that we are not going to stop the inflation, and that the dollar will drop lower and lower in exchange value as the number of them in circulation goes up. This could cause a panic in the world money markets, throwing world trade out of kilter. Economists and statesmen in all nations of the free world fear just this possibility. It would be too dangerous for us to risk a general cessation of all gold sales. Even if we did it through some legalistic trick, such as demanding that long forgotten war debts be paid, the result would be the same. Insolvency by any other name is still insolvency.

This, in short, is the nature of the problem facing Mr. Nixon and his advisers. We can print more money (or create it through the national banking system), inflate further, lower the value of the dollar, encourage a gold rush on our reserves, and gain the wrath of foreign opinion. This policy cannot go on forever without serious international repercussions, both political and economic. On the other hand, we can raise interest rates, raise taxes, slow down the growth of our domestic economy, balance our budgets (national, state, local, and personal), increase the unemployment rate, and risk a recession.

Obviously, both paths are repugnant to most political leaders. Mr. Nixon would prefer to walk on the narrow tightrope between the twin dangers of mass inflation and depression. The economy is precariously balanced. We certainly have a fear of falling off either way. The critical question is this: Can we maintain this balance? If not, would it not be better to suffer a recession now, when the extent of the crisis will be worse the longer we wait?

That, ladies, is the key economic question facing us today. See if your husbands can give you a solution. The economists are not really sure, and economic historians can find very little of an optimistic nature in past inflations to give us much hope of stabilizing without recession. Whether your husbands know the answer or not, at least you know the question. Maybe you can help your husbands to grasp it. Only be patient; it is pretty technical, and they may not catch on all at once.

Chapter III

INFLATION: THE ECONOMICS OF ADDICTION

[This essay was originally published in 1965 in pamphlet form. It has been rewritten slightly, but in essence it is the same essay that first appeared. It should be regarded as a *means of remembering some rather difficult details of the process and progressive degeneration of monetary inflation. It should not be regarded as anything resembling serious economic analysis. But the language of money already is similar to that of biology, e.g., "circulation," so I have not departed too far from accepted teaching practices. If the reader grasps the idea that monetary inflation spreads price changes unevenly, and that the so-called beneficial effects of monetary inflation can only be sustained by further monetary inflation, then the essay will have been successful.]*

Inflation: of all the dangers to the free market economy, historically and theoretically, the greatest is this one, yet it is one of those subjects that remain wrapped in mystery for the average citizen. This elusive concept must be understood if we are to return to the free market, for without a thorough comprehension of inflation's mechanism and its dangers, we will continue to enslave ourselves to a principle of theft and destruction.

This essay is an attempt to compare the process of inflation to a more commonly recognized physiological phenomenon, that of drug addiction. The similarities between the two are remarkable, physically and psychologically. Nevertheless, it must be stressed from the outset that any analogy is never a precise scientific explanation. No analogy can claim to be so rigorously exact as to rival the accuracy of the original concept to which it is supposed to be analogous. It is, however, an excellent teaching device, and while it is no substitute for carefully reasoned economic analysis, it is still a surprisingly useful supplement which can aid an individual in grasping the implications of the economic argument.

Before beginning the comparison, it is mandatory that a definition of inflation be presented, one which can serve as a working basis for the development of the analogy.

One workable definition has been offered by Dr. Murray N. Rothbard, who is perhaps the most reliable expert on monetary theory: inflation is "any increase in the economy's supply of money not consisting of an increase in the stock of the money metal."[1] An even better definition might be this one, adopted for the purposes of exposition in this study: "*any increase in the economy's supply of money*, period." Thus, the level of prices is *not* the criterion in determining whether or not inflation is present. The only relevant factor is simply whether any new money is being injected into the system, be it gold, silver, credit, or paper.

Unfortunately, many economists and virtually the entire population define inflation as a rise in prices. The more careful person will add that this rise in prices is a rise in the overall price level of most goods in the economy, one which is not due to some national disaster, such as a war, in which the rise can be attributed to an increase in aggregate demand as a result of changed economic expectations. Other economists, even more precise, attempt to define inflation as an increase in the money supply greater than the increase of aggregate goods and services in the economy. Professor Mises himself, in his earliest study on monetary theory, employed a definition involving comparisons between the aggregate supply of money and the aggregate "need for money."[2] But in later years, he abandoned this definition, and for very good reasons, as he has explained:

> There is nowadays a very reprehensible, even dangerous, semantic confusion that makes it extremely difficult for the non-expert to grasp the true state of affairs. "Inflation," as this term was always used everywhere and especially also in this country, means increasing the quantity of money and bank notes in circulation and of bank deposits subject to check. But people today call inflation the phenomenon that is the inevitable consequence of inflation, that is, the tendency of all prices and wage rates to rise. The result of this deplorable confusion is that there is no term left to signify the cause of this rise in prices and wages. There is no longer any word available to signify the phenomenon that has been up to now called "inflation." It follows that nobody cares about inflation in the traditional sense of the term. We cannot talk about something that has no name, and we cannot fight it. Those who pretend to fight inflation are in fact only fighting what is the inevitable consequence of inflation. Their ventures are doomed to failure because they do not attack the root of the evil. They try

1. Murray N. Rothbard, *What Has Government Done to Our Money?* (Colorado Springs: Pine Tree Press, 1964), p. 23. This study is now distributed through the Foundation for Economic Education, Irvington-on-Hudson, N. Y. 10533.

2. Ludwig von Mises, *The Theory of Money and Credit* (Foundation for Economic Education, [1912] 1971), p. 240.

to keep prices low while firmly committed to a policy which must necessarily make them soar. As long as this terminological confusion is not entirely wiped out, there cannot be any question of stopping inflation.[3]

What about the inflation caused by increases in the supply of money metals? How does this come about? There are at least two ways this could happen: (1) new sources of gold and silver might be discovered; (2) a new and more efficient technical process for producing one of the metals more cheaply could be found. This would tend to inject new supplies of circulating media into the economy, but the use of the metals as money could be offset through their consumption in industrial use (silver, for example, is widely used in the photography industry), and as jewelry and ornamentation. Then, too, costs of mining are not any lower, nor profits any higher, in the long run, than in any other industry. Because of these and other limitations on the use of precious metals as money, changes in their supply are *relatively insignificant* as inflationary or deflationary devices. It must be admitted that the inflation which stems directly from the increased supply of precious metals proceeds in exactly the same fashion as the inflation from other sources, but this kind of inflation is usually on such a vastly smaller scale that it is far less dangerous than the other types,[4] and is therefore of less concern to this study. Since it takes place on the free market, in distinction from both mass credit and currency inflation, its effects are more predictable and less harsh. Free market inflation and deflation, caused by the fluctuation in the supply of money-metals, are inescapable in this imperfect world, but their burden is light. Their evils are compounded sevenfold if men, in their drive for a radical, State-enforced perfectionism, attempt to eradicate this mild inflation or deflation through the imposition of State controls over the money mechanism.

In contrast to the expense and difficulty of the production of precious metals, consider how gloriously simple it is for a government to print a treasury note, or for a bank to issue a paper deposit certificate. The treasury of any nation can begin by promising to redeem all of its notes in stated weights and fineness of a precious metal, proceeding to buy the metals from producers and issuing the notes in payment. In the beginning, the treasury note, like the bank note or bank credit slip, is a legal IOU, a receipt for goods stored, goods that are payable on demand with the presentation of the receipt. So far, so

3. Mises, in Aaron Director (ed.), *Defense, Controls, and Inflation* (University of Chicago, 1952), pp. 333-334.

4. Mises, *Money and Credit*, pp. 208-209. Cf. North, "Gold's Dust," *The Freeman* (Oct., 1969) [chap. 4, below].

good, but the matter never rests here. The treasury officials realize what the banking leadership realized hundreds of years ago, that few people ever call for their gold or silver. Those who do are normally offset by new depositers, and so the vast stores of money metals are never disturbed. The paper IOU notes are easier to carry, store more easily, and because they are supposedly one hundred percent redeemable from supposedly reliable institutions, these notes circulate as easily as the gold or silver they represent, perhaps even more easily, since the paper has so many useful properties. These paper notes have the character of money—they are accepted in exchange for commodities.

Treasury officials now see a wonderful opportunity for buying goods and services for the government without raising *visible* taxes: they can print new bills which have no gold reserves behind them, but which are indistinguishable from those treasury notes with one hundred percent reserves. The new, unbacked notes act exactly the same as the old ones; they are exchanged for commodities just as easily as the honest IOU notes are. Governments print the notes in order to increase their expenditures, while avoiding the necessity of raising taxes. The nasty political repercussions associated with tax increases are thereby bypassed. The State's actions are motivated by the philosophy that the *government* can produce *something for nothing*, that it can *create* wealth at will, merely through the use of the printing press. Government attempts to usurp the role of God by becoming the creator of wealth rather than remaining the defender of wealth. The magic of money creation, in its modern form, makes the earlier practice of metal currency debasement strictly an amateurish beginning. If private citizens engage in paper money creation, it is called *counterfeiting;* if governments do it, it is called progressive monetary policy. In both cases, however, the end is the same: to obtain something valuable at little expense. The result is the same: *inflation.* In the private realm, with the notable exception of banking, counterfeiting is prosecuted by the government because it is *theft,* but in the public sphere it is accepted as a miracle of enlightened statesmanship.

Banking practice is quite similar to treasury policy, and the State, realizing that the banks are an excellent source of loans, permits and even encourages bankers to continue this fraudulent counterfeiting. A bank, assuming an enforced legal reserve limit of ten percent (which is about average), can receive $100 from a depositer, permitting him to write checks for that amount, and then proceed to loan $90 of this money to a borrower, virtually allowing him to write checks *on the same deposit!* Presto: instant inflation, to the tune of ninety cents on the dollar. This, however, is only the beginning. The borrower takes the $90 to his account, either at the same bank or at another one. This second deposit permits the bank involved to issue an additional $81 to a third borrower, keeping $9 in reserve, and the process continues until a grand total of $900 comes into circulation from the original $100 deposit. This practice is commonly known as "monetization of debt," and the banking system which practices it is called "fractional reserve banking." Then, too, there is the problem of the original $100. If it should be in the form of treasury notes, then the currency already has been heavily inflated through the government's counterfeiting practices. If, on the other hand, it is in the form of a check, then it is backed up by only ten percent of some earlier depositer's $111.11. In any case, the economy is faced with an ever-pyramiding structure of credit inflation, only the pyramid is inverted, with an ever-tinier percentage of specie metals at its base. Money buys less and less as prices soar. Anyone who doubts the magnitude of the effects of this combined bank and treasury note inflation should pause and consider the fact that in the years 1834-1859, the highest per capita total of currency, deposits, and specie in the United States was under $18, and in the low year it was just over $6 per person![5] In the high year, 1837, there was only $2 of specie to back up the $18, and the banks had to suspend payment,[6] so even in this period the nation was plagued by a money mechanism based upon unbacked IOU notes.

It should be pointed out, just in passing, that the traditional debate over the so-called "wage-price spiral" misses the mark completely. The unions blame management for the increasing costs of all manufactured goods, while business blames the unions as the cause of the price hikes, since added labor costs force management to pass along the wage increases to the consumers. Both groups are wrong. Without the counterfeit, unbacked credit money produced by fractional reserve banking, and without the unbacked treasury notes, neither labor nor business could continually force up prices. Labor would price itself out of the market, forcing management to fire some of the laborers. Business would price their products too high, and the public would shift to their competitors. No, the wage-price spiral is only a *symptom* of the inflation; it is a *direct result*, not the cause, of inflation. Admittedly, government coercion backing up labor's demands have made the unions a major source of the pressures keeping costs rising continually, as Henry Hazlitt argues in chapter

5. Amasa Walker, *The Science of Wealth* (4th ed.; Boston: Little, Brown, 1867), Diagram 1, p. 162a.
6. *Ibid.*, p. 162.

42 of his little book, *What You Should Know About Inflation.* But this should not blind us to the original causes: the treasury's counterfeiting and the governmentally protected fractional reserve banking system.

What, then, are the effects of this inflation on the economic system? It is my hope that the answer to this question will be grasped more quickly through the use of the analogy of the dope addict. The nation which goes on an inflation kick, such as the one the United States has been on for well over a century, must suffer all the attending characteristics which inescapably accompany such a kick. In at least six ways, the parallels between the addicted person and the addicted economy are strikingly close.

1. *The "Junk" Enters at a Given Point*

This is an extremely important point to understand. The new money does not appear simultaneously and in equal amounts, through some miraculous decree, in all men's pockets, any more than equal molecules of the drug appear simultaneously in every cell of the addict's body. Each individual's bank account is not increased by $5 more than it was yesterday. Certain individuals and firms, those closest to the State's treasury or the banks' vaults, receive the new money before others do, either in payment for services rendered or in money loaned to them. Inflation enters the economy at a point or points and spreads out; the drug enters an addict's vein, and this foreign matter is carried through his system. In both cases, the "junk" enters *at a point* and takes *time* to spread.

There are several differences, though, which cannot be ignored. The spread of inflation is far more uneven than is the spread of the drug. The first individuals' incomes are immediately swelled, and they find themselves able to purchase goods at yesterday's less inflated prices. They can therefore buy more than those who have not yet received quantities of the new, unbacked currency, and this latter group is no longer able to compete so well as the possessors of the counterfeits. Since yesterday's prices were designed by the sellers to enable them to sell the entire stock of each commodity at the maximum profit, the firms or individuals with the new money will either help deplete the stock of goods first, leaving warehouses empty for their competitors who desire to purchase goods at the given price, or the new money owners will be in a favorable position to bid up the prices so that the competitors will have to bow out. The first group gains, undoubtedly, but only at the expense of the second group, the group which can no longer compete successfully through no fault of its own. The latter group bears the costs, costs which are hidden, but which are nonetheless there. This latter group is made up of those individuals who have relatively fixed incomes (pensioners, civil servants, small businessmen), and who are forced to restrict purchases due to the now inflated prices.

As the inflation spreads, it increases rapidly because of the fractional reserve banking process described earlier. Prices rise unevenly, depending on which industries receive the new funds first, while the unsuccessful businesses, those without the new money, begin to contract and even to go out of existence.

The inflationary process clearly does not create wealth, it merely *redistributes* it, from the pockets of those who were successful before the inflation began, into the pockets of those who are successful once its starts. The government can supply its needs without raising the visible tax rate; the banks can make more loans without raising the interest rate (in the short run, although not in the long run[7]). The government, by inflating, imposes an invisible, unpredicted *tax* upon those who cannot pay the new prices, and who must restrict their purchases; the banks, by inflating, force the non-recipients of bank credit to consume their capital by having to pay higher prices, and this tends to bring more people and businesses to the credit department of the banks. In either case, someone pays the costs. The redistribution (and ultimately the destruction) of wealth continues.

All this results from the fact that the spread of inflation is uneven, and because all inflation must enter at certain, favored, points.

2. *The "Junk" Produces a Sense of Euphoria*

The addict experiences a series of strange sensations, some of which may be painful, such as nausea, but which are more than offset by the pleasant results, however temporary these might be. Things seem more secure to the addict, less harsh than before. The drug may produce dizziness, an imbalance, and it certainly distorts the addict's sense of reality. He moves into a false world, but one which he prefers to the real one, and which he may even mistake, at least temporarily, for the real one, until the effects of the drug have begun to wear off.

Inflation does precisely the same thing to an economy. Prices rise spasmodically, in response to the inflated money injected into certain points of the economy. Money is "easy," and profits appear to be available in certain favored industries, those industries in which, *prior* to the inflation, further investment would have produced losses. The entrepreneurs pour capital, in the form of money and credit, into these newly profitable ventures. The inevitable happens: good,

7. Mises, *Money and Credit*, pp. 361-364.

solid, formerly profitable businesses that had been beneficial to both buyers and owners in the pre-inflation period now begin to lose money. Costs are rising faster for certain industries than are profits; capital is being redirected into other industries; laborers are moving into areas where higher wages are present. Firms which had just barely broken even before the inflation (marginal firms) may now go under and be forced to declare bankruptcy. They are bought out by the favored industries, and a *centralization of production* begins, with the favored industries leading in expansion and growth. The marginal firms were not destroyed through honest competition, i.e., because they were unable to offer services equal to competitors, but because some members of the economy have been given access to counterfeit money and are thus enabled to compete with an unfair advantage.

Capital—raw materials, human labor, production machinery—has been redirected, and in terms of the preinflation conditions, *misdirected.* Efficient firms can no longer compete, so they fold up; as inflation progresses, they fold up even faster. Supplies, initially stimulated, may begin to fall as the more efficient firms (in terms of a non-counterfeit currency) collapse. *Prices*, the guideposts of a free market, have been *distorted* by the injection of the new money, exactly as the addict's senses are distorted by the drug, and the economy reels drunkenly. Paper profits appear, followed by rising costs which may wipe out all the gains. Businessmen are thrown into confusion, as are laborers, housewives, and professional business forecasters: where to invest, what is sound, where will rising costs lag behind increasing profits? Investments go where the profits are, but the profits are measured by a mixed currency, part specie metals and part counterfeit promises to pay specie metal. *Counterfeit profits* stimulate the creation of "counterfeit industries," while wiping out formerly productive enterprises. The redistribution of wealth results in the destruction of wealth, and the consuming public is injured: some have become rich, but the majority pays for its new-found prosperity.

By fouling up the price mechanism, the inflationary drug has helped to paralyze industry. The economy fares no better than the addict. By ignoring reality, i.e., the true conditions of supply and demand, the inflationist economy helps to destroy itself just as surely as the addict destroys himself by trying to escape the real world. The senses are dulled, and the organism suffers.

3. *The Body Adjusts to the "Junk" and More Is Demanded*

The addict's body eventually adjusts to the drug that has entered his system, compensates for its destructive effects, and then attempts to heal its malfunctioning organs. Much the same thing takes place in the economic system. Sellers and buyers adjust their purchases to the new prices and the new wages. But the damage, in both cases, has already been completed. Old cells in the addict's body, and old businesses and entrepreneurial plans in the case of the economic system, have been eliminated. Things can go forward again, but not at the same rate or in the same direction as they did before. Nevertheless, the organisms are still alive and functioning once again—provided that no new "junk" enters either system.

That, of course, is the danger. The "benefits," the pleasant euphoria in the addict's case, and the apparently limitless opportunities for gain in the inflated "boom" conditions of the economy, act as a constant temptation to both to return to the old ways. The successes were too apparent, and the losses so invisible. Who misses a few dead cells, or a few bankrupt businesses? Cells and businesses die every day! But not, normally, *healthy* cells and *productive* businesses, and this is what the addict and the inflationists ignore. If healthy cells are destroyed in a human being, sickness is present. The same holds true for the economy.

The addict is tempted, and the second step is always easier than the first; moral and physical resistance is now much lower than before, and so is the initial fear. The resistance to further inflationary pressures is also lower; many in the economy have been made rich by it, and without further inflation their positions of supremacy are threatened. These vested interests do not owe their position to their successful competition; they are indebted to the counterfeiting agencies which have provided them with the additional funds. The counterfeiting agencies do not wish to cease inflating the money supply either. So the addict returns to the pusher, and the economy returns to the banks, then stands, hat in hand, at the treasury's doors. A new round of inflation begins.

There has been a change, however. Both the addict and the economy require *ever-increasing doses* of the "junk" in order to obtain the same "kick." The addict's body develops a tolerance for the drug, and if the same amount of it is injected into his system, he will begin to lose the old euphoria, and eventually he will experience physical discomfort. In the market, forecasters expect further inflation, and they prepare their plans more carefully, watching for rising costs and more ready to increase prices. The paper profits are smaller unless larger quantities of the counterfeit claims are injected into the money supply.[8] The addict's body continues to

8. *Ibid.*, p. 224.

decline, and the economy also deteriorates. New bankruptcies, soaring prices, disrupted production are everyday occurrences. The price mechanism is less and less responsive to the true conditions of supply and demand, i.e., "true" apart from monetary inflation.

Another fact that is not generally realized is that the price level may remain somewhat stable while inflation is going on. Just as the addict can take a small quantity of a drug and still seem normal, so the productive economy can seem healthy. Both addict and economy are filled with the foreign matter, whether the signs show or not. Take away the drug, and both the economy and the addict would be different. The layman, and a considerable number of economists, forget that in a productive economy, the general level of prices should be *falling*.[9] If the money supply has remained relatively stable, the increased supply of goods will force down prices, if all the goods are to be sold. In fact, the free market should generally be characterized by increasing demand prompted by falling prices, with increasing supplies due to increased capital investment. If *prices* remain *stable*, then the economy is very likely experiencing *inflationary* pressures. The public has erred in thinking that an increasing or even stable price level is the sign of "normalcy."

The addict, ironically, recognizes his condition for what it is. The addicted economy is equally sick, yet its members refuse to face the issue squarely, refusing to admit that the condition even exists. They get used to the "junk" and demand greater and greater doses of it.

4. *The Habit Cannot Go on Indefinitely*

The addict will usually run out of funds before he can reach the limit of his body's toleration. If he has the funds, and if he escapes detection, then he will eventually kill himself. Normally, legal and financial considerations will prevent this.

Not so in the economy's case. The legal restrictions on the circulation of inflated bank credit are not restrictions at all: they are licenses, virtual guarantees to permit fraud. Demanding ten percent reserves is licensing ninety percent counterfeiting. Demanding a twenty-five percent gold backed dollar is permitting seventy-five percent fraud. The legal limits are off; the addicted economy can supply itself almost forever with its phony wealth. It cannot, however, escape the repercussions.

The addict has greater restrictions upon his actions, but he can die. The economy does not die, for it is not a living creature, though

9. *Ibid.*, p. 417. Cf. North, "Downward Price Flexibility and Economic Growth," *The Freeman* (May, 1971) [chap. 10, below].

for the sake of the analogy it is treated as such. Continuous inflation will, however, spell the death of the circulating media that is used. Eventually, the market will be forced to shift to some new means of price measurement, to some new device for economic calculation. If the inflation is permitted to progress to this point, the social and economic results can be devastating. Economies do not die, but the social order can be replaced. The classic example is Germany in 1923.[10] The effects upon individual members of the society could lead to chaos, leaving large segments of the population spiritually demoralized.

The habit cannot go on forever. It will either be stopped, or else the addict will die, in the case of the human, and the monetary system will collapse, in the economy's case. The thought of the latter alternatives turns one's attention to the former one: stopping the inflation and stopping the drug.

5. *Shaking the Habit*

Withdrawal—the most frightening word in the addict's vocabulary. *Depression*—the most horrible economic thought in the minds of today's citizens. Yet both come as the only remedies for the suicidal policies entered into.

To the addict, withdrawal means a return to the normal functioning of the body, a return to reality. The path to normalcy is a decidedly painful avenue. Withdrawal will not restore him to his pre-addiction condition, for too much has already been lost—socially, physically, financially, spiritually. But he can live, he can survive, and he can make a decent life for himself.

For the inflationist economy, a cancellation, or even a reduction, of the inflation means depression, in one form or another. This is inevitable, and absolutely necessary.[11] Prices must be permitted to seek their level, production must rearrange itself, and this will mean losses to some and gains for others. The inflationary effects of the monetization of debt, the pyramiding of credit, are then reversed. The man who deposited the $100 is pressed for payment by creditors, so he withdraws his money. The banks are faced with either heavy (and unfulfillable) specie demands, or at least with credit and currency withdrawals. The bank calls in its loans, sells its property, begins to liquidate. The man who had borrowed the $90 now must

10. Cf. Constantino Bresciani-Turroni, *The Economics of Inflation* (London: George Allen and Unwin, 1937).

11. Murray Rothbard, *Man, Economy and State* (Princeton: Van Nostrand, 1962), II, 854 ff. "One point should be stressed: the depression phase is actually the recovery phase" (*ibid.*, p. 860). This study has been reprinted by the Nash Publishing Co., Los Angeles.

pay up, with interest. He goes to his bank, takes out the $90, and his bank has to call in the $81 it had loaned out. The $900 built on the original $100 disappears, again as if by magic. This is the process of *demonetization* of debt, and it is clear why there would be a drastic decline in prices, and why a lot of banks would be closed, some of them permanently.

The suffering imposed by depression is unfortunate, but it is *the price which must be paid for survival.* If the consequences of runaway inflation are to be avoided, then this discomfort must be borne.

The depression, lest we forget, is not the product of a defunct capitalism, as the critics invariably charge. It is the *restoration* of capitalism. Free banking, even without the legally enforced one hundred percent reserve requirement, can never develop the rampant inflation described here.[12] The *inflation* came as a *direct result of State-enforced policies*, and the State must bear the blame. Sadly, it never does. It accepts responsibility for the politically popular "boom" conditions, but the capitalists cause the "busts."

6. *The Temptation to Return to the "Junk"*

The analogy ends here, as far as I am concerned, with only one unfortunate addition. The reformed addict, I am told, never completely loses his desire to return to the "junk." The lure of the old euphoria, the days of junk and roses, always confronts him. The temptation to inflate once again is likewise always with us, and especially during the transition (depression) period. America's 1929 depression is the best historical footnote to the unwillingness of an economy to take its medicine and stay off of the "junk."[13]

This much is certain, the deliberate inflating of a nation's circulating media is an ancient practice which has generally accompanied a decline of the national standards of morality and justice. The prophet Isaiah called attention to the coin debasing of his day, including it in a list of sins that were common to the society. They are the same social conditions of our own era:

> How is the faithful city become an harlot! it was full of judgment; righteousness lodged in it; but now murderers. *Thy silver is become dross*, thy wine mixed with water: Thy princes are rebellious, and companions of thieves . . . (Isa. 1:21-23a).

Debased currency is a sign of moral decay. In the final analysis,

12. Mises, *Human Action* (3rd ed.; Chicago: Regnery, 1966), p. 444 ff.

13. Rothbard, *America's Great Depression* (Princeton: Van Nostrand, 1963), stands as the best book on the subject. It has been reprinted by Nash Publishing Co. See also the important book, *Banking and the Business Cycle*, by C. A. Phillips, T. F. McManus, and R. W. Nelson (New York: Macmillan, 1937). This has been reprinted, under Rothbard's editorship, by the Arno Press of New York.

inflation is not just a question of proper economic policy. Above all, it is a question of *morality.* If we should permit the State to continue its fraud of *indirect taxation* through inflation, then we would have little argument against what is clearly the next step, the final removal of *all* natural resistance to inflation through the establishment of a *world banking system.* Mises warned half a century ago that the establishment of a world bank would leave only panic as the last barrier to total inflation.[14]

In the realm of practical recommendations, at least two seem absolutely imperative. The first is simple: *completely free coinage* as a right of *private property,* with the government acting as a disinterested third party ready to step in and prosecute at the first sign of fraud on the part of the private firms. Any debasement of these private coins would be prosecuted to the limit of the laws. The private mints would therefore find it advantageous to keep continual watch over each other's coinage, calling the State's attention to any sign of fraud. By eliminating the present State monopoly of coinage, private competition could act as a barrier to monetary fraud. Without this mutual competition, the State's monopoly of coinage can continue, with only minor checks on debasement. Private coinage would never eradicate personal greed, of course, but *mutual avariciousness* would tend to place checks on the fraudulent practice of theft through debasement.

The second recommendation, *free banking,* is similar to the first one of free coinage. The banks must be made to gain their profits from the charging of storage costs, clearing house operations for checks, and the investment of private trust funds. When banks create credit (and the power of credit creation is precisely what defines a bank, as distinguished from a savings and loan company), they charge interest on loaned funds which have been created by fiat. There are no gold or silver reserves backing this money, yet the banks profit by lending it. It involves fraud, and it is therefore immoral. The practice must be hindered.

Professor Mises argues that free banking will keep bankers honest. Mutual competition will tend to destroy banks that are insolvent because of their heavy speculative policies of credit creation. Bank runs will tend to drive the less conservative banks out of business. There may be some credit creation, but very little in comparison to that which exists today, when the governments support fractional reserve fraud. He fears a law which would require one hundred percent reserves for banks, however, for the power of the State to demand one hundred

14. Mises, *Money and Credit*, p. 291 ff.

percent reserves implies the power to demand ninety-nine percent reserves, ninety-five percent reserves, fifty percent reserves, or ten percent reserves. It is safer, he argues, to leave government out of the picture completely, given the past failures of government to keep the banking system honest. Fractional reserve banking is too tempting to governments as a source of ready loans. Mises, in short, does not trust the government bureaucracy when it comes to the regulation of banking.[15] I tend to agree with him on this matter.

Dr. Rothbard argues cogently for a State-enforced one hundred percent reserve requirement for all banks. Any bank not abiding by this must be prosecuted.[16] It must be stressed that Mises is not absolutely hostile to this recommendation, since he admits that "Government interference with the present state of banking affairs could be justified if its aim were to liquidate the unsatisfactory conditions by preventing or at least seriously restricting any further credit expansion."[17] Mises is willing to let some regulation in on the grounds of expediency; things are so bad today that any restrictive legislation would be an improvement. Rothbard is arguing, however, in terms of principle. Fraud is involved in fractional reserve banking, so it must be eliminated by law. It is a strong argument. Unfortunately, Rothbard sacrifices its cogency by his philosophical anarchism. If there is no State to enforce the provision, how will his one hundred percent reserve banking scheme be different, operationally, from Mises' free banking?

In addition, Rothbard argues, the State must not be permitted to extend beyond its own sphere into the economic realm by means of the printing press. The government must not continue to hoard the gold which originally belonged to its citizens. The people must be given the right to claim their gold.[18] Preferably, the government must not have the power to store gold and silver or to print receipts (IOU's); this so-called "free" service, i.e., gratuitous service, is not really one without costs. It must be paid for, either by direct taxation or by the indirect taxation of counterfeit receipts. Invariably, the temptation to print State counterfeits is too great, especially during the crisis of war. Even the most moral of statesmen give in. What President can resist the possibilities of "taxation without legislation" that greenbacks provide? Abraham Lincoln himself fell under the spell of the myth of something for nothing, and the United States is

15. Mises, *Human Action*, pp. 444-445.
16. Rothbard, *Man, Economy and State*, II, 709.
17. Mises, *Human Action*, p. 448.
18. Rothbard, "The Case for a 100% Gold Dollar," in Leland B. Yeager (ed.), *In Search of a Monetary Constitution* (Cambridge, Mass.: Harvard University Press, 1962), p. 135.

till, legally, obliged to use his fraudulent, unbacked United States Iotes.[19]

The coinage power must be left to private citizens who are subject ɔ competition from other citizens and to the enforcement by the overnment of the private coins' stated weights and fineness. Logially, one might argue, this would hold true for government enforcenent of 100 percent reserves in banking, too. Perhaps so, but in any ase, the benefits of free banking, with or without the 100 percent eserve law, would provide a remarkably sound monetary system. ınd either way, the "withdrawal" pains—depression—could not be voided.

Unless men and women are ready to face the consequences of the ıecessary "withdrawal" period and the sufferings that accompany it, ınless they take a moral stand against this fraudulent and suicidal lrug of inflation, demanding that the government cease its efforts o promote the "boom" conditions, then the end of civilization as we now it now is in sight. Either we destroy the fraud of unbacked ɪaper currency and unbacked bank credit, or the fraud will destroy ıs—morally, economically, politically, and spiritually.

19. It is interesting to note that the "greenbackers" are still with us, and nost of the modern-day right-wing action groups in the United States are comɔletely infected with their doctrines, at least those groups clustered around the 'radical right." The doctrine of these Social Credit monetary cranks is that nflation, if under direct Treasury auspices, is beneficial. Therefore they have nade Lincoln's United States Notes their rallying cry. See, for example, "Dr. R. E. Search," *Lincoln Money Martyred* (Hawthorne, Calif.: Omni Books, 1935] 1965). The intellectual junk of the Social Credit advocates parallels the nflationary junk of the government. The best study of the greenbacks and heir economic effect is still Wesley Clair Mitchell, *A History of the Greenbacks* (University of Chicago, [1903] 1960). However, his thesis that real wages of laborers in the North fell as a result of the inflation caused by the greenbacks, has been challenged by two "monetarists" of the Chicago School of oro-inflation economics, "Real Wages in the North during the Civil War: Mitchell's Data Reinterpreted," *The Journal of Law and Economics*, II (1959), op. 95-113. Other explanations can be offered as to the fall in real wages, out I prefer to argue that Mitchell was correct: inflation caused by the greenbacks was one of the factors.

Chapter IV

GOLD'S DUST

[This semi-tongue-in-cheek article is directed at those who would criticize gold, as Keynes did, as a "barbarous relic," as well as those who argue that the capital invested in gold mining (except for gold used in jewelry or industry) is really wasted. A full gold coin standard is of very great value for human freedom: it restrains the expansion of the despotic human institution known as the State. A limited State has a valid function, namely, restraining evil-doers (Rom. 13). The existence of a full gold coin standard is of far more importance, operationally, than any paper constitution, in restraining the illegitimate expansion of State power. Of course, a State devoid of a written constitution is far more likely to try to abolish the existence of a full gold coin standard than one that has such a constitution. But men can have freedom apart from a written constitution if a gold standard is operating (England in the 1800's), and they can be enslaved by a written constitution if they may not own gold (U.S.S.R.).]

> **The best way for a nation to build confidence in its currency is not to bury lots of gold in the ground; it is, instead, to pursue responsible financial policies. If a country does so consistently enough, it's likely to find its gold growing dusty from disuse.**
>
> **Editorial, *The Wall Street Journal* (July 8, 1969)**

When I read the above sentences for the first time, something clicked in my mind. That the conclusions drawn by the editorialist concerning the importance of gold for monetary purposes are opposed to my conclusions is neither here nor there. What is important is that within an editorial hostile to gold, the writer has hit upon one of the basic truths of the international gold standard. *The gathering of dust on a government's stock of monetary gold is as good an indication of fiscal responsibility as would be the addition of gold dust to the stock.*

In order to place things in their proper perspective, we must consider the function of money in general and the size of a nation's gold stock in particular. Money, it should be understood, is useful only as a means of exchange. The reason some particular economic good functions as money is because it is the most highly marketable good vailable; it outrivals other items in the four properties of any mone-ary good: durability, transportability, divisibility, and scarcity. For hat reason it is in demand; people are willing to part with other scarce oods and services in order to purchase money. Murray Rothbard has ommented on this unique function of money:

> Thus, we see that while an increase in the money supply, like an increase in the supply of any good, lowers its price, the change *does not—unlike other goods—confer a social benefit.* The public at large is not made richer. Whereas new consumer or capital goods add to standards of living, new money only raises prices—i.e., dilutes its own purchasing power. The reason for this puzzle is that money is *only useful for its exchange value.* Other goods have "real" utilities, so that an increase in their supply satisfies more consumer wants. Money has only utility for prospective exchange; its utility lies in its exchange value, or "purchasing power." Our law—that an increase in money does not confer a social benefit—stems from its unique use as a medium of exchange.[1]

I would prefer to modify Dr. Rothbard's statement somewhat. If conomic analysis is accepted as a tool for better understanding, hen we must be careful not to derive ethical judgments from the pplication of a supposedly neutral tool of analysis. This, I believe, s in line with the epistemological foundations laid down by men like Ludwig von Mises and Lionel Robbins. What we can say, therefore, s that an addition to an existing stock of money *cannot be said* to onfer a social benefit in the aggregate. Given Professor Mises' nalysis of inflation (which Dr. Rothbard generally accepts, as I lo), we know that those who have first access to the new money do, ndeed, gain a benefit: they can spend the newly mined (or newly printed) money at yesterday's prices. Their competitors who do not have immediate access to the new money are forced to restrict their purchases as supplies of available goods go down and/or prices of he goods increase. Thus, those on a fixed income cannot buy as much as they would have been able to buy had the new money not come into existence. Some people benefit in the short run; others suffer loss. Economic analysis as such gives us no clue as to the overall social benefit; in the aggregate, social benefits may have increased, stayed the same, or fallen. But Dr. Rothbard's general point is vital: he increase of the total stock of money cannot be said, *a priori*, to have increased a nation's aggregate social benefit. The only way such a statement could be made would be in terms of a value-laden set of presuppositions which deems it socially beneficial to aid one group in

1. Murray N. Rothbard, *What Has Government Done to Our Money?* (Pine Tree Press, 1964), p. 13.

the community (the miners, or those printing the money) at the expense of another group (those on fixed incomes). Economics as such could never tell us this, which should encourage us to re-examine the presuppositions lying behind the highly inflationary recommendations of many of those enamored of the "new economics."

If it is true that there is no way of supporting, through the use of economic analysis, the idea that an increase in the money supply in some way increases aggregate social benefits, then certain conclusions will follow. For the sake of argument, let us assume that the supply of paper dollars is tied, both legally and in fact, to the stock of gold in the federal government's vaults. Let us assume that for each ounce of gold brought to the government, a paper receipt called a "dollar" is issued to the one bringing in the gold for deposit. At any time the bearer of this IOU can redeem the paper "dollar" for an ounce of gold. By definition, a dollar is now worth an ounce of gold, and vice versa. What will take place either if an addition of new gold is made by some producer, or if the government (illegally) should print up a paper dollar? Rothbard describes the results:

> An increase in the money supply, then, only dilutes the effectiveness of each gold ounce; on the other hand, a fall in the supply of money raises the power of each gold ounce to do its work. [Rothbard is speaking of the long-run effects in the aggregate.] We come to the startling truth that *it doesn't matter what the supply of money is.* Any supply will do as well as any other supply. The free market will simply adjust by changing the purchasing-power, or effectiveness of its gold unit. There is no need whatever for any planned increase in the money supply, for the supply to rise to offset any condition, or to follow any artificial criteria. More money does not supply more capital, is not more productive, does not permit "economic growth."[2]

Once we have a given supply of money in our national gold system (or wampum system), we no longer need to worry about the efficiency of the monetary unit. Men will use money as an economic accounting device in the most efficient manner possible, given the prevailing legal, institutional, and religious structure. In fact, by adding to the existing money supply in any appreciable fashion, we bring into existence the "boom-bust" phenomenon of inflation and depression.[3] The old cliché, "Let well enough alone," is quite accurate in the area of monetary policy.

We live in an imperfect universe. We are not perfect creatures, possessing omniscience, omnipotence, and perfect moral natures. We therefore find ourselves in a world in which some people will

2. *Ibid.*
3. Cf. Gary North, "Repressed Depression," *The Freeman* (April, 1969) [chap. 6, below].

choose actions which will benefit them in the short run, but which may harm others in the long run. The gold miner, by diluting the purchasing power of the monetary unit, achieves short-run benefits. Those on fixed incomes are faced with a restricted supply of goods available for purchase at the older, less inflated price levels. This is a fact of life.

Nevertheless, Professor Mises has defended gold as the great foundation of our liberties precisely because it is so difficult to mine. It is not a perfect mechanism, but its effects are far less deleterious than the power of a monopolistic State or licensed banking system to create money by fiat. The effects of gold are far more predictable, because they are more regular; geology acts as a greater barrier to inflation than can any man-made institutional arrangement.[4] The booms will be smaller, the busts will be less devastating, and the redistribution involved in all inflation (or deflation, for that matter) can be more easily planned for.

Nature is niggardly; that is a blessing for us in the area of monetary policy, assuming we limit ourselves to a monetary system tied to specie metals. We would not need gold if, and *only* if, we could be guaranteed that the government or banks would not tamper with the supply of money in order to gain their own short-run benefits. So long as that temptation exists, gold (or silver, or platinum) will alone serve as a protection against the policies of mass inflation.

The collective entity known as the nation, as well as another collective, the State, will always have a desire to increase its percentage of the world's economic goods. In international terms, this means that there will always be an incentive for a nation to mine all the gold that it can. While it is true that economics cannot tell us that an increase in the world's gold supply will result in an increase in aggregate social utility, economic reasoning does inform us that the nation which gains access to newly mined gold at the beginning will be able to buy at yesterday's prices. World prices will rise in the future as a direct result, but he who gets there "fustest with the mostest" does gain an advantage. Thus, so long as there is a demand for South African gold, we can expect to see South Africa selling her gold if the value of the goods she can purchase is greater than the value of the gold to her. What applies to an individual citizen miner applies equally to national entities.

So much for technicalities. What about the so-called "gold stock"? In a free market society which permits all of its citizens to own gold and gold coins, there will be a whole host of gold stocks. (By "stock,"

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4. Ludwig von Mises, *The Theory of Money and Credit* (Yale University Press, 1951), pp. 209-211, 238-240.

I mean gold hoard, not a share in some company.) Men will own stocks, institutions like banks will have stocks, and all levels of civil government—city, county, national—will possess gold stocks. All of these institutions, including the family member, could issue paper IOU slips for gold, although the slips put out by known institutions would no doubt circulate with greater ease (if what is known about them is *favorable*). I suppose that the "national stock of gold" in such a situation would refer to the combined individual stocks.

Within this hypothetical world, let us assume that the national government wishes to purchase a fleet of German automobiles for its embassy in Germany. The American people are therefore taxed to make the funds available. Our government now pays the German central bank (or similar middleman) paper dollars in order to purchase German marks. Since, in our hypothetical world, all national currencies are 100 percent gold-backed, this will be an easy arrangement. Gold would be equally valuable everywhere (excluding shipping costs and, of course, the newly mined gold which keeps upsetting our analysis), so the currency exchange rates are essentially fixed. Each national currency is defined in terms of a fixed quantity of gold, and the market (*not statist authorities*) produces stable exchange rates. Result: the German firm gets its marks, the American embassy gets its cars, and the middleman has a stock of paper American dollars. These bills are available for the purchase of American goods or American gold directly by the middleman, but he, being a specialist working in the area of currency exchange, is more likely to make those dollars available (at a fee) for others who want them. They, in turn, can buy American goods, services, or gold.

Money, it will be recalled, is useful only for exchange, and this is especially true of paper money (gold, at least, can be made into wedding rings, earrings, nose rings, and so forth). If there is no reason to mistrust the American government, the paper bills will probably be used by professional importers and exporters to facilitate the exchange of goods. The paper will circulate, and no one bothers with the gold. It just sits around in the vaults, gathering dust. So long as the governments of the world refuse to print more paper bills than they have gold to redeem them, their gold stays put. It would be wrong to say that gold has no economic function, however. It does, and the fact that we must forfeit storage space and payment for security systems testifies to that valuable function. It keeps governments from tampering with their domestic monetary systems. *An ingot of prevention is worth a pound of cure.*

Obviously, we do not live in the hypothetical world which I have sketched. What we see today is a short-circuited international gold standard. National governments have monopolized the control of gold for exchange purposes; they can now print more IOU slips than they have gold. Domestic populations cannot redeem their slips, and since March of 1968, very few international agencies have access to governmental gold stocks (or so we are told). The governments create more and more slips, the banks create more and more credit, and we are deluged in money of decreasing purchasing power. The rules of the game have been shifted to favor the expansion of centralized power. The laws of economics, however, are still in effect.

One can easily imagine a situation in which a nation has a tiny gold reserve in its national treasury. If it produces, say, bananas, and it limits its purchases of foreign goods by what it receives in foreign exchange for exported bananas, it needs to transfer no gold. It has purchasing power (exported bananas) apart from any gold reserves. If, for some reason, it wants to increase its national stock of gold (perhaps the government plans to fight a war, and it wants a reserve of gold to buy goods in the future, since gold stores more conveniently than bananas), the government can get the gold. All it needs to do is take the foreign money gained through the sale of bananas and use it to buy gold instead of other economic goods. This will involve taxation, of course, but that is what all wars involve. If you spend less than you receive, you are saving the residual; a government can save gold. That's really what a gold reserve is—a savings account.

This is a highly simplified example. It is used to convey a basic economic fact: if you produce a good (other than gold), and you use it to export in order to gain foreign currency, then you do not need a gold reserve. You have merely chosen to hoard foreign currency instead of gold. That applies to citizens and governments equally well.

What, then, is the role of gold in international trade? Dr. Patrick Boarman clearly explained the mechanism of international exchange in *The Wall Street Journal* of May 10, 1965:

> The function of international reserves is NOT to consummate international transactions. These are, on the contrary, financed by ordinary commercial credit supplied either by exporters or importers, or in some cases by international institutions. Of such commercial credit there is in individual countries normally no shortage, or internal credit policy can be adjusted to make up for any untoward tightness of funds. In contrast, international reserves are required to finance only the inevitable net differences between the value of a country's total imports and its total exports; their purpose is not to finance trade itself, but net trade imbalances.

The international gold standard, like the free market's rate of interest, is an equilibrating device. What it is supposed to equilibrate is not gross world trade but *net trade balances*. Boarman's words throw considerable light on the perpetual discussion concerning the increase of "world monetary liquidity":

> A country will experience a net movement of its reserves, in or out, only where its exports of goods and services and imports of capital are insufficient to offset its imports of goods and services and exports of capital. Equilibrium in the balance of payments is attained not by increasing the quantity of mythical "world money" but by establishing conditions in which autonomous movements of capital will offset the net results, positive and negative, of the balance of trade.

Some trade imbalances are temporarily inevitable. Natural or social disasters take place, and these may reduce a nation's productivity for a period of time. The nation's "savings"—its gold stock—can then be used to purchase goods and services abroad. Specifically, it will purchase with gold all those goods and services needed above those available in trade for current exports. If a nation plans to fight a long war, or if it expects domestic rioting, then, of course, it should have a larger gold stock than a nation which expects peaceful conditions. If a nation plans to print up millions and even billions of IOU slips in order to purchase foreign goods, it had better have a large gold stock to redeem the slips. But that is merely another kind of trade imbalance, and is covered by Boarman's exposition.

A nation which relies on its free market mechanism to balance supply and demand, imports and exports, production and consumption, will not need a large gold stock to encourage trade. Gold's function is to act as a restraint on goverments' spending more than they take in. If a government takes in revenues from the citizenry, and exports the paper bills or fully backed credit to pay for some foreign good, then there should be no necessity to deplete its semi-permanent gold reserves. They will sit idle—idle in the sense of *physical movement,* but not idle in the sense of being economically irrelevant.

The fact that the gold does not move is no more (and no less) significant than the fact that the guards who are protecting the gold can sit quietly on the job if the storage system is really efficient. Gold guards us from that old messianic dream of getting something for nothing; that is also the function of the guards who protect the gold. The guard who is not very important in a "thief-proof" building is also a kind of "equilibrating device"; he is there in case the over-all system should experience a temporary failure.

A nation which permits the market to function freely is, by analogy, also "thief-proof": everyone consuming is required to offer something in exchange. During emergencies the gold is used, like the guard. Theoretically, the free market economy could do without a large national gold reserve, in the sense that a perfectly designed vault could do without most of the guards. The nation that requires huge gold reserves is like a vault that needs extra guards; something is probably breaking down somewhere.

I have come, as a recent popular song puts it, "the long way around." What I have been trying to explain is that a full gold coin standard, within the framework of a free economy, would permit the large mass of citizens to possess gold. This might mean that the "national reserves of gold"—that is, the State's gold hoard—might not have to be very large. If we were to re-establish full domestic convertibility of paper money for gold coins (as it was before 1934), while removing the "legal tender" provision of the Federal Reserve Notes, the economy would still function. It would probably function far better in the long run.

That, of course, is not the world we live in. Since it is not a free society in the sense that I have pictured, we must make certain compromises with our theoretical model. The statement in *The Wall Street Journal's* editorial would be completely true only in an economy using a full gold coin standard: "The best way for a nation to build confidence in its currency is not to bury lots of gold in the ground." Quite true; gold would be used for purposes of exchange, although one might save for a "rainy day" by burying gold. But if governments refused to inflate their currencies, few people would need to bury their gold, and neither would the government. If a government wants to build confidence, indeed it should "pursue responsible financial policies," that is, it should not spend more than it takes in. The conclusion is accurate: "If a country does so consistently enough, it's likely to find its gold growing dusty from disuse."

In order to remove the necessity of a large gold hoard, all we need to do is follow policies that will "establish Justice, insure domestic Tranquility, provide for the common defense [with few, if any, entangling alliances], promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity." To the extent that a nation departs from those goals, it will need a large gold hoard, for it costs a great deal to finance injustice, domestic violence, and general illfare. With the latter policies in effect, we find that the gold simply pours out of the Treasury, as "net trade imbalances" between the State and everyone else begin to mount. A moving ingot gathers no dust.

Which leads us to "North's Corollary to the Gold Standard" (tentative): *"The fiscal responsibility of a nation's economic policies can be measured directly in terms of the thickness of the layer of dust on its gold reserves: the thicker the layer, the more responsible the policies."*

Chapter V

DOMESTIC INFLATION VERSUS INTERNATIONAL SOLVENCY

[This essay was my first published piece in a national magazine. Nothing that has happened since it was first published has convinced me that its analysis is faulty. Naturally, I was gratified that the editor received a letter, shortly after its publication, from Prof. Jacques Rueff, of the Institut de France, expressing his appreciation of the piece. However, I was most gratified when a slightly modified version of the essay won second prize ($1,000) in the national essay contest sponsored by Constructive Action, Inc., in 1967. In terms of monetary profit, my first essay still stands as my best one.]

In recent months there has been an increasing amount of discussion concerning "international liquidity," "balance of payments," "dollar glut," gold outflow, and monetary stability. Economists, even when they agree on the nature of the problems involved, seldom are unanimous on the solutions. The debates that are going on among economists, bankers, and politicians are frequently phrased in highly technical and abstruse language, but the basic issue is simply this: how can nations continue to inflate their domestic currency and credit systems, and at the same time preserve mutual trust in each other's solvency?

The "ideal" economic world, in the view of many of our leading economists, is one in which we would have "freedom for each country to pursue its own independent economic policy unhampered by balance-of-payments considerations; and stability of [monetary] exchange rates to encourage international relations."[1] Unfortunately, as the author hastens to add, "the two are incompatible. . . ." The goal of today's international finance experts, therefore, is to discover the best compromise possible, the most workable balance between the two alternatives.

In the context of contemporary economic theory and practice, the

1. Tibor Scitovsky, "Requirements of an International Reserve System," in *Essays in International Finance*, no. 49, November, 1965 (Princeton University's International Finance Section), p. 3.

phrase, "freedom to pursue domestic economic policy," invariably means the freedom of the monetary authorities to inflate a nation's circulating media (currency, coins, and credit). The motivations behind domestic inflation are varied; an important one is that the State can raise its level of expenditure without imposing a corresponding increase in the *visible* tax rate. Inflation, in short, is a form of invisible taxation, and those on relatively fixed incomes are the ones who pay the tax; they must decrease their purchases of consumer products and services when the level of prices rises.

But the primary economic argument which is used today to defend an expansion of the domestic monetary supply is that inflation keeps "effective demand" at high levels, that people with the newly created money will buy more goods, and that businesses as a direct result will be stimulated to increase production. Consequently, more people will be employed by these firms.

Fundamental to this argument is the idea that the operation of the free market is insufficient to insure employment for all those who desire to work. Somehow, the market fails to dispose of all goods offered for sale (through the unhampered action of the pricing mechanism), and therefore the demand registered by purchases is unable to encourage greater production. This perspective has been common to most socialist parties, but it became a basic presupposition of modern nonsocialist thought through the teachings of John Maynard Keynes in his *General Theory of Employment, Interest and Money* (1936). Keynes realized that a downward revision of the level of wages would be opposed vigorously by labor unions, and the governments of most Western democracies would find such a downward revision politically inexpedient. Money wages must not be permitted to fall. However, if inflation were allowed to raise costs and prices, real wages would fall without the organized opposition of labor.[2] It was clear that if real wages did not fall, the result would be unemployment; the least productive workers would have to be dismissed.

Keynes wrote during the depression, but an analogous situation exists today. The structure of minimum wage laws creates a similar problem: the low production worker would lose his job were it not for the fact that governments are permitting real wages to fall (at least in comparison to what the wages would be in the absence of inflation). Minimum wage laws have, in effect, made inflation a political necessity. Eventually, the misallocation of scarce resources promoted by inflation will harm both the laborers and the manu-

2. See the analysis of Keynes's position by Murray N. Rothbard, *Man, Economy and State* (Princeton: Van Nostrand, 1962), II, 683-687.

facturers, as prices soar beyond the means of all but the most influential companies (politically) and the members of the strongest labor unions.

In order to keep businesses going at full production, according to the "new economics," thus keeping labor fully employed, ever-increasing doses of inflation are required. As Wilhelm Roepke has pointed out, it was precisely this philosophy of inflationary full employment which motivated the peacetime economic planning of Nazi Germany, with the resulting system of "repressed inflation"—rationing, shortages, and misallocation of resources.[3]

The nation which indulges itself with an inflationary "boom" inevitably faces the economic consequences: either runaway inflation or a serious recession-depression. If the inflation should cease, unemployment will increase, and the earlier forecasts of the nation's entrepreneurs (which were based on the assumption of continuing inflation) will be destroyed.[4] Since no political party is anxious to face the consequences at the polls of a depression, there is a tendency for inflations, once begun, to become permanent phenomena. Tax increases are postponed as long as possible, "tight" money (i.e., higher interest rates) is unpopular, and cuts in governmental expenditures are not welcomed by those special interest groups which have been profiting by the State's purchases. The inflation continues. As Jacques Rueff has put it: "I know that these [monetary] authorities are not able, they have not the power—the human possibility, at least in our regime—to follow the policy which they ought to."[5]

This should serve as an introduction to the domestic problem which faces the various Western democracies. From an international standpoint, the situation is reversed. The primary need for international trade is a common means of payment which is not subject to violent upward surges, a money free from most inflationary tendencies. Foreign governments and central banks want to be able to trust their neighbors' currencies.

The best means of insuring international responsibility in monetary affairs is the gold standard. This has always been true. Since gold

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3. Roepke, "The Economics of Full Employment," in Henry Hazlitt (ed.), *The Critics of Keynesian Economics* (Princeton: Van Nostrand, 1960), p. 374. For a full discussion of "repressed inflation," see Roepke, *A Humane Economy* (Chicago: Regnery, 1960), pp. 151-221; Roepke, *Against the Tide* (Chicago: Regnery, 1969), chap. 6.

4. Cf. Ludwig von Mises, *Human Action* (New Haven, Conn.: Yale University Press, 1949, 1963), chap. 20. Also, see Rothbard, *America's Great Depression* (Princeton: Van Nostrand, 1963).

5. Jacques Rueff and Fred Hirsch, "The Role and Rule of Gold: A Discussion," in *Essays in International Finance,* no. 47, June, 1965 (Princeton University's International Finance Section), p. 6. Reprinted in Rueff, *The Monetary Sin of the West* (New York: Macmillan, 1972), p. 82.

cannot be mined rapidly enough to create mass inflation, it retains its value over long periods of time. Currencies redeemable in gold therefore cannot be inflated radically, and this helps to retard the upward flight of the price level. For example, Britain's wholesale prices remained remarkably stable between 1821 and 1914.[6] (This indicates that monetary inflation was present, since prices should have fallen, but there were limits on the debasement of the pound sterling.) Central banks can demand payment of debts in gold, or in currencies which are (supposedly) 100 percent redeemable in gold. The banks can then use these foreign securities as a base on which to expand their own credit systems, on the assumption that the debtors' promises are as good as gold. At present, central banks hold American dollars and British pounds sterling in lieu of gold—or more accurately, they hold interest-bearing bonds and securities that are supposedly convertible into gold at any time.

Here is the basis of the conflict between domestic and international economic policies. Gold is presently necessary to support international trade and to maintain international trust in the two key currencies, the dollar and the pound. On the other hand, both Britain and the United States have printed more paper and credit IOU's to gold than they have to redeem all outstanding claims. The domestic inflations have kept their postwar booms going, but now the trust abroad in both currencies is weakened. It is becoming clear that either the domestic inflations must stop, or else the key currencies are going to experience an international "bank run" on their gold reserves. Domestic inflation, in short, is the sole cause of the gold outflow in both the United States and Britain.

Jacques Rueff, a French economist, certainly cannot be criticized for these words: "How can you expect a creditor to remain passive when he sees every day an increase in monetary liabilities and a decrease of the gold available to repay them? That is where you get a 'scissors phenomenon.' The U. S. is caught between the blades of the scissors."[7] Yet Rueff is sneered at as France's "palace economist," as if the truth of a principle were the monopoly of the French. De Gaulle is castigated as economically insane for his attempt to claim what is legally his, the gold to which his country holds legal claims. The United States has contracted debts; it now is faced with the prospect of not being able to meet its debts. The issue is really very simple.

6. Arthur Kemp, "The Gold Standard: A Reappraisal," in Leland B. Yeager (ed.), *In Search of a Monetary Constitution* (Cambridge, Mass.: Harvard University Press, 1962), p. 148.
7. Interview with Rueff in *U. S. News & World Report* (Oct. 17, 1966), p. 61.

If higher interest rates are not offered in the United States and in Britain, then foreign investors and central banks will cash in their investments and demand payment in gold. On the other hand, if interest rates are permitted to climb higher, the domestic rate of growth will be drastically affected. Money will be "too tight," too expensive for the prospective borrowers. Hence, the "scissors effect." There is no simple solution to the problem.

In 1964, the United States lost some $385 million in gold; in 1965, the loss tripled, amounting to over $1.1 billion. In the first six months of 1966, the outflow was almost $300 million.[8] The costs of the war in Viet Nam are increasing the deficit in the budget. In Britain, Prime Minister Wilson has been forced to declare a price and wage freeze in order to halt the inflationary rise in prices; this, of course, is repressed inflation—the hampering of the market by government controls—and not a cure. But at least political leaders in the two nations have come to the realization that continued deficits and continued increases in the money supply (apart from increases in gold and silver) cannot go on much longer without serious repercussions in the world money market, and hence, in the world's trading community.

Thus, we can understand the frantic search for a nongold international medium of payment. The economic isolationism which always results from domestic inflations cannot be permitted to disrupt the fabric of international integration and trade. Devaluation (charging more dollars or pounds for a given quantity of gold) could easily destroy confidence in both currencies, and thus result in international economic chaos. Mutual distrust would then be the order of the day in all international transactions. The problem is that no substitute for gold has yet been discovered (or created) by mankind; and gold, because of its resistance to "full employment" inflationary policies, is taboo. What is needed, we are told, is something "as good as gold," yet which permits domestic inflation. There are numerous suggestions for such an international money, probably under the control of the International Monetary Fund, but no single plan has reached even partial acceptance by the economists and officials of the nations involved.[9] A fundamental obstacle to be overcome is the basic

8. Computed from the tables in *Mineral Industry Surveys* (Washington, D. C.: Bureau of Mines, Aug., 1966), p. 3.

9. For a summary of these positions, or at least of the leading ones, see Arthur Kemp, *The Role of Gold* (Washington, D. C.: American Enterprise Institute, 1963). Even in 1972, the debate over the IMF's "SDR"' system—special drawing rights—goes on. The role of gold is just as hot a topic in international monetary circles as it was in 1967. Statist economists may want to see a smaller part played by gold, but they all admit that the dollar, as it depreciates, will play a smaller role in international monetary affairs.

division between the central banks and the governments: certain policies which are favorable for one group are harmful for the other. Paul H. Douglas, in his recent study of world trade, attempts to find a synthesis of these various schemes, but even his powers of exposition fail him.[10] The solution to the dilemma has not been found, and time (and gold) is running out.

A full gold coin standard would unquestionably solve the problem of international acceptance and solvency. Gold has always functioned as the means of international payment, and there is no reason to suppose that it will not in the future (assuming that prices and wages are permitted to adjust on an international free market). The opposition to gold in international trade is based upon ideological assumptions which are hostile to the idea of the free market economy. Gold would insure monetary stability, if that were what the economists and legislators really wanted. It would insure too much stability to suit them, and this is the point of contention. As the late Professor Charles Rist once wrote:

> In reality, those theoreticians dislike monetary stability, because they dislike the fact that by means of money the individual may escape the arbitrariness of the government. Stable money is one of the last arms at the disposal of the individual to direct his own affairs, whether it be an enterprise or a household. It is certain that nothing so facilitates the seizure of all activities by the government as its liberty of action in monetary matters. If the partisans of [unbacked] paper money really desire monetary stability, they would not oppose so vehemently the reintroduction of the only system that has ever insured it, which is the system of the gold standard.[11]

10. Paul H. Douglas, *America in the Market Place* (New York: Holt, Rinehart and Winston, 1966).
11. Charles Rist, *The Triumph of Gold* (New York: Philosophical Library, 1960), p. 139.

Chapter VI

REPRESSED DEPRESSION

[*"Where there are five economists, there will be six opinions." This little rubric applies rather well when the question of the causes and cures of depressions is brought up. There are many theories, but the most despised theory of all is the only one that is valid: the Austrian theory of the trade cycle. The reason that it is despised is that its originator, Ludwig von Mises, attributes the trade cycle to the very policies of monetary expansion that are favored by State bureaucrats and private bankers as the best means of stimulating an economy. Thus, professional economists ignore Mises' theory whenever possible, or try to debunk it if the issue cannot be avoided, since the statist interventions so popular among the economics profession are shown to be worse than nothing at all by Mises' theory. The public cries to the State to "Do Something," and the States officials, not knowing what to do, cry to the economists to defend whatever haphazard, makeshift policies the officials can come up with. The Keynesian system is the most obvious product of such a cry for assistance from the State. This is admitted by Peter Drucker, no friend of Mises or the gold standard, in his perceptive essay, "Keynes: Economics as a Magical System" (1946), in his book,* Men, Ideas & Politics *(New York: Harper & Row, 1971). (It is interesting that both men are originally Austrians and Mises taught with Drucker in the same university, New York University.) The Keynesian "miracle" was a miracle of footnotes proving just what the politicians of the thirties wanted proved: that special-interest legislation and monetary inflation cure depressions. Monetary inflation cannot cure a depression; it can only repress one, and destroy the economy in the long run.*]

Those who wish to preserve freedom should recognize, however, that inflation is probably the most important single factor in that vicious circle wherein one kind of government action makes more and more government control necessary.

F. A. Hayek
***The Constitution of Liberty*, p. 338.**

Depression is the bugaboo of most Americans, far more so than inflation. Our history textbooks from grade school through college drum the message into the heads of the readers: the depression of the 1930's was the worst disaster in American economic history. The depression proved, we are told, that laissez-faire capitalism is unworkable in practice. President Roosevelt's New Deal "saved American capitalism from itself." His administration brought into existence a whole new complex of governmental agencies that will supposedly be able to prevent another depression on such a scale. By expanding their interference into the free market, the government and the quasi-governmental central banking system are able to "smooth out" the trade cycle.[1]

Ironically, many of the optimistic statements coming out of Washington in regard to the possibility of depressions are remarkably similar to the pronouncements of statesmen and economists in the late 1920's. In 1931, Viking Press published a delightful little book, *Oh Yeah?*, which was a compilation of scores of such reassurances. In retrospect, such confidence is amusing; nevertheless, the typical graduate student in economics today is as confident of the ability of the State to prevent a crisis as the graduate student was in 1928. So are his professors.

This kind of thinking is dangerous. During prosperity, it convinces men to look with favor on policies that will result in disaster. Then when a crisis comes, unsound analyses lead to erroneous solutions that will compound the problems. A failure to diagnose the true cause of depressions will generally lead to the establishment of more restrictive State controls over the economy, as bureaucrats prescribe the only cure they understand: more bureaucracy. Mises is correct when he argues that the statist "wants to think of the whole world as inhabited only by officials."[2] The majority of contemporary economists refuse to acknowledge that the modern business cycle is almost invariably the product of inflationary policies that have been permitted and/or actively pursued by the State and the State's licensed agencies of inflation, the fractional reserve banks.[3] The problem is initiated by the State in the first place; nevertheless, the

1. It should be pointed out that the creation of the Federal Reserve System was justified by its proponents in 1913 because its presence would supposedly reduce the economic fluctuations and banking panics that had plagued the nation under the National Banking Act. Yet the "boom-bust" cycles of 1918-22 and 1927-32 were far worse than any comparable business fluctuations in American history. Government economic policies, as Mises says, usually produce results opposite of those intended.

2. Ludwig von Mises, *Socialism* (New Haven, Conn.: Yale University Press, [1922] 1951), pp. 208-209.

3. On this myopia of the economists, see Gottfried Haberler, *Prosperity and Depression* (New York: Atheneum, 1962), chap. 13. Haberler no longer blames all depressions on monetary factors, and he does favor policies of repressed depression.

vast majority of today's professional economists believe that the cure for depression is further inflation.

Profit and Loss

The basic outline of the cause of the business cycle was sketched by Ludwig von Mises in 1912, and it has been amplified by F. A. Hayek and others since then.[4] The explanation hinges on three factors: the nature of the free market production; the role of the rate of interest; and the inflationary policies of the State and the banking system, especially the latter. While no short summary can do justice to the intricacy of some of the issues involved, it may at least present thought for further study.

Profit is the heart of the free market's production process. Profits arise when capitalist entrepreneurs accurately forecast the state of the market at some future point in time. Entrepreneurs must organize production to meet the demand registered in the market at that point; they must also see to it that total expenditures do not exceed total revenue derived from sales. In other words, if all producers had perfect foreknowledge, profits and losses could never arise. There would be competition based upon perfect foreknowledge.[5] This situation can never arise in the real world, but it is the ultimate goal toward which capitalist competition aims, since in a perfect world of this sort, there could be no waste of scarce economic resources (given a prevailing level of technology).

It has been Mises' life work to demonstrate that the operation of the free market economy is the most efficient means of allocating scarce resources in an imperfect world. Those entrepreneurs who forecast and plan incorrectly will suffer loss; if their errors persist, they will be driven out of business. In this way, less efficient producers lose command over the scarce factors of production, thus releasing such resources for use by more efficient planners. The consumers are sovereign; their demands are best met by an economic system which permits the efficient producers to benefit and the inefficient to fail.

The whole structure rests upon a system of rational economic calculation. Profits and losses must be measured against capital expenses and other costs. The heart of the competitive capitalist system is the flexible *price* mechanism. It is this which provides entrepreneurs with the data concerning the existing state of supply

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4. Ludwig von Mises, *The Theory of Money and Credit* (New Haven, Conn.: Yale University Press, 1953); cf. Haberler, pp. 33-67.
5. Mises, *Human Action* (New Haven, Conn.: Yale University Press, 1949), pp. 286-297).

and demand. Only in this fashion can they compute the level of success or failure of their firms' activities.

The Rate of Interest

Economic costs are varied; they include outlays for labor, raw materials, capital equipment, rent, taxes, and interest payments. The *interest* factor is really a payment for *time*: lenders are willing to forego the use of their funds for a period of time; in return, they are to be paid back their principal plus an additional amount of money which compensates them for the consumer goods they cannot purchase now. A little thought should reveal why this is necessary. The economic actor always discounts future goods. Assuming for the moment that economic conditions will remain relatively stable, a person will take a new automobile now rather than in the future if he is offered the choice of delivery dates and the automobile is a gift. The present good is worth more simply because it can be used immediately. Since capitalist production takes time, the capitalist must pay interest in order to obtain the funds to be used for production. The interest payments therefore represent a cost of production: the capitalist is buying time. Time, in this perspective, is a scarce resource; therefore, it commands a price.

The actual rate of interest at any point in time is a product of many forces. Economists do not agree on all of the specific relationships involved, and the serious student would do well to consult Hayek's *The Pure Theory of Capital* (1941) for an introduction to the complexities of the issues. Nevertheless, there are some things that we can say. First, the rate of interest reflects the demand for money in relation to the supply of money. This is why inflationary policies or deflationary policies have an effect on the rate of interest: by changing the supply of money, its price is altered. Second, the rate of interest reflects the time preferences of the lenders, since it establishes just how much compensation must be provided to induce savers to part with their funds for a period of time. This is the supply side of the equation. The demand side is the demand for capital investment. Entrepreneurs need the funds to begin the production process or to continue projects already begun; how much they will be willing to pay will depend upon their expectations for future profit. In an economy where the money supply is relatively constant, the rate of interest will be primarily a reflection of the demand for capital versus the time preferences of potential lenders. Neither aspect of the rate of interest should be ignored: it reflects both the demand for and supply of *money* and the demand for and supply of *capital goods*.

Another factor is also present in the interest rate, the risk factor. There are no certain investments in this world of change. Christ's warning against excessive reliance on treasure which rusts or is subject to theft is an apt one (Matt. 6:19). High risk ventures will generally command a higher rate of interest on the market, for obvious reasons. Finally, there is the price premium paid in expectation of mass inflation, or a negative pressure on the interest rate in expectation of serious deflation. It is the inflationary price premium which we are witnessing in the United States at present. Mises' comments in this regard are important:

> It is necessary to realize that the price premium is the outgrowth of speculations having regard for anticipated changes in the money relation. What induces it, in the case of the expectation that an inflationary trend will keep on going, is already the first sign of that phenomenon which later, when it becomes general, is called "flight into real values" and finally produces the crack-up boom and crash of the monetary system concerned.[6]

The Inflationary Boom

In the real world, money is never neutral (and even if it were, the economists who explain money certainly never are). The money supply is never perfectly constant: money is hoarded, or lost; new gold and silver come into circulation; the State's unbacked money is produced; deposits in banks expand or contract. These alterations affect the so-called "real" factors of the economy; the distribution of income, capital goods, and other factors of production are all influenced. Even more important, these changes affect people's expectations of the future. It is with this aspect of inflation that Mises' theory of the trade cycle is concerned.

The function of the rate of interest is to allocate goods and services between those lines of production which serve *immediate* consumer demand and those which serve consumer demand in the *future*. When people save, they forego present consumption, thus releasing goods and labor for use in the expansion of production. These goods are used to elongate the structure of production: new techniques and more complex methods of production are added by entrepreneurs. This permits greater physical productivity at the end of the process, but it requires more capital or more time-consuming processes of production, or both extra time *and* added capital. These processes, once begun, require further inputs of materials and labor to bring the production process to completion. The *rate of interest* is supposed to act as an *equilibrating device*. Entrepreneurs can count the cost of adding new processes to the structure of production, comparing

6. *Ibid.*, p. 541.

this cost with expected profit. The allocation of capital among competing uses is accomplished in a rational manner only in an economy which permits a flexible rate of interest to do its work.

Inflation upsets the equilibrium produced by the rate of interest. The new funds are injected into the economy at certain points. Gold mining companies sell their product, which in turn can be used for money; those closest to the mines get the use of the gold first, before prices rise. But gold is not a serious problem, especially in today's world of credit. Its increase is relatively slow, due to the difficulty of mining, and the increase can be more readily predicted; hence, its influence on the price structure is not so radical. This cannot be said, as a general rule, for paper money and credit. Unlike gold or silver, paper is not in a highly limited supply. It is here that Mises argues that the business cycle is initiated. Here—meaning the money supply—is the one *central economic factor* which can account for a *simultaneous collapse* of so many of the various sectors of the economy. It is the *only* factor common to all branches of production.

The economic boom begins when the State or the central bank initiates the creation of new money. (For the Western world in this century, the establishment of this policy can generally be dated: 1914, the outbreak of the First World War.) The central bank, or the fractional reserve banking system as a whole, can now supply credit to potential borrowers who would not have borrowed before. Had the fiat creation of new money not occurred, borrowers would have had to pay a higher rate of interest in order to obtain the additional funds. Now, however, the new funds can be loaned out at the prevailing rate, or possibly even a lower rate. Additional demand for money can therefore be met without an increase in the price of money.

This elasticity of the money supply makes money unique among scarce economic goods. It tempts both government officials and bankers to make decisions profitable to their institutions in the short run, but disastrous for the economy as a whole in the longer run. Governments can expand expenditures by printing money directly, or by obtaining cheap loans from the central bank, and thereby avoid the embarrassment of raising *visible* taxes. Banks can create money which will earn interest and increase profits. Mises has shown that these policies must result either in depression or in mass inflation. There is no middle ground in the long run.

As we saw earlier, the interest rate reflects both the supply of and demand for money and the supply of and demand for capital goods. Inflation causes this dualism to manifest itself in the distortion of the production process. Capitalists find that they can obtain the funds they want at a price lower than they had expected. The new funds keep the interest rate from going higher, and it may even drop lower, but only *temporarily,* i.e., during the boom period. In fact, one of the signals that the boom is ending is an increase in the rate of interest. Capitalists misinterpret this low rate of interest: what is really merely an increase in the availability of money is seen as an increase in the availability of capital goods and labor services. In reality, savers have not provided the new funds by restricting their consumption, thereby releasing capital goods that had previously been used to satisfy consumer demand more directly, i.e., more rapidly. Their patterns of time preference have not been altered; they still value present goods at a higher level than the rate of interest indicates.

Capitalists purchase goods and services with their new funds. The price of these goods and services will therefore rise in relation to the price of goods and services in the lower stages of production—those closer to the immediate production of consumer products. Labor and capital then move out of the lower stages of production (e.g., a local restaurant or a car wash) and into the higher stages of production (e.g., a steel mill's newly built branch). The process of production is *elongated*; as a result, it becomes more capital-intensive. The new money puts those who have immediate access to it at a competitive advantage: they can purchase goods with today's new money at yesterday's lower prices; or, once the prices of producers' goods begin to rise, they can afford to purchase these goods, while their competitors must restrict their purchases because their incomes have not risen proportionately. Capital goods and labor are redistributed "upward," toward the new money. This is the phenomenon of "forced saving." Those capitalists at the lower stages of production are forced to forfeit their use of capital goods to those in the higher stages of production. The saving is not voluntary: it is the result of the inflation.

The result is an economic boom. More factors of production are employed than before, as capitalists with the new funds scramble to purchase them. Wages go up, especially wages in the capital goods industries. More people are hired. The incumbent political party can take credit for the "good times." Everybody seems to be prospering from the stimulating effects of the inflation. Profits appear to be easy, since capital goods seem to be more readily available than before. More capitalists therefore go to the banks for loans, and the banks are tempted to permit a new round of fiat credit expansion in order to avoid raising the interest rate and stifling the boom.

Sooner or later, however, capitalists realize that something is wrong. The costs of factors of production are rising faster than had been anticipated. The competition from the lower stages of production had slackened only temporarily. Now they compete once more, since consumer demand for present goods has risen. Higher wages are being paid and more people are receiving them. Their old time-preference patterns reassert themselves; they really did not want to restrict their consumption in order to save. They want their demands met *now*, not at some future date. Long-range projects which had seemed profitable before (due to a supposedly large supply of capital goods released by savers for long-run investment) now are producing losses as their costs of maintenance are increasing. As consumers spend more, capitalists in the lower stages of production can now outbid the higher stages for factors of production. The production structure therefore shifts back toward the earlier, less capital-intensive patterns of consumer preference. As always, consumer sovereignty reigns on the free market. If no new inflation occurs, many of the projects in the higher stages of production must be abandoned. This is the phenomenon known as depression. It results from the shift back to earlier patterns of consumer time-preference.[7]

The injection of new money into the economy invariably creates a fundamental disequilibrium. It misleads entrepreneurs by distorting the rate of interest. It need not raise the nation's aggregate price level, either: the inflation distorts *relative* prices primarily, and the cost of living index and similar guides are far less relevant.[8] The depression is the market's response to this disequilibrium. It restores the balance of true consumer preference with regard to the time preferences of people for present goods in relation to future goods. In doing so, the market makes unprofitable many of those incompleted projects which were begun during the boom.

What is the result? Men in the higher stages of production are thrown out of work, and not all are immediately rehired at lower stages, especially if these workers demand wages equivalent to those received during the inflationary boom. Yet they *do* tend to demand such wages, and if governmentally protected labor union monopolies are permitted to maintain high wage levels, those who are not in the unions will be forced to work at even lower pay scales or not at all. Relative prices shift back toward their old relationships. The demand for loans drops, and with it goes much of the banks' profit. The political party in power must take responsibility for the "hard times." Savers may even make runs on banks to retrieve their funds, and overextended banks will fail. This reduces the deposits in the economy, and results in a deflationary spiral, since the deposits

7. Hayek, *Prices and Production* (2nd ed.; London: Routledge & Kegan Paul, 1935), chaps. 2, 3.
8. *Ibid.*, p. 28; Hayek, *Monetary Theory and the Trade Cycle* (New York: Kelley Reprints, [1933] 1967), p. 117n.

function as money; the inverted pyramid of credit on the small base of specie reserves topples. Prices collapse.

Repressed Depression[9]

The depression is an *absolutely inevitable* result of a prior inflation.[10] At first, the new money kept the interest rate low; it forced up costs in certain sectors of the economy relative to others; the structure of production was elongated; those employed by the higher stages then began to spend their money on consumer goods; and the shift back to a shortened production process was the result. Everyone liked the boom (except those on fixed incomes); no one likes the depression (except those on fixed incomes, *if* the incomes keep coming in).

There is a cry for the State to do something. Banks want to have a moratorium on all withdrawals; unions want to fix wages; businessmen want to fix prices; everyone wants more inflation. "Bring back the boom!" It can only be done now as before, with fiat money. The call for inflation ignores the fact that new maladjustments will be created. The short-run perspective dominates. If the cries are heeded, the price mechanism is again sacrificed, and with it goes the system of rational calculation which makes possible the efficiency of the free market. Mises warned a half a century ago against this policy of "repressed depression" through inflation. Most governments since 1914 have ignored the warning, except during the late 1920's and early 1930's; the depression which resulted was "cured" by repressed depression, and that cure is now leading to the point predicted by Mises:

> The "beneficial effects" on trade of the depreciated money only last so long as the depreciation has not affected all commodities and services. Once the adjustment is completed, then these "beneficial effects" disappear. If it is desired to retain them permanently, continual resort must be had to fresh diminutions of the purchasing power of money. It is not enough to reduce the purchasing power of money by one set of measures only, as is erroneously supposed by numerous inflationist writers; only the progressive diminution of the value of money could permanently achieve the aims which they have in view.[11]

Here is the inescapable choice for twentieth-century Western civilization: will it be depression—the readjustment of the economy from the State-sponsored disequilibrium of supply and demand—or will it be mass inflation? The only way to escape the depression is for

9. I owe this phrase to the Rev. R. J. Rushdoony.
10. Hayek, *Monetary Theory*, pp. 126, 146, 179.
11. Mises, *Theory of Money and Credit*, p. 224.

the inflation to continue at an ever-increasing rate.[12] The result is assured: "Continued inflation must finally end in the crack-up boom, the complete breakdown of the currency system."[13] The economy will go through a period of total economic irrationality, just as the German economy did in the early 1920's.[14] The German catastrophe was mitigated by support in the form of loans from other nations; the German tradition of discipline and thrift also played a large part. But what will be the result if the monetary systems of the industrial nations are all destroyed by their policies of repressed depression? What will happen to the international trading community and its prevailing division of labor and high productivity if the foundations of that community—trustworthy monetary systems—are destroyed?[15] It is questions like these that have led Jacques Rueff to conclude that the future of Western civilization hangs in the balance.[16]

Ours is not an age of principle. Governments would prefer to avoid both depression and mass inflation, and so we see the spectacle of the tightrope walk: tight money causing recession, which is followed by easy money policies that produce inflation and gold crises. But the trend is clear; inflation is the rule. Hayek says that it is a question of true recovery versus the inflationary spiral.[17] Until we face this issue squarely, we will not find a solution.

Men, in short, must think clearly and act courageously. They must face the logic of economic reasoning, and admit that their own policies of inflation have brought on the specter of depression. They must then make a moral decision to stop the inflation. The price system must be restored; the forced redistribution of wealth involved in all inflation must end. If men refuse to think clearly and to act with moral courage, then we face disaster.

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12. Hayek, *Prices and Production*, pp. 148-151.
13. Mises, *Human Action*, p. 468.
14. On the German inflation, see Constantino Bresciani-Turroni, *The Economics of Inflation* (London: Allen & Unwin, 1937).
15. Cf. Gary North, "Domestic Inflation versus International Solvency," *The Freeman* (Feb. 1967) [chap. 5, above].
16. Jacques Rueff, *The Age of Inflation* (Chicago: Regnery, 1964), pp. vii-xiv.
17. Hayek, *Prices and Production*, pp. 88-89.

Chapter VII

THE FALLACY OF "INTRINSIC VALUE"

[No matter how many times the economist explains that there is no such thing as intrinsic value, he finds members of his classes, at least the conservative ones, defending gold as money because "gold has intrinsic value." Gold does not have intrinsic value. Nothing on earth, from an economic point of view, has intrinsic value. Nothing. It just will not do any good to tell you this, however. Sooner or later you will be heard to say, "Gold has intrinsic value." It is a shame that the true statement, "Gold has historic value," just doesn't have the same Pzazzz.]

If people value something, it has value; if people do not value something, it does not have value; and there is no intrinsic about it. Rt. Hon. J. Enoch Powell, M.P.

"Ideas die hard," says an old proverb. Even in an age of rapid change, such as our own, the slogans, clichés, and errors of earlier times seem to persist; it often seems that the truths that once brought peace, stability, and steady progress are the first things to be abandoned, while the errors persist undaunted. Henry Hazlitt once wrote of John Maynard Keynes that the true things he said were not new, and the new things he said were not true. Yet it is the new aspect of Keynes's "New Economics" that has fascinated today's guild of economists.

The triumph of the slogan is understandable. We are limited creatures. We cannot attain exhaustive knowledge of anything, and certainly not of everything. As a result, we find ourselves at the mercy of the expert; simultaneously, we live our day-to-day lives in terms of ideas that we cannot be continually re-examining. Some things must be accepted on faith or by experience; we have neither the time nor capacity to rethink everything we know. Still, no intelligent person dares to neglect the possibility that his opinion in some area or other may be open to question. At times it is vital that we reconsider a subject, especially if it is a barrier to clear thinking or effective action. If our error is in a realm of life in which we claim to be experts, or at least skilled amateurs, then the necessity of careful reasoning is exceptionally important. The persistence of some erroneous line of reasoning here, simply because this unexamined train of thought is familiar to us, can be disastrous.

Take, for example, the labor theory of value. Classical economics —by which we mean that body of economic thought which was in vogue from the time of Adam Smith (1770's) until the marginalist-subjective schools arose (1870's)—was confounded by the problem of value. It proposed a cause-and-effect relationship between human labor and value: abstract human labor (which itself was an abstract concept derived more from mechanics than human experience) was produced by laborers on their jobs; this abstract human labor was in some way embodied in the products of that labor, and this is the source of all value. Certain inescapable problems arose under this presupposition. Why did selling prices fail to correspond to the total payments made to labor? How did the phenomenon of profit appear? What was the origin of interest? On a more concrete level, why did an uncut diamond bring a higher price on the market than an intricate mechanism like a clock? They could explain the disparity of selling prices of jewels and selling prices of clocks in terms of supply and demand, but their labor theory of value never fitted into this explanation. It was an extraneous issue.

Karl Marx was the last major economist to hold to the labor theory. In this sense, he was the last of the great classical economists. He wanted to demonstrate that capitalism, by its own internal contradictions, was doomed to a final destruction. Unfortunately for Marx's predictions, what he regarded as a basic set of contradictions of capitalism was merely a set of contradictions in the reasoning of the classical economists. He confused a faulty explanation of the capitalist process with the actual operation of the capitalist system. Ironically, Marx fell into a pit which he always reserved for his enemies: he looked not at the empirical data as such, but at an interpretation of the data—not at the "substructure" of the society, but at the ideological "superstructure." *Das Kapital* was published in 1867; by 1871, the marginalist assault had been launched by Carl Menger of Austria and W. S. Jevons of England. The labor theory of value which had undergirded Marx's whole analysis of capitalism was destroyed. When Boehm-Bawerk, the Austrian economist who was to gain fame as Menger's most rigorous disciple, offered his criticisms of Marx in 1884 (and again in 1896), it was clear (to non-Marxists, anyway) that the Marxian framework had gone down with the classical ship.[1]

1. Cf. Gary North, *Marx's Religion of Revolution* (Nutley, N. J.: The Craig Press, 1968), chap. 5, esp. pp. 155-170. See also Dean Lipton, "The Man Who Answered Marx," *The Freeman* (Oct., 1967).

What the new theory did was to reverse the cause-and-effect relationship of the classical school. The *value of labor* is derivative: it stems from the *value of labor's product*. This, in turn, is the outcome of supply and demand. People desire certain products; these products are not in unlimited supply in relation to the demand. Or, to put it another way, at zero price, some of the demand is left unsatiated. The value of the product is not derived from labor; the reverse is true. Thus, value is not something intrinsic to either the labor or the product; value is *imputed* by acting men. Value is not a metaphysically existing substance; an object is simply valued (passive) by someone who actively values it. Marx always chided capitalist thinkers for making a "fetishism of commodities," i.e., ascribing to economic goods a life of their own apart from the human and social relations that make possible the creation of the goods. But this is precisely his labor theory of value. It hypothesized the existence of "congealed labor time" which supposedly gives value to commodities. Had he turned to the individuals who actively participate in all economic action, he would have been led to abandon his own brand of "commodity fetishism." Marx, the self-proclaimed empiricist, was befuddled by his own *a priori* theory.

Yet we should not be too hasty in ridiculing Marx for his insistence on viewing value as something intrinsic in an economic good. People are so used to thinking in these terms that few of us are free from some variety of this basic error. Homes are seen as containing something called "equity"; factories "possess" investments, almost as if these investments were held in some kind of suspension within the factory walls.[2] The Marxist, of course, has a vested interest in this line of reasoning: the master taught it. Why others continue to indulge in such speculation is a perplexing problem. It is a case where the "common sense" economics of the man in the street is in error.

Conservatives do not like communism. As a result, they are willing to reject the familiar tenets of Marx's economics. Those who have read at least excerpts from *Capital* and who are aware of the labor theory of value are usually willing to abandon the idea. Unfortunately, it would seem that they abandon it in name only, simply because Marx happened to believe it. They have not abandoned the fundamental approach to economics which Marx employed, namely, the fallacy of intrinsic value. The most common application of this erroneous concept, at least in conservative circles, is the idea that gold and silver possess intrinsic value, while paper money does not. This error deserves special attention.

2. Cf. Gary North, "Urban Renewal and the Doctrine of Sunk Costs," *The Freeman* (May, 1969) [chap. 26, below].

There are a number of reasons why conservatives make this mistake. They are guided by the best of intentions. They see that paper money and credit have led in the past and are leading today to virulent inflations. They fear the economic and social dislocations associated with inflation. They may also see that the modern socialist and interventionist States have used inflationary deficit spending policies to increase their power at the expense of private, voluntary associations. Some of the more sophisticated observers may even have understood the link between inflationary policies and depressions—booms and busts—and they may have concluded, quite correctly, that these trade cycles are not endemic to capitalism as such, but only to economic systems that permit policies of inflation.[3] They associate inflation with policies of the State or State-licensed monopolies, i.e., fractional reserve banks, rather than the voluntary market economy. Nevertheless, they persist in defending the use of specie metals as the only currency (along with fully redeemable paper IOU's to specie metals) in terms of the intrinsic value of the metals.

There is a basic confusion here. The confusion rests on a mixing up of two very different propositions: (1) gold and silver are *historically* valuable; and (2) gold and silver have *intrinsic* value. The first proposition is indisputably correct; in fact, there are few economic or historical statements that could be said to be more absolute. Professor Mises has built his whole theory of money on the fact that gold and silver (especially gold) were first valued because of properties other than their monetary function: brilliance, malleability, social prestige, and so forth. It was precisely *because* people valued these metals so highly that they were to become instruments of trade, i.e., money.[4] Since they are so readily marketable, more so than other goods, they can become money.

Today we value silver and gold for many reasons, and on first glance, monetary purposes are not the main ones for most people. That is because U. S. citizens are not legally permitted to use gold in trade, and the statist policies of inflation have brought Gresham's famous law into operation: silver coins have gone into hoards, since the value of their silver content is greater than their face value as coins. But on the international markets, gold has not yet been dethroned; governments and central banks do not always trust each other, but they do trust the historic value of gold.

Why this historic value? I do not want to involve myself in a

3. I have summarized this neo-Austrian theory of the trade cycle in my essay, "Repressed Depression," *The Freeman* (April, 1969) [chap. 6, above].
4. Ludwig von Mises, *The Theory of Money and Credit* (New Haven, Conn.: Yale University Press, [1912] 1953), p. 109 ff.

rarefied philosophical debate concerning metaphysics, but I think it is safe to say that gold does have certain intrinsic qualities. It is highly durable, easily divisible, transportable, and most of all, it is *scarce*. Money must be all of these, to one degree or another, if it is to function as a means of exchange. It is vital that we get our categories straight in our minds: *it is not value that is intrinsic to gold, but only the physical properties that are valued by acting men.* Gold's physical properties are the product of nature; its value is the product of acting men.

It would be a terrible mistake, however, to de-emphasize the historic value of gold and silver merely because they possess no intrinsic value. That mistake is the one which the opponents of gold would have us make. They are equally guilty of mixing up the categories of intrinsic value and historic value, only they argue from the other direction. Conservatives appreciate the fact of gold's historic value, but they mistakenly argue their case in terms of gold's intrinsic value. Their opponents do not appreciate the argument from history, but they spend their time refuting the conservatives' erroneous presentation. They assume that because gold has no intrinsic value (true), gold's historic value as a means of exchange is somehow invalidated. The two positions are diametrically opposed, yet they focus on a common ground which is irrelevant to both positions; the conservatives do not help their case for gold by an appeal to intrinsic value, and gold's opponents do not refute the case for gold by demonstrating the error of that appeal.

Gold's overwhelming acceptance historically by most men in most societies is a lasting testimony to its value as a means of exchange. It should not be referred to as "a storehouse of value," as it is in so many textbooks. What we should say is that gold is readily marketable and for that reason a valuable thing to store. This position of gold in history is a self-perpetuating phenomenon: people tend to accept gold because they and others have in the past; they assume that others will be willing to accept gold in exchange for goods in the future. This assumption of *continuity* is basic to all goods that function as money. Continuity is therefore a function of both the physical properties of gold and of men's estimations concerning other men's future valuations. In short, it involves nature, man, and time. In estimating the importance of gold for an economic system's proper functioning, we must take into consideration all three factors, keeping each clear in our minds. This is why we need economic analysis; without it, we wander blindly.

Ignorance in the short run is seldom profitable; in the long run, it is invariably disastrous. Fallacious argumentation can too easily be turned against one by his enemies. Just as Marx used the fallacious labor theory of value against those classical economists who tried to defend the free market in terms of that theory, so the opponents of gold can use the intrinsic value theory against those who try to defend the gold standard with it. This is not to say that logic alone will convince men of the validity of a full gold coin standard; logic is always a tool used by men of varying presuppositions, and these are in turn the product of pre-theoretical valuations. We should not trust in logic to save the world. But ignorance is far worse: it knows neither its presuppositions nor the probable results of its arguments. It lacks consistency, it lacks clarity, and it can be turned against its user by the enemy. Therefore, let the defenders of the gold standard acknowledge the advent of modern, subjectivist economic reasoning. Let us face the fact that if Boehm-Bawerk's refutation of Marx's labor theory of value is valid, then all other applications of the fallacy of intrinsic value are equally invalid.

If we cannot learn to think consistently on this point, then we will be grist for the inflationists' mill. The inflationistic Juggernaut may resemble a charging elephant in our era. It may be too late to stop it with a small caliber rifle, but we know it cannot be stopped with a pop-gun.

Chapter VIII

THE THEOLOGY OF THE EXPONENTIAL CURVE

[This is a peculiar article, apparently. I have had more favorable comments about it than on any other piece, apart from the Women's Lib essay. Yet I have also had the greatest number of people remark that they just could not understand it. Personally, I think it is my best piece so far, for it explores some crucial issues. Is there meaning in life? Social science cannot tell us. Is there progress in human affairs? Social science and historians are no longer very sure. Is this a finite universe? Everyone says so, but economists produce "growth models" as if resources were infinite. Questions like these bother few contemporary Christians, since modern Christianity is essentially pietistic, retreatist, convinced that there is no real social progress, convinced that history has very little meaning, convinced that Jesus is coming soon. So we find that Christianity, which might inform social science of meaning in life, divorces itself from social scientists and their work altogether, except to baptize an occasional program or two (such as federal aid to Christian colleges). The blind lead the blind into the ditch.

Christians must realize that history has meaning, and there is real progress in life; the earth is being subdued, although erratically; economic growth in the aggregate is possible over time, but not without limits; man is finite, but individual men have the capacity for personal development; freedom is worth defending. Basically, God is God, and not the State.]

Growth for the sake of growth is the ideology of the cancer cell.
Edward Abbey

Carl Becker, the late Cornell professor, was once regarded as the "dean of America's historians." His most famous work, *The Heavenly City of the Eighteenth-Century Philosophers* (1932), was a literate defense of the idea that the "rationalism" of the Enlightenment was really a religious faith modeled after the thirteenth century's theological concerns. Enlightenment rationalism is best understood, Becker argued, as secularized theology; its presuppositions were as unprovable as those of the scholastic philosophers. Both systems, in the final analysis, are equally based on faith. While he has been criticized for his handling of particular ideas, most notably by Peter Gay, Becker's fundamental presentation still holds: the reigning faith of an age—the "climate of opinion" as he called it—is no less a faith just because its devotees like to refer to themselves as rationalists.

Becker believed that certain key terms reveal the true concerns of the Enlightenment: Nature, Reason, and Progress were three of these. These were self-attesting, "self-evident" propositions. Nature, in that confident, post-Newtonian world, was seen as being under the control of universal laws, and these laws are discovered by the operation of the human mind. We can understand the impact of Newton's law of gravitation on his age; indeed, the impact is with us still. Eugene Wigner, a Nobel prize winner in physics, has pointed to the astounding nature of the discovery:

> The law of gravity which Newton reluctantly established and which he could verify with an accuracy of about 4 per cent has been proved to be accurate to less than a ten thousandth of a per cent and became so closely associated with the idea of absolute accuracy that only recently did physicists become again bold enough to inquire into the limitations of its accuracy.[1]

Understandably, men were impressed with such a find. Wigner himself concludes his essay by saying that "the miracle of the appropriateness of the language of mathematics for the formulation of the laws of physics is a wonderful gift which we neither understand nor deserve." The vision of a universe totally under the reign of law—mathematical law—captivated social scientists as well, as Louis Bredvold's book, *The Brave New World of Enlightenment* (1961), demonstrates so forcefully. Thomas Hobbes, for example, believed that political affairs could be predicted and controlled if the mathematical laws of politics could be discovered. It was no doubt a dazzling vision.

Coupled to this faith in mathematical law and human reason was the idea of progress. J. B. Bury's *The Idea of Progress* surveyed its impact; published at the turn of the century, it still is an important study. More recently, Robert A. Nisbet, the conservative American sociologist, has examined the concept of development in Western thought.[2] Society was viewed as an organism by Enlightenment

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1. Eugene P. Wigner, "The Unreasonable Effectiveness of Mathematics in the Natural Sciences," *Communications on Pure and Applied Mathematics* (1960), goes into the marvelous correspondence of mathematical reasoning and certain kinds of external, physical events.

2. Robert A. Nisbet, *Social Change and History* (New York: Oxford University Press, 1969). For a summary and analysis of the book, see my review in *Modern Age* (Fall, 1969).

thinkers; if unhampered by "reactionary" human institutions and traditions, societies invariably progress. Social change is therefore "natural"; it is cumulative, irreversible, directional, uniformitarian, and immanent (i.e., self-motivated). French Revolutionaries drew the obvious conclusion: since progress is desirable (self-evident truth), such reactionary institutions must be abolished. Christian culture had to be destroyed. "Crush the accursed thing" was Voltaire's battle cry.

The Loss of Faith

Two events—possibly three—helped to shatter men's faith in natural progress. The first was the publication of Darwin's *Origin of Species* in 1859. The immediate response was overwhelmingly favorable; all 1,250 copies of the book were sold out on the first day.[3] Marx hailed it as the foundation in natural science of his own scientific socialism.[4] R. J. Rushdoony has commented on the intellectual effects of the idea of natural selection:

> Darwinism destroyed this faith in nature. The process of nature was now portrayed, not as a perfect working of law, but as a blind, unconscious energy working profligately to express itself. In the struggle for survival, the fittest survive by virtue of their own adaptations, not because of natural law. Nature produces many "mistakes" which fail to survive and become extinct species and fossils. The destiny of the universe is extinction as its energy runs down.[5]

Social Darwinists like Herbert Spencer and William Graham Sumner tried to apply the principle of natural selection to the social realm, but with little ideological success. Men found its implications too difficult to bear. (Mises has argued that they misused their arguments: capitalism, through its great productivity, has permitted the less fit to survive, i.e., those who would have perished in a less productive economic system.[6]) The Social Darwinists' defense of capitalism fell on increasingly deaf ears; the idea of natural selection had done its work:

> All of this served to shatter the older faith in nature. Nature as the agency of predestination was gone. It became increasingly

3. R. J. Rushdoony, *The Mythology of Science* (Nutley, N. J.: The Craig Press, 1967), p. 14.
4. "Marx to Engels, Dec. 19, 1860"; in Dona Torr (ed.), *Marx-Engels Selected Correspondence* (New York: International Publishers, 1935), p. 126. Marx later offered to dedicate *Das Kapital* to Darwin, but the latter prudently declined the honor.
5. R. J. Rushdoony, *The Biblical Philosophy of History* (Nutley, N. J.: The Craig Press, 1969), p. 7.
6. Ludwig von Mises, *Human Action* (New Haven: Yale University Press, 1949), Chap. VIII, sec. 6, pp. 164-165.

> evident to naturalistic thinkers that man must control his own evolution and also control the evolution of plant and animal life. Moreover, man must create and control his own social order, so that total statism, total socialism, is "scientific socialism," that is, socialism which recognizes that man cannot exist without predestination and therefore provides for the control of process, for total planning and predestination, by the elite men.[7]

Or, as the late C. S. Lewis has put it, when we hear the phrase "man must take control of man," we should watch out; it means that some men must take control of all the others.[8]

The second event that broke men's faith in progress was the First World War. It combined with the third factor, Freudianism, to convince men that the faith in the rationality of mankind was too easy, even naive. Freud's own pessimism concerning the possibilities of psychoanalysis for curing men's psychological problems was not adopted by the majority of his followers, but this should not blind us to the fact of Freudian pessimism: long ages of evolution, he believed, would be necessary to separate men from their irrational, bloody antecedents.[9] The war seemed to prove Freud's contention that subrational influences guide men's decisions.

The faith in inevitable, natural progress has been lost. This loss of faith has been devastating in the historical guild. The triumph of historicism and relativism have emasculated historical studies. J. H. Plumb has bewailed this development:

> So the modern historian is crucified by this dilemma: he must act like a scientist although historical objectivity cannot exist. His work can have no validity except for himself, and, perhaps, for fellow historians playing the same game by the same rules or perhaps for those men of his age who think and feel like himself. . . . The philosophers of history will allow history to be a profession, even admit to its having educational and literary value: what they will not tolerate is the idea that it has a social purpose. . . .[10]

Plumb cries out in horror against what has happened to the writing of history in our time: vainly he tries to bring new life to a dead idea. Unfortunately for his efforts, there is nothing deader culturally than a dead idea.

So there we have them. The idealists insisting that history is

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7. R. J. Rushdoony, *Biblical Philosophy of History*, p. 7.
8. C. S. Lewis, *That Hideous Strength* (New York: Macmillan, 1947), p. 37. The same theme is explored in his *Abolition of Man.*
9. R. J. Rushdoony, *Freud* (Philadelphia: Presbyterian and Reformed Publishing Co., 1965), compares "original Freudianism" with later Freudian environmentalism: pp. 52-64.
10. J. H. Plumb, "The Historian's Dilemma," in Plumb (ed.), *Crisis in the Humanities* (Baltimore: Penguin, 1964), p. 30.

> merely a present world, ever changing, never static; the academic positivists burrowing like boll-weevils in the thickets of facts, mindless, deliberately, of purpose and meaning outside the orbit of their own activity; the public prophets using pseudo science to justify a repetitive, cyclical interpretation of history, and the littérateurs preoccupied with evocation and exercise of the imagination. The result is nihilistic and socially impotent.
>
> All are equally guilty I think of wilfully rejecting the one certain judgment of value that can be made about history, and that is *the idea of progress.* If this great truth were once more to be frankly accepted, the reasons for it, and the consequences of it, consistently and imaginatively explored and taught, history would not only be an infinitely richer education but also play a much more effective part in the culture of western society.[11]

It is a bleak, bleak picture that Plumb paints. The halls of ivy have become empty shells—broken shells, like Humpty Dumpty. "History properly so-called can be written only by those who find and accept a sense of direction in history itself," writes E. H. Carr. "The belief that we have come from somewhere is closely linked with the belief that we are going somewhere. A society which has lost belief in its capacity to progress in the future will quickly cease to concern itself with its progress in the past."[12]

The Concept of Economic Growth

The social scientists who have retained their faith in planning have not been hit so hard as those in the humanities by the death of the idea of progress. Economists in recent years have become fascinated with the possibility of continual economic expansion. The first signs of the faltering of this faith have become evident in recent months, specifically with regard to the question of ecology and the pollution problem. In November, 1969, at a meeting of the United States Commission for UNESCO, a call for total stability went forth to the world. The *New York Times* News Service in late November ran a feature article in which Jerry Mander, a San Francisco advertising man, was quoted as saying, "Beginning now, there should be national preparations toward a no-growth economy." Robert Anderson, board chairman of Atlantic Richfield Oil Company, called for negative population growth. Hal Lehrman, president of the Overseas Press Club, said: "You've got to prove growth is evil. How do you do it?" Mander admitted that "at this moment, we are totally unprepared, emotionally, psychologically, and technologically for the emerging facts." The propaganda campaign is beginning. If it takes

11. *Ibid.*, p. 34.
12. E. H. Carr, *What Is History?*, cited in Rushdoony, *Biblical Philosophy of History*, pp. 132-133.

hold of the outlook of economists, an intellectual revolution will occur in the guild.[13]

Why the fascination with economic growth? Herbert Heaton, one of the founders of the discipline of economic history (and close friend and associate of the late T. S. Ashton), once remarked in a graduate seminar I was attending that this concern with economic growth, especially growth in underdeveloped nations, hit the profession almost overnight. Specifically, it appeared simultaneously with the advent of the Cold War. Certain questions became the chief concerns for academic economists: how to keep growth rates high in the non-communist societies; how to export growth to underdeveloped (formerly referred to as "backward") nations, thus keeping them loyal to democracy (the theory went)?

The answers to these questions have generally been in the neo-Keynesian framework in theory and virtually inoperable in practice. The programs of foreign aid were supposed to result in industrialization, which in turn would become self-sustaining, leading the underdeveloped countries into the twentieth century economically. What the programs have actually accomplished has been far different: State-to-State aid has strengthened the State-controlled zones of the recipient nations' economies, making it more difficult for independent firms in the private sector to compete successfully with the underwritten statist projects.[14] The Soviet Union has been equally ineffi-

13. At the present time (June, 1972), the biggest academic push of the "no growth" school has been the study sponsored by the Club of Rome, distributed initially through the Potomac Association think-tank, and written by a group of Massachusetts Institute of Technology economists, *The Limits to Growth* (New York: Universe Books, 1972). The press conference announcing the coming catastrophes—population, pollution, starvation—of the next century was held on March 3, 1972, at the Smithsonian Institution in Washington. The reactions were generally unfavorable, but widespread. Within two weeks, practically every major opinion outlet had quoted the book, attacked it, supported, wondered about it. The best comments were, as usual, Russell Baker's: *New York Times* (March 5): on the same day that the conference was held, we launched a spaceship to go out of the galaxy to announce the existence of man—a ship scheduled to encounter intelligent life in some 80,000 years, at best. A blistering article appeared in *Science* (March 12). Two analyses, one vaguely impressed, the other sarcastic, appeared in *Saturday Review* (April 22). Cf. *Newsweek* (March 13); *The Economist* (March 11), an English review, and another English publication, *The Observer* (March 19); *Science News* (March 11), *Business Week* (March 11), two essays by Anthony Lewis: *New York Times* (March 4, 6). *The Limits to Growth,* naturally, calls for a worldwide redistribution of wealth: $1,800 per capita income per year. John Maddox, editor of England's prestigious magazine, *Nature*, has written *The Doomsday Syndrome* (New York: McGraw-Hill, 1972), in which he offers a more clear-headed analysis.

14. M. A. Thurn-Valassina, "Foreign Aid as Seen by a Foreigner," *Modern Age* (Summer, 1959); Elgin Groseclose, "Diplomacy or Altruism?" in James W. Wiggins and Helmut Schoeck (eds.), *Foreign Aid Reexamined: A Critical Appraisal* (Washington, D. C.: Public Affairs Press, 1958), pp. 37-38; P. T. Bauer, "Reflections on Foreign Aid" (1970) in *Essays by Foreign Economists* (Bombay: Forum on Free Enterprise, 1971), p. 194.

cient in providing needed aid; "helpful" bureaucrats from both the United States and the Soviet bloc have bungled program after program, as bags of cement get shipped to Southeast Asian countries during the rainy season, and mammoth buildings without air-conditioning get built in African states.[15] The reports of such projects are legion; if they were not so expensive they would be much funnier.

Naum Jasny, in his book, *Soviet Industrialization, 1928-1952* (1961), reveals how Stalin used growth figures as propaganda devices, setting goals for the five-year plans (themselves propaganda devices more than planning tools) so high that no economic system could have produced the anticipated results. It was growth for the sake of growth. The actual per capita output of consumer goods did not significantly increase until the mid-1950's; only in 1952 did wages reach the level that Czarist Russia had attained in 1913![16]

Two wars and a revolution obviously were retarding factors in Russian economic expansion. So were the loss of manpower in the famine of the 1920's and the collectivization of the farms in the late 1920's and early 1930's; at a minimum estimate, five million persons were either executed or deported during collectivization.[17] A million people starved to death in 1933 alone, during the forced collectivization of the farms, Jasny estimates.[18]

The Soviet Union has experienced a high growth rate of its aggregate output of goods; Bergson's estimates put it at 4.5 percent per annum, 1928-1960, and 5.2 percent if we exclude the war years.[19] The rates have tapered off significantly since 1960, but enough people seem to be so impressed that they deliberately ignore the costs of that industrial growth to the Soviet Union in human lives and human freedom (which is almost impossible to deal with statistically, so it is relegated to the background). What did these growth rates actually reflect? Jan Prybyla's comments are to the point:

> What the Russians have shown is that cockeyed economic growth at rapid rates can be achieved without economists and without economic science; but that after the economy outgrows its teen-age crisis, elusive and subtle problems of resource allocation among

15. Victor Lasky, *The Ugly Russian* (New York: Trident, 1965), presents a whole book full of such tidbits of bureaucratic bungling.
16. Janet Chapman, *Real Wages in Soviet Russia Since 1928* (Cambridge, Mass.: Harvard University Press, 1963), p. 150.
17. Robert W. Campbell, *Soviet Economic Power* (2nd ed.; Boston: Houghton Mifflin, 1966), p. 24.
18. Naum Jasny, *Soviet Industrialization, 1928-1952* (Chicago: University of Chicago Press, 1961), p. 73.
19. Abram Bergson, *The Economics of Soviet Planning* (New Haven: Yale University Press, 1964), p. 316.

an increasing number of competing "priority" ends demands an economic science for their solution.[20]

It is this lack of economic science that has created the present crisis in the Soviet economy: constant fluctuations back and forth between regional and national economic planning, constant shortages of key production goods, and a full-time quasi-legal network of black market suppliers which keeps the planners' errors from bringing the whole economy to a grinding halt.[21] The two factors chiefly responsible for the successes of the Soviet economy, however limited outside of the USSR's military-industrial complex, have been its own domestic "free" market—the black marketeers (*tolkatchi*) and the small private garden plots of the peasants—and the productivity of the Canadian wheat farmers. I am reminded of an editorial cartoon I saw years ago (I think Herblock did it), in which we find a Soviet army officer saying to a commissar: "But Comrade, if we win the whole world to communism, where will we buy our wheat?"

Fascinated with the propaganda value of Soviet growth figures (themselves frequently suspect, especially in the "conclusion" sections[22]), American economist-propagandists have become obsessed with the task of equaling or exceeding Soviet growth rates. They see this as a necessity, in spite of the obvious mathematical fact that the larger a base figure is, the larger aggregate increases must be to keep it expanding at a constant rate. The Soviets, decades behind the United States in economic output, can more easily enjoy high growth rates, and even they have discovered the difficulty of retaining their high rates as their economy expands (witness the falling off of their growth rates since 1960).

Why this obsession with aggregate growth? One answer which I have already mentioned is the fact that freedom is difficult to chart statistically. We therefore see our propagandists appealing to other results of the two societies in order to compare them. Another impetus to the "growth game" is the very methodology of contemporary academic economics: Men whose concern for methodological rigor far outweighs any other professional goal in their lives will have a tendency to examine aspects of an economic system that are subject to the "elegance" of mathematics. They will tend to search diligently for "statistical handles" that are nicely "neutral," and therefore acceptable to other professional economists as valid measure-

20. Jan S. Prybyla, cited in Gary North, *Marx's Religion of Revolution* (Nutley, N. J.: The Craig Press, 1968), p. 225.
21. Gary North, "The Crisis in Soviet Economic Planning," *Modern Age* (Winter, 1969-70) [chap. 22, below].
22. Jasny, "Soviet Statistics," *The Review of Economics and Statistics* (1950), p. 92 ff.

ments of an economy's benefits. The economic methodologies of both the Soviets and Keynesians, while differing in detail, still focus on aggregate output figures that are useful in the tasks of centralized planning and prediction. Thus we see the fetish of the GNP—the so-called Gross National Product.

Numerous critiques of GNP figures have been made, but the important one is that the GNP figure would have meaning operationally only as a report of a single firm owned by a single set of owners. This may be the goal of some statist planners, but it is not yet a reality, either in the Soviet Union or in the United States; when it is, we will see true economic chaos.[23] The GNP is therefore a propaganda device primarily, a statement of faith in centralized planning secondarily. It is a methodological necessity for those academic economists who have honed their methodological tools to such fine points that the tools are no longer useful for any operation other than splitting academic hairs.

The Exponential Curve

The ancient world possessed no vision of continual economic growth. With the single exception of the Hebrew cosmology, all ancient cosmologies were cyclical with regard to the question of development. Man once lived in an age of gold; he has experienced progressive deterioration since then, and only with some cataclysmic event—the coming of a divine monarch and the imposition of a period of ritual chaos—will man return to paradise, where the cycle will begin once again.[24] The Hebrew and Augustinian cosmology was linear: God created the world out of nothing, giving history meaning in terms of a sovereign plan, and will bring history to a close on the Day of Judgment. Nevertheless, Augustine and other medieval Christians saw no possibility of unlimited economic growth. Human "cities" were seen as being subject to flux, never achieving the permanence of the great City of God; only the spiritual kingdom can in any way be said to develop irreversibly.[25] An earthly pessimism prevailed, until the advent of seventeenth-century Protestant postmillennial eschatology.

The Renaissance and Enlightenment humanists gave up the idea of God's spiritual kingdom as a primary object of concern. Enlightenment thinkers in a sense "immanentized" the kingdom concept, bringing it down to earth. This was precisely what medieval thinkers had denied to man. Secular thinkers then gave up the idea of a final judgment. Nisbet comments on this double intellectual revolution:

23. North, "Crisis," *op. cit.*
24. North, *Marx's Religion of Revolution*, pp. 87-91.
25. Theodor Mommsen, "St. Augustine and the Christian Idea of Progress," *Journal of the History of Ideas* (1951), pp. 364, 372.

> By the late seventeenth century, Western philosophers, noting that the earth's frame had still not been consumed by the Augustinian holocaust, took a kind of politician's courage in the fact, and declared bravely that the world was *never* going to end (Descartes, it seems, had proved this) and that mankind was going to become ever more knowledgeable and, who knows, progressively happy. Now, of a sudden, the year 2000 became the object of philosophical speculation.[26]

The vision of continuous, secular, linear human progress had arrived. The dream of continuous economic growth is the intellectual descendant of this original vision.

The logic of continuous economic growth is the logic of the exponential curve. To produce such a curve, one needs to graph the expansion of a particular base figure over time. A compounding process takes place—positive feedback—as the figure becomes progressively (the language of progress is here inescapable) larger. There are numerous examples of this kind of growth: the compound rate of interest, the rate of economic growth, the rate of biological reproduction of any species unhampered by a lack of scarce resources (including space) and free of natural predators. We may begin with a very small number of dollars or alligators or human beings, and we may add to them at a tiny compound rate; but if we continue the process, the figure will get larger and larger until it eventually appears to be infinite. Graphed, the line will remain relatively flat for much of the graph, but eventually it begins to point upward; finally, it curves upward rapidly and then shoots almost straight up, until it goes off the graph paper. The higher the rate of compound growth, the sooner the line will make its sharp curve upward.

There are so many of these curves in operation in our era that ours might reasonably be called the age of exponential curves. Two rather interesting ones relate to science. The number of scientists in America has been increasing since 1900 at a rate of 6.6 percent, which means the number of scientists doubles every 10.5 years. The number of scientific periodicals has been increasing at a 4.6 percent clip since 1750, the number doubling every 15 years.[27] This has led to an output of scientific articles so vast that even the abstracts of them are becoming too numerous to handle in any given discipline (yet the academic disciplines themselves are getting more and more specialized). We can only speculate on the apocalyptic academic vision

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26. Robert A. Nisbet, "The Year 2000 And All That," *Commentary* (June, 1968), p. 61.
27. M. King Hubbert, "Are We Retrogressing in Science?" *Geological Society of American Bulletin* (1963), pp. 365, 366. At this rate there soon will be more scientists than people.

offered (I believe) by former University of California president, Clark Kerr: "What will happen when the last inch of library shelf is filled with the latest journal?" (More properly, the latest microfilm, since library shelves are already overcrowded with books, and the books themselves are in the process of disintegration; the paper used for book production since 1880 now appears to be self-destructive, a nightmarish prospect for the world's librarians.[28])

Several exponential curves are receiving considerable attention in the popular press. The recent concern over pollution and population can be expressed in terms of such curves. A classic is the population curve since 1770 to a hypothetical 2070. Graphed in *Time* (Feb. 2, 1970), we are presented with the prospect of an earth filled with 25 billion people in a century. The graph is titled, "Population: the next 100 years," but its subtitle gives the game away: "(assuming current population-growth rates and no natural or man-made catastrophe)." (Indeed, we could advertise the wonderful prospects for economic returns from a chain letter with a similar graph.)

No biologist believes that the subtitle will be historically operative; the graph is used to "document" a coming population catastrophe. Generally it is a propaganda device calling for planning, especially national or even international planning, to avert the catastrophe. Rushdoony has surveyed much of this propaganda in the popular press and he concludes that socialism makes such population-control proposals inevitable, since population is a factor of production, and the ideology of full socialist planning requires the aggregate planning of *all* factors of production.[29]

Newsweek (Jan. 26, 1970) provides us with another exponential curve, namely, federal spending on pollution control since 1956. It has increased from virtually zero to a billion dollars (estimated 1970 expenditures). From $50 million in 1960 to a billion dollars in 1970: this is a 20-fold increase. Can we expect this rate to continue through 1980? How about until 1990? If so, in 1990, some $400 billion will be funneled into pollution control. If this takes place, hold on to your wallet; taxes will be going up. I have no specific figures, but I would estimate that if the rate of increase in the number of articles published in American national periodicals since 1965 on the subjects of pollution and population growth continues, by 1990 nothing will be published that does not deal with one or the other subject. Hopefully, the reader is beginning to grasp the implications of the logic of the exponential curve. It cannot go on indefinitely.

28. David G. Lowe, "The Case of the Vanishing Records," *American Heritage* (Aug. 1969).
29. Rushdoony, *Over-Population*, chap. 3.

Economists who see economic growth as *the* national goal of economic policy are pursuing a demon. It necessitates demonic means to sustain such growth in the aggregate. Ours is a limited world with limited resources. Aggregate production figures cannot grow indefinitely. (You will notice how the language of material *progress* and material *finitude* eventually brings us to an impasse.) In order for exponential growth of aggregate output over long periods of time to occur, the universe would have to be infinite, which it is not.

Economists are not all fools. They know that in theory there can be no such thing as continual growth. Nevertheless, macroeconomists are rather like the president of some company. He knows that his firm cannot grow forever, just as they know an economy cannot grow forever. But they all hope for just a little more growth tomorrow. Admittedly, they all affirm, growth has limits, but maybe we can squeeze out more growth next year, even though some far-distant year may bring the dream to an end.

If the economists were willing to sit back and watch the economy grow or not grow, according to the dynamics of small-scale microeconomic activities, there would be no problem. Unfortunately, this is not the case. Present-day Keynesians, like their mentor, and the inflationists at the University of Chicago, like their intellectual leader, Milton Friedman, combine to recommend policies of monetary expansion. The constant expansion of the money supply (as Friedman recommends) or the "fine-tuning" of the economy by varying the level of deficit federal expenditures (neo-Keynesians' hope) would ultimately require massive doses of new money each year. Yet these programs are advocated because they would supposedly "stimulate" the output of goods and services by an otherwise "stagnant" free market economy. What is acknowledged as being theoretically impossible—the constant growth of an economy over the long run—becomes an emotional, dogmatic commitment of economic planners who want to use monetary inflation as the means of achieving aggregate economic growth, year after year, decade after decade. Monetary inflation is expected to achieve the impossible, simply because the impossible is attempted by discrete, yearly "growth models."

Mises is correct: we have here a philosophy of "stones into bread."[30] What Christ regarded as a demonic philosophy (Luke

30. Ludwig von Mises, "Stones into Bread, the Keynesian Miracle," in Henry Hazlitt (ed.), *Critics of Keynesian Economics* (Princeton: Van Nostrand, 1960). For criticisms of Friedman, see Hans F. Sennholz, "Chicago Monetary Tradition in the Light of Austrian Theory," in *Toward Liberty* (Menlo Park, Calif.: Institute for Humane Studies), II, 347-366; Murray N. Rothbard, "Milton Friedman Unraveled," *The Individualist* (Feb., 1971), esp. pp. 5-6.

4:3, 4), the Keynesians and Chicago School monetarists have adopted as gospel truth. (Macroeconomists may resent my caricature of their position; if so, they will begin to understand my resentment against the use of this very caricature by proponents of inflationary policies in the popular press: the public has swallowed an academic stone under the impression that it was steak.)

Any increase of the money supply at a rate above zero percent (yes, even as "low" as 3 to 5 percent) will eventually create a money supply which will defy calculation, producing what Mises has called the "crack-up boom." Men will abandon the use of the particular currency in favor of another currency or even in favor of barter, just as they did in Germany in the early 1920's. When I presented this argument recently, it evoked this response:

> Compound interest, which has been with us for centuries and forms the mainspring of all savings *is* an exponential curve. My first admonition as a child was "put your money in a bank and watch it grow."
>
> It is very true that this growth has been interrupted in the past by bank failures and the like, but this has not taken place to a great extent in the last 30 years. Surely every right-thinking person does not want things like that to occur again. Banks must maintain sufficient currency to protect their depositors, and to do so, there must be [a] constantly increasing money supply to cover interest accumulations.

The thing which astounded me when I first read this letter was that a man whose instincts are clear procapitalism argues in favor of inflation because he has been led to believe that the best way to defend capitalism is in terms of the logic of the exponential curve. Yet it is because the exponential curve *cannot* be sustained over time, since we live in a world of scarcity, that men should make their defense of the free market. If all goods were free, economics as a science would not exist. Men would not then need to economize. Instead of re-examining the philosophy of compound interest, the man I've quoted felt compelled to recommend the inflation of the exponential curve.

Medieval theologians, who were social and economic thinkers, followed the Old Testament's provisions against the taking of usury. They saw, in an admittedly obscure fashion, that a man must not demand an automatic payment of interest unless he shares in the risk of the failure of the particular enterprise. Using modern economic categories, we can say that profit, which stems from an accurate forecast of future demand and efficient planning in terms of that forecast, inevitably involves *uncertainty*.[31] The fact that loss may occur with at least equal frequency with profit should indicate the impossibility of perpetual, guaranteed compound interest.

All firms cannot make equal profits all of the time; the very nature of profit forbids the possibility of a universal guarantee of returns in the aggregate. The man who expects such a universal compounding of interest payments would have to take seriously the inevitable subtitle: "assuming positive interest rates and no natural or man-made catastrophe." Population growth, *if* it continues, will create its own catastrophe; the same is true of any policy of inflation used in order to sustain the continuous payment of compound interest. In the short run, an *individual* can "put his money in a bank and watch it grow." In the long run, a whole population cannot. We must heed the words of the biologist, Garrett Hardin:

> Suppose, for example, that the thirty pieces of silver which Judas earned by betraying Jesus had been put out at 3 per cent interest. If we assume these pieces of silver were silver dollars, the savings account would today amount to a bit more than 9×10^{14} dollars, or more than $300,000 for every man, woman, and child on the face of the earth. Since the real economic wealth of the world is certainly much less than that amount, it would be quite impossible for Judas' heirs (all of us, I presume) to close out the account. The balance in the bankbook would be largely fictional.[32]

The figure would be fictional in the same way that the GNP figure is fictional: the account could no more be closed out at one time than the total GNP could be sold to a single buyer at one time. If a market for the aggregate figure cannot exist then the "price" of the aggregate goods in either case is fictional.[33] Hardin's conclusion is relevant to the theology of the exponential curve:

> A modern William Paley, contemplating bank failures, embezzlements, business collapses, runaway inflation, and revolutions, might well argue that these catastrophes are examples of "design in Nature," for by their presence the impossible consequences of perpetual positive feedback are avoided.

Does this mean that those who favor the free market must be in favor of "bank failures, embezzlements, business collapses, runaway inflation, and revolutions"? Absolutely not. The advocate of the free market favors the interaction of acting men in patterns of volun-

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31. Frank H. Knight, *Risk, Uncertainty and Profit* (New York: Harper Torchbook, [1921] 1964).

32. Garrett Hardin, "The Cybernetics of Competition," in Helmut Schoeck and James W. Wiggins (eds.), *Central Planning and Neomercantilism* (Princeton: Van Nostrand, 1964), p. 65.

33. Cf. Henry Hazlitt, *The Failure of the "New Economics"* (Princeton: Van Nostrand, 1960), pp. 410, 411, 418.

tary exchange precisely because he wishes to avoid such crises. But in order to be consistent with this goal, he is forced, by definition, to give up the philosophy of perpetual economic growth. No firm can continue to expand forever, no national economy can continue to expand forever: here is the essence of the free market position. *Private economic competition is to replace aggregate economic collapse.* The free market should never be defended, as one captain of American industry tried to defend it, in terms of the slogan, "No limit on tomorrow." In a world of scarce resources there is *always* a limit on tomorrow. We dare not write as this man wrote in 1955:

> I am convinced that there will be no limit on tomorrow, and that our future will be more exciting, more thrilling than any of the periods of progress we have yet experienced. There will, of course, be peaks and valleys as the forces of supply and demand continue to exert themselves. But I am confident that the American people will never satisfy their desires for better living, and that our technology will never cease to accelerate and expand.

This philosophy is far closer to Hegelianism than it is to the modern defense of the free market. It should be left for Soviet theoreticians to play with; defenders of capitalism, given their presupposition of scarcity, dare not use it. Hardin is correct when he writes that "the myth of inevitable technological progress in a laissez faire world" is fallacious.[34] We must give up the myth of perpetual, irreversible technological progress if we are to preserve the theoretical validity of free market voluntarism.

The theology of the exponential curve has led to what Harlan Cleveland has called the "revolution of rising expectations." Men begin to believe the promises for an expanding utopia, and when the planners cannot deliver, they turn in fury on those who promised too much. They tear down that system which promoted that myth. If we are to avoid this, we must be careful to defend the free market in other terms. First, the market system provides men with a sphere of freedom and personal responsibility in which to exercise their talents, dreams, and faiths. Second, it provides the most efficient mechanism known to man for the production and distribution of wealth, *given the limitations* of scarcity. Third, by making men responsible as individuals for their actions, and by imposing penalties for failure on individuals rather than on whole economics, the market tends to smooth out crises, thereby enabling more peaceful transitions to newer economic conditions. The market promotes social peace.

Statist propagandists have committed us to the theology of the

34. Garrett Hardin, "Not Peace, But Ecology," *Diversity and Stability in Ecological Systems* (Brookhaven Symposia in Biology, No. 22, 1969), p. 154.

exponential curve. They are determined to see to it that the economy meets the demand of rising expectations. Political administrations like to take credit for "their" achievements economically; these advances *must* continue to grow. Therefore, we see the rush into intervention: natural competition is limited by barriers of knowledge and goods; the statist tries to alleviate this, not by expanding the available supply of resources, but by blaming the shortages on the very process of private competition.

In this attempt, the statist planner is aided by the individual entrepreneur who wishes to secure the benefits of an exponential curve for his company by eliminating the competition he receives from other firms, especially newer, more vigorous firms. He calls for statist controls to insure his firm's position within the market; statist intervention becomes a form of insurance against private failure. And, as I have warned elsewhere: "Remove the right to personal failure, and you dehumanize mankind; a dehumanized mankind cannot hope, as a collective entity, to do anything but fail."[35]

The free market must not be proclaimed in the name of continual material progress. Progress may be seen as spiritual and moral, though not infinite, in contrast to the total pessimism of the twentieth-century philosophy. Progress must not be seen as material and technological, in contrast to twentieth-century economic propaganda. We have mixed up our categories, at the peril of our civilization. *Short-run* material progress, both individual and collective, is possible; go beyond this and you deny the human condition. Man has his limitations. So does his environment.

Conclusion

Men have a tendency to get their religious presuppositions confused with economic analysis. For example, in my own case, I happen to believe that there will be a time of social peace and moral development on earth. This opinion stems from my interpretation of certain passages of the Bible. I have no illusions that I can derive such an opinion from economic analysis. Therefore, when I see others painting vast pictures of unlimited economic progress for the future, progress somehow self-generated and self-sustained, I become skeptical. That is theology, not economic analysis.

I am always tempted to offer the prophet Isaiah's ridicule of the idea that material progress, apart from moral progress, is in any way self-sustained: "Come ye, say they, I will fetch wine, and we will fill ourselves with strong drink; and tomorrow shall be as this day, and

35. Gary North, "Statist Bureaucracy in the Modern Economy," *The Freeman* (Jan., 1970) [chap. 20, below].

much more abundant" (Isa. 56:12). We must drop Rostow's definition of modern industrial society as one in which "compound interest becomes built . . . into its habits and institutional structure."[36] Mises points out with regard to the economic contribution of the Austrian economists:

> The greatness of the service these three Austrian economists have rendered by maintaining the cause of economics against the vain critique of Historicism cannot be overrated. They did not infer from their epistemological convictions any optimism concerning mankind's future evolution. Whatever is to be said in favor of correct logical thinking does not prove that the coming generations of men will surpass their ancestors in intellectual effort and achievements. History shows that again and again periods of marvelous accomplishments were followed by periods of decay and retrogression. We do not know whether the next generation will beget people who are able to continue along the lines of the geniuses who made the last centuries so glorious. We do not know anything about biological conditions that enable man to make one step forward in the march of intellectual development. We cannot preclude the assumption that there may be limits to man's further intellectual ascent. And certainly we do not know whether in this ascent there is not a point beyond which the intellectual leaders can no longer succeed in convincing the masses and making them follow their lead.[37]

In short, do not try to get more out of pure economic analysis than economic analysis can possibly provide. Most of all, when you see presentations of the exponential curve, with extrapolations made into the next century, remember the words of Professor Nisbet with regard to the use of statistical devices in explaining or predicting human affairs:

> Here the Random Event, the Maniac, the Prophet, and the Genius have to be reckoned with. We have absolutely no way of escaping them. The future-predictors don't suggest that we can avoid or escape them—or ever be able to predict or forecast them. What the future-predictors, the change-analysts, and the trend-tenders say in effect is that with the aid of institute resources, computers, linear programming, etc. they will deal with the kinds of change

36. Walt W. Rostow, *The Stages of Economic Growth* (Cambridge: The University Press, 1960), p. 7. For a critique on the Rostow thesis, see the symposium of the International Economic Association, Rostow (ed.), *The Economics of Take-off Into Sustained Growth* (New York: St. Martin's, 1963), especially the essay by Simon Kuznets. Rothbard's question undermines the proponents of statist policies to stimulate economic growth: "By what right do you maintain that people *should* grow faster than they voluntarily want to grow?" Murray N. Rothbard, *Man, Economy and State* (Princeton: Van Nostrand, 1962), II, 837.

37. Ludwig von Mises, *The Historical Setting of the Austrian School of Economics* (New Rochelle, N. Y.: Arlington House, 1969), p. 38.

that are *not* the consequence of the Random Event, the Genius, the Maniac, and the Prophet.

To which I can only say: there really aren't any; not any worth looking at, anyhow.[38]

1859-Issued Bond Now Worth $30 Million

KANSAS CITY (AP) — Cameron K. Reed says Kansas may owe him $30 million.

Reed, president of the United Funds, Inc., recently discovered a $500 bond issued by the territorial government of Kansas on May 14, 1859. Reed said he bought it from a friend for $25 about 20 years ago, then put it away and forgot it.

"At 10%—the interest it was supposed to draw—the value of the bond doubles about every seven years," Reed said. "That makes it worth about $30 million."

However, Reed doesn't think he'll try to collect from the state.

"I suppose I'll give it to the Kansas Historical Society," he said, "if it wants the thing."

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38. Nisbet, *Commentary, op. cit.*, p. 66. Cf. Nisbet, "Has Futurology a Future?" *Encounter* (Nov., 1971).

Chapter IX

DOWNWARD PRICE FLEXIBILITY AND ECONOMIC GROWTH

[The concept of downward price flexibility as the result of a free market in monetary relations and expanded production obviously is opposed to virtually all modern schools of economic thought—Keynesian, University of Chicago, the old Irving Fisher Plan, Social Credit schemes, "greenbackism," Silvio Gesell's program. Only the Austrian School, led in this century by Ludwig von Mises, approaches the problem of monetary theory as a problem to be solved by the forces of the free market. Among free market analysts, the Chicago School, led by Milton Friedman, has been the major group advocating continuous expansion by the government of the money supply. The refutation of this line of thought can be found in Hans Sennholz's essay in the Festschrift *to Mises,* Toward Liberty *(Menlo Park, Calif.: Institute for Humane Studies, 1971): "Chicago Monetary Tradition in the Light of Austrian Theory," and in Murray N. Rothbard's essay, "The Great Inflationary Recession Issue: 'Nixonomics' Explained,"* The Individualist *(June, 1970).]*

It would appear that the reasons commonly advanced as a proof that the quantity of the circulating medium should vary as production increases or decreases are entirely unfounded. It would appear also that the fall of prices proportionate to the increase in productivity, which necessarily follows when, the amount of money remaining the same, production increases, is not only entirely harmless, but in fact the only means of avoiding misdirections of production.

F. A. Hayek
***Prices and Production*, p. 105**

Economic growth is one of the chief fetishes of modern life. Hardly anyone would challenge the contemporary commitment to the aggregate expansion of goods and services. This is true of socialists, interventionists, and free enterprise advocates; if it is a question of "more" as opposed to "less," the demonstrated preference of the vast bulk of humanity is in favor of the former.

To keep the idea of growth from becoming the modern equivalent of the holy grail, the supporter of the free market is forced to add certain key qualifications to the general demand for expansion. First, that all costs of the growth process be paid for by those who by virtue of their ownership of the means of production gain access to the fruits of production. This implies that society has the right to protect itself from unwanted "spillover" effects like pollution, i.e., that the so-called social costs be converted into private costs whenever possible.[1] Second, that economic growth be induced by the voluntary activities of men cooperating on a private market. The State-sponsored projects of "growthmanship," especially growth induced through inflationary deficit budgets, are to be avoided.[2] Third, that growth not be viewed as a potentially unlimited process over time, as if resources were in unlimited supply.[3] In short, aggregate economic growth should be the product of the activities of individual men and firms acting in concert according to the impersonal dictates of a competitive market economy. It should be the goal of national governments only in the limited sense of policies that favor individual initiative and the smooth operation of the market, such as legal guarantees supporting voluntrary contracts, the prohibition of violence, and so forth.

The "and so forth" is a constant source of intellectual as well as political conflict. One of the more heated areas of contention among

1. I am following Exodus 22:5-6 rather than R. H. Coase's clever sophistry. Coase, "The Problem of Social Cost," *Journal of Law and Economics*, III (1960). Prof. Ruff has written: "This divergence between private and social costs is the fundamental cause of pollution of all types. . . ." Larry E. Ruff, "The Economic Common Sense of Pollution," *The Public Interest* (Spring, 1970). Other important studies that advocate private ownership and property rights as the approach to solving the pollution problem are Edwin Dolan, *TANSTAAFL: The Economic Strategy for Environmental Crisis* (New York: Holt, Rinehart and Winston, 1971); (Tanstaafl stands for "there ain't no such thing as a free lunch," and is a basic slogan for the anarcho-capitalist movement. It was popularized by the science-fiction writer, Robert Heinlein.) J. H. Dales, *Pollution, Property, and Prices* (University of Toronto Press, 1968); T. D. Crocker and A. J., Rogers, *Environmental Economics* (Hinsdale, Ill.: Dryden Press, 1971); Murray N. Rothbard, "The Great Ecology Issue: Conservation in the Free Market," *The Individualist* (Feb., 1970), published by the Society for Individual Liberty, Philadelphia. One of the first studies to argue in this fashion was the RAND Corporation's *Water Supply: Economics, Technology, and Policy*, by Jack Hirschleiffer, James De Haven, and Jerome W. Milliman (University of Chicago Press, 1960), chap. 9. A highly technical introduction to the literature is E. J. Mishan, "The Postwar Literature on Externalities: An Interpretative Essay," *Journal of Economic Literature*, IX (1971), 1-28, and the exchange between Mishan and Dean Worcester: *J. Econ. Lit.*, X (1972), 57-62. On the abysmal failure of the State to control pollution, see Marshall Goldman's study of the Soviet Union, *The Spoils of Progress* (MIT Press, 1972).

2. Colin Clark, "'Growthmanship'; Fact and Fallacy," *The Intercollegiate Review* (Jan., 1965), and published in booklet form by the National Association of Manufacturers. On the dangers of government-sponsored growth, see also Murray N. Rothbard, *Man, Economy and State* (Princeton: Van Nostrand, 1962), II, 837 ff.

3. Gary North, "The Theology of the Exponential Curve," *The Freeman* (May, 1970) [chap. 8, above].

free market economists is the issue of monetary policy. The majority of those calling themselves free market economists believe that monetary policy should not be the autonomous creation of voluntary market agreements. Instead, they favor various governmental or quasi-governmental policies that would oversee the creation of money and credit on a national, centralized scale. Monetary policy in this perspective is an "exogenous factor" in the marketplace—something that the market must respond to rather than an internally produced, "endogenous factor" that stems from the market itself. The money supply is therefore only indirectly related to market processes; it is controlled by the central governments acting through the central bank, or else it is the automatic creation of a central bank on a fixed percentage increase per day and therefore not subject to "fine-tuning" operations of the political authorities.

A smaller number of free market advocates (myself among them) are convinced that such monopoly powers of money creation are going to be used. Power is never neutral; it is exercised according to the value standards of those who possess it.[4] Money is power, for it enables the bearer to purchase the tools of power, whether guns or votes. Governments have an almost insatiable lust for power, or at least for the right to exercise power. If they are granted the right to finance political expenditures through deficits in the visible tax schedules, they are empowered to redistribute wealth in the direction of the State through the invisible tax of inflation.[5]

Money, given this fear of the political monopoly of the State, should ideally be the creation of market forces. Whatever scarce economic goods that men voluntarily use as a means of facilitating market exchanges—goods that are durable, divisible, transportable, and above all scarce—are sufficient to allow men to cooperate in economic production. Money came into existence this way; the State only sanctioned an already prevalent practice.[6] Generally, the two goods that have functioned best as money have been gold and silver: they both possess great *historic* value, though not intrinsic value (since no commodity possesses intrinsic value).[7]

Banking, of course, also provides for the creation of new money.

4. F. A. Hayek, *The Road to Serfdom* (University of Chicago, 1944), is by far the best treatment of the unneutral nature of state planning boards.
5. Murray N. Rothbard, "Money, the State, and Modern Mercantilism," in Helmut Schoeck and James Wiggens (eds.), *Central Planning and Neomercantilism* (Princeton: Van Nostrand, 1964), pp. 140-143.
6. Ludwig von Mises, *The Theory of Money and Credit* (New Haven, Conn.: Yale University Press, 1953; reprinted 1971 by the Foundation for Economic Education), pp. 97-123.
7. Gary North, "The Fallacy of 'Intrinsic Value,'" *The Freeman* (June, 1969) [chap. 7, above].

But as Professor Mises argues, truly competitive banking—free banking—keeps the creation of new credit at a minimum, since bankers do not really trust each other, and they will demand payment in gold or silver from banks that are suspected of insolvency.[8] Thus, the creation of new money on a free market would stem primarily from the discoveries of new ore deposits or new metallurgical techniques that would make available greater supplies of scarce money metals than would have been economically feasible before. It is quite possible to imagine a free market system operating in terms of non-political money. The principle of voluntarism should not be excluded, *a priori*, from the realm of monetary policy.

There are several crucial issues involved in the theoretical dispute between those favoring centralized monetary control and free market voluntarists. First, the question of constitutional sovereignty: which sphere, civil government or the market, is responsible for the administration of money? Second, the question of economic efficiency: would the plurality of market institutions interfere with the creation of a rational monetary framework? Third, and most important for this paper, is not a fundamental requirement for growth of economic production the creation of a money supply sufficient to keep pace, proportionately, with aggregate productivity?

The constitutional question, historically, is easier to answer than the other two. The Constitution says very little about the governing of monetary affairs. The Congress is granted the authority to borrow money on the credit of the United States, a factor which has subsequently become an engine of inflation, given the legalized position of the central bank in its activity of money creation. The Congress also has the power "To coin Money, regulate the Value thereof, and of foreign Coin, and fix the Standard of Weights and Measures" (Article II, Section 8). Furthermore, the states are prohibited to coin money, emit bills of credit, or "make any Thing but gold and silver Coin a Tender in Payment of Debts" (Article II, Section 9).

The interpretation of the passages has become increasingly statist since the 1860's. Gerald T. Dunne describes his book, *Monetary Decisions of the Supreme Court*, in these terms: "This work traces a series of decisions of the Supreme Court which have raised the monetary power of the United States government from relative insignificance to almost unlimited authority." He goes on to write: ". . . the Founding Fathers regarded political control of monetary institutions with an abhorrence born of bitter experience, and they seriously considered writing a sharp limitation on such governmental activity into

8. Ludwig von Mises, *Human Action* (New Haven, Conn.: Yale University Press, 1949), pp. 440-445.

the Constitution itself. Yet they did not, and by 'speaking in silences' gave the government they founded the near-absolute authority over currency and coinage that has always been considered the necessary consequence of national sovereignty."[9]

The great push toward centralization came, understandably, with the Civil War, the first truly modern total war, with its need of new taxes and new power. From that point on, there has been a continual war of the federal government against the limitations imposed by a full gold coin standard of money.[10] It is all too clearly an issue of sovereignty: the sovereignty of the political sphere against that of individuals operating in terms of voluntary economic transactions.

The second question is more difficult to answer. Would the plurality of monetary sovereignties within the over-all sovereignty of a competitive market necessarily be less efficient than a money system created by central political sovereignty? As a corollary, are the time, capital, and energy expended in gold and silver mining worse spent than if they had gone into the production of consumer goods?

In the short run and in certain localized areas, plural monetary sovereignties might not be competitive. A local bank could conceivably flood a local region with unbacked fiat currency. But these so-called wildcat banking operations, unless legally sanctioned by State fractional reserve licenses (deceptively called limitations), do not last very long. People discount the value of these fiat bills, or else make a run on the bank's vaults. The bank is not shielded by political sovereignty against the demands of its creditors. In the long run it must stay competitive, earning its income from services rather than the creation of fiat money. With the development of modern communications that are almost instantaneous in nature, frauds of this kind become more difficult.

The free market is astoundingly efficient in communicating knowledge. The activity of the stock market, for example, in response to new information about a government policy or a new discovery, indicates the speed of the transfer of knowledge, as prices are rapidly raised or lowered in terms of the discounted value that is expected to accrue because of the new conditions.[11] The very flexibility of prices

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9. Gerald T. Dunne, *Monetary Decisions of the Supreme Court* (New Brunswick, N. J.: Rutgers University Press, 1960), preface.

10. Paul Bakewell, a lawyer who has specialized in the history of monetary law in the United States, has chronicled this warfare in *What Are We Using for Money?* (Princeton: Van Nostrand, 1952) and *13 Curious Errors About Money* (Caldwell, Idaho: Caxton, 1962).

11. The best book on the free market and knowledge transmission is Henry G. Manne, *Insider Trading and the Stock Market* (New York: Free Press, 1966). Cf. Manne, "Insider Trading and the Law Professors," *Vanderbilt Law Review*, XXIII (1970), pp. 547-630.

allows new information to be assimilated in an economically efficient manner. Why, then, are changes affecting the value of the various monetary units assumed to be less efficiently transmitted by the free market's mechanism than by the political sovereign? Why is the enforced stability of fixed money ratios so very efficient and the enforced stability of fixed prices on any other market so embarrassingly inefficient? Why is the market incapable of arbitrating the value of gold and silver *coins* (domestic vs. domestic, domestic vs. foreign), when it is thought to be so efficient at arbitrating the value of gold and silver *jewelry*? Why is the market incapable of registering efficiently the value of gold in comparison to a currency supposedly fixed in relation to gold?

The answer should be obvious: it is *because* the market is so efficient at registering subtle shifts in values between scarce economic goods that the political sovereigns ban the establishment of plural monetary sovereignties. It is because any disparity economically between the value of fiat currency supposedly linked to gold and the market value of gold exposes the ludicrous nature of the hypothetical legal connection, which in fact is a *legal fiction*, that the political sovereignty assumes for itself a monopoly of money creation. It is not the inefficiency of the market in registering the value of money but rather its incomparable efficiency that has led to its position of imposed isolation in monetary affairs. Legal fictions are far more difficult to impose on men if the absurdity of that fiction is exposed, hour by hour, by an autonomous free market mechanism.

Would there not be a chaos of competing coins, weights, and fineness of monies? Perhaps, for brief periods of time and in local, semi-isolated regions. But the market has been able to produce light bulbs that fit into sockets throughout America, and plugs that fit into wall sockets, and railroad tracks that match companies, engines and cars. To state, *a priori*, that the market is incapable of regulating coins equally well is, at best, a dangerous statement that is protected from critical examination only by the empirical fact of our contemporary political affairs.

Changes in the stock of gold and silver are generally slow. Changes in the "velocity of money"—the number of exchanges within a given time period—are also slow, unless the public expects some drastic change, like a devaluation of the monetary unit by the political authority. These changes can be predicted within calculable limits; in short, the economic impact of such changes can be discounted. They are relatively fixed in magnitude in comparison to the flexibility provided by a government printing press or a central bank's brand new IBM computer. The limits imposed by the costs of mining provide a *continuity* to economic affairs compared to which the "rational planning" of central political authorities is laughable.

What the *costs of mining* produce for society is a *restrained State.* We expend time and capital and energy in order to dig metals out of the ground. Some of these metals can be used for ornament or electronic circuits, or for exchange purposes; the market tells men what each use is worth to his fellows, and the seller can respond accordingly. The existence of a free coinage restrains the capabilities of political authorities to redistribute wealth, through fiat money creation; in the direction of the State. That such a restraint might be available for the few millions spent in mining gold and silver out of the ground represents the greatest potential economic and political bargain in the history of man. To paraphrase another patriot: "Millions for mining, but not one cent in tribute."

By reducing the parameters of the money supply by limiting money to those scarce economic goods accepted voluntarily in exchange, *prediction* becomes a real possibility. Prices are the free market's greatest achievement in reducing the irrationality of human affairs. They enable us to predict the future. Profits reward the successful predictors; losses greet the inefficient forecasters, thus reducing the extent of their influence. The subtle day-to-day shifts in the value of the various monies would, like the equally subtle day-to-day shifts in value of all other goods and services, be reflected in the various prices of monies, vis-a-vis each other. Professional speculators (predictors) could act as arbitrators between monies. The price of buying pounds sterling or silver dollars with my gold dollar would be available on request, probably published daily in the newspaper. Since any price today reflects the supply and demand of the two goods to be exchanged, and since this in turn reflects the *expectations* of all participants of the value of the items in the future, *discounted to the present*, free pricing brings thousands and even millions of forecasters into the market. *Every price reflects the composite of all predictors' expectations.* What better means could men devise to unlock the secrets of the future? Yet monetary centralists would have us believe that in monetary affairs, the *State's experts* are the best source of economic continuity, and that they are more efficient in setting the value of currencies as they relate to each other than the market could be.

What we find in the price-fixing of currencies is exactly what we find in the price-fixing of all other commodities: periods of inflexible, politically imposed "stability" interspersed with great economic discontinuities. The old price shifts to some wholly new, wholly unpredictable, politically imposed price, for which few men have been able to take precautions. It is a rigid stability broken by radical shifts to some new rigidity. It has nothing to do with the fluid continuity of flexible market pricing. *Discontinuous "stability"* is the plague of politically imposed prices, as devaluations come in response to some disastrous political necessity, often internationally centered, involving the prestige of many national governments. It brings the rule of law into disrepute, both domestically and internationally. Sooner or later domestic inflation comes into conflict with the requirements of international solvency.[12]

For those who prefer tidal waves to the splashing of the surf, for those who prefer earthquakes to slowly shifting earth movements, the rationale of the political monopoly of money may appear sane. It is strange that anyone else believes in it. Instead of the localized discontinuities associated with private counterfeiting, the State's planners substitute complete, centralized discontinuities. The predictable market losses of fraud (which can be insured against for a fee) are regarded as intolerable, yet periodic national monetary catastrophes like inflation, depression, and devaluation are accepted as the "inevitable" costs of creative capitalism. It is a peculiar ideology.

The third problem seems to baffle many well-meaning free market supporters. How can a privately established monetary system linked to gold and silver expand rapidly enough to facilitate business in a modern economy? How can new gold and silver enter the market rapidly enough to "keep pace," proportionately, with an expanding number of free market transactions? The answer seems too obvious: the expansion of a specie-founded currency system cannot possibly grow as fast as business has grown in the last century. Since the answer is so obvious, something must be wrong with the question. There *is* something wrong; it has to do with the invariable underlying assumption of the question: *today's prices are downwardly inflexible.*

It is a fact that many prices are inflexible in a downward direction, or at least very, very "sticky." For example, wages in industries covered by minimum wage legislation are as downwardly inflexible as the legislatures that have set them. Furthermore, wages in industries covered by the labor union provisions of the Wagner Act of 1935 are downwardly inflexible, for such unions are legally permitted to exclude competing laborers who would work for lower wages. Products that come under laws establishing "fair trade" prices, or products undergirded by price floors established by law, are not responsive to economic conditions requiring a downward revision of prices. *The common feature of the majority of downwardly inflexible prices is the intervention of the political sovereignty.*

12. Gary North, "Domestic Inflation versus International Solvency," *The Freeman* (Feb. 1967) [chap. 5, above].

The logic of economic expansion should be clear enough: if it takes place within a relatively fixed monetary structure, either the velocity of money will increase (and there are limits here) or else prices in the aggregate will have to fall. If prices are not permitted to fall, then many factors of production will be found to be uneconomical and therefore unemployable. The evidence in favor of this law of economics is found every time a depression comes around (and they come around just as regularly as the government-sponsored monetary expansions that invariably precede them[13]). Few people interpret the evidence intelligently.

Labor union leaders do not like unemployed members. They do not care very much about unemployed nonmembers, since these men are unemployed in order to permit the higher wages of those within the union. Business owners and managers do not like to see unemployed capital, but they want high rates of return on their capital investments even if it should mean bankruptcy for competitors. So when falling prices appear necessary for a marginal firm to stay competitive, but when it is not efficient enough to compete in terms of the new lower prices for its products, the appeal goes out to the State for "protection." Protection is needed from nasty customers who are going to spend their hard-earned cash or credit elsewhere. Each group resists lower returns on its investment—labor or financial—even in the face of the biggest risk of all: total unemployment. And if the State intervenes to protect these vested interests, it is forced to take steps to insure the continued operation of the firms.

It does so through the means of an expansion of the money supply. It steps in to set up price and wage floors; for example, the work of the NRA in the early years of the Roosevelt administration. Then the inflation of the money supply raises aggregate prices (or at least keeps them from falling), lowers the real income from the fixed money returns, and therefore "saves" business and labor. This was the "genius" of the Keynesian recovery, only it took the psychological inducement of total war to allow the governments to inflate the currencies sufficiently to reduce real wages sufficiently to keep all employed, while simultaneously creating an atmosphere favoring the imposition of price and wage controls in order to "repress" the visible signs of the inflation, i.e., even higher money prices. So prices no longer allocated efficiently; ration stamps, priority slips, and other "hunting licenses" took the place of an integrated market pricing system. So did the black market.

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13. Mises, *Human Action*, chap. 20. For a survey of the literature generated by Mises' theory, see Gary North, "Repressed Depression," *The Freeman* (April 1969) [chap. 6, above].

Postwar inflationary pressures have prevented us from falling into reality. Citizens will not face the possibility that the depression of the 1930's is being repressed through the expansion of the money supply, an expansion which is now threatening to become exponential.[14] No, we seem to prefer the blight of inflation to the necessity of an orderly, generally predictable downward drift of aggregate prices.

Most people resist change, in spite of the hopes and footnoted articles by liberal sociologists who enjoy the security of tenure. Those people who do welcome change have in mind familiar change, potentially controllable change, change that does not rush in with destruction. Stability, law, order: these are the catchwords even in our own culture, a culture that has thrived on change so extensive that nothing in the history of man can compare with it. It should not be surprising that the siren's slogan of "a stable price level" should have lured so many into the rocks of economic inflexibility and monetary inflation.

Yet a stable price level requires, logically, stable conditions: static tastes, static technology, static resources, static population. In short, stable prices demand the end of history. The same people who demand stable prices, whether socialist, interventionist, or monetarist, simultaneously call for increased economic production. What they want is the fulfillment of that vision restricted to the drunken of the Old Testament: ". . . tomorrow shall be as this day, and much more abundant" (Isa. 56:12). The fantasy is still fantasy: tomorrow will not be as today, and neither will tomorrow's price structure.

Fantasy in economic affairs can lead to present euphoria and ultimate miscalculation. Prices change. Tastes change. Productivity changes. To interfere with those changes is to reduce the efficiency of the market; only if your goal is to reduce market efficiency would the imposition of controls be rational. To argue that upward prices, downward prices, or stable prices should be the proper arrangement for any industry over time is to argue nonsense. An official price can be imposed for a time, of course, but the result is the misallocation of scarce resources, a misallocation that is mitigated by the creation of a black market.

There is one sense in which the concept of stable prices has validity. Prices on a free market ought to change in a stable, generally predictable, continuous manner. Price (or quality) changes should be *continual* (since economic conditions change) and hopefully *continuous* (as distinguished from discontinuous, radical) in nature.

14. North, "Theology," *op. cit.*

Only if some exogenous catastrophe strikes the society should the market display radical shifts in pricing. Monetary policy, ideally, should contribute no discontinuities of its own—no disastrous, aggregate unpredictabilities. This is the only social stability worth preserving in life: the stability of reasonably predictable change.

The free market, by decentralizing the decision-making process, by rewarding the successful predictors and eliminating (or at least restricting the economic power of) the inefficient forecasters, and by providing a whole complex of markets, including specialized markets of valuable information of many kinds, *is perhaps the greatest engine of economic continuity ever developed by men.* That continuity is its genius. It is a continuity based, ultimately, on its flexibility in pricing its scarce economic resources. To destroy that flexibility is to invite disaster.

The myth of the stable price level has captured the minds of the inflationists, who seek to impose price and wage controls in order to reduce the visibility of the effects of monetary expansion. On the other hand, stable prices have appeared as economic nirvana to conservatives who have thought it important to oppose *price* inflation. They have mistaken a tactical slogan—stable prices—for the strategic goal. They have lost sight of the true requirement of a free market, namely, flexible prices. They have joined forces with Keynesians and neo-Keynesians; they all want to enforce stability on the "bad" increasing prices (labor costs if you're a conservative, consumer prices if you're a liberal), and they want few restraints on the "good" upward prices (welfare benefits if you're a liberal, the Dow Jones averages if you're a conservative). Everyone is willing to call in the assistance of the State's authorities in order to guarantee these effects. The authorities respond.

What we see is the "ratchet effect." A wage or price once attained for any length of time sufficient to convince the beneficiaries that such a return is "normal" cannot, by agreed definition, be lowered again. The price cannot slip back. It must be defended. It must be supported. It becomes an ethical imperative. Then it becomes the object of a political campaign. At that point the market is threatened.

The defense of the free market must be in terms of its capacity to expand the range of choices open to free men. It is an ethical defense. Economic growth that does not expand the range of men's choices is a false hope. The goal is not simply the expansion of the aggregate number of goods and services.[15] It is no doubt true that the free market is the best means of expanding output and increasing efficiency, but

15. P. T. Bauer, *Economic Analysis and Policy in Underdeveloped Countries* (Cambridge and Duke University Presses, 1957), p. 113.

it is *change* that is constant in human life, not expansion or linear development. There are limits on secular expansion.

Still, it is reasonable to expect that the growth in the number of goods and services in a free market will exceed the number of new gold and silver discoveries. If so, then it is equally reasonable to expect to see prices in the aggregate in a slow decline. In fact, by calling for increased production, we are calling for lower prices, if the market is to clear itself of all goods and services offered for sale. *Falling prices are no less desirable in the aggregate than increasing aggregate productivity.* They are economic complements.

Businessmen are frequently heard to say that their employees are incapable of understanding that money wages are not the important thing, but real income is. Yet these same employers seem incapable of comprehending that profits are not dependent upon an increasing aggregate price level. It does not matter for aggregate profits whether the price level is falling, rising, or stable. What does matter is the entrepreneur's ability to forecast future economic conditions, including the direction of prices relevant to his business. Every price today includes a component based on the forecast of buyer and seller concerning the state of conditions in the future. If a man on a fixed income wants to buy a product, and he expects the price to rise tomorrow, he logically should buy today; if he expects the price to fall, he should wait. Thus, the key to economic success is the accuracy of one's discounting, for every price reflects in part the future price, discounted to the present. The aggregate level of prices is irrelevant; what is relevant is one's ability to forecast *particular* prices.

It is quite likely that a falling price level (due to increased production of non-monetary goods and services) would require more monetary units of a smaller denomination. But this is not the same as an increase of the aggregate money supply. It is not monetary inflation. Four quarters can be added to the money supply without inflation so long as a paper one dollar bill is destroyed. The effects are not the same as a simple addition of the four quarters to the money supply. The first example conveys no increase of purchasing power to anyone; the second does. In the first example, no one on a fixed income has to face an increased price level or an empty space on a store's shelf due to someone else's purchase. The second example forces a redistribution of wealth, from the man who does not have access to the four new quarters into the possession of the man who does. The first example does not set up a boom-bust cycle; the second does.[16]

Prices in the aggregate can fall to zero only if scarcity is entirely

16. North, "Repressed Depression," *op. cit.*

eliminated from the world, i.e., if all demand can be met for all goods and services at zero price. That is not our world. Thus, we can safely assume that prices will not fall to zero. We can also assume that there are limits on production. The same set of facts assures both results: scarcity guarantees a limit on falling prices and a limit on aggregate production. But there is nothing incompatible between economic growth and falling prices. Far from being incompatible, they are complementary. There should be no need to call for an expansion of the money supply "at a rate proportional to increasing productivity."

It is a good thing that such an expansion is not necessary, since it would be impossible to measure such proportional rates. It would require whole armies of government-paid statisticians to construct an infinite number of price indexes. If this were possible, then socialism would be as efficient as the free market.[17] Infinite knowledge is not given to men, not even to government statistical boards. Even Arthur Ross, the Department of Labor's commissioner of labor statistics, and a man who thinks the index number is a usable device, has to admit that it is an inexact science at best.[18] Government statistical indexes are used, in the last analysis, to expand the government's control of economic affairs. That is why the government needs so many statistics.[19]

The quest for the neutral monetary system, the commodity dollar, price index money, and all other variations on this theme has been as fruitless a quest as socialists, Keynesians, social credit advocates, and government statisticians have ever embarked on. It presupposes a sovereign political State with a monopoly of money creation. It presupposes an omniscience on the part of the State and its functionaries that is utopian. It has awarded to the State, by default, the right to control the central mechanism of all modern market transactions, the money supply. It has led to the nightmare of inflation that has plagued the modern world, just as this same sovereignty plagued Rome in its declining years. But at least in the case of Rome it was a reasonable claim, given the theological presupposition of the ancient world (excluding the Hebrews and the Christians) that the State is

17. F. A. Hayek (ed.), *Collectivist Economic Planning* (London: Routledge & Kegan Paul, 1935). This line of reasoning was first introduced to a wide audience by Mises. Cf. Mises, *Socialism* (New Haven, Conn.: Yale University Press, 1951), part II, sec. I. For a survey of this literature, see Gary North, *Marx's Religion of Revolution* (Nutley, N. J.: The Craig Press, 1968), pp. 173-194.

18. Arthur M. Ross, "Measuring Prices: An Exact Science," *The Wall Street Journal* (Feb. 10, 1966). Cf. Melchior Palyi, *An Inflation Primer* (Chicago: Regnery, 1962), p. 4.

19. Murray N. Rothbard, "Statistics: Achilles' Heel of Government," *The Freeman* (June, 1961).

divine, either in and of itself or as a function of the divinity of the ruler. Rulers were theoretically omniscient in those days. Even with omniscience, their monetary systems were subject to ruinous collapse. Odd that men would expect a better showing from an officially secular State that recognizes no divinity over it or under it. Then again, perhaps a State like this assumes the function of the older, theocratic State. It recognizes no sovereignty apart from itself. And like the ancient kingdoms, the sign of sovereignty is exhibited in the monopoly over money.[20]

20. On the use of coinage by the Roman emperors to announce their own divine apotheoses, see Ethelbert Stauffer, *Christ and the Caesars* (Philadelphia: Westminster Press, 1955).

Chapter X

FIXED EXCHANGE RATES AND MONETARY CRISES

[It has long been the premise of free market economists that sound economic theory will produce beneficial results. The separation between theory and practice is therefore fallacious, argue both Mises and Hayek. Thus, it is one of those peculiar anomalies that we find ostensibly conservative economists arguing for government intervention in the international money markets. Men who argue vehemently against price controls in all other areas of the economy somehow are unable to see the implications of their positions in the area of monetary practice. We must constantly remind ourselves that sound theory will produce beneficial results; we live in a moral universe. There is such a thing as economic law. There is a God who judges sin, of both individuals and societies. Chance does not govern the operation of the universe. Men are not omniscient, either individually or on a government planning agency. Thus, the appeal for price fixing, even in the monetary sphere, stems from a false premise. Any willful intervention of the State into the sphere of voluntary pricing will produce baneful results, even in the area of monetary affairs. Bad theory will produce bad long-run effects, whether or not some people get rich (or fail to get poor) in the short run.]

State intervention to assure to the community the necessary quantity of money by regulating its international movements is supererogatory. An undesired efflux of money can never be anything but a result of State intervention endowing money of different values with the same legal tender. All that the State need do, and can do, in order to preserve the monetary system undisturbed is to refrain from such intervention. That is the essence of the monetary theory of the classical economists and their immediate successors, the Currency School. It is possible to refine and amplify this doctrine with the aid of modern subjectivist theory; but it is impossible to overthrow it, and impossible to put anything else in its place. Those who are able to forget it only show that they are unable to think as economists.

Ludwig von Mises
***The Theory of Money and Credit*, p. 249**

People advocate identical economic policies for very different reasons. The recent interest, both practical and theoretical, in the subject of international monetary exchange rates is a point in question. Advocates of flexible exchange rates, in which a free market in international monetary transactions would set the prices of various currencies, include monetarists—who would have each government manage its own nation's money supply—as well as those who believe in a full gold coin standard to preclude government control. Opponents of flexible international exchange rates, on the other hand, include not only the creators of the Bretton Woods agreement that established the International Monetary Fund but also a number of conservative economists.[1] How is it possible that the camps could be divided in this fashion?

To answer this, one has to examine the contexts. Ludwig von Mises, for instance, believes in total freedom in the monetary sphere: the government should be limited to the enforcement of contracts, whatever the exchange medium might be in any particular contractual obligation. Milton Friedman also wants to see all citizens free to own gold and to make contracts in gold, but he thinks the central bank should guarantee a constant increase in the supply of money each year. Mises would reject such a proposal as inflationary, unless the legal tender provision of Federal Reserve Notes were abolished and people were thereby free to avoid doing business in fiat money. But neither man wants to see any infringement on the right of men and women on either side of the border or ocean to make bargains with each other, even if those bargains involve the exchange of national monetary units, present or future.

The Keynesians, who would prefer Friedman's views on monetary management to Mises' full gold standard, find themselves working together with conservative economists who support a gold standard and are anti-inflationary in perspective. Both the Keynesians and these conservatives favor the establishment of government-enforced limits on the range of prices that can legally exist between one currency unit and any other. Unfortunately, no economist seems to be able to agree with any of his colleagues as to the precise acceptable range of price flexibility or the legal mechanism used to enforce such a range; this indicates the nature of the problem. Year after year the International Finance Section of the Department of Economics of Princeton University produces *Essays in International Finance.* We read of crawling pegs and running pegs, of parities and currency swaps, of paper gold and international trust. What does it all

1. Paul Einzig, *The Case Against Floating Exchanges* (New York: St. Martins, 1970). Einzig's weekly column in *The Commercial and Financial Chronicle* includes an attack on floating rates at least once a month. Cf. Brochure, Committee on Monetary Research and Education, Inc. (1971), pp. 9-10.

mean? So far, no one has even been able to define a Eurodollar, let alone explain how it works; or if someone can, no colleague agrees with him.[2]

The Keynesian economist simply does not trust the free market's unhampered price mechanism to clear itself of supplies of scarce economic resources. Thus, we need fiscal policy, fine tuning of the economy, econometric models, data gathering on a massive scale, and controls over the money supply. Especially controls over the money supply. Naturally, certain flaws appear from time to time: a $1.5 billion predicted surplus for fiscal 1970 became a $23.3 billion deficit, but what's a few billion dollars among friends? We owe it to ourselves, right? A private firm, unless it has a cost-plus government contract, would not long survive in terms of such a woefully inefficient economic model, but what do businessmen know about economics, a faithful econometrician may ask? If reality does not conform to the model, scrap reality, by law.

So reality is scrapped, and the Keynesian finds it necessary to abandon one more area of market freedom, namely the freedom of private, voluntary international exchanges of money at prices established by the market. Such a voluntary system of international exchange would reduce the predictability of the government's econometric model. It would allow a "bleeder" in the overall device. It would allow men to measure the extent of the depreciation of their own and others' domestic currencies, thus calling attention to the policies of inflation and confiscation being enforced by their governments and other governments. As for the United States, floating exchange rates on a free international market for currencies would end, overnight, the exported inflation of our continual budgetary deficits.[3] That is why government bureaucrats do not generally approve of floating exchange rates.

This does not explain why various conservative economists also oppose the extension of the market into the realm of international monetary exchange. The late Wilhelm Roepke called the idea "a counsel of despair."[4] His argument against flexible exchange rates: "Without stability of exchange rates any international monetary system would be flawed at an important point, because it would lack a major condition of international economic integration." This sounds plausible enough, until one reads his next sentence: "Just how im-

2. *Business Week* (September 25, 1971), p. 91 ff.
3. On exported inflation, see Wilhelm Roepke, "The Dollar as Seen from Geneva," *National Review* (March 8, 1966); *Against the Tide* (Chicago: Regnery, 1969), chap. 13: "The Dilemma of Imported Inflation."
4. *Against the Tide*, p. 229. On market-imposed (rather than politically imposed) fixed exchange rates, see above, p. 48.

portant this condition is will be seen if we reflect that national economic integration (among the separate regions of one country) is unimaginable with fluctuating rates of exchange between, say, regional currencies."[5] The government's answer to this "unimaginable" process of regional currencies is to establish a central monopoly of money creation coupled with a legal tender law. And this is precisely the goal of international socialist planners: a single world bank with a legal tender law to enforce its control over the entire face of the earth.[6] The planners want a "rational" world economy, but their faith is in bureaucratic rationalization—a bureaucratic hierarchical chain of economic command—and not the rationalization that is provided by a voluntary free market and its sophisticated computer, the free market price mechanism.[7] As yet, they have not achieved such "rationalization" simply because all the nations want their own domestic, inflationary, autonomous "rationalizations." Fixed exchange rates are as close as they can come to centralized world planning, so they tried it, by means of the International Monetary Fund, from 1947 until August 15, 1971. On December 18 they returned to the familiar policy of fixed exchange rates. Four months of international monetary freedom were all they could take.

Why do conservative economists lend support to fixed exchange rates? Because they think that this is a form of statist intervention into the world market which can impose restraints on the State's own policies of domestic inflation. The State, the argument goes, will control itself by law. To some extent, this may be true, *temporarily*. The fear of an international run on the dollar may have restrained the Federal Reserve System's expansion of the domestic money supply from December, 1968, through the spring of 1970. Officials may have feared the action of foreign central bankers in demanding gold at the promised price fixed by 1934 law of $35 per ounce. But this slowing in the money supply created an inevitable reaction: the stock market fell by one third, and the government could no longer finance its debt through sales of bonds to individuals or private corporations. Therefore, the Federal Reserve stepped in once again to purchase the available government bonds at the preferred low interest rate. A new wave of inflation began in the spring of 1970. The pressures on the

5. *Ibid.*, p. 230.
6. Ludwig von Mises, *Human Action* (3rd rev. ed.; Chicago: Regnery, 1966), pp. 476-478.
7. Cf. Gary North, "Statist Bureaucracy in the Modern Economy," *The Freeman* (January, 1970); Mises, *Bureaucracy* (New Rochelle, N. Y.: Arlington House, [1944] 1969); North, "The Mythology of Spaceship Earth," *The Freeman* (November, 1969). On the nature of knowledge and the market's division of labor, see F. A. Hayek, *Individualism and Economic Order* (University of Chicago Press, 1948), chap. 4.

American gold stock rose once again, and the President finally escaped on August 15, 1971—or hoped that he had. He cut the dollar's official tie to gold in international payments and left it free to float on the international markets. Of course, this act was a violation of International Monetary Fund rules, to which the United States is a party (or was). As Lenin said, treaties are made to be broken.

For a time, fixed exchange rates seem to restrain policies of domestic monetary inflation. But for how long? Franz Pick's report lists devaluations every year, and there are a lot of them. They are international violations of contract—violations that call into question the whole structure of international trade. The honoring of contracts is the very foundation of free exchange. Apart from this, economic prediction becomes exceedingly difficult and productivity suffers. Thus writes Alfred Malabre:

> International currency exchanges can transpire in various ways. One is through a system where Currency A can indefinitely be exchanged at a fixed rate for Currency B. This is the system that allegedly prevailed through most of the post-World War II era and to which most Western leaders now wish to return. Ideally, it's a magnificent system, because it promises to eliminate uncertainty from international financial dealings. The widget maker knows, when he gets an order from abroad, that the money he will receive will be worth as much to him in the future as at present.
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> In practice, however, fixed-rate arrangements provide anything but certainty. Between 1944, when the present fixed-rate system was conceived at Bretton Woods, N. H., and mid-August [1971], when the system finally collapsed, 45 countries changed the international rates for their currencies. In some instances, changes were repeated many times, so that in all 74 currency-rate changes occurred.[8]

The problem with such devaluations, as Mises has shown, is that they create incentives for retaliatory devaluations on the part of other governments. "At the end of this competition is the complete destruction of all the nations' monetary systems."[9] *If there were no fixed exchange rates in the first place, there would be no need for these governmentally imposed economic discontinuities.*

8. Alfred L. Malabre, Jr., "Is It Really Time for Monetary Cheer?" *Wall Street Journal* (December 2, 1971). Malabre's estimate of the number of devaluations is far too low. Franz Pick, in the introduction to the second edition of *All the Monies of the World* (1971), reports that at least 418 partial or full devaluations took place in 108 countries between 1954 and the end of 1970. 1971 saw an additional 99 devaluations: *Barron's* (January 3, 1972), p. 9. This, in spite of the so-called stabilizing influences of the International Monetary Fund, the organization drawn up at the Bretton Woods Conference in July, 1944, officially established on December 27, 1945, and put into operation on March 1, 1947.

9. Mises, *Human Action*, p. 791.

The myth of international monetary stability is just that, a myth. Stability can only be approached, like economic equilibrium, and then only by the free price mechanism. Exchange rates cannot be fixed without increasing the pressures for the radical discontinuities of revaluation and devaluation. That is why the IMF rules allowed for a 1 percent band, upward or downward, of flexibility in exchange rates. That is why rules imposed since December 18 allow a currency a plus or minus 2.25 percent band. But fiat exchange rates cannot supply stability in a world of fiat currencies; they can only mask the extent of mutual inflation through an illusion, the illusion of fiat stability. And inevitably, the illusion will be broken, sooner or later, as on August 15.

Fixed exchange rates create an enormous temptation among men whose professional careers are, in a planned economy, dependent upon deception. Fixed exchange rates, themselves a practical absurdity in a world of fiat currency, create a premium on lying. When Sir Stafford Cripps promised that the pound would not be devalued throughout the first nine months of 1949, he led the people to believe that no devaluation was going to take place. And yet it did on September 18, 1949. John Connally had to admit his own part in a similar deception in his August 16 press conference. What else could we do, he pleaded? What else indeed? Once you start the big lie—that exchange rates can be fixed by law without serious economic consequences—you just cannot stop.

Any economist, of whatever school of thought, can tell you why bimetallism failed in the late nineteenth century. The legal parity between gold and silver, unless changed continually, could not match the true conditions of the forces of supply and demand between the two metals. Thus, one or the other precious metal was always in short supply *at the fixed price*. The attempt to enforce such a fixed ratio led to monetary equilibrium—Gresham's Law—in which the artificially overvalued currency drove the artificially undervalued currency out of circulation and into either hoards or foreign countries. Thus it is with every attempt of government at any kind of price control. Thus it is with fixed exchange rates.

Ask the economist who has just demonstrated to his own satisfaction that bimetallism is impossible, since the State cannot successfully set a fixed exchange rate between gold money and silver money, to extend his analysis to dollars and pounds or francs and marks. Then watch him squirm. Logic, when applied to the case of gold and silver, somehow becomes inoperable when applied to dollars and pounds. Mises has an expression for this: *polylogism*. It is his most contemptuous expression. Mises, of course, subsumes exchange rate fixing under the general theory of exchange, thus following the logic of bimetallism through to the logic of the impossibility of permanent fixed exchange rates in international monetary transactions.[10]

Professor Mises long ago had demonstrated the utter bankruptcy theoretically of fixed exchange rates and their tendency to lead to national bankruptcy in practice. He did so in his 1912 classic, *The Theory of Money and Credit*, and in *Human Action.* The general theory of monetary exchange starts from a premise:

> For the exchange-ratio between two or more kinds of money, whether they are employed side by side in the same country (the Parallel Standard) or constitute what is popularly called foreign money and domestic money, it is the exchange-ratio between individual economic goods and the individual kinds of money that is decisive. The different kinds of money are exchanged in a ratio corresponding to the exchange-ratios existing between each of them and the other economic goods.[11]

In other words, if 1 ounce of gold is exchanged for 10 pounds of another commodity and 1 ounce of silver is exchanged for 1 pound of that same commodity, then the exchange-ratio of gold to silver should be 1:10. Fifty years later, Mises was still saying the same thing:

> The final prices of the various commodities, as expressed in each of the two or several kinds of money, are in proportion to each other. The final exchange ratio between the various kinds of money reflects their purchasing power with regard to the commodities. If any discrepancy appears, opportunity for profitable transactions presents itself and the endeavors of businessmen eager to take advantage of this opportunity tend to make it disappear again. The purchasing-power parity theory of foreign exchange is merely the application of the general theorems concerning the determination of prices to the special case of the coexistence of various kinds of money.[12]

That last sentence is crucial. Exchange rate theory is simply a subordinate application of the more general theory of price. Mises continues:

> Let us consider again the practically very important instance of an inflation in one country only.
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> The increase in the quantity of domestic credit money or fiat money affects at first only the prices of some commodities and services. The prices of the other commodities remain for some time still at their previous stand. The exchange ratio between the domestic currency and the foreign currencies is determined on the bourse, a market organized and managed according to the

10. *Ibid.*, p. 800.
11. *The Theory of Money and Credit* (Foundation for Economic Education, 1971), pp. 180-181.
12. *Human Action*, p. 455.

> pattern and the commercial customs of the stock exchange. The dealers on this special market are quicker than the rest of the people in anticipating future changes. Consequently the price structure of the market for foreign exchange reflects the new money relation sooner than the prices of many commodities and services. As soon as the domestic inflation begins to affect the prices of some commodities, at any rate long before it has exhausted all its effects upon the greater part of the prices of commodities and services, the price of foreign exchange tends to rise to the point corresponding to the final state of domestic prices and wage rates.
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> This fact has been entirely misinterpreted. People failed to realize that the rise in foreign exchange rates merely anticipates the movement of domestic commodity prices. They explained the boom in foreign exchange as an outcome of an unfavorable balance of payments. The demand for foreign exchange, they maintained, has been increased by a deterioration of the balance of trade or of other items of the balance of payments, or simply by sinister machinations on the part of unpatriotic speculators.[13]

The speculators perform a crucial set of services, contrary to popular opinion. They help balance the supply of and demand for future monies. In doing so, they help to reduce the zone of uncertainty about the future. Second, they also alert citizens of any given country to the monetary policies of their own central bank. If the policies of monetary expansion are being pursued by the central bank, the speculators will reveal this fact, daily, to anyone wishing to consult a financial newspaper. The citizen receives information from an impartial source concerning the latest opinions of skilled, competitive and domestic monetary experts concerning the stability or lack of stability of his own country's money. Because of this, the freedom of the international monetary speculator is as crucial to the defense of free institutions as one might imagine. Hamper his activities, and you have taken a sinister step away from freedom. The bureaucrats know this:

> What those governments who complain about a scarcity of foreign exchange have in mind is, however, something different. It is the unavoidable outcome of their policy of price fixing. It means that at the price arbitrarily fixed by the government demand exceeds supply. If the government, having by means of inflation reduced the purchasing power of the domestic monetary unit against gold, foreign exchange, and commodities and services, abstains from any attempt at controlling foreign exchange rates, there cannot be any question of a scarcity in the sense in which the government uses this term. He who is ready to pay the market price would be in a position to buy as much foreign exchange as he wants.

13. *Ibid.*, pp. 455-456.

> But the government is resolved not to tolerate any rise in foreign exchange rates (in terms of the inflated domestic currency). Relying upon its magistrates and constables, it prohibits any dealings in foreign exchange on terms different from the ordained maximum price.[14]

Radical economic discontinuities are difficult to predict—far harder than economic continuities. The steady movement of international exchange transactions in terms of an unhampered free market is basic to economic continuity. Impose fiat exchange rates, and you create the "stability plus devaluations" program which the Bretton Woods agreement imposed on the world. You create the "hot money" effect, as currency speculators are forced to anticipate radical jumps in the fiat exchange rates, thereby encouraging them to transfer billions of dollars or marks or pounds or francs from one country to another, trying to beat the imposition of September 18ths or August 15ths.[15] It is a huge game of musical chairs, except that people's lives—economically, politically, and physically—are at stake. In the 1949 edition of *Human Action*, Mises wrote, concerning "hot money": "All this refers to European conditions. American conditions differ only technically, but not economically. However, the hot-money problem is not an American problem, as there is, under the present state of affairs, no country which a capitalist could deem a safer refuge than the United States."[16] It is a testimony to the monetary inflation of the past twenty years in this country that Mises saw fit to drop that footnote from the 1963 and 1966 editions of his book.

Wouldn't the establishment of a totally free market for international monetary transactions add elements of instability to international economic affairs? Emphatically no! What it *would* do is to present a highly accurate reflection of the economically irrational policies of fiat money creation that are being pursued with a vengeance by almost every government on earth. It would serve as an economic mirror which would answer truthfully the question, "Mirror, mirror on the wall, who has the most honest currency of them all?" Daily, the international money mirror would answer the truth, and it would also give its guess as to the answer at any point in the future concerning any given currency. Like the wicked witch of Snow White, domestic magicians of fiat money resent that inescapable answer. So they buy themselves a new mirror—fixed exchange rates. Unfortunately, these fiat mirrors break periodically, causing great con-

14. *Ibid.*, p. 801.
15. *Ibid.*, pp. 464-466.
16. *Ibid.* (1949 ed.), p. 462n.

fusion, consternation, and windfall profits and losses to speculators. And, need we be reminded, everyone involved in foreign trade—prospective buyers of Volkswagens and Hong Kong toys included—is an international speculator.

Instability is the charge that is always made against the market by statist interventionists. Marx and Engels leveled precisely this criticism of the theory of capitalistic economics. Capitalistic distribution, they argued, is anarchistic.[17] Such a view of capitalist processes stems from a fundamental misconception: supposedly, there are no laws of economics regulating the voluntary exchanges which take place in the free market, and therefore fiat State rules must be imposed on the "disorder" of market affairs. Everywhere these critics look, the free market tends toward instability—an instability defined as anything deviating from that model which a central planning board would impose on the economy. "Pass a law! Make it stable!" Not quite. "Pass a law! Make it rigid! Watch it break!" That's it exactly; the breaks, in international monetary affairs, are called devaluations and revaluations. They happen all the time.

If you do not impose fixed exchange rates, we are told by various conservative economists as well as by neo-Keynesians, you will see the destruction of international trade. Businessmen apparently cannot afford to bear the terrible uncertainties associated with forward currency speculation. How do we know this? Because businessmen, who have become used to international price controls on money—fixed exchange rates—and who have learned to make profits under such interventionist measures, constantly tell us so. Like the farmer who wants his subsidy (fixed parity prices guaranteed to him by the State for his goods), like the domestic producers of steel who want tariff subsidies, like the airlines that want price floors for their flights (whether international or domestic), like the labor union leader who wants compulsory bargaining legislation, the foreign trade entrepreneur wants his contract guaranteed by fixed exchange rates. He just cannot bear the uncertainties of future-prediction, in spite of the fact that *all* entrepreneurial profit is a residual accruing to successful predictors.[18] Instead, the State is supposed to bear the uncertainties of prediction. The State is supposed to worry about the rate of ex-

17. Karl Marx, *Capital* (New York: Modern Library), p. 391. This is the first volume of *Capital.* He continued this same argument in vol. 3 (Chicago: Charles H. Kerr, 1909), pp. 673, 1027. Frederich Engels, *Herr Eugen Duering's Revolution in Science* [*Anti-Duering*] (London: Lawrence & Wishart, [1877] 1934), pp. 296-301. For a critique of this concept of capitalist contradiction, see Gary North, *Marx's Religion of Revolution* (Nutley, N. J.: The Craig Press, 1968), p. 154.

18. Mises, *Human Action*, p. 289 ff. Cf. Frank H. Knight, *Risk, Uncertainty and Profit* (New York: Harper Torchbook, [1921] 1965), part 3.

change of its currency with any other currency, at any time. The bureaucrat in a State office is supposed to take the responsibility that at a particular point in the future the currencies of the world will trade at certain fixed parities. Let the violent intervention of the State compel men on both sides of any border to accept each other's currencies at a legal rate, and you have turned the economic affairs associated with international trade over to the bureaucrats. The entrepreneurs, by allowing State officials to bear the responsibility for certain aspects of international trade, thereby give to the State a great power over their businesses. Thus, citizens in every country lose their personal freedom to that extent.

Why is it that private entrepreneurs involved in international trade want the government to take over the responsibility for organizing the terms of the monetary exchanges which govern the operation of their businesses? This is a familiar tale. It is the old respected argument of the vast majority of people: let my suppliers compete, keep my competitors out of the market. Let others bear the burden of predicting the future. Subsidize me. I'm the important one. And governments do it. They take profits away from one group—international currency speculators—and guarantee the price of foreign exchange—almost. Unless there is a devaluation, of course. And then it is every man for himself and any port in a storm. (The port is usually Switzerland.)

A key rule was laid down by Jesus to his disciples: *count the cost* (Luke 14:27-30). He was speaking of spiritual matters, but as he so often did, he explained them in terms of familiar economic affairs. That principle has been the economic foundation of Western civilization, and especially of capitalism. It is, specifically, the inability of socialist economies to count the costs of anything that constitutes the most patent economic failure of socialism.[19] It is the genius of the free market that it allows voluntary, flexible pricing of scarce economic resources. Apart from this free pricing mechanism, there can be no free market economy, by definition, and no economic calculation.

When a State inflates its monopolistically controlled domestic currency—which it could not do if it did not hold the monopoly—it

19. Mises, "Economic Calculation in the Socialist Commonwealth" (1920), in F. A. Hayek (ed.), *Collectivist Economic Planning* (London: Routledge & Kegan Paul, [1935] 1963). Cf. Mises, *Socialism* (New Haven, Conn.: Yale University Press, [1922] 1962), pp. 119-162; T. J. B. Hoff, *Economic Calculation in the Socialist Society* (London: Hodge, 1949). For an able refutation of the myth that Oskar Lange in some way "refuted" Mises on this point, see Paul Craig Roberts, "Oskar Lange's Theory of Socialist Planning," *The Journal of Political Economy*, LXXIX (1971), pp. 562-577. Roberts is not really happy with Mises' original formulation of his critique, however.

creates many problems for the economy. It makes forecasting more difficult. This leads to the demand for more controls over the economy—to mitigate the effects produced by the very policies of monetary inflation. These controls are an attempt by bureaucrats to disguise these effects. The effects are called rising prices. The controls are called price and wage controls.

On August 15, 1971, the President of the United States announced the unmitigated failure of the IMF agreements of 1944. The gold-exchange standard no longer operated, as it had for 25 years, to shield this country from the effects of its own policies of monetary inflation. So it was scrapped. Bretton Woods is dead, Arthur Okun announced a few hours later. Conservative economists—a few of them at least—had been saying that since 1945. The President announced that the cure for this unparalleled economic failure of international finance would be the complete abandonment of fixed exchange rates internationally. International price controls over the free exchange of money, we were told, were clearly leading to economic disaster. Indeed, that was exactly where such controls were leading, as all interference with prices will invariably lead.

Domestically, however, voluntary pricing had led to another disaster: higher prices. The President failed to mention that federal deficits financed through Federal Reserve fiat money creation had caused prices to rise. So to "cure" domestic economic affairs, the President imposed price and wage controls. There is a peculiar sort of irony here. In order to cure an international economic disaster which had been caused by price controls, the President allowed the dollar to float. In order to cure the domestic economic disaster, the President imposed domestic price controls.

Controls in international monetary affairs are specifically designed by bureaucrats to hide the effects of policies of domestic money inflation. Similarly, controls on domestic prices are designed to hide the effects of those same policies of domestic monetary inflation. If the purpose of controls is to hide effects rather than to remove causes, then they involve the use of fraud.

What the advocates of a free market should desire is that the price system be left completely uncontrolled, in order that it might register the subtle and unsubtle shifts in economic external conditions. Only then can entrepreneurs predict the future with any degree of success. Only then will those who wish to buy at the best possible price be served. Everyone should count the cost of his actions. Price controls interfere with such cost accounting.

Advocates of floating exchange rates may be advocates of domestic monetary inflation. But so can advocates of fixed exchange rates, as

Keynes would seem to demonstrate. The issue is not whether floating exchange rates will make it easier for domestic governments to inflate. The issue is whether price controls are legitimate tools of government economic policy. If they are, then we can begin to examine the specifics of the arguments for fixed exchange rates. If they are not, then the debate is ended. For fixed exchange rates are, by definition, price controls.

Good economic theory results in good economic practice, as Mises and Hayek have explained repeatedly. We do not apply sound economic theory and produce economic disaster. Thus, it is possible to argue that free pricing in international monetary affairs will be beneficial to all citizens who wish to enter the market in order to make voluntary exchanges. Free pricing among the various national currencies will help to expose the policies of monetary inflation in any given nation, thereby adding incentives to citizens of that country to challenge their government's policies. This, of course, assumes that citizens are economically rational and prefer good consequences to bad ones. It is easier for a man to count the costs of socialism in the monetary sphere if he can witness, daily, the statistics that chronicle the deterioration of the purchasing power of his money.

If a citizen can own gold, so much the better. If a free market in gold is allowed to operate, so much the better, for the price of gold, in relation to the citizen's paper currency, will rise as a consequence of the continuing monetary inflation. This gives a citizen the opportunity to make a profit by taking his paper money to the local branch of the national Treasury and buying gold at the fixed legal rate of exchange (which has become a legal fiction as a result of the monetary inflation).

Let citizens, rather than the State, profit from the higher price of gold. Let their desire to make a profit act as a barrier that helps to retard State officials in their inflationary policies, as the Treasury's supply of gold decreases.

A fixed rate of exchange between gold and a currency is not the same thing as fixed rates of exchange between currencies. A fixed ratio between gold and any particular currency is definitional: a unit of paper money is said, by definition, to represent so much gold at specific fineness. *Free convertibility* of a *currency into gold* requires a legalized *fixed* ratio of exchange; free convertibility of one *national currency with any othe*r requires a *flexible* rate of exchange set by the market. The former is a definitional relationship; the latter cannot be.

Obviously, the best possible world would be one in which no government has any monopoly of credit or money creation, where all citizens all over the globe have the right to own gold and make contracts in gold. But just because utopia has not arrived, there is no reason to abandon the theory of voluntary exchange at unhampered prices. The argument we hear so often today is this: "Given the government's monopoly over money, given the policies of deficit financing through monetary inflation, given domestic legal tender laws, we therefore need price controls over our international monetary exchange." *Polylogism!* The fact that we find ourselves in an increasingly socialistic economy in no way disproves the theoretical validity of free pricing—any time, any place, under any circumstance. If the theoretical (and therefore the practical) validity of free pricing is undercut in any way simply because of all the socialistic "givens" that we operate under, then Marx was right, Hegel was right, the German historical school of economics was right, institutional economics is right, historicism is right, and economic theory is wrong.

There is a tendency, argues Mises, for one intervention by the State into the economy to lead to another intervention. The disruptions caused by the first intervention lead to cries for further political intervention to solve them. The State takes control of money, to "reduce the irrationality of the domestic money markets." (And to arrogate unto itself ultimate sovereignty.) Then it inflates the currency in order to increase its own influence in the affairs of men by gaining access to scarce economic resources with the inflated currency. Then citizens refuse to accept the debased money. So the State's officials pass legal tender laws. The money, now artificially overvalued, drives out both gold and silver. People prefer to trade in the artificially overvalued money and either hoard the gold and silver or send it abroad where it can purchase foreign goods cheaper than the domestic inflated currency can purchase them. As domestic goods climb in price due to the inflated paper currency, imports increase and dollars flow out; foreign central banks then raise the price of their currencies in relation to dollars. The United States Government realizes that this exposes its policies of domestic monetary inflation and therefore presses for fixed exchange rates. Then foreign governments, buried in dollars (at the artificially low price), begin to demand gold (held by our government at an artificially low 1934 price). One intervention leads to another, usually. But not always.

The exception came on August 15. Basically, the President had three choices. First, balance the budget and stop the monetary inflation—maybe even use the surplus of revenue over expenditures to reduce the national debt. Unfortunately for political purposes, such an action would have risked depression and high unemployment (given the previous policies of monetary expansion and the downward inflexible wage rates that prevailed in a unionized economy).[20] Second, continuing the deficits, he could let all of our gold (their gold, really, given our promise to pay on demand) flow out. Third, the President could have established floating exchange rates and cut the redeemability of the dollar in terms of gold. This is exactly what he did. It involved a return to free market pricing of international monetary exchanges. He believed that it was preferable to do this rather than to take either of the first two steps. In this sense, pressures internationally on the dollar forced the President to return to a policy which was closer to the free market than the policy of fixed exchange rates which had been established by the IMF in 1947. Naturally, to make the operation truly conservative, he should have maintained the free convertibility of gold provision and re-established it domestically with American citizens. This did not detract from the basic move which he made, namely, to re-establish free floating exchange rates in which voluntary transactions of money internationally can prevail. By returning to fixed exchange rates on December 18, the President thereby abandoned the advance made on August 15, re-establishing the rigidities that lead toward economic discontinuities.

Yet what did we find between August 15 and December 18? Many advocates of free market economics were howling bloody murder! "Free pricing is fine, and all that, *but* given prior interventions by the government. . . ." Leonard Read is right: "We are sinking in a sea of buts."[21]

What is the proper position with respect to valid international money? Clearly, a money system which is the product of free men, voluntarily exchanging scarce economic resources. Professor Murray Rothbard has given us a picture of what such a system might be:

> Why not freely fluctuating exchange rates? Fine, let us have freely fluctuating exchange rates on our completely free market; let the Rothbards and Browns and GMs fluctuate at whatever rate they will exchange for gold or for each other. The trouble is that they would never reach this exalted state because they would never gain acceptance in exchange moneys at all, and therefore the problem of exchange *rates* would never arise.
>
> On a really free market, then, there would be freely fluctuating exchange rates, but only between genuine commodity moneys, since the paper-name moneys could never gain enough acceptance to enter the field. Specifically, since gold and silver have his-

20. Mises, *Human Action*, chap. 20. Cf. Gary North, "Repressed Depression," *The Freeman* (April, 1969); North, "Downward Price Flexibility and Economic Growth," *The Freeman* (May, 1971) [chap. 6 and 9 respectively, above].

21. Leonard E. Read, *Talking to Myself* (Foundation for Economic Education, 1970), chap. 6.

> torically been the leading commodity moneys, gold and silver would probably both be moneys, and would exchange at freely fluctuating rates. Different groups and communities of people would pick one or the other money as their unit of accounting.[22]

Floating exchange rates reflect what the prevailing external economic conditions really are. The rule governing the operation of floating exchange rates is identical to the rule operating in all computer affairs: "Garbage in, garbage out." If prevailing economic *conditions on the international markets are inflationary, then floating* exchange rates will respond approximately, making the best of a very bad situation. If a full gold coin standard exists internationally, then floating exchange rates will make the best of a very good situation. Floating exchange rates are nothing more and nothing less than freely fluctuating voluntary prices on international markets (even if the primary participants are national central banks). Like all other forms of free pricing, floating exchange rates make things better than things would be under coercive price controls. Floating exchange rates should not be regarded as some kind of economic panacea for the world's inflationary conditions, except insofar as free pricing is always a panacea in relationship to the conditions which exist under government-imposed prices. No matter what other external conditions may be—inflationary, deflationary, relatively stable, gold standard, fiat standard, electric money standard, or any other standard conceivable to the mind of man—*free pricing is always preferable to fiat price controls*. Always.

There is no doubt that domestic monetary inflation, especially if carried on by a majority of national governments, produces great uncertainties in international trade. There is also little doubt that floating exchange rates impose the burden of dealing with these economic uncertainties on the shoulders of those who wish to participate in international trade and who expect to profit from such voluntary exchanges. These people are precisely the ones who *should* bear the burdens associated with economic forecasting. They are all entrepreneurs. If they resent the uncertainties associated with international trade in a world of fiat money, then they should put pressure on their respective governments to restore a full gold coin standard domestically. They should not be lured by the siren call of statist price controls to reduce the visible effects of statist policies of domestic monetary inflation.

If we want stable exchange rates, then there is one way, and only one way, to get them: each government must impose upon itself the

22. Murray N. Rothbard, "The Case for a 100 Per Cent Gold Dollar," in Leland B. Yeager (ed.), *In Search of a Monetary Constitution* (Cambridge, Mass.: Harvard University Press, 1962), pp. 100-101.

restraint of the full gold coin standard, give up its monetary monopoly, return the right of gold ownership to its citizens, and spend only that money which is raised directly through taxation. That is the way to achieve the goal of international monetary stability—not rigidity, but calculable, predictable, moderate stability.[23] The rule of gold alone has proven itself to be a producer of international monetary stability. That rule, not the rule of government bureaucrats, is the foundation of monetary stability.[24]

The present international monetary agreements encourage domestic inflation in all nations. Central banks are compelled, by the rules of the game, to buy "hot money" in unlimited quantities when the price of an inflated currency threatens to fall below its fixed minimum parity price. This means dollars these days. They buy the dollars—billions in a day on some days of speculative fever—by printing up new batches of their own currencies. They are forced to imitate our own policies of debasement. Under a system of floating exchanges, central banks might still swallow dollars in this fashion in order to prevent effective revaluations of their currencies (thus giving us a temporary competitive advantage for our exports)—a process called "dirty floating"—but they would not be compelled by the rules to do this.

The late Melchior Palyi, a conservative and a former central banker, once complained about floating exchanges as follows: "Discount rate changes and central bank operations lost their 'punch' when they were offset, or magnified, by unpredictable exchange rate vagaries. . . . Under such conditions, the central banks' regulatory power had been effectively annulled."[25] That, in my opinion, is a crucial argument *in favor* of floating exchange rates, especially in this era of fiat currencies unbacked by gold. I prefer the free market; let someone else defend the hypothetical genius of monopolistic central bankers.

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23. Mises, *Theory of Money and Credit*, p. 240. Cf. North, "Downward Price Flexibility," above, pp. 102-103.

24. I must admit that the passage in Mises' *Theory of Money and Credit*, "Currency Reform in Ruritania," does not seem to conform to every other statement written by Mises with regard to the political control of prices, including rates of exchange. He calls for a State agency to set a legal parity and "to make this legal parity an effective real market rate, . . ." (p. 445). The meaning of this obscure passage is best understood in terms of his attack on statist foreign-exchange policy which appears on pp. 18-19. The whole corpus of Mises' writings is opposed to price controls; a single deviation—if, indeed, it is a deviation—should not be used to compromise the impact of his overall defense of the free market.

25. *Commercial and Financial Chronicle* (Nov. 20, 1969).

Chapter XI

GERTRUDE COOGAN AND THE MYTH OF SOCIAL CREDIT

[*"Gertrude Coogan and the Myth of Social Credit" is not exactly a Madison Avenue eye-stopper. But it's the best I can do, under the circumstances. Few Christians have ever heard of either Miss Coogan or Social Credit. Yet this essay is important, if only as a kind of reference guide. For Social Credit is an enormously popular movement in the United States. The resurgence of populism is strong, heralded in journals as diverse as the sophisticated* New York *to the not very sophisticated tracts of the far Right. Social Credit is the economics of neo-populism. It has infiltrated almost every right-wing movement in this country. From dozens of little right-wing groups comes the parade of Social Credit books, by authors like Wycliffe B. Vennard, H. S. Kenan, Congressman McFadden, Whitney Slocum, Major Douglas, Frederick Soddy, R. McNair Wilson, A. N. Field, Arthur Kitson, and the most famous one of all, Father Charles Coughlin. It would seem safe to classify Wright Patman, the Chairman of the House Banking Committee, as one of the Social Credit neo-populists, as well as former Congressman Jerry Voorhis (who was defeated by Richard Nixon when the latter first went to Congress). Gertrude Coogan is quoted as often as any of them, so I have selected her work as representative.*

The movement, at least in the United States (I know relatively little about the Canadian Social Credit movement, except that its economics is as ludicrous as the American branch's is), is tied up in the old populist hatred of the "International Banking Conspiracy." This frequently drifts into antisemitism, since the "International Jewish Banking Conspiracy" is always just around the corner. Roman Catholics (Coogan, Coughlin, Father Denis Fahey) are frequently prominent in the movement, although Protestant fundamentalists are just as numerous (but they are seldom the "intellectual" leaders). In addition, almost every Anglo-Israelite writing today is a Social Credit supporter (see C. F. Parker, Moses the Economist *[London: Covenant Publishing Co., 1947] or J. Taylor Peddie,* The Economic Mechanism of Scripture *[London: Williams and Norgate, 1934]). In case after case, the advocates of Social Credit try to make their economic* *system the only true "Christian" one. This is why I believe that it is mandatory to consider extensively the basic teachings of the movement with respect to monetary affairs, testing their claims in terms of the biblical prohibition on currency debasement.*

So many of Gertrude Coogan's ideas seem popular today in the circles in which I have travelled that the reader owes it to himself to test his own ideas in terms of this essay. If he is a secret Social Credit advocate, at least he should be aware of the fact.]

The Douglas literature is distressingly vague, but at no point is it so shifty and uncertain as it is in the attempt to expound the flaw in the financial system. No single consistent explanation is given, as one might have a right to expect from the repeated assertion that there is an inherent, mathematically demonstrable, defect in the financial system whereby it is simply impossible that the community's purchasing power could be adequate to take off the goods society can produce. Indeed I have found nine different explanations for the alleged shortage of purchasing power, and there may be more.

Alvin H. Hansen
***Full Recovery or Stagnation* (1938), p. 96**

Conservatives should be aware of the fact that their organizations are constantly subject to subversion by anti-conservative forces. This is a fact of life. Sadly, many conservatives are not aware of the fact that it is as easy, perhaps easier, for the opposition to paralyze conservative action by means of fallacious ideas. Subversion need not always be personal; it can often be intellectual. The tendency of conservatives to personalize their enemies makes intellectual subversion even more likely. All that needs to be done is to import the alien ideas through ostensibly conservative individuals. Unless the ideas are recognized for what they are, and not just in terms of who is advocating them, the take-over will be complete, without a shot being fired or a subversive elected.

In our day, the economist who has become the symbol of Liberal ideology is John Maynard Keynes, and rightly so. The influence of Keynesian ideas has been most profound, especially in the universities.[1] This is well known by most informed conservatives. His system of economics is at odds with the idea of monetary

1. "John Maynard Keynes has been the twentieth century's most influential economist. In fact, it is necessary to go back to Alfred Marshall to find an economist equally effective with professional colleagues, and to David Ricardo for an illustration of equal impact upon public policy." Robert Lekachman, *A History of Economic Ideas* (New York: Harper & Row, 1959), p. 331.

stability.[2] The ironic thing is that the very policies recommended by Keynes, the same rationalizations for the increase of State controls on the economy, are dear to the hearts of many supposedly anti-Keynesians. Not having read Keynes thoroughly, not having digested the ideas of *any* serious economist, unsuspecting conservatives are frequently misled into advocating crude, but nonetheless dangerous, Keynesian-type economic policies. If this should become widespread, then the whole conservative movement could be easily sidetracked and turned into its opposite.

For decades, there have been several small, almost underground publishing houses in America that are remarkably consistent in their support of inflationary monetary theories, yet they supply most of the conservative book stores. One of them was the Forum Publishing Company in Boston, now defunct, but the more important one is Omni Publications, Hawthorne, California. It distributes the Forum books, along with tracts from the Sound Money Press and the Social Credit movement.

These various studies, which can best be termed "Social Credit economics," are a composite of many elements. They resemble the old Populist agrarian reform movement of the 19th century, with the same cry for easy money and the same attacks against the "moneyed interests." In addition, a bit of Roman Catholic Scholastic economics is added, most notably Aquinas' doctrine of the "just price" and the "just wage." All of these books are nationalistic in outlook, put forth in the name of enlightened patriotism. An exception might be Frederick Soddy's books, but his disciple, Gertrude

2. Milton Friedman's oft-quoted statement, "We are all Keynesians now," apparently paraphrasing the Prince of Wales (later Edward VII) that "We are all Socialists now-a-days" (1895), indicates the weakness of the methodological positivism of the Chicago School. That Friedman could admit that the tools of analysis (though not the conclusions, except in the area of monetary theory) of the Chicago School and the Keynesians are the same is a sign of what has happened to academic economics in this century. In methodology and in their opposition to a full gold coin standard, the Keynesians and Chicago School stand arm-in-arm. Well, not quite arm-in-arm. They do agree, however, that Mises and Hayek are "economists made obsolete by the Keynesian revolution." The words are Karl Brunner's, a Chicago School economist, who resents the fact that Nicholas Kaldor, a Keynesian, linked their names to Friedman's. See Brunner, "The Monetarist View of Keynesian Ideas," *Lloyds Bank Review* (October, 1971), p. 37. The Keynesians and Chicagoans debate the exceedingly fine points of their respective positions, ignoring the one man whose monetary theories are rational—Mises! Cf. J. H. Wood, "Money and Output: Keynes and Friedman in Historical Perspective," *Business Review* of the Federal Reserve Bank of Philadelphia (Sept., 1972). On the failure of both Keynesian and Chicagoan inflationary programs to work, see Murray N. Rothbard, "The Great Inflationary Recession Issue: 'Nixonomics' Explained," *The Individualist*, II (June, 1970). (This is the American journal, not the English one; both use the same title.) For a theoretical refutation of Friedman's monetary views, see Hans F. Sennholz, "Chicago Monetary Tradition in the Light of Austrian Theory," in *Toward Liberty* (Menlo Park, Calif.: Institute for Humane Studies, 1971), II, 347-366. This essay appeared also in *Reason* (October, 1971).

Coogan, more than makes up for this lack, with her advocacy of "National Money" and "Abraham Lincoln Money." Soddy's books are closer to the old tracts of the Technocracy movement, with the idea of energy exchange very prominent, while Coogan's recommendations are closer to those made famous by Lord Keynes. There is one common characteristic of all the books published by these little companies: none of their writers is a professionally trained economist. Because of this, they are unable to see the long run implications of what they are saying.

Omni books are occasionally valuable for the historical information which they contain, although much of this information is not properly documented, and for this reason is not of direct value to the person who wishes to continue his study. Still, it cannot be denied that the authors have uncovered some interesting pieces of historical information, factual material seldom found in other contemporary literature. The danger which faces the conservative movement is that many people will be misled into believing that the accuracy of the historical material must testify to the accuracy of the economic framework in which that material is presented. Courage in publishing controversial historical studies does not guarantee the soundness of economic outlooks of books. In short, just because these books are at times conservative from the historical point of view, conservatives must not be deceived into believing that their economic recommendations are equally conservative.

In my attempt to demonstrate the validity of my charge of "creeping Keynesianism" within the Social Credit, neo-populist movement, I have selected Gertrude Coogan's books as primary documentation. She is the *only* one of these writers who apparently has had any formal economic training, holding a master's degree in commerce from Northwestern University. While formal training hardly guarantees an individual's grasp of economics, nor lack of it necessarily consigns a person to the economists' limbo, certainly formal training is a sign that the individual is serious enough to be listened to, at the least. So we shall listen to Miss Coogan at length. It must be pointed out, however, that Miss Coogan's work, both academically and professionally, has not been along theoretical lines, primarily, but along *statistical* lines. This, of course, also holds true for another of Social Credit's favorites, Alexander Del Mar. This statistical orientation reflects itself in the two Coogan volumes under consideration, as I shall point out later.

Lawful Money Explained

The first book to be examined, appropriately enough, is her attempt at a theoretical explanation of the nature of money, *Lawful Money Explained*, first published in 1939. The reader can judge from her statement of "first principles" just how accurate her practical recommendations are likely to be. If her theories should prove to be unsound, then the reader is advised to proceed very cautiously into her second book, *Money Creators*, carefully examining each specific proposal for economic reform.

Her opening statement in *Lawful Money Explained* is absolutely correct historically, and Miss Coogan is warned that "all she says may be held against her": "Those who would destroy freedom know the surest and quickest method is first to pervert and then manipulate the money system" (Lecture No. 1—the book has no page numbering, so I can only list the number of the particular lecture).

What, then, is money?

> Owning money is legal evidence that the owner has given up something,—goods (property) or services (work) and has not yet claimed an equivalent amount of the goods and services of others. . . . Money is a legal *demand* claim on *all* goods for sale (No. 3). [In any direct quote where emphasis occurs, that emphasis has been supplied by the author of the quote, not the author of this essay.]

Here is her first important error. She begins with a totally fallacious definition of money and money's legal prerogatives. First of all, the owner of the money may not have given up anything at all. He may have found the money, or perhaps he inherited it; someone may once have worked for it, but the present owner need not concern himself with that fact, nor does any prospective seller. Second, money is not a legal demand claim on all goods offered for sale. For instance, the possession of money, by itself, does not make it possible for a Negro to buy a home in any neighborhood he chooses—from any seller he chooses. A special federal law was passed in order to coerce sellers into accepting the Negro's money, but the money itself does not give him a moral or legal claim to all goods available to white buyers. In another case, drunks are frequently refused service in bars, in spite of the fact that they hold money as a "demand claim." The sellers have some discretion in the matter of sales, and any economic system which calls itself capitalistic must see to it that the rights of the sellers must be preserved. It cannot begin with the idea of money as a legal "*demand* claim on *all* goods for sale."

If Coogan's definition of money is incorrect, then what is money? In this paper, the primary authority in the question of money will be Ludwig von Mises, whose book, *The Theory of Money and Credit,* has been a standard free enterprise text since it was first published in 1912.[3] He is used, not because he is infallible, but because his ideas seem most logical and most consistent with the facts of money, especially in those areas in which Miss Coogan has gone astray. In Mises' view, money is a commodity, an economic good, which historically has been used as a medium of exchange. Originally, any object which presently circulates as a medium of exchange had another use, usually artistic or ornamental or even religious. Occasionally, as in the case of salt, it may even have been a consumption good. But the main point is that the particular good was once valued for some service other than its exchangeability. Mises has said specifically that "no good can be employed for the function of a medium of exchange which at the very beginning of its use for this purpose did not have exchange value on account of other employments."[4] Because certain goods had definite properties—durability, easy divisibility, portability, and especially *scarcity*—properties which other goods lacked to the same degree, they became easier to exchange than other goods. The more that people realized how easy it was to exchange these certain goods—usually gold, silver, and precious gems—the more these goods became desired purely as exchange media rather than as ornaments. This type of exchange media is known as "commodity money." Its chief mark of distinction is that it, unlike all other goods, is not valued for its ultimate use in consumption, but primarily as an exchange device which many people trust and similarly value. These goods can also be used for ornament or industry, as they were originally, but then they are no longer money.[5]

Money, then, is not a legal demand claim to all goods, nor a storehouse of labor, but merely a useful commodity that is usually, but not necessarily always, accepted by others in exchange for consumption or production goods. Money is merely the *most marketable good* available, due to the special physical properties it has and to the *historically developed* acceptance of it as a medium of exchange. It is really quite simple.

Paper money derives its value from the fact that it originally represented certain quantities of the money commodities, normally gold and silver. A paper bill was originally a demand claim, not to

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3. Ludwig von Mises, *The Theory of Money and Credit* (Foundation for Economic Education, [1912] 1971).
4. Mises, *Human Action* (3rd ed.; Chicago: Regnery, 1966), p. 410.
5. The value of gold or silver as a medium of exchange increases its respective value over what it would have been worth for ornamental or industrial purposes alone. Mises, *Money and Credit,* pp. 105-106, especially the citation from John Law, of which Mises approves, p. 106n.

all goods offered for sale, but a claim on a specific weight and fineness of a specific money metal. Very simply, it was an IOU for *specie* (money metal). These paper claims operated in exactly the same way as do the metals they represented, for the owner of the paper knew that he could present the paper claim to the Treasury or to a bank or to a warehouse and receive the stated quantity of metal. If for some reason the metal should lose its popularity as a medium of exchange, then the paper IOU notes would also lose popularity, for the notes are only representatives of the metal. That is the "mystery" of paper money. The bills are demand claims on *past* goods (goods being stored somewhere), and not, as Miss Coogan argues, to *future* goods (goods to be offered for sale by some seller). The paper is valued because the metal it represents is valued. The owner of the bill owns the metal; if someone else wants to own some metal, he may decide to trade something he owns for the bill. The arrangement is strictly *voluntary*.

How does Miss Coogan view gold and silver? She sees them as commodities which are the same as any other goods, but which bear the seal of the national government.

> If the Common Authority swept away the regulations, gold would immediately sink to the rank of a commodity. No one would accept the gold but those who needed it for use as a commodity. No one would be obliged to accept gold in payment of debts and contracts. . . . Gold could then be used only to barter. Gold would no longer be money (No. 3)!

That is precisely the point! Gold *is* used for barter in the strict sense of the word. Gold is used in trade, in exchange. It is *indirect* exchange, however; a man trades in order to obtain gold, not because he can eat the gold, but because he can trade it for a consumption good at a later date. And in a free market no one is obliged to accept gold in payment, as Coogan implies. It is only because governments have declared gold to be legal tender that people are coerced into accepting it. But for all practical purposes, it is a law added after the fact. People already accepted gold and silver voluntarily. The State merely confirmed what was already the case. The danger came only when the State began to mint the coins, and later began to debase them, that the legal tender laws had to be applied. People were then coerced by the State to accept debased currency at its old, predebasement, rate. But the State originally only *confirmed* what society had determined, that certain goods are more marketable than others, and are therefore used as media of exchange—*money*.

Coogan then makes this statement: "Because barter is so rude and inexact, any one can see its logical outcome. It is economic slavery" (No. 3). I can see no logic here at all. Only on the assumption that upon the withdrawal of the government stamp, gold would lose its character as a medium of exchange, could such chaos, such "slavery," take place. But the gold was used as an exchange item *before* the State stamped it (as in the gold rush days in California when bags of gold dust served as money). Why should gold suddenly revert to its old value as a mere ornamental or industrial good? There is, obviously, no answer. Gold is used as money because people voluntarily choose to use it, not because the State originally stamped it. To say that it is money because the State stamps it is a complete reversal of the truth. The State only certifies that the coins are truly the weight and fineness that they claim to be. This may aid certain coins, the stamped ones, in gaining public acceptance, but it is hardly the sole reason why the coins are accepted as money, as exchange goods.

Coogan's erroneous assumption that gold and silver coins are used as money only because the State stamps them now leads her to her next false conclusion. She can then argue that the reason otherwise cheap paper has value as money is because the State also stamps the paper. The bills are not "as good as gold" because they are legal IOU notes for gold; they are as good as gold because both gold and paper are said to be money by the State. Paper can be money because "it is the declaration by the Common Authority '*This is Money*' that makes it money." For this reason, she concludes, the State must monopolize the coinage, or even better, monopolize the *printing* of money. In short, the State has become God, creating money by fiat, endowing its citizens with all the wealth that money can buy, merely by stamping an otherwise worthless bill with some official State ink. With a mystical power she never bothers to explain, the State is able to create money. How the State has been endowed with this mysterious power she never says. Yet somehow it is there. Apparently *magic* is the basis of her economic explanations; it is certain that logical analysis plays little part.

She has admitted that money manipulation is the chief cause of economic slavery, yet she would turn the power of money manipulation and money creation over to the State, to be used only by the State, as a *legal monopoly!* She has exceedingly great confidence in the reliability of the State bureaucracy, one tenet of faith which is not generally recognized as part of a conservative credo.

Why a State monopoly? Because if gold mines could alter the supply of money, if "gold were declared to be money and any *private entity* who owned gold could, at will, order it imprinted with the Sovereign Seal and thus declared *to* be *money*," then private persons could control the supply of money. "What legitimate right have a privileged few to alter the total volume of U. S. money either up or down?" This third lecture is really a confused piece of logic. In the first place, gold does not have to be *declared* to be money. It is already money, by usage and private custom alone. Secondly, the Sovereign Seal is not needed to make it money. Third, gold miners *do* add money to the nation's supply, for all the gold not going for industry and ornament will wind up in the money supply.[6] Finally, there is nothing morally or economically wrong with gold miners being permitted to sell a produced good on the open market if they so desire. If no one wants the gold, then he does not have to buy any, that is, he need not part with any of his own goods to obtain the gold. The question of the State seal is wholly superfluous; the seal only certifies that the coin really is of the weight and fineness that its bearer declares it to be.

Money, it must seem clear by now, is a highly marketable good only because individual acting citizens find it useful to them in trade. The question of money, therefore, is intimately linked to the problem of value. So far, we have seen value presented as a subjective, personal decision of individual men and women. What is Miss Coogan's view on the subject?

"Value," she writes, "is not intrinsic to commodities and services" (No. 3). This is correct; there is no "value substance" residing in a material good.[7] Yet we know that some things are valuable, so from whence does this value stem? Here Coogan offers a most befuddled attempt to explain value, one of the most confused explanations in all of economic literature. It is completely meaningless: "There is no *source* of value any more than there is a source of distance." But if value is neither inherent in commodities nor derived from somewhere else, how can it exist? She does not even see the contradiction, let alone try to answer it. "Value can be measured only by comparison. Comparison *cannot* be between two or more objects, but *must* be *between two* or *more* Values." This is sheer gibberish. She thinks that by capitalizing the word she has somehow unlocked some mystical door to truth. But the question immediately arises, how can we measure these Values (capitalized) if we cannot find them? They are not *in* the goods, they are not *from* some source, and we cannot measure the goods or compare the goods themselves. Then what is value, why is it, where is it, how is it found in order to measure it? No answers from Miss Coogan, just this statement:

6. Cf. North, "Gold's Dust," *The Freeman* (October, 1969) [chap. 4, above].
7. North, "The Fallacy of 'Intrinsic Value,'" *The Freeman* (June, 1969) [chap. 7, above].

"the only *unit* of *measure of value* is the *whole* sum of the circulating money. . . ." This is equivalent, using her own illustration, to the statement that the only measure of distance is the sum total of all yardsticks. The question of value is the most fundamental question in economic science, yet Coogan dismisses it with this meaningless verbosity. In doing so, she declares to the world that she has no economic theory, that as far as she is concerned, economic theory is not a matter of importance.

Value stems from the fact that individual men have varying individual needs, and they are able to satisfy some of these needs through the employment of certain means. Boehm-Bawerk writes that the value of goods, therefore, "is determined by that gain in a subject's well-being which is dependent on his power of disposal over these goods . . . the difference between the degree of well-being attainable with and the degree attainable without the goods to be valued."[8] Value is *subjectively determined* by acting, calculating, economizing man, according to his own personal desires and needs. Because value is subjective, "Acts of valuation are not susceptible of any kind of measurement."[9] We can only say that "subjective valuation, which is the pivot of all economic activity, only arranges commodities in order of their significance; it does not measure that significance."[10] The only things that are measurable are *prices,* the exchange ratios between commodities, and these exchange ratios are not founded upon any inherent value of the commodities themselves, but instead they "are based upon the value-scales of individuals dealing in the market."[11]

This means that the State is not the creator of economic value. Second, it means that money cannot measure values, because all values are subjectively determined, psychological entities. Value is based on the desires of individual men who have individual talents and individual callings. All we can say is that if an exchange takes place between two men, the first giving up commodity A to receive commodity B, and the other giving up commodity B to obtain commodity A, the first man desires commodity B more than he does commodity A, and the reverse is true of the second man. We cannot say *how much* one man values a good over another, but only that he values it enough to make the exchange. Thus, Coogan's statement that "it is the total number of coins (denominations) which measures value" (No. 5) is totally false. It is as impossible to measure the subjective,

8. Eugen von Boehm-Bawerk, *The Positive Theory of Capital* (4th ed.; South Holland, Ill.: Libertarian Press, [1921] 1959), p. 181.
9. Mises, *Money and Credit,* p. 39.
10. *Ibid.*
11. *Ibid.,* p. 40.

psychological entity "value" as it is to measure the subjective, psychological entity "friendship."[12] We can say that we like one person more than we like another, but the difference in that preference cannot be quantitatively determined.

Coogan, quite obviously, does not see things this way: "In a country whose Constitution guarantees freedom of enterprise, if the money system is allowed to function properly, coinage prices are due to the numerical relation between *all* things offered for sale and the *total* money" (No. 3). For this reason, she concludes, "The total volume (numbers of money) should always be *proportional* to all wealth on sale" (No. 3). This is an important statement, and it will be discussed in detail later. Mises recognizes this line of reasoning for what it is, the basic fallacy of all socialism:

> The error in this argument is to be found in its regarding the utility of money from the point of view of the community instead of from the individual. . . . If we start with valuations from the point of view of society as a whole, we tacitly assume the existence of a socialized economic organization in which there is no exchange and in which the only valuations are those of the responsible official body. . . . But in such a society there would be no room at all for money. Under such conditions, a common medium of exchange would have no utility and consequently no value either. It is therefore illegitimate to adopt the point of view of the community as a whole when dealing with the value of money. All consideration of the value of money must obviously presuppose a state of society in which exchange takes place and must take as its starting point individuals acting as independent economic agents within such a society, that is to say, individuals engaged in valuing things.[13]

Coogan says that she is a capitalist, yet her discussion of money tacitly assumes, as Mises says, "the existence of a socialized economic organization," for her outlook is holistic, collectivistic, and not in terms of the individual citizen. She will not admit that value arises from the valuations of individual men and women. Value is some mystical, undefinable thing that is measurable only by the total money supply. Thus does she progress, step by step, to the basic outlook of all socialist economics. The State is to have a monopoly on the control of that measuring device. She has made the final concession to the socialist monetary theory, and introduces a recommendation which, if established, would introduce the possibility of the most vicious kind of statist economic tyranny.

Viewing society from this communal perspective, she discovers an interesting "fact." This is the relation between the social quantity of

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12. *Ibid.*, p. 41.

13. *Ibid.*, pp. 122-123.

money and the total demand for goods: "More money increases the *effective* demand, and less money decreases the *effective* demand for goods" (No. 4). This is a very brief, terse summary of this more technical statement:

> There will be a determinate amount of increase in the quantity of effective demand which, after taking everything into account, will correspond to, and be in equilibrium with, the increase in the quantity of money.

This more elaborate phrasing is found on page 299 of the American edition of Lord Keynes's *The General Theory of Employment, Interest, and Money,* published by Harcourt, Brace & World, 1936. The idea behind his statement, and the idea behind Coogan's, is the same: let the government inflate the currency in order to keep demand increasing and to keep production stimulated. Henry Hazlitt refutes the idea quite nicely in his excellent book, *The Failure of the "New Economics."*[14] The interested reader can avail himself of Hazlitt's scholarship, relieving me of the necessity of going over his rather lengthy rebuttal. The basic criticism is, briefly, that the new money *misdirects* investment and production from the most publicly beneficial pursuits. Counterfeit money produces "counterfeit industries," and these can be profitably sustained only through the continuation of monetary inflation.

We now come to Coogan's conception of "Lawful Money":

> Lawful money is created at the *order* and *direction* of the *Congress* of the U.S.A., and PAID into use; not a private corporation's promise-to-pay money. *It is money* created and paid out by the only authority in the United States that actually can create money (No. 7).

Money did not, therefore, come into use through the voluntary trading of free men with each other, but only at the beck and call of the new God, the creative State. The State now has the power of *creation,* once reserved only to an almighty God. Previously, a free citizen had been permitted to store his goods, whether metals, bricks, furniture, or any other goods, and to receive a receipt for these goods. He may have had to pay storage costs, of course, but it was his right to do so if he chose to. Now, however, the State is to forbid him to store money metals and to receive receipts for the stored goods. He can no longer voluntarily transfer that receipt to someone else in exchange for something he desires more than the ownership of the metals. He has lost one of the basic freedoms of men, the right to

14. Henry Hazlitt, *The Failure of the "New Economics"* (Princeton: Van Nostrand, 1959), chap. 21: "Prices and Money." Distributed by the Foundation for Economic Education, Irvington-on-Hudson, New York 10533.

own, store, and exchange property. The "miracle" of lawful money, so-called, is the denial of the right of private property. Naturally, it is advocated in the name of freedom, as are most totalitarian schemes.

This, unfortunately for the free society, is only the beginning. Congress, she writes has a goal to accomplish with this state created money, the goal of FULL EMPLOYMENT. "Congress has the *power* and *mandate* to *create,* and provide at all times a volume of money sufficient to maintain full employment, production and trade" (No. 9). Those familiar with the Keynesian system will recognize this goal, as well as the means to this goal, as being one of his most famous economic doctrines. In fact, he ended *The General Theory* in a plea for the idea of full employment directed by state monetary and fiscal controls. It is an idea which Hazlitt disposes of very easily.[15] Hazlitt demonstrates that full employment must come through the free market's arrangements of prices—prices which are to be lowered until all goods are purchased and wages lowered until all men are employed who desire employment. Coogan never even mentions this function of the price mechanism, ignoring it as a possible solution to the unemployment problem.[16] Once again, Coogan has fallen into line with the trend of the "New Economics" of Maynard Keynes and his disciples.

Consider the implications, politically, of this economic reasoning: "Lawful money should be a *non-interest* bearing *non-repayable* debt *owed* by the *nation* as a whole to those individuals who hold any money. As long as a nation is a going concern, that debt relationship should be maintained" (No. 9). The whole idea of perpetual debt is repulsive to any thinking person, especially to a Christian who takes seriously the biblical injunction against personal indebtedness.[17]

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15. *Ibid.*, chap. 26: " 'Full Employment' as the Goal." It may come as a shock that the United States Government is legally required to maintain conditions of full employment, according to the Employment Act of 1946. This was exactly what another Social Credit economist, Congressman Jerry Voorhis, had proposed publicly in 1944: *Beyond Victory* (New York: Farrar & Rinehart, 1944), p. 106 ff. (Voorhis, it should be pointed out, was a left-wing political figure, a member of the League for Industrial Democracy and Americans for Democratic Action. See Rose Martin, *Fabian Freeway* [Boston: Western Islands, 1966], pp. 493, 524. He was defeated by Richard Nixon in 1946.) The whole idea is utterly absurd. As Prof. G. C. Wiegand writes, "No group of economists can at present predict sufficiently closely the level of economic activities to keep the economy on the extremely narrow path between inflation and unemployment, and there are no precision tools to correct deviations from the expected norm." Wiegand, "Economics in a Changing World," in *Toward Liberty*, II, pp. 400-401.

16. North, "Downward Price Flexibility and Economic Growth," *The Freeman* (May, 1971) [chap. 9, above].

17. Romans 13:8. Cf. R. J. Rushdoony, *Politics of Guilt and Pity* (Nutley, N. J.: The Craig Press, 1971), pp. 204 ff., 243 ff. Chapter one of this present study should make the issue clear enough. The hostility of Social Credit advocates toward central banking is not that it adds to the money supply, but that

But the idea of non-repayable debt is even more repulsive. Yet Coogan says that the man who owns currency is owed a debt by the nation at large, and this does not mean that he has a claim on some money metals by the State's treasury as backing for the paper; it means that he is owed all those goods that are for sale and which he can pay for. I suppose that the idea of perpetual debt means that someone always owns the bills, and therefore everyone always owes someone any goods he offers for sale. Whatever it means, this much is clear, "the *nation* as a whole," owes the bearer of a State Treasury note all the goods the note will buy. Thus, if a private owner should decide to sell a good, but refuse to sell it to the bearer of a bill, the potential buyer should be able to *demand* and *receive* that article as a debt owed to him. It is a legal debt relationship. If the seller should refuse to make the sale, it would be the legal right of the "offended" buyer to demand federal marshals or troops to enforce his claim, for these are the representatives of "the *nation* as a whole." The nation must protect the buyer's rights against the evil seller who is refusing to pay off a legal debt. The seller is at the mercy of the buyer once he offers the good for sale. Coogan advances this concept of money in the name of "freedom" and "legality." She has not given much thought to the implications of her economic pronouncements.[18]

In her theoretical discussion of money, Coogan has failed to heed the clear warning which Professor Mises gave to all economists over a half a century ago:

> Economic discussion about money must be based solely on economic considerations and may take legal considerations into account only in so far as they are significant from the economic point of view also. Such discussion consequently must proceed from a concept of money based, not on legal definitions and discriminations, but on the economic nature of things.[19]

Coogan's "lawful money" has led her into advocating a money controlled and *managed* by law, that is, by the *lawmakers*—the State bureaucracy. Thus, she can argue:

> Rightfully, only the seal or stamp of authority and *not* any *substance* constitutes Money. The fiat meaning *"so be it!"*—"This is Money" on any substance, and on the *power* to *determine* the

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it allows individuals to get rich by loaning the government fiat money. In fact, Social Crediters hate this means of monetary inflation precisely because it is not inflationary enough! As Voorhis writes, *"So long as the money supply of America is tied to our debt, the fear of debt will always operate to prevent effective action being taken against unemployment." Beyond Victory,* p. 111. (Italics in original.)

18. The same conservatives who become enraged every time "open housing" or "fair housing" laws are passed by the legislature recommend Gertrude Coogan's books to their friends as "the only answer" to "the left-wing menace."

19. Mises, *Money and Credit*, p. 54.

> total *volume* in *existence* and the foreign exchange *ratios* is the *Sovereign Power*. (No. 12).

There was once a time when the words "sovereign power" were only capitalized when referring to the Deity; now it refers to the new God of the State, the bureaucracy of the State's money creators.

Mises outlines the limitations of State powers in the matter of money, and it is one of the clearest statements that one might desire:

> . . . all that the law can do is to regulate the issue of the coins and that it is beyond the power of the State to insure in addition that they shall actually become money, that is, that they shall actually be employed as a common medium of exchange. . . . It can also take various steps with the object of encouraging the actual employment of these qualified commodities as the common media of exchange. But these commodities can never become money just because the State commands it; money can be created only by the usage of those who take part in commercial transactions.[20]

This does not mean that Mises advocates State controls on the issuing of money and metals, but only that this is as far as a State can go in terms of creating money. It is for individual men, as acting, exchanging persons, to "create" money, and even this "creation" is not by fiat—not by voice acclamation as God created the world—but merely by personal preference and use. This is a far cry from the fiat creation of money as propounded by Coogan.

What, then, can be said for the book, *Lawful Money Explained*? First, it is statist in outlook, collectivistic in its view of the functioning of money, and certainly not a representative of anything resembling a free market approach to the money question. Second, the book is Keynesian in many of its monetary recommendations. It is a crude, simplistic form of Keynesianism, but still as dangerous as the more "orthodox" Keynesianism. Third, because the author provides no clear theory of value, the book cannot be called an economic treatise at all.

At best, Miss Coogan is a chronicler, a gatherer of data, in short, a statistician. With no theory of value, she can propose no theory of price. Without a theory of price it is impossible to understand supply and demand, and it is equally impossible to explain money and its functions. The book has no consistent economic theory of any kind holding it together. It is a hodgepodge of fallacious reasoning, inaccurate definitions, and socialistic panaceas. Except for her explanation of the fractional reserve banking system and the fraud involved in it, Coogan has offered nothing of any value whatsoever. Her book is non-economics, useless at best, and highly dangerous at

20. *Ibid.*, pp. 60-61.

worst. Nothing could be farther from the truth than to regard this book as a statement of a conservative case for honest money.

Money Creators

The second book to be considered is her study, *Money Creators,* published in 1935. It is more historical in approach, and for that reason it is considerably longer than *Lawful Money Explained.* It contains no statement of "first principles" and is therefore even less of an economic investigation than is the other, if such a thing could be imagined. The lack of any systematic statement of her economic principles does not exempt the book from any of the fallacies reviewed earlier; it only makes them less apparent. It helps to hide her lack of economic reasoning. The book has little to say about economics or economists; it is based ostensibly upon juridical law rather than on economic law, the latter concept which she seems to scorn. The book's starting point is the Constitution of the United States.

It must be recalled that the Constitution was written in 1789, in an age of little that could be called modern economic science. In fact, if we are to take Coogan seriously (sometimes a rather difficult thing to attempt), economics was no science at all in those days. Economists were all mere tools of the international banking establishment, and Adam Smith was in the same camp as was Adam Weishaupt, the founder of the revolutionary secret society, the Illuminati.[21] Nevertheless, Coogan accepts as the absolute standard of economic truth, Article I, Section 8 of the Constitution, in spite of the fact that if the men who wrote it had read any economist at all, they had read Adam Smith. This standard of reference, *which Coogan and all American Social Credit writers regard as absolute,* is that Congress shall have the power "To coin Money and regulate the Value thereof, and foreign Coin, and fix the Standard of Weights and Measures." That is what the Constitution says, unquestionably. Unfortunately, the Social Crediters who cite it haven't the slightest idea what it means.[22]

Paul Bakewell, a conservative lawyer whose works on money are very good, does understand what it means, since he understands monetary theory and American legal history. Since this "lawful money" argument is at the very center of Social Credit analyses, Bakewell's research is extremely important, for it destroys the inaccurate legal scholarship which undergirds Social Credit. He handles the argument in his refutation of error No. 7, in his *13 Curious Errors About Money* (Caxton). In 1850, before the Supreme Court

21. Gertrude Coogan, *Money Creators* (Hawthorne, Calif.: Omni, [1935] 1963), pp. 205-207.
22. *Ibid.*, p. 8.

was such a willing tool of party politics, it *unanimously* declared the meaning of the words of Article I, Section 8:

> They appertain rather to the execution of an important trust invested by the Constitution and to the obligation to fulfill that trust on the part of the government, namely, the trust and duty of creating and maintaining a uniform and pure metallic standard of value throughout the United States. The power of coining money and of regulating its value was delegated to Congress by the Constitution for this very purpose as assigned by the framers of that instrument, of creating and preserving the uniformity and purity of such a standard of value. . . .
>
> Whatever the functions Congress are [the reader should note that it is "Congress are," not "Congress is," thus indicating the decentralized, pluralistic concept of political sovereignty in America before the Civil War—G.N.], by the Constitution, authorized to perform, they are, when the people's good requires it, bound to perform; and on this principle, having emitted a circulating medium, a standard of value indispensable for the purpose of the community, and for the action of the government itself, they are accordingly authorized and bound in duty to prevent its debasement and expulsion . . . (9 Howard, p. 568).

As Bakewell points out, even Alexander Hamilton, a political centralist who designed our first national central bank, knew better than to tamper with the metal content of the monetary unit, and Jefferson, on this point if on no other, agreed with him. After citing statements by Supreme Court Justices Washington, Clifford, and Story that confirm this point, lawyer Bakewell concludes: "Thus the earlier opinions of the Supreme Court and of the Founding Fathers clearly indicated that our government has no power to debase the standard of value." His warning, offered to New Dealers, Keynesians, Chicago School monetarists, and Social Crediters, is quite straightforward: "If Congress has power to debase the standard of value, there is no limit to that power."[23] Written in 1962, there is little that has happened in the United States monetary affairs since that time to indicate that his warning was not in order. It is unfortunate that Social Credit advocates have been unwilling to see this warning as applying to their own policies of monetary expansion and currency debasement.

Miss Coogan understands neither legal history nor economic theory. She tells us that capitalism is the economic and political system which permits private citizens to own and control their own private property. Yet the most important property of all in an urban, industrialized society, from an economic standpoint, is *money*. Nevertheless, Coogan does not regard money as a form of private

23. Paul Bakewell, *13 Curious Errors About Money* (Caldwell, Idaho: Caxton, 1962), p. 51.

property that may legitimately be controlled by a free market. She implicitly denies what she proclaims to be the glory of capitalism, the right to hold property. Naturally, she sees no contradiction here, and therefore she fails to try to comment upon it.

She advocates a modern version of the old Roman Catholic Scholastic doctrine of the "just price" and the "just wage." She calls for "equitable" price levels[24] and "decent" prices.[25] She does not take her theory of prices beyond the erroneous level of the 13th century, never mentioning the idea of balancing supply and demand through the price mechanism.[26] This ancient economic heresy, "just" wages and prices, led the local governments of the Middle Ages to enforce the prices set by the guilds, and thus to fix prices and stifle industry. Coogan recommends virtually the same thing, demanding that a board of National Monetary Trustees be established to set all prices at the "desired price level."[27] Yet she calls herself a capitalist. But, then again, so did Keynes.

Coogan rightfully refers to private counterfeiting as "theft."[28] She does not call the State's printing press money counterfeit, although the private bills are counterfeits. Naturally not; in her view the very ink of the State's presses turns cheap paper into valuable money. Private counterfeits do not have that "mystical something" which turns paper into money. That something is possessed only by the Sovereign Authority. Somehow (she cannot explain why), the State bills are money and the private bills are not, in spite of the fact that both look alike and both circulate just as easily. The private bills only act as money, but they are not really lawful money. This is not economics; it is mysticism of the most dangerous type.

Counterfeiting is theft for one reason, and only one reason. Paper bills are issued which look exactly like bills which are backed by 100 percent of their face value in money metals, but these bills do not have such a backing. In other words, if all the individuals went to claim their money metals at the same time, some people could not collect. The storage warehouse, whether a treasury building or

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24. *Coogan*, p. 98.
25. *Ibid.*, p. 2.
26. The same failure of understanding marred the economic thinking of the colonial Puritans of New England. They tried, unsuccessfully, to legislate "fair wages" and "reasonable prices." By 1676 this policy had failed so many times that it was no longer attempted. Only with the coming of the American Revolution did the political authorities reinstitute price controls, and the immediate result was the devastating shortage of goods at Valley Forge: Percy L. Greaves, "From Price Control to Valley Forge 1777-1778," *The Freeman* (February, 1972). On the development of Puritan economic thought, see North, *Puritan Economic Thought: Winthrop to Franklin* (forthcoming, 1973).
27. Coogan, p. 338.
28. *Ibid.*, p. 14.

a bank, would have been emptied because some people possessed counterfeit claims to the gold and silver, and collected the goods illegally from the rightful owners. That is why counterfeiting is *theft.* It is a claim on goods which do not exist. A bill that is counterfeit, by definition, is a bill that tells the bearer that he is the owner of a certain amount of a money metal, a unit of metal which does not really exist. It does not matter who has issued it—a State Treasury, a bank, or Junior with his homemade printing press—if there are no reserves behind the claim, then the bill is counterfeit.[29]

Coogan sees the truth of this analysis when it is applied to the banking world. If banks, through the fractional reserve method, issue bank notes or credit demands above the actual quantity of gold and silver in storage, they are practicing theft. But in her view, even *backed* notes must not be permitted to circulate as currency. In fact, the original public error was to permit private bank notes to circulate as money, *even when backed by 100 percent reserves!*[30] The State's notes, however, are to be *unbacked* notes, and these are to be the only lawful money to circulate in society.[31] In other words, honest, 100 percent reserve notes, which are a form of private property, are made illegal, and the State counterfeit notes are to be the standard of price measurement, the only legal money. This is anti-economics with a vengeance.

Money, lawful (i.e., State counterfeit) money, is *not* built on confidence, she hastens to add. In fact, only the illegal money of today is built, as she puts it, "3% on gold and 97% on 'confidence,' 'courage,' and other purely psychological and irrelevant factors."[32] "We are dishonestly told that a money system depends upon 'Confidence.' This is the case under the existing scheme; but it is perversion brought down on us from centuries of deceptive practice."[33] Money is to be built neither on public confidence nor on gold and silver. Gold and silver are not even to be used as coins; they are to be reserved for international payments alone, not for domestic purposes. "They are not necessary as bases for the issuance of domestic money. . . ."[34] Money is based solely upon the imprimatur of the State. Lawful money must be "divorced from all metals."[35]

29. "Counterfeiting is evidently but another name for inflation—both create new 'money!' that is not standard gold or silver, and both function similarly. And now we see why governments are inherently inflationary: because inflation is a powerful and subtle means for government acquisition of the public's resources, a painless and all the more dangerous form of taxation." Murray N. Rothbard, *What Has Government Done to Our Money?* (Colorado Springs: Pine Tree Press, 1964), pp. 27-28. Cf. chap. 3 above, "Inflation: The Economics of Addiction."

30. Coogan, p. 16.
31. *Ibid.*, p. 296.
32. *Ibid.*, p. 295.
33. *Ibid.*, p. 109.
34. *Ibid.*, p. 253.
35. *Ibid.*, p. 242.

There is to be no private coinage whatsoever: "No private individual should ever be allowed the privilege of creating and recalling money at will."[36] The right to own property in the form of money metals or IOU notes for these metals is hereby revoked. And this is put forward as if it were consistent with the principles of the Founding Fathers of our nation! It is not just a travesty economics; it is a total rejection of political history.

The State is to have a total monopoly of all money creation. What, then, is to prevent mass inflation? The government is not legally limited in its printing of money by the necessity of 100 percent specie backing. There should be no such reserves.[37] The State is not limited, in Coogan's view, by the confidence that people will have in the money, for lawful money (statist money) is not like regular money; it is not based on confidence.[38] She bases her whole system on the premise that only State-printed money is true money (a fact completely refuted by Mises, Hayek, Hazlitt, and other free market economists). Her faith is based completely on the hypothetical honesty of State bureaucrats, not upon the truth of logic or the sanction of private contracts. Her hopes are in men in government, not in economic law. Here is the most fantastic statement I have ever read in any piece of literature that professes to be conservative in orientation; it is almost impossible to take it seriously, yet it is presented as a statement of fact:

> Another fear fostered by the money creators (in their efforts to strangle money) is the fear very commonly held that once the government starts to issue money there will be no end to it. But let us reflect upon this libel of the people's own chosen representatives. . . . *Statesmen* would fill our Congressional Halls if the money system were honest.[39]

All power to the absolutely reliable elected representatives of the People! They are above all suspicion. Only the private bankers are to blame for government corruption, for sin in high places. They alone bear the responsibility for the evils of our age! Am I exaggerating? Make the money lawful, she argues, by turning its control over to the State, and "Corruption and 'legal' rackets would practically disappear. *They exist because we have a dishonest money system.*"[40] Furthermore, we would have no more depressions, and "Poverty could be eliminated from the United States. . . ."[41] And to top it all off: "Were the money system honest, bribery could be practically eliminated."[42]

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36. *Ibid.*, p. 239.
37. *Ibid.*, p. 242.
38. *Ibid.*, p. 109.
39. *Ibid.*, pp. 263-264.
40. *Ibid.*, p. 268.
41. *Ibid.*, p. 256.
42. *Ibid.*, p. 264.

This is not economics; it is paranoia. If conservatives have ever thought that Marx was mad in his visionary promises for the communist society, they should only re-examine the literature of this ostensibly conservative movement. All evil, for Coogan, is literally incarnated in the international bankers, just as Marx viewed the industrialists. These men cause depressions, all by themselves.[43] Undoubtedly they can *trigger* depressions, but to charge them with the whole crime is absurd. Inflation of any kind, whether bank credit inflation or State Treasury note inflation, is the *cause* of depressions. Anyone doubting this need only read the first chapter of Murray Rothbard's book, *America's Great Depression*, to see the truth of the statement.[44] Governments can cause depressions just as easily as can the bankers, but this Coogan will not admit. Depressions are *personal* in her view; they have nothing to do with economic theory. This personalization of evil into a selected group is a denial of the basic Christian doctrine of the sinfulness of human beings as a species.[45] Yet she goes so far as to say that bribery could not take place if only statist money were in operation.[46] The whole idea is hardly worth serious refutation.

What is her idea of inflation? Her definition serves as the keystone for all the policies she presents: "Inflating is the act of increasing the money (demand claims) of a nation faster than the volume of consumer goods available for distribution can be increased."[47] This is in accord with her statement in Lecture No. 7 of *Lawful Money Explained*: "Arbitrary creation of *new* money as loans *without* there having been a *previous proportional increase* in the total quantity of goods and services for sale alters the purchasing power of all already existing money." That is why she concluded earlier that "The total volume (numbers of money) should always be *proportional* to all existing wealth on sale" (No. 3). The definition is totally inaccurate.

I have already pointed out her holistic approach to understanding prices and money. What was said there would apply here, too. The best workable definition of inflation would be an easily grasped concept: "Inflation occurs when there is an addition to the quantity of the circulating media, period." Gold, silver, paper bills, demand de-

43. *Ibid.*, pp. 23-30.
44. Rothbard, *America's Great Depression* (Los Angeles: Nash, [1963] 1972). A brief, but very fine account of Rothbard's thesis is found in his minibook, *Economic Depressions: Causes and Cures* (Lansing, Mich.: Constitutional Alliance, 1969), distributed by the Foundation for Economic Education.
45. Cf. R. J. Rushdoony, *The Nature of the American System* (Nutley, N. J.: The Craig Press, 1965), chap. 8: "The Conspiracy View of History."
46. Coogan, p. 264.
47. *Ibid.*, p. 119.

posits in banks that are not covered by specie—in short, *anything* which is added that is not offset by loss, destruction, wear, or hoarding somewhere else in the economy. This being the case, there must always be *some* inflation or deflation going on in an economy.[48] But additions to the supplies of gold and silver occur slowly. Mining is expensive, and gold and silver are both used as ornaments and in industrial use (silver is used in vast quantities in the photographic industry). There are some fluctuations in supply, but these fluctuations are *never* so drastic as State-created money fluctuations.[49] Coogan is concerned with "Wide and sudden gyrations in the purchasing power of money,"[50] yet these vast changes *cannot* come as a result of a metal currency. It takes too long to discover the metals, mine them, and produce finished products. That is precisely the reason why gold and silver *must* be the basis of all currency and exchange; if it is not, we shall continue to experience just those vast fluctuations in the value of the currency which Coogan abhors.[51]

Coogan wants a State currency completely divorced from the metals.[52] The money supply should be completely subject to the manipulation of the State Monetary Trustees. The whole idea is socialistic to the core. Mises writes:

> The excellence of the gold standard is to be seen in the fact that it renders the determination of the monetary unit's purchasing power independent of the policies of governments and political parties. Furthermore, it prevents rulers from eluding the financial and budgetary prerogatives of the representative assemblies. Parliamentary control of finances works only if the government is not in a position to provide for unauthorized expenditures by increasing the circulating amount of fiat money.[53]

Coogan would remove this restriction on the executive head of the government, and at the same time would give the power of monetary matters, once held by free men, over to the national government. Remember, too, that all these recommendations were made in 1935, in the middle of Roosevelt's first term of office. It was not Calvin Coolidge who was occupying the White House; "the revolution was," in Garet Garett's telling phrase. In 1935 she could say that the controls that gold provides are not necessary, and that it is only the work of the mythmakers—the international bankers—who think, or at least argue, that such controls are needed. FDR would have chuckled at that if he had read *Money Creators*.

If the State is so trustworthy how are we to understand the in-

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48. Mises, *Money and Credit*, p. 240.
49. *Ibid*., p. 238.
50. Coogan, p. 8.
51. North, "Gold's Dust," *op. cit.*
52. Coogan, p. 242.
53. Mises, *Money and Credit*, p. 416.

flations of the French and American Revolutions? Here Coogan as historian rushes to show us that we cannot use these concrete historical cases as arguments against State-controlled fiat money. In the case of the worthless Continental, she tries vainly to skirt the issue.

> On November 15, 1777, the Articles of Confederation were agreed to. The first Congress met on March 2, 1781. From then until the Constitution of the United States was ratified in 1789, that document formed the basis of the government. The Articles of Confederation did not give the Continental Congress the power of taxation. The Continental Congress did *not* issue legal tender because it could not under the Articles of Confederation. . . . the lesson learned is little applicable to modern conditions. . . .[54]

Coogan implies that there was no official money issued by the Congress. The money was not supported by law or popular consent.[55] It was issued in the period before the Articles were in effect. This, however, is no answer, for the national government *did* issue the paper. Between June of 1775 and November of 1779, some $191,552,380 worth of national currency was printed, unbacked bills which eventually fell to no value. There was no restraint applied here by the State hierarchy on the presses. Furthermore, she has to admit that "Thirteen independent legislatures granted or withheld the means according to their own convenience," referring to the reimbursement of the national Treasury. Yet it was these legally elected state governments that issued $246,266,941 worth of unbacked notes during this same period. *That* was legal money, but Coogan refuses even to mention this fact.[56] All she can do is to blame the counterfeiters for the fall in value of the so-called "lawful money."[57]

What of France? Again, she deliberately misleads the reader. The *assignats*, the unbacked paper bills, were unquestionably properly stamped State money. "The fact that they were destroyed as money by the gigantic counterfeiting operations of the money creators later, does not detract from their validity"[58] Counterfeiters again, and money creators (i.e., international bankers) at that. Coogan would

54. Coogan, pp. 185-186.
55. *Ibid.*, p. 187.
56. Harold Underwood Faulkner, *American Economic History* (5th ed.; New York: Harper & Bros., 1943), p. 144. On the staggering increase in prices in colonial America during the American Revolution, see the wholesale price estimates, *Historical Statistics of the United States, Colonial Times to 1957* (Washington: Bureau of the Census, 1961), p. 772, Series Z 336. Prices in 1780 were an incredible 130 times higher than they had been in 1775. Private counterfeiters, I would argue, did not cause all of that increase, and neither did military operations as such. The price of goods in terms of gold did not jump by a factor of 130.
57. Coogan, p. 186.
58. *Ibid.*, p. 320.

have us believe that the collapse in value was due *solely* to the *privately* printed counterfeits. The facts would indicate otherwise. She fails to point out that between 1790 and 1796 the *legal* (in her opinion, not in mine) State government of France issued a total of 45 *billions* of *francs* worth of unbacked (and, by my definition, counterfeit) *assignats,* to be followed by an additional two and one half billions in paper *mandats.* All of it was "legal tender," and the State coerced the populace into accepting them at their face, that is, their specie value.[59] This was inflation which was unparallelled in that day, worse even than John Law's vast fiasco 60 years earlier. Coogan ignores these facts. Issues like these are more easily sidestepped than answered. Such mass inflation, in a day when "billions" were elsewhere unheard of, is too damaging to her case that all duly elected governments are monetarily trustworthy, even if the representatives are radical revolutionaries and even Illuminists, as they were in France.

True, counterfeiting—*private* counterfeiting—did go on. Counterfeiting of French notes went on in a scale almost as vast, perhaps more vast, than did the counterfeiting by the French government itself. One facet of this mass counterfeiting Coogan never chooses to bring up. How much easier is it to print a counterfeit bill than it is to mint a counterfeit coin? Wisely, she does not mention this very obvious issue. She still continues to call for unbacked Treasury notes, damning all supporters of gold as "gold bugs" or tools of the international bankers. Her own counterfeiting argument destroys her case for "lawful" money, but she goes on, undaunted.

Consider this curious twist of logic. Point No. 1: "Did Mr. Baruch explain that throughout the entire history of money, the only time inflation, as he describes it, took place, was when the internationalists wanted to destroy not only the value of the currency but also the government of a country? Never has any government itself conducted such an inflation."[60] The incarnation of evil, the internationalists, *alone* practice mass inflation, in order to destroy a nation's government. Point No. 2: "These [French] assignats, as they were called, were the money which financed the wars fought with other nations by the revolutionaries."[61] Point No. 3, found in the very next paragraph, has already been quoted, that the gigantic counterfeiting operations (which are *only* conducted by the internationalists—Point No. 1) that had their source in London were the sole cause of the

59. Andrew Dickson White, *Fiat Money Inflation in France* (Caldwell, Idaho: Caxton, [1914] 1958), pp. 65-69.
60. Coogan, p. 93.
61. *Ibid.*, p. 320.

collapse of the value of the assignats. Conclusion: the French revolutionaries must have been the *enemies* of the internationalists! This, of course, Coogan dares not say, since it is a conclusion that is utterly absurd. The internationalists had their base in France; *they* were the French revolutionaries. Her logic, that only the private counterfeiting of the internationalists is dangerous, is patently false. Her own narrative proves it.

We now come to the only "positive" economic recommendation that Coogan can offer. Her reasonable one, that no fractional reserves should be permitted, had the destructive clause added on that no private notes, even when backed by 100 percent reserves, should be issued. She tells us that the dollar must remain stable in its purchasing power. This is an impossible ideal, economically speaking. Mises demonstrates quite adequately that only in *legal* theory, never in economic theory, can money remain absolutely static in its value.[62] In a free market, prices change slowly, but they do change.[63] Only with continual State intervention can the "stable money" advocates even hope to approach their ideal. But their ideal cannot be attained:

> . . . we are by no means in a position to determine with precision whether variations have occurred in the exchange-value of money from any cause whatever, and if so to what extent, quite apart from the question of whether such changes have been effected from the monetary side.[64]

Mises goes even farther:

> Once the principle is so much as admitted that the State may and should influence the value of money, even if it were only to guarantee the stability of its value, the danger of mistakes and excesses immediately arises again.[65]

Mises' warning goes unheard and unheeded by Coogan. He says that since economists cannot know all the data concerning price changes, they are unable to effect an absolutely stable money by tampering with its supply. As a statistician, she trusts in the omniscience of statisticians, and she discounts such advice from a mere economist. She calls for the creation of a board of federal *Monetary Trustees* who will maintain "scientific records of prices—price indices which would reliably indicate at what levels the *aggregate* of raw commodities and aggregate finished goods are changing hands at any particular time."[66] She then asserts that "The fluctuations

62. Mises, *Money and Credit*, p. 196.
63. *Ibid.*, p. 112. Cf. North, "Downward Price Flexibility," *op. cit.*
64. *Ibid.*, p. 237.
65. *Ibid.*
66. Coogan, pp. 250-251.

[in prices] thereafter should be minor, because the flow of money would always be scientifically related to the actual quantity of physical consumer goods available for distribution."[67] This would establish a stable purchasing power for the dollar. "Statistical science" could preserve the stability if only we would turn all money control over to these reliable Monetary Trustees.

The *index number* is a necessary coordinate of *any* attempt to stabilize the value of the dollar, whether in a system like Coogan's where all money is State controlled, or where there is part free coinage and part State-controlled money. Mises has shown that the assumption of all index number systems must be that there is a *static* unit of measurement of purchasing power available to the statistician.[68] If there is no static unit of measurement, then obviously measurement is impossible. One cannot measure distance if the units of measurement also vary in length. But in human society such a static standard does not exist. Human relations are always changing: supplies of goods, demand for goods, the supply of currency all vary from moment to moment. Only with the assumption of the ant hill society can men even hope to discover this nonexistent static measuring rod of purchasing power. This is why each economist devises a different index number system of measuring such changes of money value. There is no unity among statisticians as to what the standard is to be. Which is the "normal" year by which to measure prices? Which goods are to be selected to evaluate the importance of the change in purchasing power? The whole idea of universally valid index numbers is fallacious; once again it presupposes an outlook of collectivism. As Rothbard has put it: "Goods are not bought in their totality against money, but only by individuals in individual transactions, and therefore there can be no scientific method of combining them."[69] Unless we assume that men's desires and needs are constant, as are the ant's, then we cannot discover a standard, static measure of the "equitable" year of comparison. "All these stabilization plans," he continues, "of course, involve in one way or another an attack on the gold or other commodity standard, since the value of gold fluctuates as a result of continual changes in the supply of and the demand for gold."[70] One of the most enlightening statements concerning the possibility of index numbers comes from Melchior Palyi:

Statisticians compile data which add up to the much-revered

67. *Ibid.*, p. 251.
68. Mises, *Money and Credit*, p. 187 ff.
69. Rothbard, *Man, Economy and State* (Los Angeles: Nash, 1971), II, 740.
70. *Ibid.*, II, 741.

> figure called the national income. Planners plan by that figure, supposedly, setting targets for its growth. . . . Now, the national income is a somewhat less than reliable "aggregate." The data . . . about the components entering into such aggregates as national income, volume of production, savings and investments, etc., are pure "guestimates," subject to arbitrary manipulation. The methods to substitute what amounts to "very wild guesses" in the place of factual knowledge are known to the statisticians as "interprelating between benchworks, extrapolating from benchmarks, blowing up sample data, using imposed weights, inserting trends, applying booster factors. . . ."[71]

Once again, Coogan has drifted into the old Keynesian fallacy of "aggregate economics." Hazlitt has dealt at length with the problem, and his arguments serve to refute Coogan as well as they refute Keynes.[72] Her hope in the "scientific" Monetary Trustees is a futile one. If a system such as this one were imposed upon the American people, it would spell the end of freedom. These bureaucrats would dictate what the standards of the arbitrary index numbers were, and their word would be law. Who could challenge the validity of such "scientific" operations? Who would be permitted to voice such objections? Even the duly elected representatives in the legislatures would be powerless against this economic dictatorship, in spite of the fact that the powers of the Monetary Trusteeship are supposedly delegated by the "trustworthy" elected officials whom Coogan reveres so much. As Hayek has explained, "In these instances delegation means that some authority is given power to make with the force of law what to all intents and purposes are arbitrary decisions."[73] The "experts" are the true formulators of the law; their delegated authority has become the final authority.[74] The Monetary Trustees would become the economic tyrants of the nation. We would be sold into economic slavery at the cost of a promised, but impossible, "stable dollar."[75]

Coogan says that she is opposed to any State-enforced redistribution of wealth,[76] yet she champions an inflationary State currency which would necessarily redistribute a nation's wealth. Not looking at society from the perspective of the individual, she has missed the implications of State inflation in this respect. Her error is colossal.

71. Melchior Palyi, *An Inflation Primer* (Chicago: Regnery, 1961), p. 84.
72. Hazlitt, *Failure*, chap. 27.
73. F. A. Hayek, *The Road to Serfdom* (University of Chicago, 1944), p. 66.
74. *Ibid.*, p. 65.
75. For another Social Credit work, far more lengthy and sophisticated than Coogan's, see W. E. Turner, *Stable Money: A Conservative Answer to Business Cycles* (Ft. Worth: Marvin D. Evans Co., 1966).
76. Coogan, p. 293.

If the general price level remains constant because of additional paper money being inserted into the economy, then by definition there is monetary inflation going on. In a highly productive free market economy, Mises points out that there is "a general tendency of money prices and money wages to drop."[77] As more goods are produced, and because the supply of money metals remains relatively constant, prices and wages tend to fall in terms of money metals. Real wages, that is, the quantity of goods that a given wage will buy, will be rising because of the increased production. Therefore, Coogan's "stable price" scheme is definitely inflationary, for prices ought to be declining.[78] In the United States, for example, between 1867 and 1897, the wholesale price index fell (with 1929 as the base year) from about 168 to 68, or 100 points, or some 60 percent. Simultaneously, the country's population almost doubled, from 37 million to 72 million, and real output went up by 400 percent. This means that real per capita income doubled. The money stock tripled, from $1.3 billion to $4.5 billion, but the velocity of money (turnovers per unit of time) was cut in half, indicating that the effective impact of the monetary inflation was reduced considerably.[79] What does this mean? It means that per capita output can rise drastically in the face of falling prices. More important, it means that if prices can fall by 60 percent in the face of a tripling of the money stock, then if the general price level remains stable, we can be fairly certain that the State is pursuing a policy of extensive monetary inflation. (I am not using these figures to "prove" my point, but only to illustrate it; all such index numbers are approximate and somewhat arbitrary.)

Conservative economists of the 1920's, as well as liberals, were lured into making outrageously inaccurate statements about the blessings of "stable prices" and the "fact" that there would never again be a depression. Irving Fisher, perhaps the most prestigious economist of the day, made one of these ridiculous statements in September of 1929.[80] Fisher, like Coogan, was a supporter of "stable prices," and it was he who, more than any other economist, deserves the title of "father of the index number," that magical tool which supposedly enables the State's planners to stabilize the econ-

77. Mises, *Money and Credit*, p. 417.
78. North, "Downward Price Flexibility," *op. cit.*
79. The money and income data come from Milton Friedman and Anna Jacobson Schwartz, *A Monetary History of the United States, 1867-1960* (National Bureau of Economic Research, published by Princeton University Press, 1963), charts 3, 8 (pp. 30, 94-95). The population figures are in *Historical Statistics*, p. 7, Series A 1-3. "400 percent" is conceptually impossible: 4 X, really.
80. *New York Herald Tribune* (Sept. 5, 1929), cited in *Oh Yeah?* (New York: Viking, 1931), p. 37.

omy while preserving human freedom. Professor Rothbard's warning in this regard should forever silence the "conservative" Social Credit advocates:

> One of the reasons that most economists of the 1920's did not recognize the existence of an inflationary problem was the widespread adoption of a stable price level as the goal and criterion for monetary policy. The extent to which the Federal Reserve authorities were guided by a desire to keep the price level stable has been a matter of considerable controversy. Far less controversial is the fact that more and more economists came to consider a stable price level as the major goal of monetary policy. The fact that general prices were more or less stable during the 1920's told most economists that there was no inflationary threat, and therefore the events of the great depression caught them completely unaware.
>
> Actually, bank credit expansion creates its mischievous effects by distorting price relations and by raising and altering prices compared to what they would have been without the expansion. Statistically, therefore, we can only identify the increase in money supply, a simple fact. We cannot prove inflation by pointing to price increases. We can only approximate explanations of complex price movements by engaging in a comprehensive economic history of an era—a task which is beyond the scope of this study. Suffice it to say here that the stability of wholesale prices in the 1920's was the result of monetary inflation offset by increased productivity, which lowered costs of production and increased the supply of goods. But this "offset" was only *statistical;* it did not culminate the boom-bust cycle, it only *obscured* it. The economists who emphasized the importance of a stable price level were thus especially deceived, for they should have concentrated on what was happening to the supply of money. Consequently, the economists who raised an alarm over inflation in the 1920's were largely the qualitativists. They were written off as hopelessly old-fashioned by the "newer" economists who realized the overriding importance of the quantitative in monetary affairs. The trouble did not lie with particular credit on particular markets (such as stock or real estate); the boom in the stock and real estate markets reflected Mises' trade cycle: a disproportionate boom in the prices of titles to capital goods, *caused* by the increase in money supply attendant upon bank credit expansion.[81]

Coogan never explains how the inflation enters the economy. She says that the government pays the inflated currency into use (No. 7), but she lets it go at that. What really happens is this: unbacked, counterfeit bills are printed by the Treasury. The State takes these bills and purchases goods and services for the government. Those selling to the State now have quantities of new, counterfeit,

81. Rothbard, *America's Great Depression,* pp. 153-154.

money at their disposal. These favored individuals and firms can now go into the market and buy up goods which before they had not been able to afford. In doing so they deplete supplies and/or raise the prices of the goods they are buying. Competitors, unfavored by the government bureaucrats, have no counterfeit bills at their disposal. They had planned their purchases according to the pre-inflation prices. Now those prices have been raised, or else they have not been permitted to fall, by the phony Treasury notes, and the honest competition cannot make the purchases they had planned on. They restrict their purchases, cut back on sales, and perhaps must lower the wages of their employees. They may even be forced out of business. Why? Because the government has imposed an *invisible* tax on these unfavored companies. Counterfeit bills have raised prices above the non-inflation levels, and people who do not have access to the counterfeit government bills can no longer buy. Thus, pensioners and those with fixed incomes are robbed by the State Treasury officials by the policy of inflation. Government has not created wealth by the inflation; the State has merely *redistributed* wealth, from those with fixed incomes to those who are closest (chronologically) to the State's counterfeit money. A few get rich, while the majority of the public is hurt by the rising prices.

Coogan has looked at the economy from the point of view of a collectivist, never seeing the way inflation acts at the individual level. She seems to think that all people will have equal access to the State's "funny money," but this is not the case. Those receiving it first will be benefited, since they will be able to buy first at yesterday's non-inflated prices. Those farthest away (chronologically) from the Treasury will pay for the gains of the early beneficiaries by being forced to restrict their consumption of goods and services due to the downward inflexibility of many prices. There has been a forced, arbitrary, somewhat random redistribution of wealth. So when Coogan says that she is opposed to the forced redistribution of wealth, and at the same time proposes a "stable price level" that would require monetary inflation to keep it stable in the aggregate, she is contradicting herself. One cannot argue simultaneously *against* redistribution and for monetary inflation. The latter produces the former.[82]

When she calls for monetary expansion, she realizes that the government is trying to avoid raising visible taxes, for she writes that "Increases in currency would be made partly to defray the expenses of the Government and in lieu of taxation."[83] In lieu of

82. Coogan, p. 293.

83. *Ibid.*, p. 251.

visible, budgeted, congressionally controlled taxation, yes, but not in lieu of taxation as such. Someone has to pay. When she says that "the purchasing power created at the original source benefits all," she is deceiving the reader.[84] It benefits only those who receive the counterfeit, fiat money first; it hurts those who do not have immediate access to the newly created money. But State officials know that few people understand that monetary expansion is really a form of indirect taxation, and so they can increase State expenditures without having to declare unpopular new tax confiscations. This is why Hans Sennholz writes in *American Opinion* (Sept., 1964) that "Many of the foes of the Federal Reserve System are rabid collectivists." They support statist monetary inflation as if it were a golden goose egg. It offers the State something for nothing. Somebody has to pay, but since the taxes are hidden, few people scream. If someone does, then Keynes can come forward and pacify the Liberals, while Coogan steps out to silence the conservatives. It is a nice arrangement for the statists. A more unjust tax could hardly be devised, of course. It is not predictable; people cannot plan very easily for it, and they do not know which prices will be raised. But the idea of something for nothing is too tempting to the State; if a little inflation is good, why not more? The State can buy more and more, if it just keeps printing money faster than prices are rising, until the monetary system is destroyed. By permitting the State to print money which has no gold or silver backing, the people have committed economic suicide, and Coogan stands in the galleries and shouts her encouragement. In fact, the whole Social Credit movement is there, proclaiming that gold is old fashioned, a tool of the international bankers. Those who listen to their dreams will reap the whirlwind.

Coogan actually applauds the idea of something for nothing. In fact, she says it must always be this way: "This is *what has been done* and *what has to be done* in order to have money, a man made instrumentality."[85] Fiat money has to exist; "*all money is fiat money.*"[86] But this is just not true. Money is not created by fiat, but by the voluntary use of certain goods by people involved in commerce. Mining costs, in the long run, are no higher or lower than in any other business, and the profits are no greater. But States can print bills cheaply, bills which are never used for ornament and industrial use, as money metals sometimes can be. Coogan's proposals would destroy the best safeguard we have against the ever-hungry State: the use of money metals in commerce.[87]

84. *Ibid.*, p. 262.
85. *Ibid.*, p. 300.
86. *Ibid.*, p. 283.
87. North, "Gold's Dust," *op. cit.*

The best answer to Coogan's whole statist system is provided by Elgin Groseclose. Coogan has attacked the right of free coinage of metals and the right of men to issue 100 percent backed receipts for these metals. Groseclose writes:

> The principle of free coinage has proved its practical worth as a deterrent to debasement and depreciation. Where coinage is on private account there is no profit to the state in tampering with the standard, and there is no opportunity for such practice by the individual. . . . In the twentieth century, sovereignties began to reassert their monopoly of money, and under the pretext of assuring full employment through the manipulation of the interest rate, have used their power for the spread of statism, the socialization of activity, the annihilation of private property, and the extinction of individual liberty.[88]

There is one more argument which Coogan offers against the use of gold as the very reliable basis of our economic transactions. It is, in reality, the best argument *for* gold which she presents:

> The fact that this country requires somewhere between sixty to seventy-five billion dollars of money in order that the people may effect the exchanges incident to a civilized existence, is proof sufficient that gold is hopelessly inadequate to serve the needs of the people of the world for money.[89]

Coogan's book is a long attack against the inflated money distributed through the fractional reserve (less that 100 percent reserves) banking system. Yet when it comes time to attack gold, she takes as her standard of quantity needed for exchange the quantity then in circulation in 1935, a quantity puffed up with the very bankers' money which she despises! No better testimony is needed in favor of gold. If the State were to enforce 100 percent reserves on the banks, and if the State were not permitted to issue unbacked, legal tender paper currency, this phony State and bankers' currency would be forced out of existence. Apparently Coogan's hatred of gold is even greater than her hatred of bankers' money. Gold is the real issue here; she is really an enemy of gold, and therefore she is the State's best friend, rather than primarily an enemy of fractional reserves. She calls for something for nothing, the oldest monetary slogan of Satan: "And the devil said unto him, If thou be the Son of God, command this stone that it be made bread" (Luke 4:3).

Isaiah the prophet recognized currency debasement for what it was. Unbacked paper money is merely an advanced and more

88. Elgin Groseclose, *Money and Man* (New York: Ungar, 1961), pp. 172, 176.
89. Coogan, p. 296.

subtle form of currency debasement, and far more dangerous, so what he told his people would be true sevenfold today:

> How is the faithful city become an harlot! it was full of judgment; righteousness lodged in it; but now murderers. Thy silver is become dross, thy wine mixed with water: Thy princes are rebellious, and companions of thieves (Isa. 1:21-23).

Currency debasement is a sign of moral decay. It is accompanied by corrupt governments and sinful leaders. But at least the average citizen can tell when the silver coins are being debased; with paper money such detection is difficult apart from economic signs in the price level. The good money looks just like the unbacked money. Yet Coogan would have no backing in metal for any of the paper. In short, she wants a currency, in Isaiah's words, of pure dross—no silver at all!

Coogan wrote in the middle of the depression. Her recommendations for economic well-being reflect most of the major errors of her day. She calls for State-financed pension plans, reminiscent of the old Townsend Plan.[90] She wants currency debasement to obtain full employment, an idea out of the Keynesian tool kit. All the quackery of the 1930's at least gets a brief hearing in Coogan's books, and by referring the reader to Soddy, she even brings in a bit of Technocracy, for Soddy admits that he sees a great deal of truth in the Technocrat system.[91] She wants "equitable" prices set by Monetary Trustees, managed currency, and virtual financial monopoly by the State Treasury. Gold, which would resist the encroachments of the State, is her bitter enemy. She would curtail bank money and bank notes only by stamping out the right of free coinage and the right

90. *Ibid.*, pp. 255-256. Townsend also wanted to spend fiat money into circulation, thus creating "effective demand." See Alvin H. Hansen, *Full Recovery or Stagnation* (New York: Norton, 1938), pp. 92-93. As a Keynesian, Hansen wants the government, in cooperation with the Federal Reserve System, to make the necessary purchases, and not have the money sent directly to private citizens, since they are supposedly not intelligent enough to spend their money on those items that will promote rapid aggregate national economic recovery, pp. 316-318. Therefore, we may have to come to live with full-time deficit financing, pp. 301-302. Keynesianism is Social Credit with more extensive intervention into the economy by the government. It wants the government to get the benefits of the counterfeit fiat money rather than the private consumers, i.e., the citizens who gain access to the counterfeit funds before the new money increases everyone else's cost of living. Keynesians oppose Townsend plans—giving funds to consumers directly—except welfare "clients" may receive funds. Ultimately, the State is to be an investment banker: Hansen, p. 318.

91. Frederick Soddy, *Wealth, Virtual Wealth and Debt* (2nd ed.; Hawthorne, Calif.: Omni, [1933] 1961), pp. 13-14. Anyone who has read Soddy's writings side-by-side with the publications of Technocracy is aware of the extraordinary similarities. It makes you wonder if Howard Scott, the founder of Technocracy, might have "borrowed" Soddy's ideas without actually footnoting their origin. Who knows, and these days, who cares? A refutation of one constitutes a refutation of the other.

to write IOU's. Instead of the monetary inflation caused by fractional reserve banking, she would give us monetary inflation produced by the State bureaucracy. But monetary debasement in any form is robbery, an enforced redistribution of wealth, and all money not backed by 100 percent reserves gold or silver is inflationary.[92] She would stop one kind of inflation only to inaugurate another. Her answer is no answer at all, at least not for the free market.

Economics, of course, reveals the pages of economic nonsense contained in her writings. She knows this to be true, and she has a pathological hatred for all economists. In her bibliographies, there is not one trained economist represented. She thinks that all economists have merely aped Adam Smith's system. She apparently has no knowledge of the revolution in economics wrought by Menger, Boehm-Bawerk, Weiser, and Mises, a revolution which threw out Adam Smith's mistakes and retained his accurate contributions. Yet she classifies all economists as paid hirelings of the money trust. "Economist," she writes, "is the learned term still applied to those who write unintelligible discussions of money, prices, public finance, and so-called political science."[93] So defined, Coogan is actually the world's leading economist, for no more garbled, unintelligible, dangerous statist, pleading in the name of statistical science, could be imagined.

This is a woman's economic treatise. She personalizes all her enemies, and anyone who deals with ideas is a tool of the money trust. Ideas are her real enemy, even more than gold. Her books are a mass of feeling, rather than accurate and careful economic analysis. Ideas are superficial; hatreds are the basis of her writings, not anything resembling free market analysis. Gertrude Coogan deserves the words that are given by James Burnham in his review of Eleanor Roosevelt's *India and the Awakening East*:

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92. To some extent, this criticism would apply to gold and silver mining. But mining produces metals for a market, and the market may allocate the uses of the metals in many ways, including ornamentation, industrial purposes, or religious uses. Mining is not fraudulent; it does not offer anyone something for nothing; it is based on voluntary contracts; it does not create new money very rapidly; it does restrain the expansion of State power. If some aspects of mining result in the redistribution of wealth from those who do not have early access to the new gold or silver to those who do have early access, then we would have to say these effects are comparable to the effects of free competition. Some people, through ignorance or weakness, may lose. But to attempt perfectionist solutions—the abolition of mining; State control of money-creation—is to invite disaster. Mining may produce some effects that are unfortunate, in this imperfect world, among many legitimate blessings; fiat paper money or credit produces few temporary benefits and fewer long-run benefits, and creates untold economic disasters. Mining may have minor defects economically; fiat money is almost entirely defective, in principle and in operation.

93. Coogan, p. 205.

> This furious energy . . . is like a great tank with a drunken driver loose in the crowded streets of a city. It is the onrush of sentiment, unguided and unrestrained by intelligence, reason, or principle. Over whatever subject, problem, plan, or issue Mrs. Roosevelt touches, she spreads a squid-like ink of directionless feeling. All distinctions are blurred, all analysis fouled, and in that murk clear thought is forever impossible.[94]

The Guernsey Experiment

This review might end here, but one more issue must first be dealt with at some length. In her chapter on "Precedents" of Miss Coogan's inflated currency, she informs the reader of the great success of unbacked paper money on the island of Guernsey in the 19th century. She devotes three pages to praising this noble experiment, one which cured, in Miss Coogan's words, a terrible "scarcity of money."[95]

Another Omni-distributed booklet deals with Guernsey rather extensively, and it is to this study that we now turn. It is called, simply, *The Guernsey Experiment*, and its authors are Olive and Jan Grubiak. I hope to show, step by step, how one economic fallacy leads to another.

First, we are told that "It was found that further taxation on the impoverished island was impossible."[96] The alternative, borrowing, was unwise. What the authors should have said was that further taxation was *politically* impossible, and that the government decided to apply the *invisible taxation* of unbacked paper currency.

Now what was the new issue of money to be used for? Why, obviously, *State* projects—public works. Torteval Church was built and the Jerbourg monument.[97] It was boondoggling of the worst kind, a sort of small scale WPA. And the benefits: "So can you blame the Guernsey taxpayers for preferring their own money since, under their sensible and benevolent financial system they pay hardly any income-tax."[98] Praise the lord of darkness, the prince of this world; we can turn stones into bread! Something (WPA projects) for nothing (counterfeit money). They believed in their "sensible and benevolent" government, not realizing that there is a great deal to be feared from the benevolent State, as Tocqueville said in these same years.[99]

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94. Quoted by William F. Buckley, *Up From Liberalism* (New York: McDowell, Oblonsky, 1959), pp. 11n, 12n.
95. Coogan, p. 316 ff.
96. Olive and Jan Grubiak, *The Guernsey Experiment* (Hawthorne, Calif.: Omni, n.d.), p. 7.
97. *Ibid.*, p. 8.
98. *Ibid.*, p. 11.
99. Robert Schuettinger, "Tocqueville and the Bland Leviathan," *The Freeman* (Jan., 1962).

The authors report this startling fact, unparalleled in all of human history:

> During the entire experiment in Guernsey, from 1817 to date, there has at no time been a threat of inflation from the creation of *States* notes. At all times, the States were very careful in the issue and cancellation of notes according to their ability and requirements.[100]

According to whose requirements? The benevolent State, of course! "Remember—there is no inflation in Guernsey."[101] Then we are given a chart which proves just how badly the "uninflated" currency was inflated.

1816	£6,000	
1826	£20,000	
1829	£48,000	
1837	£55,000	minus £15,000 = £40,000
1914	£40,000	
1918	£142,000	

"Since that time, Guernsey has never looked back."[102]

1958	£542,765

In other words, in 140 years, half a million pounds of unbacked notes were injected into the economy of a tiny island. This is "no inflation" with a vengeance.

We read that the heavy inflation between 1914 and 1918 was demanded by the war: "the demand for money was enormous."[103] This is the old fallacy; actually, the demand for *goods* was enormous, and this made it appear as if the demand was for money. But money does not win wars; war materials and civilian supplies win wars. The government merely raised the money out of nothing, bought goods from the buyers, and those with no counterfeit bills went hungry. The authors do not give any rough estimate of the rise in prices during this era, naturally. That kind of information would blow their whole appeal sky high. Government is again said to have the power of God. It can create wealth at will, they believe. In reality, *it cannot* create wealth; it can only *redistribute* it through taxation, either direct or indirect (by monetary inflation).

It is interesting that the reply which the council of Guernsey gave to the Privy Council is filled with all of the modern Keynesian and socialistic fallacies, although in a far cruder form:

> And thus it is, that the public works have not only given life and activity to every species of industry by the immediate effects of their utility . . . but and still more by the consequent impulse

100. *Guernsey*, pp. 11, 12.
101. *Ibid.*, p. 16.
102. *Ibid.*, p. 11.
103. *Ibid.*

> communicated on all sides, prompting the wealthy to lay out for private mansions greater sums than were expended for public works, and creating a permanent source of employment, by the future expenses which the repairs and occupation of these mansions will require.[104]

This is the old cry: "Full employment by public inflation." The old fallacy of employment through repairs is brought up, an idea thoroughly repudiated by Bastiat in his argument of "the things unseen." Henry Hazlitt reproduces it in the opening pages of his little classic, *Economics in One Lesson.* If repairs really bring public benefit, why not throw rocks through the windows of the mansions? In fact, why not throw rocks through all the windows in the town? The council forgot that for every pound spent in repairs, a pound is withdrawn from use in other areas. For the employment of the stonemason, the mansion owner cuts down in his consumption of cake, and the baker suffers a loss of business. But this loss to the baker is unseen, in the same way that the loss to the pensioner because of inflation is not seen. What *is* seen is the employed stonemason. What *is* seen is the government WPA project built with the counterfeit currency. The argument in support of robbery which the council employed collapses under its own weight.[105]

What about the prosperity of Guernsey? Do not the facts disprove all this economic theory? That is difficult to say. The "facts" have been selected by inflationists only. Proponents of sound, gold-backed paper currency had never heard of Guernsey until the inflationists at Omni began to praise Guernsey's many achievements. Which facts have been selected? Only those facts which seem to support the thesis. Nothing is said of domestic price levels, or of the amount of deprivation caused to people who were unable to buy at the new, inflated prices. We are told nothing of the numbers of businesses which were undoubtedly thrown out of existence by rising costs in raw materials and labor. Laborers were being used to build state monuments; all who were so employed by the State at this economically wasteful project were not available for some local businessman to employ at an economically profitable task. But all this is ignored.

They did let one fact slip out: the tariff rate was very low all through these years of inflation.[106] This may have helped to increase the prosperity of the local buyers by permitting lower prices.

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104. *Ibid.*, p. 24.
105. Cf. Frederic Bastiat, "What Is Seen and What Is Not Seen" (1850), *Selected Essays on Political Economy* (Foundation for Economic Education, 1968), chap. 1.
106. *Guernsey*, p. 12.

Probably not, however, for foreign sellers would not trust a non-redeemable (in gold) currency, and they would probably sell for gold only, in cash. The real cause of increasing prosperity was that prosperity all over the world was vastly increasing as capitalism took over and the gold standard began to be used. In fact, it would be economically safe to say that had there been no inflated currency, there would have been even greater prosperity in Guernsey. This is again the idea of the thing unseen. But anyone who believes that the paper notes aided the economy must believe that there is great benefit to be had, socially and privately, to the theft and coerced redistribution of wealth which is inherent in all unbacked paper, public or private. God, one would have to say, blesses those who worship Satan and who employ Satan's economics of stones into bread. If the government prints the bills it is sound economic policy; if the banks or private counterfeiters do it, it is theft. This is the double standard which dominates the economic thinking of Social Credit promoters. It is the Keynesian standard of morality. It is anti-economics.

> In particular, the social and political roots of the monetary doctrines of Major Douglas, of the mystical views on wealth and debt of Professor Soddy, of the "free land" and "free money" agitation of Silvio Gesell, would form an interesting subject of analysis. What needs, however, to be pointed out is that the keen discussion which these views evoked and the many adherents which they could claim, particularly in the years immediately after the Great Depression, were both a symptom and an aggravating cause of the decline of relevance and of authority of economic theory.[107]

If the irrational and satanic mysticism of the economic doctrines found in the publications of the Social Credit movement ever infiltrate and take over the conservative movement, then that movement will die. It is because the gold haters have dominated our nation's financial advisers for at least 50 years that we now face the darkness of economic ruin. In the final analysis, Social Credit economics—the economics of neo-populism—is nothing but sheer economic quackery, a crude, pathetic imitation of economics. Its proponents are desperate little people, confused about the nature of the world they live in, clinging together in their little "study groups" outside the dark, forbidding "evils" of systematic scholarship.

The Liberals have already given us deficit finances, debased money, the "boom-bust" cycle. They have made it illegal to use gold to make market transactions; they have made it illegal to own gold bullion. The United States is the only country in the free world under such

107. Eric Roll, *A History of Economic Thought* (3rd ed.; Englewood Cliffs, N. J.: Prentice-Hall, 1961), p. 457.

rigorous anti-gold restrictions. If the "conservatives" advocate the same things, as Social Credit proponents do, how will we see any change? The only advance along the road of economic sanity that the advent of a Social Credit regime *might* bring us would be the abolition of fractional reserve banking.[108] But instead of the bankers we would have our elected representatives, through the Treasury, debase our currency directly, without the restraining factor of interest rates holding them back. Free money, come and get it!

As the child said, when offered broccoli by his mother, "I say it's spinach, and I say nuts to it!" If Social Credit is conservatism, I say nuts to it.[109]

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108. Not all Social Credit advocates advocate the complete abolition of central banking and fractional reserves, although the American Social Crediters do. Basing his analysis on the English branch of Social Credit, Hansen therefore concludes: "Social Credit therefore approaches, but does not go quite so far, as the 100 per cent Reserve Principle advocated by Sir Frederick Soddy, Irving Fisher and others. The latter plan would take away altogether from the banks the privilege which they now hold of lending funds by creating bank deposits." *Full Recovery or Stagnation*, p. 94. In all likelihood, however, American readers of Coogan, Vennard, and Kenan would follow Soddy and Fisher. Fisher, in fact, was cited by a Social Crediter I once met as the economist who "sees things basically the way we do on the question of stable money." Fisher, you may recall, was the economist who said there would never be another depression, just one month before the stock market crash.

109. Not all proponents of the conspiracy theory of the origin of the Federal Reserve System are Social Credit inflationists. Gary Allen, writing in the John Birch Society's *American Opinion* (April, 1970), concluded his study of the Federal Reserve with these words: "Still, the argument over whether the socialist bureaucrat or the radical international bankers should have a monopoly on printing funny money is one of those false alternatives. The only thing that will stop politicians and the *Insiders* of international banking from taking control of this country by destroying its economy with inflation and bust is to have a currency that is backed by tangible wealth—gold and silver." This statement should be required reading for every "conservative" Social Credit advocate in the world, and the radical Social Crediters like Jerry Voorhis, as well. Allen bases his economic analysis of the phenomenon of depression on the writings of Mises, Sennholz, and Rothbard, just as I do. His is the conservative position on the money question, not Gertrude Coogan's or Wycliffe B. Vennard's. Cf. Sennholz, "The Federal Reserve System," *American Opinion* (April, 1958).

PART II

ECONOMIC SURVIVAL

Chapter XII

PRICE-WAGE CONTROLS: EFFECTS AND COUNTER-EFFECTS

[The Commercial and Financial Chronicle *published this essay, exactly two years (minus one week) before the day President Nixon announced the imposition of price and wage controls. The essay covers the basic ground which I have written about in several of my "practical" economics pieces.*]

For the past few months we have been hearing serious discussion by top Administration officials concerning the possibility of the imposition of across-the-board price and wage controls by the federal government. If this is not done, and if taxes are not increased to cover expenditures by the federal government, we are told that the nation will find itself on an inflationary spiral of dangerous proportions. The passage of the extension of the income tax surcharge may remove the topic from the political arena, at least for a time, but the fact that it was even proposed is significant.

The necessity of imposing such controls implies at least two questionable assumptions: first, that the best way to battle the effects of governmentally sponsored inflationary policies is to expand even further the scope of government intervention; second, that wage and price controls can, in fact, deal effectively with the causes of inflation (rather than the outward symptoms). There are very good reasons for rejecting both propositions.

Inflation is defined in several different ways, depending upon the question under discussion and the economist discussing it. For purposes here, I want to break down inflation into two components: monetary inflation and price inflation. Monetary inflation is simply an increase in the money supply. Here is the root cause of price inflation. Price inflation is an effect which occurs when the money supply is increased and/or the velocity of money (turnover) increases at a rate faster than the increase in the aggregate supply of goods and services on the market.

Obviously, the general price level can rise without monetary inflation; the supply of goods can be reduced by some national disaster like a war. But these rapid and radical decreases in supplies are historically rare. When we see prices in general rising, then we can usually be certain that policies of monetary inflation are being pursued by the government and the central bank. In fact, by the time we can chart an increase in prices, monetary inflation has been in effect for some time. If we live in a highly productive capitalist economy, even stable prices imply some monetary inflation; the price level under high productivity should be slowly falling, as increases in the number of goods and services take place within a framework of a constant money supply.

When governments and central banks pay for increased State expenditures and increased capital outlays by fiat increases in the supply of money and credit, we all begin to find signs of price inflation. The longer the policies of governmental deficit financing through monetary inflation go on, the more pronounced the price inflation becomes. Thus, the best way to stop the *causes* of price inflation is to see to it that governmental deficit financing through monetary inflation ceases. There is no need to establish a new branch of State bureaucrats which will spend its time and our dollars in trying to counteract the *effects* of the policies of other State bureaucrats. By fighting symptoms, namely, price inflation, the State officials merely produce what the late Wilhelm Roepke called "repressed inflation": shortages of goods, rationing problems, and long lines in front of half empty stores.

When policies of governmental deficit financing through monetary inflation are in effect, prices in the aggregate will tend to rise; certain prices will rise faster than others, e.g., the price of skilled labor, especially in those industries where trade unions wield considerable economic and political power. Companies employed directly or indirectly by the federal government will gain access to newly created fiat money, and they will compete for labor and other capital goods with those companies more directly concerned with satisfying private demand. (The government-related industries will usually win out in these contests, for obvious reasons.) The cost of key metals like steel and copper will rise for the same reason. The fact that steel prices did not soar in the earlier part of the decade (and have stayed reasonably low, given the tremendous wartime demands for steel) was due to the federal government's imposition of "voluntary" restraints to hold down prices.

Some government planners are now alarmed at the effects of their own policies. They now want to control these effects, putting them under wraps. Bearing in mind the ancient economic truth that we never get something for nothing, we should look at the results of price and wage controls, which are the primary tools used in "covering up" the symptoms of monetary inflation.

No program of centralized State planning, no matter how efficient, can foresee all effects or control all prices in an economy. There are too many independent variables. So planners are forced to limit their efforts to certain key areas: autos, metals, the large trade unions, transportation, and other large sectors. What will take place if this is done?

We allocate scarce resources by necessity. A thing is scarce if all the demand for it at zero price cannot be met. When we do not use the price system to allocate resources, we use some other method. Long lines form for the controlled goods; "first come–first served" decides who gets what. Or ration stamps are issued, naturally favoring those groups that the State is trying to placate.

Producers will tend to shift production and capital out of the controlled areas whenever possible; profits are greater in uncontrolled zones. Unfortunately, the controlled areas are considered the vital ones, which means that the key commodities are no longer supplied in the quantities needed. Price controls are self-defeating, by their very nature.

Those who wish to measure the true rate of inflation must look at the published figures dealing with monetary expansion. If these figures are not honest, then they must look at the effects of the inflation in the uncontrolled industries. The same is true for those searching for hedges against inflationary expropriation.

These "inflation reflecting industries" are often small, producing highly individual products. They are therefore difficult for the State to control. A partial list might include: (1) antiques—including rare books, (2) coins, (3) stamps, (4) paintings and other art objects, (5) fine wines of vintage years.

When prices in these zones begin to rise more rapidly than prices in the aggregate production zones—autos, electrical appliances, and similar "necessities"—then we can presume that some sort of price control restrictions, either formal or informal, are operating within the framework of an inflationary monetary system.

Tight money policies that are presently in effect will, if continued, produce economic conditions that can only be described as recessionary; this is the painful price paid for an earlier period of "boom" which was produced by policies of monetary expansion. Investors who do not believe that any contemporary political party can face the implication of recession at the polls will want to watch for any signs of an increase of purchases of government securities over sales by the Federal Reserve System. The bonds, which serve as a legal base for the expansion of member bank reserves, are the primary tools for monetary inflation or deflation. If the FED begins to purchase bonds in great quantities over an extended period of time (e.g., several months), investors with cash on hand could reasonably assume that an inflationary ideology, for whatever political reasons, is directing the national economic scene.

At that point, the wage and price control issue will be critical. If they are imposed, the market will be crippled. We saw what effects wage and price controls had in World War II; in a period of massive inflation, the stock market simply did not respond. The controls play havoc with the basic economic indicators of true supply and demand, namely, prices. Production is inevitably maladjusted to the true conditions of demand. Insofar as stock markets reflect general business conditions, to that extent they will not respond in an upward movement proportional to the rate of inflation.

Those areas that do respond are those mentioned earlier: the highly differentiated products on the collectors' markets. Thus, it would pay investors to become at least moderately skilled in purchasing goods in these areas. They can put such knowledge to work before the population at large begins to comprehend what is going on. The old rule for success holds true: get there "fustest with the mostest." As inflationary hedges for private, family protection, they cannot be surpassed. It takes a certain degree of skill in selecting the proper mixture of hedges, and prospective investors should work in those fields that they know best. Maybe now you can put your wife's talents as an antique "nut" to work; she, in turn, will have to grant you your full credit for having developed your taste for expensive imported wines. Bernard Mandeville's early eighteenth century classic, *Fable of the Bees*, convinced Adam Smith of the fact that private vices can be converted into public virtues; we may find that governmental policies of inflation and price controls can convert our private vices into private virtues.

Chapter XIII

INFLATION AND THE RETURN OF THE CRAFTSMAN

[*I could not find a publisher for this in the conservative press, so I sent it to the incredible magazine (now defunct—the only one I ever saw which folded, voluntarily, in the midst of fantastic popularity),* The Whole Earth Catalog *(Jan., 1971). Amazingly, some of my radical acquaintances on the campus and off found it persuasive. I received a letter from one lady, obviously a hard-working "proletarian" of relatively little formal education, who said her college senior daughter had given it to her and had said, "This is what you've told me for years, but I never believed it before." Unfortunately, truth is not always its own best testimony in our world; where it appears or who says it is what counts. But some of our "hippie" citizens have more economic sense than some of our presidential advisors on the Council for Economic Development.*

I wrote this in mid-1970. Obviously my timing was off. I had expected the imposition of wage-price controls in 1973 or 1974; Nixon beat me to it. So far, my predictions are accurate: no controls on art objects, collectors' items, used goods, and small businesses. Now, let's see if the rest of my prophecy comes true. I fear that it will. So does Murray Rothbard: "The End of Economic Freedom," The Libertarian Forum *(Sept., 1971), a superb study of the controls.*]

Prophets are seldom popular men, even when they predict correctly. In the area of economic forecasting good men are often frighteningly wrong. Thus, the man who claims to know the future is taking a considerable risk: if he is wrong, he will look like a fool; if he is right, everyone will hate him (at least if he has predicted hard times). Nevertheless, every man has to be a bit of a prophet if he is to survive. There is no way of escaping personal responsibility; men must plan, at least to some extent, for their economic futures. If that future brings what I am fully convinced it must bring, a lot of white collar professionals are going to be disappointed, and a lot of hobbyists are going to reap very substantial economic rewards.

America's greatest economic bugaboo is depression. The memory of the 1930's has left an indelible scar on the American mind. It would be politically safe to say that no political party, especially the party incumbent in the White House, will be willing to risk a depression; the results at the polls would be too devastating. In short, if the government should face an either/or situation of inflation or depression, it will choose inflation every time. There is evidence—I believe overwhelming evidence—that indicates that this is precisely the dilemma we face today.

During the final months of President Johnson's administration, the Federal Reserve System (our nation's central bank) stopped the increase of new money coming into the economy. President Nixon continued to support the FED's decision for the first year in office. The results were (or should have been) predictable: increased unemployment, a disastrous fall in the stock market, falling industrial profits, and decreased tax revenues. Ironically, the end of monetary inflation did not bring an end to price inflation; people apparently could not bring themselves to believe that "tight money"—high rates of interest—and zero monetary inflation would persist. They did not believe that President Nixon would pursue indefinitely a policy of balanced budgets, reduced government expenditures, and higher taxes (which is the way you stop prices from rising). So labor and business kept passing on higher and higher prices to the consumer; and the man out of work, the marginal business, and the self-employed laborer found the economic squeeze disastrous.

Since last spring, the Federal Reserve System has reversed itself. New money is now being injected into the economy. The federal government's deficit (the difference between income and expenditures) is climbing again, and this means the central bank now buys government bonds with newly created credit-money—monetary inflation. Given the psychology of Americans in 1970, this will mean price inflation. A "reinflation" of the economy is beginning. What can we reasonably expect? The cost of living index will climb in the 1970's as never before in peacetime America. Price inflation is the symptom of a previous monetary inflation, and we should expect to see prices rise at an increasingly frantic clip. When this happens, there is always great public pressure put on the government to impose price and wage controls. People do not understand that rising prices are a symptom of a deeper cause, namely, the increase of the money supply (fostered primarily, though not exclusively, by federal deficits). They call for a suppression of the outward symptoms. It would not be surprising to see the incoming President in 1973 forced to begin the imposition of price controls sometime during his administration. The Congress has already granted this power to President Nixon, in spite of his protests. Power once granted is generally used sooner or later.

Many readers will remember the effect of price controls during World War II. There were shortages everywhere, and all of these shortages were not the exclusive responsibility of the war effort. Anyone who has lived in a foreign nation during a period of price controls knows what can happen, even in peacetime. Anyone trying to rent a decent apartment on Manhattan Island today knows the effect of rent controls: heavy demand and no supply. Lots of money, but very few desirable goods. Since it is more difficult to make a profit in controlled industry, labor, capital, and raw materials tend to go into the uncontrolled industries where greater profits are likely. So the market for industrial goods begins to dry up. You cannot buy a home appliance easily, and new automobiles get scarce, and electrical goods disappear. And the available goods get shoddier as manufacturers are forced to cut costs to make ends meet. We are already seeing this to some extent, as inflation takes its toll; with price controls, these effects on workmanship are amplified.

If I am correct in my analysis of inflation and in my prediction that more inflation is likely, then the reader should begin to see what is coming. The man who plans carefully at this stage stands to survive the price-wage squeeze, the shortages, and the defective workmanship that are on their way. The hobbyist has one item that will rise in value, will be marketable, and will be in heavy demand: specialized knowledge. In some cases that knowledge will be so valuable that a hobby may become a new occupation for those men who take advantage of new conditions. For white collar workers, or those associated with heavy industries that will be hit hard by the economic controls, their skills in the home shop may be more profitable than their skills in the factory or office.

Why should this be the case? Because the official lines of supply will be increasingly empty of the desired goods and services. The black market—an inevitable effect of price controls—will begin to absorb the goods most heavily in demand. It always has in the past; there is little reason to expect anything different for the future. Those with power or prestige or other goods to trade will absorb the supplies, leaving the rest of the population to stand in long lines in front of half-empty stores. The difference between the demand (at the official, legal prices) and supply is where the hobbyist enters his glory. One thing which we can expect to see is that new household electrical appliances and similar manufactured goods will become more difficult to obtain. Governments always place price and wage controls over those industries that are large enough and "vital" enough to be worth the effort to control. All industries are not equally subject to controls. Controls are put on such things as mining, steel manufacture, metals of all sorts, electronics, and automobiles. (About the only industry generally left free in the past has been farming: it is a highly competitive market and constitutes a major voting bloc.) Local businesses involved in retailing any of these products are faced with a man-made crisis: shortages of goods and rising wage demands by employees. Capital flows out of these areas of the economy and into the so-called "luxury" trades: antiques, art collecting, coins, stamps, rare books, rare wines and liquors. All of these industries have experienced rapid price increases since 1965, the year inflation began to be felt by the general public. When price controls appear, *their expansion will be that much greater, as more and more people* pour a depreciating currency into goods that are not under price controls.

If manufactured goods, especially home appliances, get scarce, then the home repair expert experiences a bonanza. People have to make-do with the old washing machine or refrigerator. The day that price controls are declared, the intelligent buyer will go down and buy every $25-$50 used refrigerator he can store. He will buy old broken motors from junk stores. The junk store man, if he is smart, will try to increase his supplies, holding inventories for as long as possible, waiting for the economic boom. It will not be long in coming. When price controls are in effect, a startling effect is produced: the price differential between new and old goods begins to narrow. In some cases the differential may even shift in favor of the used goods: the used good is not under price controls, while the new good is. People can bid up the prices of used goods in a way that they cannot with the new goods. They can buy what they are willing to pay for—but only in the used goods market. If price controls were imposed in 1975, by 1980 a man might be able to triple his original investment. He could do far better if he were a repairman who had bought junk discards to begin with. That is a good return on one's money; the stock market will never match it, for controls invariably spell the death of blue chip capital stocks; it is these industries that are placed under the controls first. Controls, by definition, are intended to reduce profits.

The demand for repairs will skyrocket, but the larger unions—plumbing, plastering, carpentry—are likely to be placed under wage controls. Being more visible, and being organized into a guild, these fields will be more easily controlled by government boards of officials. The result will be a fantastic increase in labor's black market, or as it will be called (as it is called today), "moonlighting." A professional will spend as little time as possible on his official job, saving his skills and energy for his "underground" occupation. Even if the unions escape controls, the market for the amateur repairman will expand as people refuse to pay the going unionized wages. We have seen this take place already.

There is another factor to consider. A dollar saved is a lot more than a dollar earned. An earned dollar is subject to taxation; a saved dollar is not. As people begin to understand this basic economic fact, they will make use of their own skills, or their neighbor's skills, to get repairs done cheaply. We can expect to see neighborhood service exchanges set up, and woe unto the man who does not have a skill to exchange.

The demand for repair manuals and how-to-do-it books will increase, and so will prices for such publications. The smart individual will buy his 10-year subscription to a home repair magazine the day following the announcement of price controls. Editors of many popular magazines will begin to face basic changes in their economic parameters. Paper costs will either soar or else paper will become very scarce (due to controls); advertisers will not be willing to pay high prices for advertising, since all the goods they have to sell will be bought anyway. Men will advertise in order to obtain supplies; thus, the money will be made in classified advertising. The repair journals and the collectors' journals will reap the harvest of these subscriptions, for it will be through information in these hobby publications that men will find answers to critical problems. The man with specialized knowledge of these markets and these skills will be in the driver's seat.

Hobbyists will notice another phenomenon. There will be a vast new audience for the hobby industries. Being essentially "luxuries," they will be the industries free from controls. (The controls are at first reserved for "vital" industries.) With money to spend and few products to buy, people will begin to increase their expenditures on luxuries: travel, camping, entertainment, and all forms of do-it-yourself tools and materials. The amateur hobbyist who has amassed considerable knowledge over the last few years may find himself a professional, for knowledge is not a free economic good. It takes time, discipline, and usually money to obtain it. I would therefore expect to see amateur hobbyists establishing local informal schools (or perhaps even franchised schools) that would impart skilled knowledge at a price. Neighborhood evening schools will become common. Some men may have specialized libraries that can be made into reference libraries at a profit. Where there is heavy demand, some men will find a means of converting such demand into personal benefit. Knowledge does not come easily; it will not be sold cheaply.

This has led me to an odd conclusion (for a college instructor). The young man who has skills mechanically would be wise to stay out of college. He would be far wiser to get into a trade school, especially if he should have a skill that would not require highly specialized machinery. With some 8,000,000 young men and women on the college campuses today, there will be a glut of people holding college degrees. In fact, the glut is already quite visible. The automatic job for the man with the bachelor's degree is not automatic any longer, at least not at the older higher wage. The skilled craftsman is about to have his day. The man who can produce a thing of beauty or of use through his own genius, with simple tools and common materials, should find the coming decade exceptionally profitable. If he must sacrifice the false prestige of a college diploma in order to get such skills, the sacrifice ought to pay off in the future—perhaps the very near future.

The 1970's and the 1980's may well destroy the whole economic structure that is based on the "organization man"—the drone who substitutes activity for production, a glib tongue for knowledge. The days of the instant success through college are numbered; there are simply too many people in college for any monopolistic reward to be maintained by holders of the college degree. Men with skills and knowledge will continue to be paid well, but the skills and knowledge required for economic survival may not be those imparted by formal college instruction. And the riot conditions are not helping the situation, either. Prestige will come once more to the man who can build with his own hands, the creative person, the man who possesses operational knowledge of how simple things work. For that kind of man, the bonanza is about to begin.

[1973 NOTE: the reader may detect a contradiction between this essay and the previous one. In 1969 I wrote that trade unions, having political power, would escape the controls. So far, this has generally been the case: some unions have had raises as high as 33 percent (the supposed maximum under controls is 5 percent per annum). However, my 1971 statement may also prove true: after 1975, an anti-union backlash should appear, and controls will be applied vigorously. Trade unionism is in trouble.]

Chapter XIV

GRESHAM'S LAW REVISITED: THE COIN CRISIS OF 1964

[This is one of three articles of mine published by coin collecting journals in the United States. This one appeared in COINage *(Sept., 1969). Subsequent events would force me to modify it somewhat. The floating of the dollar and the halt in United States gold payments of August 15, 1971 officially took the dollar off the international gold standard. Mass inflation as a governmental policy finally took its inevitable course. The meaningless token devaluation of December 18 made it official: the increase in the supply of paper dollars had forced up the price of gold since its 1934 price was established at $35 per ounce. That "definitional" relationship—for every dollar outstanding, there is one thirty-fifth of an ounce of gold in the Treasury—had always been a joke, and the reality of the inflation finally forced Mr. Nixon's hand. He wasn't holding a full house, either; it was a pair of deuces. The devaluation meant nothing, since the United States is not about to pay out any gold, whether at $35 or $38 per ounce. The dollar is now what it has been domestically for decades: a fiat currency.]*

Since 1964 collectors have been made to feel "guilty" for the practice of hoarding coins having silver-content. In that year, the first of the great coin shortage, massive traffic jams occured on eastern turnpikes as drivers, short of change, waited at the entrances to have change made for them. Small red, white, and blue stickers appeared on cash registers across the country proclaiming "Coin Shortage—Use exact change." The treasury department even had puppeteer Shari Lewis make a short film clip asking parents to take their children's piggy-bank money down to the local bank and exchange it for paper. And the party who was responsible for making motorists wait, for frustrating the checkers at supermarkets, for taking away children's pennies? That's right, the miserly collector!

But was the collector really to blame? Did he do anything which could in any way be considered economically unsound? Apparently the government thought so, but then the government has always found it easier to blame its monetary difficulties on extremists: speculators, General De Gaulle (before his demise and even after) and, in 1964, the hoarders. In no case have officials admitted that economic law has anything to do with shortages. It is easier to blame some unnamed conspiracy. My favorite explanation was the "Great Vending Machine Caper." In 1964 vending machines, in addition to collectors, were accused of using up our available coins. Apparently they were eating up the coins and excreting paper money (although the machines tend to reject the sandwich coins, as you may have noticed, and never digest them as they did the silver coins). The public was expected to swallow this explanation, even as the machines were swallowing the coins.

But if not the coin machines and the collectors, who, then, is responsible? The answer lies with Gresham's Law.

The law, supposedly discovered by Sir Thomas Gresham, although never precisely formulated by him, states that, "Good money is driven out by bad money." During the period of 1559 to 1575 Gresham noticed that under the debasement of the currency during the reign of Henry VIII the value of the pound sterling fell by one-third when compared to the value of the Flemish monetary unit. Older, less debased coins were sent abroad, while only the debased coins circulated in England.

This observation was closely scrutinized by 19th-century economists, some of whom concluded that "Money which is artificially overvalued by a state edict will drive out of circulation money which is artificially undervalued by the state." Hence, the phenomenon described by Gresham's Law is merely a specific instance of price fixing by the government. Whenever a government decree sets a price for some economic good which is less than the good's market value, people hoard the particular good (or refuse to produce it). On the other hand when a good is overvalued by the State's edict, gluts of the product appear, since producers rush to produce it, but few people are willing to pay the higher price. The laws of human action govern monetary affairs just as they govern other economic decisions.

Members of some government agency concerned with monetary matters see that the free market has established an exchange ratio between silver and gold, say, 16 ounces of silver for one ounce of gold. The board then recommends that the government establish a *bimetallic* standard for the currency, one in which a *fixed* ratio between gold and silver is declared by fiat. A law is then passed requiring the public to maintain a 16 to one ratio between the two metals in all private transactions. The government also guarantees to exchange the two metals at this ratio at the Treasury. At first, nothing will be changed. But the free market's ratio between silver and gold can never be absolutely permanent. Like all other commodities, money metals are regulated by the forces of supply and demand. New gold or silver deposits are constantly being discovered; new mining and smelting processes make production cheaper for one metal or the other. For the sake of argument, let us imagine a situation in which several new gold mines are discovered. Gold begins to flow into the economy. With no increase in demand, the additional supplies of gold will force down the value of any given ounce of gold. If the market were truly free, prices in terms of gold would therefore rise. Now, perhaps, the market would establish that an ounce of gold is only worth 15 ounces of silver, rather than the older rate of one ounce for 16. The ratio is no more fixed than the ratio between gold and automobiles or silver and filet mignon. Nevertheless, the government insists that the old ratio be maintained. Anyone wishing to sell some item for one ounce of gold must also demand the full 16 ounces of silver. Yet the item is really worth only 15 ounces of silver. Anyone who wishes to purchase an ounce of gold with his silver must pay the full 16 ounces, when he wants to pay only 15. As a result, gold, which is now overvalued by the state, goes begging for silver in unsold surplus, while silver becomes scarce and disappears from circulation. Silver disappears to another country or area where it can be exchanged at the free market price, and gold, in turn, flows into the country. If the bimetallism is world-wide, then silver disappears into the "black market," and official open exchanges are made only in gold.

It should not be difficult to understand why this is so. If an individual has an opportunity to buy some good, and he can pay for it with an ounce of gold (actually worth 15 ounces of silver), he is unlikely to pay for the item with the 16 ounces of silver which the State demands that he pay; he will spend the ounce of gold. He will hoard the silver, or, if he should have the opportunity, he will purchase something from abroad where there is no requirement that he pay 16 ounces for an item worth only 15. The silver will consequently have a tendency to go into hoards or out of the country.

Another process occurs at the same time and for the same reasons. Foreign banks and governments will observe that the bimetallic nation has guaranteed all holders of gold to exchange that gold at the old 16 to one ratio. The national Treasury stands behind this promise. Foreigners can then take 15 ounces of silver to the free market of their country and purchase an ounce of gold. They can now take the ounce of gold and purchase 16 ounces of silver at the first nation's Treasury. A nice profit of one ounce of silver has been made on the transaction. Naturally the actual exchanges are in the millions of ounces, but the principle is the same. The Treasury officials in the bimetallic country soon find that their stores of silver are being rapidly depleted and that the Treasury is overstocked with the overvalued gold. Government price-fixing will do this every time: there is a glut of the overvalued good and shortage of the undervalued good. This process puts pressure on the bimetallic nation to revise its fixed ratio of 16 to one back toward the true market price of 15 to one; if this is not done, the Treasury will eventually run out of silver, and its guarantee to redeem gold with silver will no longer be meaningful.

The late Knut Wicksell, the Swedish economist, has summarized the whole question quite well:

> It can be readily seen that Gresham's Law, which in the opinion of many economists would make a fixed value ratio impossible between two metals both used as standards, is chiefly important as between different countries. If there is active commercial intercourse across the frontiers of two neighboring countries and if different ratios are established in them between full weight gold and silver coins, it is inevitable that each of the metals will sooner or later find its way to the country in which its value is relatively higher.

Bimetallism has never existed in any country. What has been the case is something more accurately described as a trimonetary standard: gold, silver, and paper government or bank notes that may or may not be fully redeemable in gold or silver. With the advent of paper money, the whole picture has been made far more complex. Credit devices and checking accounts have created a multiple monetary structure so confusing that only high speed computers seem capable of sorting things out, and even they occasionally break down in the face of the data. The principles remain the same, however; they will be the same even if the sea of paper is replaced by an avalanche of blips on computers.

Since 1934, American citizens have been prohibited from using gold coins as a means of exchange on the open market. The status of this executive order has been questionable legally, but it is a fact that gold no longer circulates as an official means of *domestic* exchange. This at least removes from the domestic scene the problem of fluctuating exchange ratio between gold and silver. But what we face now is more insidious than bimetallism. Our problem is that the federal government has asserted its self-proclaimed right to exercise monopolistic control over the nation's money mechanism. It delegates a part of this right to the quasi-national Federal Reserve System, but this is still within the framework of a legal monopoly.

This monopoly makes it possible for the State and its agents, the banks, to reap some monopolistic profits. For example, let us say that a State possesses three billion ounces of silver. In order to make things clear, let us assume that the state then prints up three billion paper bills, each of which is legally redeemable for one ounce of silver. The state now discovers that its official bills circulate as well as the silver would. So long as the state is considered fiscally trustworthy by the public, very few people ever come in and demand their silver. The state officials now see that they can print up even more bills, identical in appearance (other than serial numbers) with the first batch. This time, however, there is no silver available in case the public should demand full, immediate redemption of the bills. The state can now increase its expenditures without raising *visible* taxes: it can buy more goods, create more jobs, maintain "full employment," and keep voters happy—temporarily. Unfortunately for the planners, the debasement of the paper brings Gresham's Law into effect.

As we saw earlier, the artifically undervalued money (silver) is driven out of circulation by the artificially overvalued money (fractional reserve paper bills). This is simply bimetallism's old dilemma, only in a newer, more radical garb: it is impossible to maintain a fixed ratio between the value of silver and the value of the paper unless the number of paper bills is regulated to conform identically with the silver in reserve. But that, of course, would defeat the plans of the planners, since under those circumstances, they could spend no more money than they took into the Treasury through direct, visible, and legally proscribed taxes. *Gresham's Law operates, in short, whenever tax laws are superseded by State policies of inflation.*

In the initial stages of the inflation, the majority of citizens remain unaware of what is happening. The planners are still trusted, and there is no rush to claim the silver. The problem is not escaped for long. The increased supply of money (due to the influx of the unbacked paper bills) tends to drive up prices, including the price of raw silver. This rise in the aggregate price level reflects, among other things, a rise in the value of the silver contained in the nation's coinage. For example, say that the price of silver was 75 cents per ounce at the time when the new paper bills began to enter the economy. Imagine a silver coin which contains slightly less than a full ounce of silver, plus some other alloys to give it durability, strength, etc. As the inflation continues, the free market price of raw silver climbs steadily: 78 cents per ounce, 85 cents, 97 cents. This particular coin, which we may designate as a silver dollar, became a full-bodied coin, i.e., where the value of the silver it contained was equal to the face value of the coin, one dollar. When the price of silver climbed over $1.29 in 1964, the silver dollars went out of circulation. This was the result of Gresham's Law: why should a person spend a coin worth over a dollar in silver in order to purchase some item worth a dollar? He spent the paper dollar instead, and he hoarded (saved) the coin. The artificially overvalued paper drove out the artificially undervalued silver dollar.

It may be objected that most people were not aware of the fact that the silver dollar's silver content was worth more than a dollar. True enough, but a few did know: the coin collectors. They began buying up the coins from the banks. Even smaller denomination coins that would not become full-bodied until silver climbed to $1.38 per ounce began to disappear, as collectors anticipated a further rise in prices. A quick glance at the Readers' Guide to Periodical Literature under "coins" discloses the 1964 coin shortage crisis. The rush was on.

The depletion of our silver coinage has progressed steadily since 1964. The sandwich coins have replaced the silver coins. First the silver dollars went, followed by the half-dollars. Then the quarters disappeared, and by now few silver dimes are seen. When the Treasury ceased supporting the price of silver in the summer of 1967, the price soared from $1.38 to as high as $2.40 (the price has hovered around $1.90 in recent months, but this could change at any time). The Treasury's storehouse of pure silver is now part of history; their silver stock is gone.

The silver coin shortage is the domestic side of the international gold crisis. The policies of State inflation underlie both phenomena. In 1934, the government called in the gold coins before the policies of inflation began. (Actually, only a fraction of the coins were turned in: $9 billion of the $14 billion worth of coins stayed outside the Treasury's vaults. This, at least, is the unofficial estimate of leading men in the coin collecting world.) Though the public cannot use gold coins in exchange or own gold bullion, foreign governments can. The United States is still under the rule of gold, at least to some degree.* This is one of the few remaining restraints to domestic mass inflation: the government of this country does not want to be drained of its gold reserves by foreign governments and central banks, so some restraint is exercised in producing more unbacked, fiat money. Nevertheless, more and more central banks are finding it preferable to cash in their American stocks and bonds, exchanging their cash for gold at $35 per ounce. The establishment in March of 1968 of a "two-tier" gold

*This is no longer true, given August 15, 1971.

price, with limitations on who could demand gold from the Treasury, was a sign, that the pressures for redemption were becoming considerable.

It should not surprise us that the officials of the governments of the world should not admit that their own policies of domestic inflation have brought on the crisis in the international monetary system. As I have said, it is always easier to blame the crisis on various extremists: speculators, General De Gaulle, and the collectors.

I have always appreciated the words of the late Benjamin Anderson on the gold question:

> Complaints are always made about gold and the behavior of gold when there is irredeemable paper money. Under Gresham's Law, gold is hoarded, or leaves the country. It ceases to circulate, leaving the dishonored promissory note in possession of the field. Gold will stay only in countries which submit to its discipline. Gold is an unimaginative task-master. It demands that men and governments be honest. It demands that they keep their demand liabilities safely within the limits of their quick assets. It demands that they create no debts without seeing clearly how these deposits can be paid. If a country will do these things, gold will stay with it and will come to it from other countries which are not meeting the requirements. But when a country creates debt light-heartedly, when a central bank makes rates of discounts low and buys government securities to feed its money market, and permits an expansion of credit that goes into slow and illiquid assets, then gold grows nervous. Mobile capital funds of all kinds grow nervous. Foreigners withdraw their funds from it, and its own citizens send their liquid funds away for safety.

The flight of gold from one nation to another is linked by Dr. Anderson to the flight of capital and other liquid assets. This is the so-called "hot money" effect. People transfer funds from one country to another in an attempt to escape the possibility of confiscation by the government, either through direct appropriation or by means of the steady depreciation of the monetary unit. In the 1949 edition of *Human Action*, Professor Mises inserted a footnote, in which we read that "the hot money problem is not an American problem, as there is, under the present state of affairs, no country which a capitalist could deem safer refuge than the United States." That was in 1949. It is a silent testimony to both the inflation of our era and the validity of Gresham's Law that in the 1963 and subsequent editions, Dr. Mises saw fit to omit this particular footnote. Now it reads simply: "All this refers to European conditions. American conditions differ only technically, but not economically."

As the coins disappeared, the officials of the government blamed "speculators" (a dirty word used to describe those who merely try to forecast the future and plan for it) and "coin hoarders" for the shortage. That is like blaming a gun for a murder rather than the murderer. Had the government not pursued its policies of mass inflation, the coins (except for the scarce collectors' items) would still be visible. But officials do not like to face the results of their own policies. Collectors should not be made to feel guilty for their hobby. The charge of "hoarding" is not a legitimate one. As Prof. Murray Rothbard has written, "there is nothing at all antisocial about either 'hoarding' or 'dishoarding.' " In fact, "there is no theoretical way of defining 'hoarding' beyond a simple addition to one's cash balance in a certain period of time." If there is any guilt involved, the coin collector is not the one who should bear it. If the inflation should stop, and if earlier price levels should be restored, the coins will return to the market. Until then, the coin collector should feel free to pursue his hobby as he sees fit.

Chapter XV

MAKING MONEY OUT OF MONEY

[*Practical guidelines for survival in an age of mass inflation are seldom found in popular journals. They are generally confined to "extremist" magazines and newsletters. Therefore, I decided it would be a good idea to get the following essay published in as widely read a journal as possible. It appeared in the second issue of a new coin collecting magazine,* Coin Mart *(Winter, 1969). It covers much of the ground which I later set forth in the article, "Inflation and the Return of the Craftsman," but in this case I limited my comments to the area of coin collecting.*]

Prophets who deal in specific predictions are asking for trouble. It is too easy for people to check out the accuracy of the predictions when the time comes around for fulfillment. If a group has acted in terms of a prophecy, then a prophet has created a vested interest group which has even more reason to examine in minute detail the results. That is why any sensible market analyst covers his escape route with phrases like "if we assume the continuance of. . . ." and "should there be no interference with. . . ." An unqualified prophecy is rare, or so obvious that anyone could have done as well, such as "taxes will rise in the United States sometime during the next decade." The prophet must steer his way between the twin icebergs of the unknown specific and the mundanely obvious.

With this in mind, I will now make a specific prophecy: the opportunities for profits in the coin market over the next decade are numerous, the chances for a serious malinvestment are slight, and the time to act is now. The qualifications I would have to put on almost any other type of investment are unnecessary in the coin market. The real pitfall is greediness; if a man wants to get rich very quickly, he must risk getting poor just as rapidly. But a sensible collector—one who diversifies his purchases—can come up with a reasonable savings package in the coin market that is unrivaled in terms of safety and profit potential in any other market possessing a comparable ease of entry for the small-to-moderate investor.

The very wealthy investor can subscribe to expensive financial investment services, and thereby inform himself about possibilities for big profits (and losses) in international currency markets or in gold bullion. He can make an enormous amount of money; he can also lose a fortune. The very rich must find unorthodox ways of protecting their capital in an age of worldwide inflation, and the task is not easy. It takes a lot of knowledge and a lot of Di-Gel.

The small man has one psychological advantage: his horizons are more limited, of necessity, and therefore his worries are less. He can make a mistake in only ten ways instead of a hundred. But his problems are analogous. He must protect his capital, prepare for the future, survive in the present. He has only so many ways of doing this. Increasingly, it is being made difficult for him to play the stock market. If he is not willing to buy into a mutual fund, few brokers are willing to take his account. There are sound economic reasons for this: a half hour of the broker's time spent on a five hundred dollar investment is not being spent as profitably as a half hour's work on a million dollar account. But that means that another door is closed to the small, private investor. Given the success of the small man in the stock market, that restriction is probably a blessing in disguise. There are more pleasant ways to lose a buck.

The hobbyist has an ideal way of investing his surplus funds. He can take the pride of ownership that a stock owner has (one not usually available to a mutual fund owner); he can buy and sell, "play the market," swap, and simply sit back and watch the results of his own, personal decision. He can chart prices, try to outguess the experts, and reap his reward. This is true of many hobbies, but the coin collector's situation is ideal. His collection has enough uniqueness to reflect his own taste, yet is common enough to make possible a finely tuned marketing arrangement, with trade journals, wholesalers, and some degree of scientific planning possible. The more integrated the market, the easier it is to sell in an emergency. For the small investor, this is vitally important. A family disaster demands immediate attention; you need liquid investments—investments that can be converted into cash rapidly, and without a high penalty for conversion into currency.

The hobbyist who possesses a highly valuable commodity which is a direct product of his hobby: knowledge. Knowledge in this world does not come cheaply. We have to sacrifice time, energy, and usually money to learn something. Experience also is expensive. The hobbyist has acquired at least some of this knowledge as a kind of "spillover" from his real interest, namely, the pride in his collection itself. Now he can convert this knowledge of the market to predict more accurately the probable results of an investment. This cannot be done by a newcomer, in all likelihood, as successfully as by an old time hobbyist. Thus, as more and more outsiders enter the market in search of a sound inflation hedge, the hobbyist of today can convert his asset—knowledge—into very tangible returns. He can sell in an expanding market.

Which Coins?

A man should deal in the markets he knows best. You cannot be an expert in all aspects of the coin market, unless you are already a professional, and even professionals have their specialities. What you need is accurate knowledge of coin data, coupled with an ability to interpolate those data in the light of basic economic laws. The problem with the hobbyist is that he may know the specific markets, but he has never really grasped the laws under which those markets are operating. That is what distinguishes him from the professional investor. It is not that the professional has a lot of money, but the fact that he has specialized knowledge, that makes him a true professional. He may start out with less financial capital than some amateur, but he will not stay behind the amateur for very long.

Coins are valuable for two reasons. One is numismatic; a coin is so rare that it is no longer used as a general medium of exchange. Its uniqueness makes it too valuable to be used for general transactions by non-specialists. The other is due to the scarce metal the coin may contain. This type of coin is useful in two additional ways. A coin containing specie metal—gold, silver, and theoretically, though seldom in practice, other rare metals—is always acceptable as a means of ready exchange. Sometimes a second use is possible, namely, the melting down of the coin in order to retrieve the scarce metal. This is profitable when the value of the metal is greater than the face value of the coin. When this is true, Gresham's Law goes into effect; people will not spend the coins, since the purchasing power of the coins is less than the value of the metal content. The coins in question will disappear from general circulation. They will appear only on specialized markets for coin collectors and silver purchasers. This is what happened to the American silver coinage from 1963 through 1967.

Technically, there are two different kinds of coin markets within the overall framework of the coin collectors' market. The collector should know which submarket he is dealing with, why he is in either or both, and what he should expect from each.

Inflation

You cannot understand either of the two submarkets unless you understand what causes inflation and what the effects of inflation are.

Monetary inflation is defined simply as an increase of the money supply. It takes place, in modern times, in two ways, if we eliminate from discussion the new gold brought into production each year (a tiny fraction of the overall world money supply, and most of it now goes into private hoards, in any case). First, the government can print up new bills through its treasury. This is not the important increase, however. Most of the inflation comes through the various central banking systems of the nations. They are legally permitted to create a certain quantity of credit by fiat—literally out of nothing—to supply the government with loans and private banks with reserves to loan out to citizens. This is basic to all modern economics.

Since 1914, the world has seen so many wars, and so many increases in domestic spending projects, that the governments of the world have been afraid to pay for the increases through the imposition of direct taxes. They borrow from the central banks' fiat credit departments. The State does not get something for nothing, however; when the State increases its expenditures, prices tend to rise. This is price inflation, and it is a direct result of the earlier monetary inflation. People on fixed incomes are forced to reduce purchases. Small businesses either go into debt or are swallowed up by the large corporations that operate in terms of total indebtedness. Inflation is therefore the result of a centralization of power (the monopoly of credit creation), and it usually leads to economic centralization throughout the economy in question.

Price and Wage Controls

These measures are recommended by government bureaucrats in order to "stop the inflation." The cries of those hurt by the price inflation worry elected officials. They decide to impose controls on the symptoms, namely, price increases, without stopping the inflation of the monetary supply. The real cause of the trouble—State policies of inflation—are left alone by the State's officials.

What is the result of price and wage controls? The symptoms are pushed underground. The State can only control prices and wages of large-scale industries. No bureacracy is large enough or powerful enough to control all prices (as the Soviet planners had learned by 1920). Shortages therefore develop, as capitalists shift production out of areas controlled by the bureaucrats into the uncontrolled areas of the economy. Laborers quit their jobs in controlled sectors, and they wisely follow the flight of capital into uncontrolled zones. Major industries are caught in the middle: shortages of capital and labor, rising prices in the uncontrolled zones of the economy, and fixed prices for their products. The managers start cutting corners in order to survive: quality goes down, orders are not delivered on time, repairs promised are not made as scheduled. Profits sag, the stock market declines, or at least fails to keep pace with the true rate of monetary inflation. This is "repressed inflation" at its worst. Most people who have gone through a war know it only too well: long lines and few goods, rationing stamps, shortage of necessities, gluts of luxuries (the uncontrolled products). Production is stifled by the controls.

Here is where the hobbyist reaps his great monetary rewards. The hobby "industries" that deal with unique items that are no longer in production—antiques, coins, some kinds of stamps, vintage year wines—find that they are left relatively free from the controls. How can some bureau say what should be the true price of antiques or rare coins? How can it enforce its decision? Why should it bother with collectors? So those who have purchased coins beforehand now see the rush of the public to buy into the market. People who had ignored collectors' markets before now see that coins and other unique goods are excellent hedges against inflation (even in times when controls are absent) and the best possible investments when the controls are imposed elsewhere in the economy. The increase in the appreciation of the coins therefore matches the rate of inflation; later on, the increase will exceed the rate, as demand increases when people outside the market try to enter it. This can be seen in virtually every past inflation on record. As the inflation reaches dangerous proportions, the "flight into real values," as it is called, takes place. People know that if they hold onto depreciating money they will lose everything.

In the last stages of mass inflation, paper becomes worthless. People begin to barter for goods and services. These inflations are rare, and usually come during a war or immediately thereafter, but not always. At this point the man who owns a silver or gold coin is king. He does not sell coins for paper money; he buys goods with them. This, of course, involves the collapse of an economy. We can hope that the United States will never see this kind of thing. But there are some reasons to believe that it is not altogether impossible.

Mass Inflation or Depression

Once a government decides to inflate a currency, it has embarked on a tragic road. People get accustomed to rising prices. They plan ahead in terms of those increases. Businesses seem to be making money; profits seem to be increasing. People start buying now, paying later; entrepreneurs start ordering more capital equipment. They expect a continuing rise in orders for their goods, so they tool up for future increases in production. But the expected profits do not mature, because costs start rising, too. Capital equipment costs more; labor demands higher wages; strikes occur, if union demands are not met. In order for the "stimulating" effects of the inflationary "boom" to keep going, the government must resort to ever-larger doses of inflation. If it stops, businesses start showing losses; they fire some workers, or refuse to hire new ones; orders for new goods decline, as businesses rest on their inventories. What results is a depression. "Booms," in other words, turn into "busts" as soon as the inflation stops.

No modern government today likes to face the consequences of a recession or a depression. Europeans, however, have had so many mass inflations that they tend to accept depressions more readily than mass inflations. Americans reverse this rule. They had the great depression; they are less familiar with the total devastation of mass inflation. Therefore, they will not tolerate recessions. The men who are elected know this.

At this point I am prophesying. If I am wrong, we will see the present tight money conditions get worse. We will see a return of really serious unemployment problems, and probably rioting in the streets of the urban areas. We will see the failure of banks, the collapse of bond markets, and most likely the bankruptcy of many states. I do not expect this. Too many of our people have been reared in terms of the philosophy of a dollar down a dollar a week. They prefer inflation because they can pay off in cheaper dollars. They will push for more and more inflation if it is a question of inflation or depression (and it is). The inflation, I predict, will begin again, probably in late 1970, almost certainly in 1971 (if the Republicans want to avoid another 1932). After the inauguration of the President in 1973, we can expect a really serious inflationary trend to appear. Coin collectors should make their move before that time.

If the inflation is stopped, the downward spiral will begin. In this case, your bulk coins will be used for the same purpose as before, to buy necessities. If banks close their doors (as they will unless the State comes in and bails them out with more paper money, i.e., unless the inflation begins again), you will have a portion of your assets in cash. Cash will be a good investment in times of falling prices. Thus, the investment in bulk coins is the best possible hedge against both inflation and depression. Only if the economy stabilizes (and I do not believe that this is theoretically or practically possible, given the inflationary kick we are now on) will coins in bulk be a poor investment.

The numismatic coin will stand to lose value rapidly in a depression. That is why, dollar for dollar, the rare coin is a riskier investment than bulk coins. It will appreciate rapidly with inflation, but it will fall rapidly in a depression. As long as you are aware of this in advance, you can plan accordingly. The reason for the fall should be clear: a collector's pride and joy in prosperous times may be a luxury in a time of falling prices. Collectors will tend to dump their rare coins to meet current expenses of the family or outside business. This is to be expected. It is in no sense an irrational decision.

Conclusion

In times of change and crisis, you want a liquid asset that appreciates in value. The coin is a prime example of just this kind of asset. If a man expects times like these, then he should consider coins as one part of his overall investment package. Now is clearly the time to enter the market. The tight money conditions that have prevailed since Mr. Nixon took office have depressed the economy by tightening credit. Men have been forced to dump their coins in order to gain cash. Profits are being squeezed by rising costs of borrowed money, plus increasingly militant demands of labor unions, minority groups, and other dissident elements that are thinking in terms of the inflation of the earlier part of the decade. The coin market is presently depressed. When the inflation begins again, the market will reverse itself and shoot upward for as long as the inflation continues. And if my analysis so far is correct, that should be a long, long time.

Chapter XVI

THE NEXT COIN CRISIS

[Numismatic News Weekly *(March 24, 1970) published this article. Some of my predictions were accurate. The federal government did return to the policy of monetary inflation through deficit budgeting; in fact, it did so within a month of the publication of the essay. Chile has suffered from a crisis, as President Allende, the Marxist leader, expropriated American copper mines without remuneration. But the wide fluctuations in the copper market have not produced anything like the necessary $1.55 per pound to make the penny a full-bodied coin. Nevertheless, I am still convinced that my time schedule is not far off; the mid-1970's, or at least the late 1970's, should see the disappearance of the penny from circulation.*]

Another coin shortage is upon us. It has not yet reached the crisis stage, as it did with the silver coins in 1964, but it will, probably in the mid-1970's (possibly earlier). This time it involves the most familiar coin of all, the copper penny. It will not be long in circulation.

The public news media have not picked up the story, and it is unlikely that it will be picked up in the near future. But testimony offered by Eva Adams, the retired director of the mint, indicates that the shortage of pennies has already begun. Testifying before the House Subcommittee on Appropriations on April 25, 1969, and before the Senate Subcommittee in late May, Miss Adams made her point. Presenting a chart surveying the production of pennies in the United States since 1955, she commented to the House group:

"You will note from this chart that the amount of cents that normally flows back to the Federal Reserve Banks after the peak payment periods—holidays—is becoming progressively less, while the payments are becoming progressively more. In fiscal year 1968, the banks paid out 20 percent more in 1-cent pieces than they paid out in 1967, and during the first 10 weeks of the current calendar year, these payments have increased 22 percent over the payout for the same period last year."

Understandably, members of the committee were disturbed by this report. It sounds suspiciously like the situation which presented itself in 1963, and few legislators want to go through that kind of crisis again. The statistics are remarkable. From 1965 through 1968, the annual production of pennies averaged less than 3.5 billion coins. Yet the proposed estimate of the need in 1970 is 5.26 billion.

The estimate for 1971, as Adams informed the Senate group, is a staggering 6.5 billion pennies. While she denied that the shortage has reached crisis proportions, she indicated that the mint is having a difficult time in keeping pace with the demand for the token coin.

What is causing the shortage, she was asked. Frankly, she admitted, it is a bit of a mystery to the Treasury Department. Those who remember the official explanations of the 1963-67 crisis will no doubt recognize the explanation proposed by Miss Adams this time:

"I do think that, even though the government apparently profits from the fact that it produces pennies, and when they disappear and stay out of circulation indefinitely [because of seignorage, the difference between the cost of production of the penny and its higher face value, a profit that is rapidly shrinking as costs rist—G.N.], from the standpoint of responsibility and having its overall efficient operation, really the new people in the Treasury ought to spend some time studying the human aspects of this particular problem and see if we cannot come up with some solution for getting these pennies out of the penny jars and dresser drawers and the kids' collection boxes, or wherever they may be, and back into circulation.

"We try to get them to buy savings bonds with them instead of keeping them in the piggy bank. It is the men who put them in the top dresser drawer. I strongly concur in this recommendation, although this has been the subject of study for many, many years by everyone concerned. It is mysterious."

Those collectors who have watched the price of bulk silver coins rise over the past year may be skeptical about Miss Adams' proposal that savings bonds are a better investment than coins in an age of inflation. Still, she was doing what she believed to be right. But when she blames that old nemesis, the coin vending machine, for the government's problem, we cannot take her too seriously. It is a far too familiar explanation, only this time Miss Adams gets almost hysterical: "No one realizes the number of coins that goes into these monsters."

The problem with this is the fact that the Treasury officials never seem to remember: the same number of coins comes out of the machines as goes into them. And a vendor takes the coins to the banks far more readily than the average citizen: his profits come, literally, from nickels and dimes. Besides, how many machines still use pennies? When was the last time you could buy something, other than a few minutes of parking space, with a penny?

All of this speculation by the Treasury officials is pure "flack" (the newspaper term for public pronouncements). The phenomenon which the Treasury is facing is a very old one. The real explanation of why the pennies are disappearing is tied to an economic law generally associated with the name of Queen Elizabeth I's economic advisor, Sir Thomas Gresham.

In an earlier article, I surveyed the causes of the silver coin shortage of 1963-67. The same phenomenon was recognized by Gresham in the late 16th century, although he failed to explain it, namely, that "bad money drives good money out of circulation." Later economists were able to explain why this is so: it is still true in 1970.

A monetary unit which is overvalued by the State will drive any undervalued unit (undervalued in terms of what free men believe it to be worth in their voluntary economic transactions) into hoards or out of the nation. People will not spend a coin like a silver dollar on some item which costs a dollar if the value of the coin's silver content exceeds a dollar. They will hoard the coin, or sell it to a silver smelter at a premium, or sell it to another collector at a premium, or spend it in some foreign country that recognizes the increased value of the coin. They will spend only the lower valued coins, or paper money, on the regular markets. Thus, the "bad money" drives the "good money" (hard currency) out of circulation.

Gresham's Law goes into effect when the State's policy of monetary inflation (spending more money than taxes bring in, and covering the difference with fiat paper or credit money) is in operation. The more plentiful the unbacked money is, the less valuable each individual paper bill is (supply and demand). Prices in terms of the paper currency rise; prices of gold, silver, and copper also rise, assuming that price controls are not imposed (and if they are, shortages of the metal appear). When the value of the metal content of the coins exceeds the face value of the coins, they go out of circulation.

The penny is next on the timetable for departure. When the market price of copper climbs to $1.54 per pound, the penny will become a "full-bodied coin," that is, the value of its metal content will be equal to the value of its legal purchasing power, one cent. When the price of copper exceeds $1.54 per pound, it will become profitable to hoard the coins. For the more technically-minded reader, I include the calculations provided to me in a letter from Eva Adams: "The 1-cent coin weighs .1 troy ounce or 3.11 grams and is of an alloy of 95 percent copper and 5 percent zinc. Therefore, each

1-cent coin contains .095 troy ounces of copper. There are 14.5833+ troy ounces in an avoirdupois pound. By dividing the 14.5833 by .095 you arrive at 154, which is the number of 1-cent coins that can be made from a pound of copper."

Obviously, most of the American public will be unaware of all this. Most people were unaware of the relationship between silver prices and silver coins from 1963 through 1967; nevertheless, the silver coins disappeared from circulation. Many collectors did know, and silver producers and consumers knew; this is all that it took. The same holds true with the copper penny.

Actually, the price of raw copper will not have to go as high as $1.55 per pound to begin to drive the pennies out of circulation. The price of silver did not reach the $1.38 per ounce level necessary to make our silver coinage full-bodied coinage until the Treasury stopped the unlimited dumping of its silver supplies onto the market in June of 1966. Speculators years before had become convinced that this decision was inevitable, given the fact that world consumption of silver was double world production; prices had to catch up sooner or later, especially when the U.S. Treasury ran out of silver to dump.

The disappearance of the silver dollar in 1963-64 only heightened this anticipation. (Silver dollars became full-bodied coins when the price hit $1.29 per ounce, since their silver content was greater, proportionately, than lesser silver coins.)

Depending upon the awareness of collectors concerning Gresham's Law, the speed of the increase in copper prices, and the ability of the government to hide what is happening, the pennies should begin to disappear rapidly sometime before the $1.55 per pound price is reached, possibly when copper hits the $1.49 per pound level. Some people will anticipate a further rise in price, and will therefore begin to add to their stock of hoarded pennies before they have to pay a price premium over face value.

The price of copper has been hovering around 70 cents per pound in recent months (as of early February, 1970). Thus, a doubling of the price will be necessary to bring my prediction to fruition. How wild a speculation am I proposing? To assess what the possibilities are on the copper markets, the reader may find the following information useful.

In 1960, copper was selling for 32 cents per pound. It climbed slowly to the 1965 price of 35 cents. In the summer of 1967, just as the massive walkout of copper employees was beginning, the price was 38 cents. Since that time, the price of copper on the New York market has skyrocketed by more than 80 percent, to 70 cents.

Nevertheless, the Treasury Department does not expect (publicly) such an increase to continue in the near future, as the August 19, 1969 letter from Eva Adams to me indicates: "The cost of the metal in the 1-cent coin is substantially less than the value of the coin, and therefore there is no need for seeking a change in the legislation by the Treasury Department." Why should I evaluate the economic situation in such a radically different way?

Two assumptions lie behind my expectation: 1) there is such a thing as economic law; and 2) the federal government will not be able to withstand the pressures for increased expenditures, and its present policies of balanced budgets and mild inflation will be reversed soon. I will not try to defend the first assumption; the coin collector who denies it ought to sell his coins and go into home gardening. The second assumption needs an explanation.

The government of the United States is politically committed to a philosophy of governmental welfare. With the Keynesian (just for the record, that word is pronounced CANES-ee-an) and neo-Keynesian revolutions in economic thought, the welfare goal has become linked directly to the goal of economic growth. This philosophy of economic "growthsmanship" rests on a further assumption, namely, that the free market is incapable of creating rapid economic growth through its equilibriating device, the price mechanism.

Thus, we are told, the government must enter the market and make purchases with newly created credit or fiat currency in order to stimulate economic growth. Unfortunately for this theory, if the printing presses stop, and the monetary inflation slows, the "boom" turns into a "bust," just as it did in 1929: production slows, money gets "tight" (i.e., interest rates go up), unemployment rises, new construction ceases, and large blocs of minority groups vote for the political party which is out of power.

Given the fact that almost everyone is a member of some kind of "minority group," the results at the polls can be politically disastrous for the incumbent party. So we find that in the conflict among the competing economic goals—welfare, economic growth, and stable prices—the latter invariably gets sacrificed in mid-twentieth century America.

There is another factor. The demands for increased welfare spending by all levels of government are becoming prominent. Present programs are to be expanded and new ones added. Welfare costs doubled, at the very minimum, during the decade of the 1960's. In order to finance this expansion, as well as to pay for the war in Viet Nam, the government turned to the printing presses.

The total monthly supply in December, 1958—checks, coins, currency and savings deposits that are supposedly available on demand—was $206 billion; by the end of 1968 it had climbed to over $396 billion, a 92 percent increase. The administration informed us last August that, even if the war ends soon, there will be no funds released for welfare payments; the military budgets will remain high. Tax relief of any meaningful kind seems a remote possibility. If new welfare demands are met, it will have to be through increased deficits financed with fiat money.

State governments are at a disadvantage in meeting welfare demands. They are not permitted to create new money through a national banking system. At best, they can borrow from banks that have the power to create money, but they cannot force the banks to accept state bonds. In order to survive, the states must pay high interest rates that keep getting higher as inflation continues.

Fewer and fewer investors are interested in low-interest state bonds, and if the federal government revokes the tax-free status of state and municipal bonds (as some federal officials advise), the crisis in state financing will become a total catastrophe. There is a taxpayers' revolt in operation, complicating the problem of the local and state governments. So local governments are frantically trying to have the state governments help foot local bills (especially the urban welfare and education costs), while the state governments are trying, just as frantically, to get the federal government to pick up the states' welfare burdens.

Thus, at the 1969 governors' conference held in Colorado, only one governor out of the fifty voted against the centralization of welfare payments; that governor was Lester Maddox of Georgia, who is presently involved in a state's rights battle with Washington.

What we are witnessing is a kind of "scissors effect." The federal government is facing a taxpayers' revolt on the one hand, and rising demands for increased domestic welfare expenditures coupled with heavy foreign obligations. The answer to the income-outflow dilemma which governments have offered since the fall of the Roman Empire has been to hide the true rate of taxation with the invisible tax of inflation. Then the government can put the blame for high prices on the speculators, capitalists, and other "undesirables" who are merely trying to stay afloat economically in an ocean of government-sponsored inflationary money.

It is my firm belief, based on statements made by top administration economists, that the present attempt to retard inflation by the only legitimate means, namely, by restricting the increase of the money supply, will have ended by late 1970 (if not sooner) and undoubtedly will be over in 1971. We are about to see a new round of inflation, this time on an unprecedented level for peacetime America.

Five nations account for over 80 percent of the free world's production of copper: the U.S.A., Canada, Zambia, Chile, and the Congo. Canada's economy is so closely tied to ours that our domestic inflation will tend to be "exported" to Canada; as our prices climb, we will tend to import goods from Canada (especially raw materials like copper), thus equalizing the two national price levels. Conditions in Zambia, Chile, and the Congo are not easily forseen, but a safe estimate would be for increased revolutionary pressures on the three governments, and the likelihood of the nationalization of mining industries where this has not already taken place. Both are bad for production. With falling production and stable or increased demands for copper by the industrial nations, the price of copper ought to rise.

For these reasons, collectors would be wise to check the commodities section of their newspapers' financial pages. Copper prices (not, by the way, the less important "non-ferrous copper" listing) are listed there, and they should be checked at least once a month. Collectors should watch for any indication of an upward movement in prices that continues for more than a few months.

There is, of course, the ever-present threat of price controls. A large industry like copper mining and production is always subject to governmental pressures, both "voluntary" and involuntary, to hold down selling prices, just as the steel industry is. The disastrous effects of the employees' strike of 1967-68 will serve as a warning to company managers not to resist wage demands in the future. As a result, the industry could easily be caught in a wage-price squeeze, cutting profits to a minimum, or even producing losses. Price and wage controls inevitably lead to shortages, rationing, and other economic rigidities. Production is stifled.

If policies of monetary inflation are maintained, and if price controls are imposed, the results will be the creation of black markets of the controlled commodities. Thus, even if the official price of copper is kept below the $1.55 level through the imposition of price controls, there will be a market for pennies. Gresham's Law, that "bad money" or "soft money" will drive "hard" currency out of circulation, stays in effect.

There will be a further inducement for the Treasury to abandon the copper penny. As inflation continues, the penny carries less and less overall weight in the economy. Even today, the penny is primarily a tax coin, used either in sales taxes or as coin meter parking devices. (These, it should be noted, are meters used to allocate parking space far more than they are revenue devices.) As larger token coins replace the penny, people will not notice the loss of the copper when it is time to debase the coin. If the penny meters are replaced by nickel or dime meters, redesigning the penny will not be so difficult a task. There should not be much resistance to the debased coin.

Collectors should respect the value of bulk copper pennies as an inflation hedge. If mass inflation comes, as it could by the late 1970's or early 1980's, the penny will prove to be a sound investment, if only as a survival coin. You may not want to spend the more precious silver coin for some product if your change will be made in debased coins or cheap paper. The copper coin may serve this purpose.

An example of the value of the penny was brought home to me by the Rev. R. J. Rushdoony. The Rev. Karl Treutz, minister of the Protestant church of Geislingen am Kocher, Germany, during World War II, saw what Hitler's inflation was doing to the economy. From his experience in the German inflation of the early 1920's, he knew that silver coins would be difficult to collect, and perhaps illegal to hoard, so he concentrated on collecting copper coins. He would remove the coins from the collection plate, replacing them with the paper money of his salary (the coins would have gone to the bank, in any case). By the time the war ended, he had a bathtub full of copper coins, and he was able to survive the ravages of the postwar inflation and shortages without much inconvenience. Those effects were terrible for most other Germans. The head of Abby Rents in California began his multimillion dollar collection of Bibles in these years; a desperate German sold him an original Gutenberg Bible for $50, American. It is now worth over a million dollars.

Planning at this stage may be very profitable later. One's planning in terms of economic law would be wiser than planning in terms of Treasury Department explanations. As Senator Yarborough of Texas said to Miss Adams (referring to the questionable information distributed by the Treasury in regard to the silver certificates and their redemption): "It has left a legacy of people not believing. They say you can't trust what they are going to tell about the money now."

He who has ears to hear, as the Bible says, let him hear.

Chapter XVII

THE ETHICS OF MONETARY HOARDING

[*"The Ethics of Monetary Hoarding" was printed as a chapter in my booklet,* Monetary Hoarding: The Economics of Survival *(1966). It is offered here as a defense of the practical recommendations I offer concerning the hoarding of coins as a sensible program of Christian investment.*]

Whenever the inexorable logic of Gresham's Law is presented to any group of average citizens, someone invariably raises the question of the morality of the hoarding of gold and silver coins. The logic of economic theory cannot be escaped, so these people attempt to escape logic by an appeal to a higher court, the court of moral action. I am not denying that in some circumstances such an appeal is legitimate. The market, for example, may sanction prostitution, but this should not inhibit the State from passing strict laws against prostitution. What I hope to show is that in this case the "higher court" of morality, especially biblical morality, will uphold the decision of the market. The hoarding of money metals, in other words, is not only economically wise in today's world, but it is also morally sound.

Once again, it is necessary to re-emphasize the fact that the necessity of hoarding money metals is forced upon the public by the State bureaucrats who insist on debasing (inflating) the circulating media. If anything should be labeled "immoral" it is the policy of "theft through inflation" which is so popular within government circles. If private hoarding of silver coins is somehow immoral, what should we call those State inflationary policies that make such hoarding necessary? This question is seldom raised by those "morally indignant" souls who criticize monetary hoarding.

Modern governments have done their best to separate their currencies and credit systems from gold and silver. They have been more successful domestically than they have been internationally. The reason is fairly obvious: domestic populations are far more trusting of their country's monetary policies than foreign governments are. Domestic populations are not so ready to demand silver and gold (assuming they are legally able to do so) as foreign governments are. A civil government can make its currency irredeemable domestically, and *for a time* its citizens will not grow suspicious. If the same government announces that its currency is irredeemable internationally, foreigners are immediately suspicious, and for good reason. If citizens were as suspicious of their own government planners as the planners of other governments are, there would be far less inflation in the world (and consequently fewer depressions).

Those self-righteous individuals who criticize domestic monetary hoarding are supremely trusting in the good will and good planning of their State bureaucrats. In their view, the State's money manipulators are far more competent than the free market in the regulation of monetary affairs. They would be wise to consider carefully the warning of Professor Wilhelm Roepke, the chief theoretical economist behind Germany's post-war economic recovery:

> The determination of whether the control of the quantity of money should be submitted to the automatic forces of gold and silver production or to the conscious decree of the government is one of the cardinal problems confronting those entrusted with the making of monetary policy and upon the answer to which depends the choice of the particular monetary system in each case. A liberal—one (in Europe) who puts his trust in economic laws rather than in the whims of government—will generally opt for the tied or automatic standard. A collectivist—one who is willing to trust the caprice of the government over natural economic forces—will prefer the untied or manipulated standard. Since, however, the linking of money to a precious metal implies a much stricter control over the quantity of money than can be expected from arbitrary government regulation, we find that, paradoxically, it is the (European) liberal who, in monetary matters at least, demands a discipline far stricter than the collectivist.[1]

If money ceases to be scarce, it simultaneously ceases to be money. Money, by definition, requires scarcity. Obviously, air will not function as money (unless it is in some environment in which it is scarce—on the top of Everest or in a submarine). This is why silver and especially gold have served mankind's monetary needs for so many centuries. They are both in short supply, and their value is maintained. Paper is not very scarce. It is vastly easier for a government *printing office to print a million $100 bills than it is* for a miner to mine $100 millons worth of gold. Statists may blindly trust the civil government in its handling of monetary matters, but historically governments have proved unreliable in resisting the temptations to

1. Wilhelm Roepke, *Economics of the Free Society* (Chicago: Regnery, 1963), p. 100.

inflate the domestic currency. Gold miners, while no more moral than State officials (necessarily), cannot follow suit; gold is too difficult to counterfeit. This is why Roepke can write:

> The most finely-spun theories on the stupidity of the gold standard, all the clever satires on mankind's frenetic digging for the yellow metal, and all the ingenious schemes for creating a goldless money will never change the truly remarkable fact that for thousands of years men have continued to regard gold as the commodity of highest and surest worth and as the most secure anchor of wealth. It is this stubborn fact that continues to make the gold standard the best and most eminently useful of all monetary systems.[2]

In short, the State planners are the culprits, not the so-called "hoarders." The State is destroying our money; hoarders are only trying to preserve their futures by hanging on to their permanent money: precious metals.

The Definition of Hoarding

This raises the whole problem of defining what hoarding is. If it is something especially immoral, how are we to recognize it? The answer, from the economic point of view, is quite simple: *hoarding* cannot in any way be distinguished from *saving*. As Dr. Murray Rothbard has explained:

> The very word "hoarding" is a most inappropriate one to use in economics, since it is laden with connotations of vicious antisocial action. But there is nothing at all antisocial about either "hoarding" or "dishoarding. . . ." Furthermore, there is no theoretical way of defining "hoarding" beyond a simple addition of one's cash balance in a certain period of time. Yet most writers use the term in a normative fashion, implying that there is some vague standard below which a cash balance is legitimate and above which it is antisocial and vicious. But any quantitative limit set on the demand-for-money schedule would be completely arbitrary.[3]

Is a man guilty of "hoarding" when he has three dimes and four quarters in his pocket (i.e., in his "cash balance")? If he has $10 in change, is this immoral? If having $100 in silver at home is immoral, at what point can we declare that the immorality begins? From the point of view of economic theory, no such point exists.

Also, one should bear in mind this fact: if inflation is a positive evil, then the hoarding of monetary metals is by definition a good

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2. *Ibid.*, p. 102.
3. Murray N. Rothbard, *Man, Economy and State* (Princeton: Van Nostrand, 1962), II, 680. This book has been reprinted by Nash Publishing Co., Los Angeles.

thing, a highly moral act. Hoarding of coins takes money out of circulation, and this helps to reduce inflationary pressures. One is not hurting the vending machine operators, since the sandwich coins can be used for these purchases. People are only hoarding silver coins, not the sandwich coins. Inflationists, of course, do not see inflation as an evil; they see it as a positive good. In their eyes, inflation is a positive blessing conferred upon the public by the State (although private counterfeiting is somehow immoral). Naturally, they see monetary hoarding as an evil, as indeed it is if one accepts their original premise, that inflation is good. But one should realize that it is *only* on these grounds that monetary hoarding is immoral. Anyone who blissfully labels the monetary hoarder as some kind of moral degenerate should first make certain that he favors government counterfeiting as an ethically righteous policy.

The reader may have noticed that I keep referring to *monetary* hoarding. I have done so deliberately. The hoarding of money is in no way comparable to the hoarding of consumption goods during a siege or some other disaster. The reason that we can distinguish between two kinds of hoarding stems from a fact of economic theory: the market always makes full use of the prevailing amount of money that is present at any given time. Rothbard shows why this is true:

> Goods are useful and scarce, and any increment in goods is a social benefit. But money is useful not directly, but only in exchanges. . . . When there is less money, the exchange-value of the monetary unit rises; when there is more money, the exchange-value of the monetary unit falls. We conclude that there is no such thing as "too little" or "too much" money, *that, whatever the social money stock, the benefits of money are always utilized to the maximum extent.* An increase in the supply of money confers no social benefit whatever. . . . For money is used only for its purchasing power in exchange, and an increase in the money stock simply dilutes the purchasing power of each monetary unit.[4]

As a Christian, I cannot accept Rothbard's idea that any and all consumer goods confer social benefits (brothels, for example), but his general observation is a sound one: whatever the social money stock, the benefits of money are fully utilized. And the *social money stock* includes the *money in hoards.* Money, actually, is never in circulation, if by circulation one means the kind of circulation found in the flow of blood in the veins. Circulation is a term used by economists which has been borrowed from biology, but it is not an altogether accurate term. When a person takes a coin from his pocket (his "cash balance") and presents it to a store owner, the coin now

4. *Ibid.*, II, 670. Cf. North, "Gold's Dust," *The Freeman* (Oct., 1969) [chap. 4, above].

rests in the *seller's* cash balance. The coin is always in *someone's* cash balance for some period of time. Again, the whole problem of definition arises: how much time is moral, and when does it constitute hoarding?

In order to demonstrate the difference between the hoarding of silver (an exchange good) during inflationary times, and the hoarding of consumer goods during a siege, let us consider a pair of examples. First, the case of a hoarder who has taken money out of circulation. Insofar as this action was registered at all on the market, it tended to lower the prices of consumer goods. At least, it kept them from rising as fast as they might have in the absence of his hoarding. He therefore has enabled someone else to purchase the goods, since he himself did not choose to buy any of them. Had he refused to hoard the silver, i.e., had he spent the silver, he would have taken consumer goods *out of the market,* away from others living in the community. In other words, the hoarding of money leaves more consumer goods available to others who wish to purchase them; conversely, the dishoarding (spending) of money removes consumer goods from the market. In the second case, the case when one's own community is under a siege or involved in some disaster, the hoarding of surplus consumer goods may be immoral, since these might save other lives or alleviate real misery. The addition of these consumer goods would confer a social benefit to others, as the addition of consumer goods always confers a social benefit (assuming that the goods are morally sound). The two cases are not the same. In hoarding silver, one man has kept an exchange good which is legally his, while someone else has kept a consumer good. No exchange has taken place; no one can complain. There is no charity involved in either spending or hoarding, and no social benefit could be attained by legally forcing the hoarder to spend his silver, since this would only tend to increase the price level.

The dishoarding of silver involves an exchange: an exchange good for a consumer good. The enforced (or even voluntary) dishoarding of consumer goods during a catastrophe does *not* involve an exchange: the new goods are added to the community's storehouse. In other words, the hoarding of an exchange good during a period of inflation is fundamentally different from the hoarding of a consumer good during a siege, and the term "dishoarding" involves two different types of action as well. The hoarders of consumer goods during a siege may be hurting the community, but in inflationary times it is the State itself which is harming the community, not the silver hoarders. If the State were not hurting the economy, then, by definition, there would be no silver hoarders (apart from hobbyists who collect coins for pleasure, but who must pay money to buy them). No one needs to hoard money metals if the State is not debauching the currency. Thus, those who attack "hoarding in general" on moral grounds are making a serious error. There is nothing immoral involved when a person voluntarily withdraws silver from circulation, since he is enabling others to buy the consumer goods he leaves on the market. If some kinds of hoarding are immoral, this is not one of them.

If the preceding analysis is incorrect, then we must ask this question: Who, exactly, is harmed when someone else voluntarily decides not to spend any of his silver? Who is wronged morally when another person decides that he does not wish to trade his silver for a consumer good? The inflationist might argue that those who receive no sales are really harmed, and therefore hoarding hurts the economy. How true is this? If, as the inflationists also claim, all money is the same, and it is only "irrational" people who hoard silver and gold, then they should have little to fear. With inflation continuing at its present rate, the percentage of money metals within the economy really does not account for much. If all money is the same, then the few "irrational" hoarders will do little harm, since the tiny stock of metals they hoard makes up so small a part of the total money supply. Very few people are harmed from the loss of sales from silver hoarders (gold hoarders count not at all, since Americans are not permitted to spend their gold anyway). If, on the other hand, silver and gold hoarders *are* important, then the original assumption of the inflationists is exploded. In other words, there *are* differences between unbacked paper money and money metals. In that case, the hoarder is acting morally, for he is saving the coins for the day when the whole paper and credit structure will collapse; his actions prepare him and his family for the day when a monetary reconstruction will be possible. In either case, the arguments of the inflationists and anti-hoarders are ridiculous. They are nonsense. They should be ignored as the delusions of money debauchers who are bent on destroying modern civilization. That destruction may be imminent. Jacques Rueff has sounded the warning, and as one of De Gaulle's chief economic advisors, he should not be ignored:

> Since 1945, we have again been setting up the mechanism that, unquestionably, triggered the disaster of 1929-1933 [the "gold-exchange" standard—G.N.]. We are now watching the consequences, as they follow in their ineluctable course. It is up to us to decide whether we are going to let our civilization drift farther towards the inevitable catastrophe. For those with foresight, our most pressing duty at this juncture is to impress on Western thinking that monetary matters are serious, that they require

> deliberate consideration and should be dealt with systematically. . . . Mankind is seeking—and waiting for—a leader who will display the courage and intelligence required to rescue us. If such a leader does not exist, or if political circumstances prevent him from emerging, man's destruction is as inevitable as that of a man falling from the roof of a skyscraper.[5]

In short, it is no more immoral for a person to refuse to spend his silver coins this year, in the confidence that in some future year the silver will be worth vastly more than the inflated paper, than it is for a person to refrain from spending money on a product today because he expects a clearance sale to be announced next week. The two situations are identical, with this one proviso: his family may live or die by his decision to hoard silver or not to hoard it. The *principle* is the same in each case, and one can be condemned no less (or no more) than the other.

Jesus' Parable of the Talents

The parable of the talents, as related by Jesus in Matthew 25, cannot be used to condemn the hoarding of silver and gold. Initially, it may look as if this passage forbids hoarding as such, but this is a misreading of its meaning. The parable assumes a period in which there is little or no inflation. Jesus is trying to demonstrate a spiritual principle by means of an earthly parallel. He is trying to show the disciples that they should spread the light that they have been given. The kingdom of God is a growing one, and it demands one's investment of time in the spreading of the truth. We must not bury the truth we have been given. We must not hide our lights under a basket. Jesus uses the example of the lord who gives his servants some gold coins—talents—to invest while he is away. When he returns, he finds that some have invested his money wisely, and he rewards them by giving them responsibilities comparable to the profits that their investments earned. One man, however, feared that he might invest wrongly, and so he buried the coin. He was reprimanded by the lord, who pointed out that at least the money could have been invested at interest. The parable therefore assumes that the rate of interest was enough to compensate for any prevailing trend of inflation. In a situation where the risks of confiscation through inflation exceed the going rate of interest, it would be foolish to deposit the money in a bank. The risks are too great. Next year, the coin might be able to buy more goods than the paper money plus interest could buy. In that case, the servant would be *depriving* his lord of the latter's goods if he *refused* to bury the coin. In times of heavy in-

5. Jacques Rueff, *The Age of Inflation* (Chicago: Regnery, 1964), p. xiii.

flation, monetary hoarding is a form of investment; it repays the saver more in the future than the interest returns at some bank would repay. In other words, in today's world, the *good* servant is the one who *buries* his gold or silver talent!

The Philosophy of Inflation: John Law

The first mass inflationist of the modern world was a Frenchman named John Law. He governed France's monetary affairs in the 1720's, and his policies almost destroyed the French economy. For this reason, it is profitable to examine Law's concept of the State's role in money creation and his ideas concerning the "crime" of hoarding money metals. In his *History of Monetary and Credit Theory* (1940), the late French economist Charles Rist quotes a lengthy extract from Law's writings:

> The prince has direct power over those who lock away and conceal coin, for this coin is the property of individuals only as a means of circulation, and they have no right to make it their own in any other sense; . . . All the coin of the Kingdom belongs to the State, represented in France by the King; it belongs to him precisely the same way as the high roads do, not that he may appropriate them as his own property, but in order to prevent others doing so, and as it is one of the rights of the King, and the King alone, to make changes in the highways for the benefit of the public, of which he (or his officers) is the sole judge, so it is also one of his rights to change the gold or silver coin into other exchange tokens, of greater benefit to the public, which he himself will accept as he accepted the others; that is the position of the present government.[6]

In other words, the king, and the State he represents, has a legal and moral right to debase the currency, fix exchange rates, and generally to manipulate the monetary standard. This, of course, will bring Gresham's Law into action, and people will naturally tend to hoard the artificially undervalued coins. This, Law continues, is something which will not be permitted under any circumstances. Like the inflationists who have followed him, he denied the right of private property to the citizenry; all people who oppose monetary hoarding are essentially making the denial, but Law was more honest and more forthright in stating his position:

> However, as the coin of gold and silver bears the image of the prince or some other public mark, and as those who keep this coin under lock and key regard it as exchange tokens, the prince has every right to compel them to surrender it, as failing to put this good to its proper use. The prince has this right even

6. Charles Rist, *History of Monetary and Credit Theory* (New York: Macmillan, 1940), pp. 59-60.

> over goods which are your own property, and he can compel you to sow your land and repair your houses on pain of losing them; because, at bottom, your goods are yours only on condition that you use them in a manner advantageous to the community. But, in order to avoid the searches and confiscations of money, it would be better to go at once to the source of evil, and to give men only that kind of money which they will not be tempted to hoard.[7]

The State owns your property, your life, and your future. A person only holds a lease on his life, but the State may choose to alter the conditions of that lease at any time. The real evil in the community is not the king's insisting that the currency be debased, but rather the stubborn refusal of the general public to accept the new terms of trade. The public is the culprit in hoarding, not the king in debasing. So let us go to the root of the evil; let us print nothing but paper money, which will be so worthless that no one will want to hoard it. This is the most blatant statement of the inflationist position which can be found in economic literature, and it is fitting that the first of the "great" inflationists had the honor of stating the position. As Rist comments:

> Never in the age-old struggle between the State, bent on making counterfeit money, and individuals defending their fortune against its exactions, have the implications of a tyrannical idea been followed with greater logic. The right to the ownership of money has never been denied with a more thorough cynicism, nor the right of the State over the goods of its subjects affirmed with less hypocrisy. Is it necessary to point out the similarity between these formulas and some of those advocated in our own day?[8]

The inflationists, and all those who support their position by claiming that monetary hoarding is somehow immoral, claim for the State absolute authority in the area of monetary affairs. What they are really claiming is the State's right to the total control of all production and distribution, since the control of money gives the State's official planners the power to control the common denominator of all economic transactions: money. It involves a virtual deification of the State in the area of economic planning, attributing to State monetary manipulators an omniscience which is denied to ordinary mortals. Any attempt upon the part of the citizenry to defend themselves against the State's planners is met with the wrath of the debasers. This hostility is in direct proportion to the extent of the prevailing inflation. In Law's day, the hostility was quite open;

7. *Ibid.*, p. 60.
8. *Ibid.*

in the latter days of the French Revolution, the hostility was nothing short of savage. As Andrew Dickson White reports in his *Fiat Money Inflation in France,* any shopkeeper who was found charging two prices, one in terms of gold and the other in terms of the inflated *assignats,* could be sentenced to six months in prison. If he were caught a second time, the penalty was immediate execution.

The attack on those who hoard specie metals is based on a philosophy which sets the State's authority above all other authorities. State inflation is by definition supremely wise, supremely moral. Any deviation from the State's plan is, also by definition, immoral. The worst sort of deviation is hoarding; therefore, the hoarder of money metals is supremely immoral. This kind of hoarding seems immoral, in short, only to those who attribute absolute infallibility to the State planners and absolute morality to their inflationary policies.

Conclusion

The Bible, in contrast to the statist philosophy, teaches that the central religious and social unit is the family. The church is important, and so is the civil authority, but the family is primary. For this reason, the Apostle Paul required that any church leader had first to be a competent guide of his family. Candidates for bishop or deacon had to demonstrate that they ruled their families and provided for them adequately, leading them in obedience to God's family laws (I Tim. 3). Any man who claimed to be moral, or who did good deeds, without caring for his family, was considered worse than an infidel (I Tim. 5:8).

My point should be clear: the hoarding of money metals in times of heavy inflation is far from being immoral. Assuming the accuracy of the analysis of the present world economy which is outlined in this book, it becomes imperative for men to provide for the future. Such preparation involves, at least in part, the hoarding of money metals (silver and gold). Those who acknowledge the biblical requirements over their lives must therefore deny the State's claims to virtual divinity in monetary affairs. They must be willing to hoard gold and silver as a religious duty. If they refuse, then they and their families face an already dismal future without any possibility of defense against total economic, social, and ultimately religious servitude.

PART III

CHRISTIAN STEWARDSHIP AND RESOURCE ALLOCATION

Chapter XVIII

AN OUTLINE OF BIBLICAL ECONOMIC THOUGHT

[*This appeared, in a slightly different form, as a chapter of my dissertation, "The Concept of Property in Puritan New England, 1630-1720." Eventually, I hope to expand this chapter into a full-length study of bibilical economics and its applications in the modern world.*]

Obviously, a topic as large as this one cannot be covered adequately in a few pages. Until the exegesis of Rushdoony's *The Institutes of Biblical Law* is absorbed, compared with the Scriptures, analyzed as to its implications, and generally rethought, biblical economics will remain an almost untouched field for academic work. Given the antinomianism of our day, it is unlikely that many people will apply themselves to the task. It has to be done.

Only a few basic themes are surveyed: the function and origin of private property, the blessings and dangers of wealth, the arguments favoring Christian socialism, and the doctrine of responsible stewardship. The overwhelming importance of the covenants is only mentioned briefly, but their importance for establishing the limits of authority for each human institution—family, church, civil government, business—should be obvious.

The usual refrain, heard especially in Dooyeweerdian and Kuyper circles, that Christianity "is neither socialistic nor capitalistic," is generally followed by a lengthy critique of the "evils of modern capitalism" and a series of proposed, although vague, interventions by the State into the affairs of the free market. If Christianity favors neither capitalism nor socialism, then men are left without any standards of judging the ethical legitimacy of any economic arrangement. Only if specific, concrete, revelational guidelines are proclaimed, does the "neither capitalism nor socialism" slogan make any sense. Social antinomianism is no answer; it is just another way of making your socialism seem somehow biblical, in order to confuse the conservative members of the denomination.

The Old Testament Heritage

The Hebrews regarded themselves, above all, as the people of the covenant. The terms of the covenant were brought before the nation in the opening lines of the Decalogue: "I am the Lord thy God, which have brought thee out of the land of Egypt, out of the house of bondage. Thou shalt have no other gods before me" (Ex. 20: 2, 3). This covenant was an archetype of all covenants, Meredith Kline has argued, and it is paralleled by similar national covenants between divine monarchs and their subjects in the second millennium, B.C.[1] It was this event of the national liberation that proved both God's mercy and His power to the Israelites, and it was to this that the prophets return again and again in their indictments of the wayward nation. God, who in times past delivered the people, who established His covenant with them, and who brought His blessings to them, now promises to fulfil the terms of that covenant: transgression must bring punishment. Covenant-breaking involves heavy penalties. Nevertheless, He will restore this transgressing people after their time of troubles, and the new covenant will be inward and perpetual.[2]

The covenant and the institutions that enforced it served as the binding force of the nation. Understandably, all interpersonal relationships were seen in terms of it, beginning with circumcision, and all institutional arrangements were provided with foundations within the covenantal law structure. The important point for this study is simply that the Hebrew conception of the rights of property was unmistakably covenantal. It set boundaries on the power of both individuals and the State to administer property; above all, it was *familistic.* C. L. Taylor has argued that the prophets were fighting for the right of the family, through its representative head, to retain the land.[3] Gustave Oehler has provided an able summary of the Hebrew idea of a theocratic property system:

> As the law was concerned for the continued existence of families, so, too, provision was made for the *preservation of the property* on which the subsistence of the family depended. As far as possible, the inheritance was to be preserved entire. There the

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1. Meredith G. Kline, *Treaty of the Great King* (Grand Rapids: Eerdmans, 1963), chaps. 1, 2.

2. The pattern of the prophetic message—the appeal to the covenant and the promise of vengeance by God—is seen in the following passages: Isa. 1:1-25; Jer. 2:1-8; 5; Ezek. 16; Hosea 2:1-22; 4; Amos 2:10-16; Micah 6:1-4. The promise of ultimate restoration, beyond this period of earthly judgment and captivity is found in Isa. 1:26 ff.; 2; 65; 66; Jer. 30; 31; Ezek. 34:22 ff.; 36: 24 ff.; Hosea 2:13 ff.; Amos 9:11 ff.; Micah 4.

3. Charles Lincoln Taylor, Jr., "Old Testament Foundations," in Joseph Fletcher (ed.), *Christianity and Property* (Philadelphia: Westminster Press, 1947), p. 18. The prophets were fighting for their principles, of course.

> *theocratic principle* in its full face came in, and its application to questions of proprietorship is expressed in the declaration, Lev. xxv. 23, "The land is mine; for ye are strangers and foreigners with me"—that is, God, the King of the people, is the real proprietor of the land, and He gives it to the people only as tenants. Now, inasmuch as each family forms an integral part of the theocracy, an inheritance is given to it by Jehovah for its subsistence, which forms, as it were, an hereditary feudal holding, and is therefore inalienable.[4]

The prophets' claim that the covenant had been violated rested in part on the laws of the jubilee year: all land outside of the towns had to be restored to the original families every fiftieth year.[5] Individual ownership of the land was therefore restricted, simply because there was no legal possibility of a permanent "disownership" of the family's land. On this point Ezekiel was adamant: "Moreover the prince shall not take of the people's inheritance by oppression, to thrust them out of their possession; but he shall give his sons inheritance out of his own possession: that my people be not scattered every man from his possession" (46:18).

The implications of this are not difficult to deduce. The State, in the person of the prince, was limited. The perennial example in subsequent commentaries is the case of Ahab's theft (by murder) of Naboth's vineyard. This was the crime, in the midst of all the king's crimes, that was singled out as the cause of his destruction at the hand of God (I Kings 21:18, 19). Given this limitation on the State, Taylor's comment is pertinent: "As national life is expected to be modeled upon that of the family, its ethics are the ethics of men who acknowledge their responsibility for the welfare of all its members."[6] Not the State, but familial, church, and private charity are enjoined. Personal responsibility is the focus of Old Testament welfare requirements.

The key issue, therefore, is the question of *sovereignty*. All property belongs to God. God delegates to individuals, as members of His covenantal institutions, the responsibility of acting as *stewards* of this property.[7] God, as Creator, can alone claim total sovereignty over property. No single earthly individual or institution can ever legitimately assert the right of absolute ownership. All ownership is

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4. Gustave Oehler, *Theology of the Old Testament* (Grand Rapids: Zondervan, [1883] n.d.), p. 235. Cf. Marie MacDonald, "An Historical Development and Evolution of Selected Concepts of Business in the Old Testament" (Ph.D. dissertation, Univ. of North Dakota, 1969), p. 49 ff.
5. Lev. 25:1-8; 27:24; Num. 36:4.
6. Taylor, p. 22.
7. Frank Grace, *The Concept of Property in Modern Christian Thought* (Urbana: University of Illinois, 1953), pp. 7-8.

covenantal, and therefore bounded by the appropriate Mosaic laws: civil, familial, personal, and ecclesiastical.[8]

During the post-exilic period, the respect for law was so ingrained into the Hebrew culture that apostasy was no longer the chief problem; legalism replaced it. Christ's blistering criticism of the Pharisees in this regard—the appeal to faith, forgiveness, and charity—was merely a repetition of what the prophets had said earlier.[9] This emphasis on legal responsibility fills the Old Testament, and it would be futile in so short a space to mention more than a few key passages relating to property. The primary case-law applications of the basic principles of ownership are these: the law regarding the sabbatical years of rest and the resulting treatment of servants and strangers (Lev. 25); the laws of charity (Deut. 15); the dual covenantal promises of prosperity for obedience and poverty for disobedience (Deut. 8; 28); and finally the practical rules of business, charity, and stewardship found in chapters 10 and 29 of Proverbs.

The laws regarding land tenure are important evidence of the familistic nature of ownership. In practice, these laws in pre-exilic times were frequently disregarded. The Babylonian captivity was expressly stated by the prophet Jeremiah as God's punishment of the nation for the willful disregard of His requirements regarding the resting of the land during the sabbatical years (Jer. 50:34; cf. II Chron. 36:21). God was about to repay the slaveowners, Jeremiah said, with bondage, for they had refused to release their own slaves in the sabbatical years (34:14). Clearly, the sabbath principle went far beyond the merely personal requirement to cease from profit-making activities on the weekly day of rest.

Christians in later times generally have ignored these provisions regarding land tenure, although some exceptions to this generalization do occur.[10] Of more interest to the church has been the usury prohibition. At this point it should be pointed out that the passages that treat the usury issue have reference to men's dealings with the poor of the land, rather than with business transactions as such.[11] No

8. Milton G. Evans, "Biblical Teaching on the Righteous Acquisition of Property," *Biblical World,* XXVII (1906), p. 227; Vernon Bartlett, "The Biblical and Early Christian Idea of Property," in Charles Gore (ed.), *Property: Its Duties and Rights* (New York: Macmillan, 1915), p. 86 ff. Lev. 25:23; Ps. 24:1; 50:10; Hag. 2:8.

9. Cf. Micah 6:6-8; Hab. 2:8.

10. Mr. James De Wit, advisor to the landscaping division of freeways in Riverside County, Calif., informs me that prior to the turn of the century, contracts for the leasing of farm land in Holland had provisions for keeping one-seventh of the leased land fallow each year, rotating the fallow plot so that all the land could receive its rest every seven years.

11. "This regulation assumed that the borrowing was for speculative purposes, but made necessary by the poverty of the borrower. The lender was

increase beyond that which was lent, either in money or other goods, could be taken from a poor brother; however, it was legal to take usury from a nonbelieving stranger.[12]

It is affirmed in Deuteronomy 28 that God rewards covenantal obedience by His people with material blessings. The chapter also promises poverty for transgression. This dual promise is obviously a basic pattern in Weber's thesis concerning the Protestant ethic and the spirit of capitalism. At least three issues are involved. First, what is the relationship between communal obedience and communal prosperity? Second, what is the link, if any, between the individual's obedience and a personal material blessing? Finally, can prosperity be regarded as a sign of God's favor in all cases? If not, what are the criteria for determining that favor?

God is explicitly seen as the source of wealth: "But thou shalt remember the Lord thy God: for it is he that giveth thee power to get wealth . . ." (Deut. 8:18a). He is also the source of all human class distinctions: "The Lord maketh poor, and maketh rich: he bringeth low, and lifteth up" (I Sam. 2:7). The heart of the *religious* aspect of Weber's thesis[13]—that obedience to God was seen by Protestants as resulting in wealth, a wealth which later is sought for its own sake—is found in the Mosaic law:

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forbidden to take advantage of his neighbor's penury, and make gain of his distress." Milton Evans, p. 278. Cf. MacDonald, p. 80 ff.

12. Ex. 22:25; Deut. 23:19-20; Lev. 25:35-36. A problem seems to exist. Who is stranger and who is brother? The first two passages permit the taking of usury from strangers and sojourners in the land, but the last passage reads differently: "And if thy brother be waxen poor, and fallen in decay with thee; then shalt thou relieve him: yea, though he be a stranger, or a sojourner; that he may live with thee. Take thou no usury of him, or increase: but fear thy God; that thy brother may live with thee." It should be noticed that a mutually shared catastrophe is involved: the brother has "fallen in decay with thee." The situation may be comparable to the one asserted by J. Coert Rylaarsdam, in which an advance of wages is in question: "The real point is that in his relations with a poor man, possibly his own employee, an Israelite must be generous. . . . The original admonition [Ex. 22:25-27] was not so much a prohibition on interest as that one be ready to 'risk an advance' without material security." *The Interpreters' Bible* (New York: Abington, 1952), I, 1008. It is also possible that "brother" refers to a converted foreigner who has not yet become a full member of the Hebrew commonwealth. Full citizenship took an Egyptian or an Edomite three generations of covenantal family confession to achieve; it took a Moabite ten generations (Deut. 23:3, 7, 8). Thus, a man could be a spiritual brother and still be an official stranger and sojourner. The fact that Ruth could enter the commonwealth, and even be listed in the genealogy of Christ, is a testimony to her exceptional faith; this was not the normal practice for a visiting Moabite (Matt. 1:5).

13. I am distinguishing here between the more familiar religious aspect of Max Weber's famous thesis on Protestantism and capitalism, and the real focus of his studies, namely, the process of rationalization and bureaucratization in Western civilization. Cf. Ephraim Fischoff, "The Protestant Ethic and the Spirit of Capitalism: The History of a Controversy" (1944), in S. N. Eisenstadt (ed.), *The Protestant Ethic and Modernization* (New York: Basic Books, 1968); Herbert Luethy, "Once Again: Calvinism and Capitalism" (1964), *ibid.*

> Beware that thou forget not the Lord thy God, in not keeping his commandments, and his judgments, and his statutes, which I command thee this day: Lest when thou hast eaten and art full, and hast built goodly houses, and dwelt therein; And when thy herds and thy flocks multiply, and thy silver and thy gold is multiplied, and all that thou hast is multiplied; Then thine heart be lifted up, and thou forget the Lord thy God, which brought thee forth out of the land of Egypt, from the house of bondage . . . (Deut. 8:11-14).

So far, on the basis of the biblical evidence, it would be possible to say that God is the source of wealth, that He gives material blessings for obedience, that these blessings are in turn likely sources of self-confidence and transgression. The practical applications of basic principles found in the book of Proverbs make clearer the relationship among obedience, blessing, and subsequent transgression.

Throughout the book of Proverbs a strong emphasis is placed on the validity of honest labor and its many rewards. "He becometh poor that dealeth with a slack hand: but the hand of the diligent maketh rich" (10:4). Even more emphatically, "He who is slack in his work is a brother to him who destroys" (18:9, RSV).[14] There is no undue reliance placed on riches, however: "Riches profit not in the day of wrath: but righteousness delivereth from death" (11:4). "He that trusteth in his riches shall fall" (11:28). The Psalmist's warning, "if riches increase, set not your heart upon them" (62:10b), is echoed by Proverbs: "A faithful man shall abound with blessings: but he that maketh haste to be rich shall not be innocent" (28:20). Both the teaching of the medieval church and the teaching of early Protestantism reflect this dual message: honest labor is blessed by God, yet riches are not to be sought as an end. The "Protestant ethic" of the Reformers never attempted to evade the implication of this dictum: "He that hasteth to be rich hath an evil eye, and considereth not that poverty shall come upon him" (28:22). In other words, "Better is little with the fear of the Lord than great treasure and trouble therewith" (15:16).[15]

Why, then, should wealth be given to the ungodly? One prayer in the Psalms actually asks the Lord to bring material blessings to His enemies in order that they might be ensnared by the gifts.[16] The wealth of the wicked, in the final analysis, is laid up for the use of the righteous.[17] It is not wealth as such, but wealth gained for itself

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14. Cf. Prov. 16:16; 12:11, 24, 27; 13:11; 14:23; 19:15; 20:4, 13. Unless noted otherwise, I am using the Authorized, King James Version.
15. Cf. Prov. 16:18; 17:1; 28:6.
16. Ps. 69:22.
17. Prov. 13:22; Eccles. 2:26.

and by unrighteous means, that God despises.[18] Therefore the mere possession of wealth tells an individual nothing of his standing before God. Ungodly practices, in the short run of the human life span, bring riches to the transgressor. Thus Job's complaint: "The tabernacles of robbers prosper, and they that provoke God are secure; into whose hand God bringeth abundantly" (12:6). Nevertheless, men are warned against envying the prosperity of the unrighteous, for the end of such prosperity is destruction.[19]

Wealth is given to the godly as a reward for obedience and also as a means of charitable activity. Throughout Proverbs we read of the requirement of God's people to demonstrate their thankfulness by showing charity to their brothers: "He that oppresseth the poor reproacheth his Maker: but he that honoureth him hath mercy on the poor" (14:31). The poor find special favor in God's eye, and they are to be cared for.[20] There is also a very practical reason for showing mercy: "If thine enemy be hungry, give him bread to eat; and if he be thirsty, give him water to drink: For thou shalt heap coals of fire upon his head, and the Lord shall reward thee" (25:21, 22). Both the godly and the ungodly can be found in dire straits, just as they both can be found to be prospering. Charity to one is for his aid and comfort; charity to the other is for his destruction; and both are for the glory of God.

The question of class distinctions does not play a very important role in the Old Testament. It is assumed that all authority is from God, and that the most important distinctions among men are theological and religious: priests rule over the affairs of law, both civil and religious in the Mosaic law, and only over the religious laws after the establishment of the king; the theocracy rules over civil affairs in terms of revealed biblical law. Wealth still plays a part, however: "The rich ruleth over the poor, and the borrower is servant to the lender" (Prov. 22:7), a statement of fact, if not an ethical imperative. Some respect is due to the mere possession of wealth: "He that is despised, and hath a servant, is better than he that honoureth himself, and lacketh bread" (Prov. 12:9). Nevertheless, the writer of Proverbs affirms, and is followed by Christian ethical expositors, that "The rich and poor meet together: the Lord is the maker of them all" (22:2). Before God, all men are equal, and God is no respecter of persons (II Chron. 19:7). This is so, the prophets taught, because compared with God, man is merely a creature, and a sinful creature at that, and man's righteousness is

18. Prov. 13:11; 17:2; Job 36:16 ff.
19. Ps. 73; Prov. 24:19-20; Ezek. 16:49.
20. Prov. 14:21; 19:17; 21:13; 22:22-23; 29:7.

as filthy rags before that holy God (Isa. 64:6). But when men are compared with other men, God has ordained differences in function and position, and these must be respected.

Thus, what we find in the Old Testament is a series of teachings, some of which agree with the Weberian typology, and others that do not. Diligent labor produces wealth as a sign of God's blessing; sloth is ethically repulsive; judicious attention to one's calling is required (Prov. 27:23, 24). Plenteousness is promised to the obedient, so long as they persist in their attempt to satisfy God's standards.[21] But if this is true, then problems arise for the person who would attempt to examine his standing before God in terms of his wealth, for the wicked also prosper as individuals. A distinction must be made, therefore, between collective and individual blessings and curses. Individually, nothing can be learned about a man's standing with God from his externals. That was the lesson given to Job and his "comforters." God chastens those whom He loves.[22] Collectively, something can be learned about the general standing of the group before God. Collective, communal, long-term poverty is to be regarded as a sign of God's displeasure. Long-term prosperity, however, is not so certain a sign. The "paradigm" for the godly community is "faith-blessing-thanksgiving," while that of the ungodly can be "faith-blessing-forgetfulness-destruction." It is not easy for one to be certain at any given point in time just what community prosperity symbolizes. But continual poverty—as distinguished from brief periods of chastening—is a testimony to a nation's need for repentance.

New Testament Interpretations

Jesus claimed that he was engaged in the fulfilling of the law of the Old Testament (Matt. 5:17). Given this fact, it is not surprising that Jesus set forth no systematic program concerning property rights and responsibilities.[23] He assumed that the Old Testament provisions are valid in practice, yet he also knew that the Hebrew nation was in subjection to the Roman Empire. Thus the Sermon on the Mount presented to the Jews an ethic suited for a captive people. Turn the other cheek; if a man compels you to go a mile with him, go for two; when you lose your coat in a court of law, give up your cloak, too (Matt. 5:39-41). Obedience to the Roman law in economic affairs was of primary importance if social peace were to be maintained. Taxes were to be paid, for example, and the attempt

21. Lev. 25:6; Deut. 30:9; I Chron. 22:13; Isa. 30:23.
22. Job 5:17; 23:10.
23. Emrich, in Fletcher, p. 31.

of the Pharisees to embarrass him on this point was unsuccessful.[24] Emrich, therefore, is quite correct: "Jesus is not a social reformer with a social message."[25] The message he had was one of social peace; the program was within the traditional framework of the Old Testament economy.[26]

Any systematic teaching by Jesus on economic matters is limited almost exclusively to the economic framework of his spiritual parables. These are generally conservative in their outline: first, private property is affirmed in them; second, men are encouraged to add to their wealth. Cecil John Cadoux, in his comprehensive study, *The Early Church and the World* (1925), denies that these should be taken as anything but spiritual analogies; they therefore "are not legitimate sources for the teaching of Jesus on material wealth."[27] Cadoux's bias toward socialism and a socialistic interpretation of early church attitudes on wealth, leads him, of necessity, to reject the concrete application of the parables. The problem with this is simply that without the assumption of the ethical validity of the concrete applications of the parables, it becomes difficult to see how Jesus sought to confirm certain spiritual truths. Comparing the kingdom of God to illicit activities of men is a questionable practice, unless, as in the case of the wicked but crafty steward and his equally crafty lord, the parable is aimed at showing men how not to act.[28] The parables affirm, as the Old Testament did, the right of private property and the concomitant responsibility of godly stewardship. The quintessence of the New Testament teaching is the parable of the rich man who indulged himself in vast plans for building his capital to even greater lengths, and who finds that his life is required of him that night, leaving his treasure to others. "So is he that layeth up treasure for himself, and is not rich toward God" (Luke 12:21).[29]

The parable of the talents indicates the right of a man to take usury on a business investment. The parable conveys the idea that the believer is to strive to increase his spiritual gifts through the analogy of a man who has been entrusted with a valuable coin and

24. Matt. 22:17 ff.; cf. Matt. 17:24-27. On the conservatism of Jesus' economic pronouncements, see Francis Greenwood Peabody, *Jesus Christ and the Social Question* (New York: Macmillan, 1900), chap. 4. On the confrontation between Jesus and the Pharisees over the question of the tribute money, see Ethelbert Stauffer, *Christ and the Caesars* (Philadelphia: Westminster, 1955), chap. 8.

25. Emrich, in Fletcher, p. 31.

26. By "economy" I mean both dispensation and economic affairs.

27. C. J. Cadoux, *The Early Church and the World* (Edinburgh: T. & T. Clark, 1925), p. 64n; cf. pp. 36-37.

28. Luke 16:1 ff. The focus of this parable is on "the mammon of unrighteousness" (vs. 9), and on the fact that "the children of this world are wiser than the sons of light" (vs. 8).

29. This is a repetition of Old Testament teachings; cf. notes 17, 18.

who fails to invest it wisely (Matt. 25:14 ff.). The first two servants have succeeded in increasing the value of the goods left to their administration, but the third man, in fear of losing the coin, merely buried it. He is told that he erred, is unprofitable, and is cast out into outer darkness. The reason:

> His lord answered and said unto him, Thou wicked and slothful servant, thou knewest that I reap where I sowed not, and gather where I have not strawed [the charge against the lord made by the steward, vs. 24]: Thou oughtest therefore to have put my money to the exchangers, and then at my coming I should have received mine own with usury (vss. 26, 27).

There are two passages in the Bible that would seem to indicate the full autonomy of an owner to contract in any way possible for the exchange of his goods. The first is Jacob's exchange of pottage for Esau's birthright; Jacob drove a hard bargain, and later had to deceive his father in order to collect on it.[30] Nevertheless, this need not be accepted as a standard of comparison, because it was a fulfilment of God's promise to Rebecca that the elder son (Esau) would serve the younger (Jacob), a clear break with the usual Hebrew rule that the first son was to receive the double portion.[31] That God would make an exception could be seen as His prerogative; Jacob's bargain need not be accepted as a model to follow. The second great example of this type is the parable of the hired servants (Matt. 20: 1-16). It is used to show God's sovereignty in the election of men to eternal life. Works of men are not the foundation of election. The parable tells of a landowner who contracts with a group of men one morning to work in his fields. He does the same with a second group later in the day, and a final group in the final hour of the working day. All three receive the same pay, as contracted. The first group then murmurs against their low pay; they worked longer, so their pay should be more. They are rebuked: "Is it not lawful for me to do what I will with mine own? Is thine eye evil, because I am good?" (vs. 15). The parable does not indicate precisely how one is to judge what is truly one's own, but once the decision is made, the right of free contract is guaranteed. The hired hands received what they were promised; their jealousy concerning their neighbors' salaries is illegitimate. This parable, like the parable of the talents, serves as an orthodox defense of free business activity.

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30. Gen. 25:29 ff.; 27:6 ff.
31. Gen. 25:23. On the double portion to the firstborn son, see Deut. 21:17. The godly servant was also to have a place in a man's inheritance, for the foundation of the inheritance was ultimately to rest on covenantal obedience and faith: "A wise servant shall have rule over a son that causeth shame, and shall have part of the inheritance among the brothers" (Prov. 17:2; cf. 29:21).

The third parable concerns a steward who is forgiven of a large debt by his lord then goes out and demands payment of a tiny debt from one in debt to him. The lord hears of this lack of mercy, and delivers the merciless one to the judges. Forgiveness is enjoined as a spiritual and economic principle.[32] Those who are unable to pay, assuming they are merciful themselves, should not be pressed too severely; conversely, if they are unmerciful themselves, restitution may be demanded.

This last parable is important in providing a possible clarification to a point of contention between legalists and their less rigorous brethren. Should a person lend in order to receive a profit? A key New Testament passage, which appears in Luke's account of the Sermon on the Mount, recommends Christian charity. It was used by many medieval commentators to deny the right of lending at interest:

> And if ye lend to them of whom ye hope to receive, what thank have ye? for sinners also lend to sinners, to receive as much again. But love ye your enemies, and do good, and lend, hoping for nothing again; and your reward shall be great, and ye shall be *the children of the Highest: for he is kind unto the unthankful and* to the evil (Luke 6:34-35).

The goal of the parable preceding this injunction dealt with the demands of merciful action. The Christian is not to press his debtor beyond what the man is capable of paying. This passage teaches the same thing. It is concerned with those unable to repay. Men owe God vast sums—infinite sums; they are to forego the small sums owed to them by those in need. The context is charity, not business. It should also be borne in mind that the setting of the listeners, as stated earlier, is that of captivity; a people in captivity may need mercy shown to them, and they should therefore show mercy as often as possible.

Puritans at a later date were to make use of this passage as one which prohibits usury. Medieval Catholic commentators followed St. Thomas in this regard, and also prohibited usury by means of this passage. Nevertheless, the apparently indiscriminate charity demanded in the verse preceding, "Give to every man that asketh of thee" (vs. 30a), was never seen as contradicting Paul's dictum: "For even when we were with you, this we commanded you, that if any would not work, neither should he eat" (II Thess. 3:10). Charity, in short, is not to be thoughtless; faithful stewardship requires care in selecting those who are truly in need of charity.

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32. Matt. 18:23 ff.

The ethical standard which Christ taught with regard to debt and charity could not be said to be new. The heart of that teaching had been provided by the Psalmist centuries before: "The wicked borroweth, and payeth not again: but the righteous sheweth mercy, and giveth" (Ps. 37:21). Hebrews were not to subsidize wickedness, but they were a captive people, and under compulsion, so they were told to be meek. In charitable activities, they were not to seek profits. Christ never criticized moneychangers as such; what concerned Him was the monopolistic privilege in the temple being used by evil men to rob the faithful.[33] He did not attack business, but business masquerading as charity. The categories were to be kept straight in the minds and lives of His disciples.

Finally, we have the case of the rich young ruler, one of the most frequently encountered passages in medieval commentaries on wealth. He is told by Jesus to gain perfection in his situation by selling all that he possesses and giving to the poor. When he goes away dejected, Jesus pronounces his famous words, that it is easier for a camel to go through the eye of a needle than for a rich man to enter the kingdom of heaven; nevertheless, "with God all things are possible" (Matt. 19:26b). It is the same old warning: wealth is dangerous to a man's soul, but some men who are wealthy may conceivably enter the kingdom, so long as they are godly stewards of their wealth. Once again, it is the stewardship issue that is prominent, as it is in so many of the parables. God, the master, requires active, obedient, merciful activities from His servants.

The communism of the book of Acts has been the focus of heated debates for centuries. The practice of selling goods and sharing the proceeds with the brethren was limited to the Jerusalem church and was strictly voluntary (Acts 5:4). It may have been the result of the Jerusalem church's expectation of the imminent destruction of the city, as prophesied by Jesus.[34] The warning was clear: "Let him which is on the housetop not come down to take any thing out of his house: neither let him which is in the field return back to take his clothes" (Matt. 24:17, 18). They were told to flee when the armies approached the city. Therefore, there was little reason to hold on to property, especially fixed property. In any case, communism was never suggested as a general practice for all Christian communities, as the orthodox wings of both Catholic and Protestant

33. Matt. 21:12, 13; Mark 11:15-17. Cf. my analysis of the incident with the moneychangers in "Stewardship, Investment, Usury: Financing the Kingdom of God" [chap. 31, below].
34. Luke 21:20 ff.; Matt. 24:15 ff.

churches have assured us. Again, charity was required, not a system of communist production and distribution.[35]

The heart of the New Testament's economic ethic reflects the basic message of the gospel of Christ. God is sovereign over all creation and liberal in His forgiveness. Men, made in God's image, are expected to act analogously; men are therefore responsible as God's stewards, since they have been delegated power over their own affairs. They are to be generous with their property, for their rights of ownership do not grant to them the ethical right to be uncharitable.

The communal, familistic Old Testament perspective is still present, but in a modified form. Men are to take care of their families first of all (I Tim. 5:8). The responsibilities once delegated to the tribes and the theocratic rulers are now conferred on the church.[36] The church is now to regulate charity, caring for widows who are "widows indeed" (I Tim. 5:5), aiding only the helpless, and not the able-bodied (II Thess. 3:10). Jesus' message constantly confronts the individual with his responsibilities before God and men; since the individual's responsibility is more sharply in focus in the New Testament, it would appear that his power over his own goods is greater. A dual principle is supposed to be operating as motivating factors: (1) "For unto whomsoever much is given, of him shall be much required . . ." (Luke 12:48); (2) "For he that hath, to him shall be given . . ." (Mark 4:25). Faithful stewardship brings rewards, and these in turn bring added responsibility.

A shift in emphasis, owing to a shift in the covenantal structure, may thus be seen. What had before been a tribal, national, communal, and theocratic kingdom now was transformed into a voluntary, universal, non-racial "royal priesthood."[37] The geographical and cultural sweep of the new kingdom is greater, and simultaneously the responsibility of the individual members is sharpened. The theocratic kingdom of the Old Testament no longer operated temporally and nationally, and the old sanctions were no longer enforceable; men are now cautioned, as individuals, to look beyond time into eternity to assess the ultimate consequences of their deeds (although their earthly deeds still have temporal consequences as well).

To the extent that another theocratic kingdom became possible as a political reality, to that extent the reference points were likely to shift back to the Old Testament's institutional arrangements. Men

35. Luke 12:33; 21:1 ff.; Acts 11:29; II Cor. 9:6-7.
36. Acts 6:1-4.
37. I Peter 2:9. The language indicates a fulfillment of Ex. 19:6: "And ye shall be unto me a kingdom of priests, and an holy nation."

would still act as individuals standing before a righteous God, but they would also be reminded that with power comes responsibility, and this would include collective responsibilities. If such collective responsibilities did exist, then temporal sanctions would again be needed to enforce community laws, even over the non-members of the visible, institutional church. It would therefore be likely that the concept of property rights would be increasingly communal in perspective, as it had been in the Old Testament commonwealth.

This sense of communalism was given additional stimulus by the historical situation in which fourth-century Christians found the Roman Empire. When the Christians took possession of the political sword, they found themselves confronted with an international economy which was in the process of disintegration. Economic arrangements that had been specifically urban—a money economy, impersonal markets, freedom of contract—began to recede, especially in the Western half of the empire. When social conditions began to lose the older impersonality, a new impetus to local institutional control was accented. With the reappearance of the idea of a political community collectively responsible to God, and therefore subject to God's communal blessing or curse, the formal individualism and voluntarism of the earlier Christian community—a community which had been essentially an urban phenomenon—was altered. Christian people were no longer the captives of a culture which they regarded as apostate; they were now a part of a new kingdom, as in the Old Testament, which possessed temporal authority. The ethic of the Sermon on the Mount, based as it was on the assumption of national or cultural captivity, began to be tempered by the responsibilities of power. It had always been difficult to assess just what men owe to Caesar; when Caesar is a Christian, it becomes necessary to determine the standards for ruling as well as the limits on obedience.[38]

38. This conflict has stemmed from the difficulty of applying the dual principles of Peter—"We ought to obey God rather than men" (Acts 5:29)—and Paul—"Let every soul be subject unto the higher powers" (Rom. 13:1a).

Chapter XIX

REASON, NEUTRALITY, AND THE FREE MARKET

[*Due to the kind intervention of M. Stanton Evans, editor of the Indianapolis* News, *I was invited to appear on a panel at the annual convention of The Philadelphia Society in 1970. The panel was built around the topic of the debate between traditional conservatism and anarcho-capitalism, with me taking the conservative position, Milton Friedman's son David taking the anarcho-capitalist position, and Evans acting as a sort of fusionist. As you might suspect, I won the debate; you can ask anyone who was present (except, perhaps, Milton Friedman, the anarcho-capitalists, and the supporters of Stan Evans, none of whom can really be considered objective). The only thing that still baffles me is the letter I received from an anarchist who said he thinks it is the best thing of mine he has ever read. This annotated version of the talk appeared in the conservative journal,* Modern Age *(Spring, 1971), and it was reprinted in an odd, but delightful, little journal,* Schism: A Journal of Divergent American Opinions *(Summer, 1971).*]

The debate between traditionalists and libertarians within the American Right has been going on for the last decade. This division, which was implicit from the beginnings of Young Americans for Freedom (YAF) and Intercollegiate Studies Institute (ISI), has now broken out into open institutional warfare with the formation of the Libertarian Alliance during the summer of 1969. Like so much of the current intellectual strife in America, the Vietnam war issue served as a catalyst. Pacifist libertarians who are opposed to conscription could no longer tolerate the implications of what they regard as the new American imperialism. Cold War conservatives who long ago abandoned the earlier isolationist heritage of traditional American conservatism have not been willing to sacrifice the struggle against international Communism merely for the sake of lower national budgets and libertarian ideology. An anti-Communism that is based on the concept of military superiority cannot easily be conformed to the older goal of a limited State; the technology of warfare demands too much money and too much centralized planning.

The war is not the focus of my discussion here, however. I am more concerned with more fundamental intellectual issues that serve as points of division between traditional conservatives and libertarian anarcho-capitalists. As I see it, the essential questions are these: what are the limits of toleration, both personal and social, and what role does autonomous human reason play in discovering these limits? In the "pure type" (to use Max Weber's terminology) of each position, we discover irreconcilable opposition. The libertarian denies that society can use force to impose limits on the actions of others which do not interfere with the voluntary activities of their fellows. The conservative denies the existence of anything resembling an all-encompassing neutral human reason; to one extent or another, he rejects any hypothesis based on the idea of the autonomous individual or autonomous human reason.[1]

The traditional conservative tends to value human freedom because he has very little faith in human nature. This may seem incongruous, but it can be explained. Because human nature is corrupt, the traditionalist resists the concentration of power in any single institution or person. No one institution should be regarded as sovereign outside of its own legitimate, but strictly limited, sphere. Society in this perspective is a matrix of competing sovereignties, each with certain claims on men, but none with total claims in all areas. Almost without exception, traditional conservative apologetics rests on the institution of the family as being primary to society. Any law or institutional arrangement which threatens the integrity of the family faces very serious opposition from conservatives: guilt is presumed until innocence is proven without a shadow of a doubt. Other institutions—churches, local governments, schools, voluntary societies of all types—act as buffers against centralized political power. Atomize men, Hannah Arendt and Robert Nisbet both argue, and you create the framework necessary for the exercise of totalitarian power.[2] Reduce men to individuals who are not protected by institutions that possess limited but legitimate sovereignty, and the State will centralize and concentrate power with a vengeance. Man does not live by autonomy alone, in short. The individual is therefore not the starting-

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1. Russell Kirk's account of Burke's view of the limited nature of human reason is relevant here: Kirk, *The Conservative Mind* (Chicago: Regnery, 1953), p. 76 ff; cf. R. J. Rushdoony, *By What Standard?* (Philadelphia: Presbyterian and Reformed Publishing Co., 1958).

2. Robert A. Nisbet, *The Quest for Community* (New York: Oxford University Press, [1953] 1970); Nisbet, "Rousseau and the Political Community," *Tradition and Revolt* (New York: Vintage, 1969), chap. 1. Hannah Arendt's thesis is presented in her classic study, *The Origins of Totalitarianism* (New York: Harcourt, Brace & World, [1951] 1966).

point of social analysis in a conservative framework; the family is. The conservative is therefore a defender of a pluralistic community, with each institution able to enforce a limited sovereignty over members of the community.[3] The alternative to this is tyranny. As A. A. Berle puts it in his recent study, *Power*: "Power invariably fills any vacuum in human organization. As between chaos and power, the latter always prevails."[4]

How is it possible that libertarians have been able to cooperate with traditional conservatives for as long as they have? In the second issue of the *New Individualist Review* (Summer, 1961), Edward C. Facey offered this explanation:

> Still, individualists merge with the conservatives in urging a strict adherence to the Constitution in the United States. This is a tactical maneuver. It is the strategy of individualists to work a Fabianism in reverse until one by one the parts of the political structure, beginning with the most absurd, are up-ended and continuing until nothing is left. The Constitution, strictly interpreted, aids in this process.

That was the perspective of a libertarian a decade ago. Since that time a noticeable shift in tactics has taken place. The Vietnam war issue has convinced many libertarians of the New Right that they are more closely aligned in principle with the anarchist wing of the New Left. As one libertarian speaker put it at a conference sponsored by a local YAF chapter in Southern California in April, 1969, freedom today is threatened more by conservative Republicans than by anarchists in America.[5] If this is not the prevailing view of a majority of libertarians, it is the direction in which many are moving at the present time.

The pure anarchist has little difficulty in establishing his definition of freedom: where the State is, freedom is not. This does not mean, of course, that libertarians do not quarrel among themselves. A classic example of an operationally irreconcilable intellectual division within the libertarian camp is the one which divides Murray Rothbard and Robert LeFevre. Rothbard follows John Locke and argues that the original claim of a man to the right of free exercise of property is limited by the amount of property which he can actually utilize

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3. E. L. Hebden Taylor, *The Christian Philosophy of Law, Politics and the State* (Nutley, N. J.: The Craig Press, 1966), chap. 9.

4. Adolph A. Berle, *Power* (New York: Harcourt, Brace & World, 1969), p. 37.

5. Early examples of the links between the New Left and the Anarchist Right are Murray N. Rothbard, "Liberty and the New Left," *Left and Right*, I (Autumn, 1965), and Ronald Hamowy, "Left and Right Meet," *New Republic* (March 12, 1966). Both authors emphasize the similarity of goals that both movements share.

through his power to labor.[6] LeFevre argues that a man's original claim extends to as much property as he wants; boundary disputes are to be settled by a system of voluntary arbitration.[7] Each sees the other's position as inoperative and/or irrational. Both men, however, would reject the conservative's belief in the legitimacy of State power to settle such arguments by force, if force is necessary.

The conservative argues that the market is a mechanism which can provide a zone of human freedom. Obviously, some conservatives favor tariffs, or "emergency" price controls, but I do not wish to deal with these proposals, since they tend to be special interest oriented in too many cases, rather than theoretically serious proposals. In the case of pure theory, the conservative is never willing to give the market full autonomy. There is a reason for this. The conservative is perfectly willing to admit that the unhampered market is the most efficient mechanism for the distribution and production of scarce economic resources. That is why he refuses to give it full autonomy. There are some things he does not wish to see accomplished in an efficient manner. The following are obvious examples (obvious, that is, to conservatives): the production and distribution of heroin, especially into the hands of minors; the open, unchecked, and thoroughly voluntary exchange of sexual favors for money; the unrestricted sale of pornography, especially to minors; the sale of military secrets to the highest bidder; the right to build a noisy factory in the midst of a residential district without compensation to local owners who refuse to sell their property. A conservative would also support the enforcement of quarantine procedures on members of the community who carry contagious diseases that pose a threat to the very operation of the community, especially in congested urban areas. Without all these openly coercive powers, the State could not protect society from forces that would destroy the very fabric of society. The conservative believes that men will live under any system except anarchy, so it is wiser in the long run to permit the State to exercise some power. If this is not done, men may choose to live under the rule of totalitarian power. If society does not provide coercive institutional arrangements that preserve *pockets of limited intolerance,* it cannot defend itself from forces that would lead to the intolerance of totalitarian regimes.[8]

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6. Murray N. Rothbard, *Man, Economy and State* (Princeton: Van Nostrand, 1962), I, 78-79; cf. Rothbard, "The Anatomy of the State," *Rampart Journal,* I (Summer, 1965), p. 3.
7. Robert LeFevre, *Rampart Journal,* I (Summer, 1965), pp. 51 ff., 76-77.
8. Benjamin E. Lippencott, whose interventionist economic perspective is opposed to both traditional conservatism and free market anarchism, has nevertheless provided a good survey of the problems posed to a free society by

Hayek's now famous essay, "Why I Am not a Conservative," which first appeared in his *Constitution of Liberty* (1960), makes an important observation:

> Conservatism proper is a legitimate, probably necessary, and certainly widespread attitude of opposition to drastic change. It has, since the French Revolution, for a century and a half played an important role in European politics. Until the rise of socialism its opposite was liberalism. There is nothing corresponding to this conflict in the history of the United States, because what in Europe was called "liberalism" was here the common tradition on which American polity had been built; thus the defender of the American tradition was a liberal in the European sense.

American constitutionalism prior to the Civil War was pluralistic, decentralist, and essentially liberal. J. Allen Smith, writing in his study, *The Growth and Decadence of Constitutional Government* (1939), makes the following distinction:

> The basic conception of the old political order was not the divine right of kings, but the sovereignty of God. The assumed divine right of the temporal ruler was not an essential part of this doctrine. Divine sovereignty, as envisaged in the Christian theory of the world, was simply a conception of God as the ultimate source of authority. Direct human intermediaries, such as pope or king, were purely adventitious features of this belief.

Thus, Smith concludes, the "ultimate sovereignty of God precluded the idea that any human sovereignty could be unlimited." For America, this was doubly true, for its tradition after 1776 was Protestant, dissenting, and anti-monarchical. Law was founded in terms of a higher law—a religious law, a historical fact which stands as the central thesis of Rushdoony's important revisionist work, *This Independent Republic* (1964).

The American constitutionalists operated within the framework of a culture which was predominantly Christian, although some of them, like John Adams and Jefferson, held moderately unitarian or deist ideas in their private lives. All of them saw that civil society without law is inoperable, and all law, they realized, is ultimately founded on unneutral religious and moral presuppositions.[9] The appeal made by libertarians to a neutral, universal human reason

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totalitarian political parties that claim their rights under the laws of free speech and assembly. Lippencott, *Democracy's Dilemma* (New York: Ronald Press, 1965).

9. Conservatives from Aquinas to Burke believed in a universal "right reason" of Natural Law, but this was in no way analogous to the rigid, secular *a priorism* of Enlightenment thinkers. Cf. Louis I. Bredvold, *The Brave New World of the Enlightenment* (Ann Arbor: University of Michigan Press, 1961). On the American view of reason, see Alice M. Baldwin, *The New England Clergy and the American Revolution* (New York: Ungar, [1928] 1958), chap. 2; Adrien Koch, "Pragmatic Wisdom and the American Enlightenment," *William & Mary Quarterly*, XVIII (1961), pp. 313-329, esp. concluding remarks.

conservatives regard as invalid. There can be no system of civil society that can satisfy the substantively (ethically) rational demands of a socialist and the formally rational (legally predictable) organization of the free market which the libertarian desires. The formal rationality of the market is a means to ends established by the participants; substantively rational economic systems see economic policies as ethical goals in themselves, e.g., the redistribution of wealth. Half a century ago Max Weber argued that the two forms of rationalism are in perpetual tension, and little has taken place since then to indicate that he was incorrect.[10] There is no single rationalism.

Jacob Viner, in his review of Hayek's *Constitution of Liberty,* brings out a crucial point:

> Hayek, incidentally, does not even include as a final value that freedom from coercion by other men for which this book is a massive plea. It is a means to value, as an instrumental value, not as a value in itself, that Hayek presents his case for freedom. . . . Men, however, often support as a means what in fact commands their full loyalty as an end, and I feel fairly confident that freedom from coercion by other individuals is for Hayek, as for me, a goddess in her own right, as well as a serving angel.[11]

Not so for the conservative. Other ethical goals are placed before the full autonomy of the individual: the glory of God, the obedience to certain moral demands, the preservation of the community in the face of moral anarchy. The market is only one means among many to human fulfillment; it is not a "goddess in her own right."

Thus, the conservative is forced to conclude that Murray Rothbard's proposal to establish a system of profit-seeking law courts and private police forces in place of political courts would reduce our legal system to the level of the Chinese war lord system of government.[12] As Mises himself once stated, such a plan would destroy a thousand years of Western civilization.[13] There is room for such voluntary courts of arbitration in a pluralistic society, but not as the *sole* source of judicial administration.

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10. Max Weber, *The Theory of Social and Economic Organization,* edited by Talcott Parsons (New York: Free Press, [1947] 1964), pp. 184, 212 ff; cf. Weber, *On Law in Economy and Society,* edited by Max Rheinstein (New York: Simon & Schuster, [1954] 1967), pp. 228 ff., 279.

11. Jacob Viner, "Hayek on Freedom and Coercion," *Southern Economic Journal* (Jan., 1961), p. 230.

12. On Rothbard's proposal, see his review of Bruno Leoni's *Freedom and the Law* (1961) in *New Individualist Review,* I (Winter, 1962).

13. Mises made the statement as a response to a question asking him of his opinion of Rothbard's proposal for private law courts and police forces. It occurred during a series of lectures delivered by Mises and sponsored by Joseph Galambos' Free Enterprise Institute in Los Angeles in the summer of 1962. Galambos commented to me after the evening lecture that he agreed with Rothbard rather than with Mises on this particular point.

Freedom is necessary for the full flowering of mankind's capacities. Society, however, cannot exist if the market makes available the moral acids that would render social cohesion impossible. Man is not autonomous; he is a creature under law. The sovereignty of autonomous, acting man is as diabolical a goal as the sovereignty of the State. Neither man nor the State is divine.[14] Both principles are antithetical to human freedom, for they would result either in the totalitarian State or the triumph of the war lords. The market cannot function without some degree of peace. It needs protection from its own warlike children, the profit-seeking armies and the profit-making courts. Let any human institution achieve full autonomy, and society will face either collapse or tyranny. Full sovereignty, like perfection, belongs only to God.

14. This was the issue which divided Christians from the Caesars. Cf. Ethelbert Stauffer, *Christ and the Caesars* (Philadelphia: Westminster Press, 1955); Charles N. Cochrane, *Christianity and Classical Culture* (New York: Oxford University Press, [1939] 1957), chaps. 3-6. On the Christian church's opposition to the ancient world's deification of the State, see R. J. Rushdoony, *The Foundations of Social Order:* Studies in the Creeds and Councils of the Early Church (Nutley, N. J.: The Craig Press, 1968).

Chapter XX

STATIST BUREAUCRACY IN THE MODERN ECONOMY

[*The peculiar era, 1964-1970, brought to America and to other Western industrialized nations a flood of criticism of every social institution. The "Establishment" was fair game for everyone from George Wallace to Jerry Rubin. The worst offender in the eyes of these total critics is bureaucracy. If only bureaucracy could be permanently abolished, then love and the full flow of interpersonal relationships would flourish. Something indeed would flourish: the brotherly love shown by Cain to Abel. Institutional structuring is absolutely basic to the life of societies. Hierarchies of many kinds exist, but they all have rules and regulations that must be followed. The "routinization of charisma," as Weber called it, is a continuing process. Even the critics found this out: you can't fight city hall if all you can do is shout or speak in tongues. If a useful critique is to be made of the illegitimate expansion of statist bureaucratic power, then the critics have to understand the function and limits of bureaucratic management.*]

Where distinction and rank are achieved almost exclusively by becoming a salaried servant of the state, where to do one's assigned duty is regarded as more laudable than to choose one's own field of usefulness, where all pursuits that do not give a recognized place in the official hierarchy or a claim to a fixed income are regarded as inferior and even somewhat disreputable, it is too much to expect that many will long prefer freedom to security.

F. A. Hayek
***The Road to Serfdom*, p. 132**

Sociology as a separate academic pursuit had its origin in the nineteenth century, beginning with the studies of Alexis de Tocqueville on American life and ending at the turn of the century with the contributions of Max Weber. Robert A. Nisbet has referred to this period as the golden age of sociology, and his book, *The Sociological Tradition* (1966), indicates why this should be the case. The basic themes of modern sociology were explored with insight, rigor, and creativity by those who deserve to be called the founders of the science, and contemporary scholars have generally been satisfied to refine, quantify, and expand upon the original contributions. (What we have gained in methodology has been paid for with the loss of lucidity in too many cases.) The major themes were all surveyed: alienation, mass democracy, centralization of power, revolution, secrecy, the problem of value and law, bureaucracy.

It would be safe to say that Max Weber, the German sociologist who is most famous for his essays on the Protestant ethic and the spirit of capitalism (1904-1905), was probably the greatest social scientist who has yet appeared. His studies of Protestantism were only a subdivision in his larger investigation into the nature of religion and its relationship to the growth of modern, specialized bureaucracies. The process of *rationalization* became the focus of his voluminous studies. He saw the process in the modern West as irreversible. Men of the West have, since the sixteenth century, insisted on viewing the earth as something to be subdued through the application of rational technique—sophisticated mathematics, applied science, technology, systematic measurement. Increasingly, all spheres of human and animal existence are being brought under the operation of rational technique. The spiritual life of man is relegated to the confines of the "inner man," impotent to alter the direction in which rationalization is leading.[1]

Weber saw the implications of this process which gave man greater security from nature but less and less freedom of action. In 1918 he spoke these words to students at Munich University:

> The fate of our times is characterized by rationalization and intellectualization and, above all, by the "disenchantment of the world." Precisely the ultimate and most sublime values have retreated from public life either into the transcendental realm of mystic life or into the brotherliness of direct and personal human relations.[2]

Men flee to the old churches, or to intimate artistic expression, or into mysticism. Weber commends this, and he warns against the faith in scientific, academic solutions to all problems. His pessimism is almost overwhelming: "Not summer's bloom lies ahead of us,

1. Weber's monumental study, *Wirtschaft und Gesellschaft*, published posthumously in 1924, and in a revised edition in 1956, is now available in English as *Economy and Society*, edited by Guenther Roth and Claus Witich (New York: Bedminster Press, 1968), in three volumes. It is a difficult, enormously learned work, offering more possible avenues of sociological investigation than any other work published in the twentieth century. For an extended review of this work, see the *Journal of Economic Literature*, VIII (Dec., 1970).

2. Max Weber, "Science as a Vocation," in H. H. Gerth and C. Wright Mills (eds.), *From Max Weber: Essays in Sociology* (New York: Oxford University Press, 1946), p. 155.

but rather a polar night of icy darkness and hardness, no matter which group may triumph now."[3]

Bureaucratization is upon us, Weber believed, and there is no longer any way to escape its effects. Rationalization gives us our material wealth, but it robs us of our traditional values and institutional arrangements. In this regard, Nisbet's comment on Weber's view of Marx is revealing:

> For Marx, capitalism was characterized by the privateness of ownership of property and the separation of the population into the two groups of owners and workers. For Weber, these elements are more nearly accident than essence. Moreover, and here is where Weber differed profoundly and lastingly from the Marxists, socialism, far from being the opposite of capitalism, would be only an intensification and widening of the essential properties of capitalism. Under socialism, rationalization, bureaucracy, and mechanization would become even more dominant in human lives than they are under capitalism.[4]

We shall see later in this essay that Weber's analysis was marred by a fusion of two very different types of organizational hierarchy, thus leading him to conclude that the capitalistic bureaucracy is only a less intensive form of the socialistic form. But his point against Marx is a vital one: the mere application of proletarian revolution to the process of rationalization will do nothing to make that process more personalistic.[5] The centralization of power involved in all socialist planning will only make things less flexible.

Frank H. Knight's classic study, *Risk, Uncertainty, and Profit* (1921), presents the most useful explanation of profit that any economist has yet produced. He has been followed in his exposition by Professor Mises. Only if we can conceive of a world in which all planning, acting men are omniscient can we imagine a world without profits and losses. Profit in such a world would equal loss—at zero. (Mises says that this world would still require an interest rate, while Knight denies it, but that is an extraneous issue for the purposes of this essay.) Profit, in this perspective, is a *residual* accruing to those individuals or organizations that successfully forecast the state of a market at some future point in time. The successful forecaster-planner is rewarded since it is he who bears the uncertainties of planning. The bearing of uncertainty in planning is what economists call the *entrepreneurial function*. The term "manager" is generally

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3. Weber, "Politics as a Vocation" (1918), *ibid.*, p. 128.
4. Robert A. Nisbet, *The Sociological Tradition* (New York: Basic Books, 1966), p. 145.
5. Cf. Gary North, *Marx's Religion of Revolution* (Nutley, N. J.: The Craig Press, 1968), pp. 111-117.

used to specify the administrator of the plans handed down by the entrepreneur. In practice, the two roles may be intermingled but for theoretical purposes it is useful to seperate them.

Thus, as scientific planning techniques become more accurate, there should be a reduction of the realm of uncertainty. Forecasting techniques become more rigorous, and the very presence of a free market reduces the arbitrary elements in the economy. The scale of both profit and loss is narrowed; the reduction is proportionate to the reduction of uncertainty. Profits and losses will always be with us, simply because men are neither omniscient nor omnipotent; if they were, socialist planning techniques would be just as efficient as the free market is. That fact is the best argument against socialist planning.[6] Profit and loss are tied in with the operation of a free market which keeps fallible human beings laboring to overcome their deficiencies. No other system works so well.

If the foregoing is accurate, why should we find so much inefficiency, so little competition among large firms, such utter bureaucratic incompetence, computer errors, and other signs that our economy is rewarding the less capable members? Why should economic irrationality be doing so well against the efforts of entrepreneurs to conquer it?

The existence of monopoly is one reason. Monopoly is a phenomenon which most governments not only tolerate but actively sponsor. Some of them we generally accept as part of the price paid for progress; an example would be the monopoly returns insured to developers by government-guaranteed patent rights. Copyright laws are another case in question. But the more absurd examples are the monopolies and oligopolies created by tariffs, such as an "infant industry" like the steel industry which wants protection from foreign competition. Tariffs invariably reward the inefficient producers at the expense of the efficient.[7] Then we have the monopolies that are insured against new competitors entering the field by laws establishing "fair trade" procedures that ultimately favor those businesses already established. These have been popular with big business for a century.[8]

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6. F. A. Hayek (ed.), *Collectivist Economic Planning* (London: Routledge and Kegan Paul, 1935); North, *Marx's Religion*, Appendix A.

7. Gary North, "Tariff War, Libertarian Style," *The Freeman* (August, 1969) [chap. 29, below].

8. Gabriel Kolko, *The Triumph of Conservatism* (New York: The Free Press, 1965; Walter Adams and Horace M. Gray, *Monopoly in America: The Government as Promoter* (New York: Macmillan, 1955); Robert M. Hurt, "Antitrust and Competition," *New Individualist Review* (Winter, 1962); articles on the ICC, FCC, and CAB in *ibid.* (Spring, 1963); James Mofsky, "Blue Sky Restrictions on New Business Promotions," *Duke Law Review* (July,

Ludwig von Mises has offered a theory of bureaucracy that provides us with another explanation of today's inefficient firms. His discussion complements Weber's and improves upon it. Mises argues in his little book, *Bureaucracy* (1944), that there are two primary models of management: (1) the free market structure; and (2) the statist bureaucracy. Both are necessary, he says; both perform valuable, but very different, functions. One form cannot be used to perform the tasks more suited for the other. It is an unwarranted mixture of the two categories, we can conclude, that has led to the creation of a weakened free market.

The key difference between the two models is the difference of finance. The question that we must always ask in assigning a task to either is this: how does it receive its operating funds? If this is not asked in advance, there will inevitably be created a system which will not be able to do its job efficiently.

The *profit management* firm operates on an open market that permits the entrance of competitive structures. Whatever profits it makes or losses it sustains will be determined by its ability to satisfy consumer demand. Assuming that it stays within the framework of law established by the State, the only question that it *must* ask is whether or not its income exceeds its expenditures. The free market permits its bureaucratic structures to fail if they do not meet the needs of the buying public. Thus, the top level of any bureaucracy has a guide to the performance of the lower levels, especially with those levels connected with sales: are they producing profits or losses? Any bureaucracy must be hierarchical; the important differentiating factor is the set of guidelines used by the top level to evaluate the performance of the lower levels.

The standard of measurement in this case delegates to the lower levels considerable *responsibility* and therefore a more extensive *flexibility*. The lower levels are expected to know the conditions of supply and demand—the particular markets—far better than bureaucrats at the top level can possibly know them. Thus there is an integration of knowledge: the top level assigns the general goals—products needed, aggregate *estimates* of expenditures and possible profits, the prospective operation of the company as a whole—while the lower levels try to fulfill their basic responsibility, namely, to turn a profit. If they do turn a profit, they are left alone by the upper levels; if they fail, they can inform the upper levels of any corrections needed at the top, or else they can be replaced. The free market

1969). Almost every issue of the University of Chicago's *Journal of Law and Economics* contains a study of some regulated, semi-monopolistic industry. Regulation usually favors the monopolies.

organization, in short, possesses *greater flexibility* than the statist form because it is subject to the possibility of *failure*. Its income is therefore dependent upon its success or failure on the market.

The *statist bureaucracy* operates under a totally different system of financing. Its expenses are met by the State. Therefore, the responsibility of the managers of this bureaucracy is to see to it that all the income received is spent only on those items budgeted in advance when the operating budget was originally drawn up and approved by the State. The statist bureaucracy has *fixed budgets* and is not subjected to the competition of an open market. Thus we find the top level of the hierarchy concerned with the disbursal of the appropriated funds: is the money going to the proper subordinate level; is it being spent as previously approved; is all the money accounted for on the proper forms? By the very nature of the structure, there can be very little flexibility permitted to the lower levels, and the upper levels must see that all goes according to the previously approved plan. The task of the upper level is supervisory, not in the sense of evaluating profit and loss, but supervisory in the sense of *control.* The premium is placed on *accurate reporting* of control data; the goal is *total predictability.* This is inherent in the very nature of the statist bureaucracy. It has to be, as Mises points out. The State wants to be certain that its appropriations are being spent as legislated.

There is nothing wrong with the statist bureaucracy as a type. We must be certain, however, that it remains within those spheres of activity that require a bureaucratic structure that is totally predictable. This is precisely what Hayek calls for in his *Constitution of Liberty* (1960). The essence of a free legal structure is one which operates on all equally, and which is predictable by the citizens in advance. This is what permits competition on the free market: the rules of the game are known in advance. The place where you do not want arbitrary actions is in the administration of justice. Thus, the statist bureaucratic structure is not in opposition to this aspect of a society; we do not want to see justice decided by the sale of it to the highest bidder (as would be the case with a profit management structure).

The danger comes when the statist bureaucracy is called upon to handle the tasks met most efficiently by the free market. When commodity production is involved, or services that are something other than the services of the legal framework and its enforcement, then there will be signs of breakdown in a statist bureaucracy.

What we have been witnessing in America for at least four decades is the gradual encroachment on the private sectors of the economy by the State. Naturally, the State must administer its operations through a bureaucratic structure. The only structure it can use is one described best by Mises' second model. The flexibility and competitive nature of profit management is being replaced by the less flexible, administration-oriented statist bureaucracy. Increasingly, the possibility of profit and loss is less a function of accurate economic forecasting than accurate *political* forecasting. Ayn Rand is correct: we are creating an "economy of pull." Political manipulation, especially in the large corporate structures, is the key to survival.

We live in a world of scarcity. Men are forced to compete for the things that are scarce. They may be captains of American industry competing on a free market; they may be Soviet commissars competing in terms of a socialist structure; but they will compete if they wish to maintain their control of scarce economic goods. The question that men must ask is this: what are the success indicators by which my performance will be evaluated? If the goal is oriented toward the political, they will compete in political ways; if the goal is production in terms of a voluntary market, then they will compete economically. The political goal will place a premium on obedience to the State's stated goals rather than the (as yet) unstated demands of a future free market. Socialism, in other words, tends to create men who obey what has been handed down to them in the past; the free market is aimed at what entrepreneurs think will be demanded in the future. The first requires obedience rather than creativity. This is socialism's nature.

Here, it would seem, we find a likely explanation of the transformation of American industry. The statist bureaucracy demands that all subordinate branches conform to the stated goals of officialdom. It creates a demand for men who can *follow*. Mises makes a good point in his book, *Socialism*: the goal of the statist is to see the whole world inhabited only by officials.[9] Innovative capacities are not utterly ignored, of course, but they tend to be de-emphasized if they come into conflict with other goals, such as the smooth operation of the bureaucratic structure. Clearly, any bureaucratic structure tends to favor smooth operations, but only a bureaucracy insulated from failure can afford to see this goal fully achieved.

With the advent of "cost-plus" financing—a development of wartime, centralized planning—corporate structures have learned to live in terms of competition based on *stated* goals. In a sense, today's competition is increasingly the competition of the *engineer*: given a certain goal, how can it be produced most cheaply? Submit bids,

9. Ludwig von Mises, *Socialism* (New Haven: Yale University Press, [1922] 1953), pp. 208-209.

win the contract, and then get every member of the "team" to keep his costs in line with the projected study (well, maybe not quite in line—a little extra expenditure never hurt anyone. Right?) This kind of competition is unlike the competition of the *entrepreneur*: what kind of product should we produce, given a future market that is not certain? This latter kind of competition involves uncertainty. The more the State is the purchaser on the markets, the more this kind of risk-taking individual will find his world eroding. The demand will be for the engineer, the official, the manager, i.e., the man who can follow orders. The State remakes business in its image.

A friend of mine is an engineer, but one who appreciates the entrepreneur's function. He developed a certain kind of seal while he was working with a company dealing with such mechanical parts. The seal was more efficient than the competition's, but the competition had the market controlled. How to get the information of the new seal to the competition's buyers? He estimated that if the top salesman with the other firm could be lured away, that man could get maximum distribution of the new seal in two years time, as compared with five if he were not hired, a saving of three years of marketing development. The man was known to be ready to change, since his own company was not going to let him climb much higher. He made $18,000 a year; he offered to come over for a 10 percent commission, with nothing owed to him in the first year unless he succeeded in selling $200,000 worth of the parts. He was refused. Then he said he would work for a straight $20,000 plus a small commission. He was refused. He was offered $19,500. The reasoning: "No salesman working for this firm makes over $15,000 per year, and no salesman could be worth $20,000!" For the sake of $1,000, the company lost a chance to save three years of marketing development. The $500 a year became a symbol; the symbol meant more than sales. This is the mind of the statist bureaucrat. That mind is what is being produced today by our schools and our industries.

Another example is even more revealing. A certain Japanese firm was ready to "invade" America with high quality technical products which met or exceeded the best American firm's parts at a cheaper price. The key to the success of the operation was again marketing. The parts were able to be purchased by almost any firm making machinery; there are so many of these firms that American producers believed it would take literally decades for the Japanese firm to get into the position of a threatening competitor. They sat on their hands, unconcerned. The Japanese firm decided to get the marketing devices—the salesmen—of the other firms. They did it with an occult phrase: "We pay double." Ah, those orientals: inscrutable!

Hayek warned us 25 years ago that in a statist economy the quest for security would become paranoiac. Men are trained, paid, and respond in terms of a system that demands conformity and supplies security.

> It is no longer independence but security which gives rank and status, the certain right to a pension more than confidence in his making good which makes a young man eligible for marriage, while insecurity becomes the dreaded state of the pariah in which those who in their youth have been refused admission to the haven of a salaried position remain for life.[10]

The university has been a bureaucracy of the statist typology from the day that professors stopped being supported by the voluntary contributions of their students (which was normal in the twelfth century). With the advent of tenure, closely followed by the State financing and federal grants, the college professor has become a bureaucrat so safe that only the functionary of the larger tax-exempt foundations can claim to be more insulated from competition. This is equally true of the professor on the private campus, given the financial position of tax-exempt endowments. These men, as we might expect, train our youth in terms of the ideals which they themselves hold. American corporations are more and more involved in sales to the State, and therefore they begin to adopt the control characteristics of the statist bureaucracy. They need people to staff their posts. Thus we find the overwhelming number of graduates from our universities going into three main areas of employment: government service, college or public school teaching, and large corporations. That is what they have been trained to do; that is what the State pays for and the large corporations want.

Karl Jaspers once described the university's faculty, but he described at the same time almost any bureaucratic structure that does not compete on an uncertain market. It tends to drift toward mediocrity. It avoids hiring incompetents, since that would reflect badly on the bureaucracy's ability to screen its candidates, thus encouraging outsiders to step in and take over hiring practices. On the other hand, it tries to avoid hiring the really competent, for these types will reveal the lack of competence on the part of their colleagues. In an *insulated* bureaucracy, the premium is on *mediocrity.*

What we find, as a result, is the degradation of education in our nation. Creativity is regarded as deviant behavior and a threat, both in professors and students. The structures are not geared to reward creativity. A minister I know is musically gifted. When enrolled in

10. Hayek, *Road to Serfdom,* p. 130.

the M.A. program of one of America's most respected universities, he offered as his M.A. thesis an original chorale. As an M.A. in music, one would expect a man to be a creative musician and/or composer. His thesis was rejected. He was told that it was all right as a piece of music, but he was expected to submit a work of scholarship, with footnotes and some sign of original research. Such is the curse of the modern university. Its ground of total insulation—academic freedom—is based on one false, but at present accepted, hypothesis: education can be neutral and therefore legitimately supported by coerced State taxes. It therefore avoids all signs of creativity, which in turn might reflect a concept of truth (and truth, we all know, is tainted with religious value); professors hide, desperately, in the safe cloak of academic *methodology*, the only truth they recognize.

The result has been the creation of swarms of graduates so beautifully described by a 1968 college yearbook:

> Like ghetto children who drop out of school to get $35 a week jobs, they are unable or unwilling to engage in plans for long-range accomplishment or amelioration because they have no philosophical referents, or ways of coping with, that sort of thing. Many, perhaps most, of them develop the defense of smugness, of pretending that they have accomplished something already with their diplomas and technical vocabularies. And for the others, if revolution and anarchy seem too often to be their choice, it is because in this century, revolution is the most familiar way in which history manifests itself, or seems to.[11]

The relativism of the classroom has done its work. It has created methodological drones, adept at sentences beginning with "on the one hand," and ending with "but on the other." The hackwork of methodology is all the schools can impart, with one exception: the student also learns that all truth other than today's prevailing methodology is relative. This relativism breeds nihilism in the consistent students: if all standards are equally true, they are all equally false, so destroy them and build something new. Thus the best students tend to become revolutionaries, at least for a time, and the others become drones. It is the death of culture. The university, which was originally intended to preserve and create, today is best equipped to destroy; that's what we pay for—and what we get.

There can be a reversal of this destructive trend only with the re-establishment of conditions that permit private failure. If this is not done, then the failure will be collectivized, centralized, and com-

11. University of California, Riverside *Tartan* (1968), p. 145.

pounded throughout our entire culture. The failure will be general, hierarchical, and total, just as our statist bureaucratic structures are. If failure is not seen as one of the basic human rights, then we shall witness an institutional "failure of nerve," just as the Greeks did. Gilbert Murray's *Five Stages of Greek Religion* will serve as our epitaph, as well. The unbridled quest for security will give rise to total insecurity. The warning Hayek has given us regarding the fate of Germany and Italy in the 1930's should be heeded:

> While the younger generation, out of that contempt for profit-making fostered by socialist teaching, spurned independent positions which involved risk and flocked in ever increasing numbers into salaried positions which promised security, they demanded a place yielding them the income and power to which in their opinion their training entitled them. While they believed in an organized society, they expected a place in that society very different from that which society ruled by labor seemed to offer.[12]

When the bureaucrats revolt, who will be left to run the system? If all bureaucracies have been lured by the promise of security to imitate the structure of the controlled, statist bureaucracy, the seeds of institutional creativity will have long since been scattered to the wind. The whole world, indeed, will be inhabited by no one except officials.

Weber was wrong. The process of rationalization, in the way he described it, cannot go on. He saw the development of all bureaucracies into the overarching socialist type. If this happens, and if the free market's bureaucracy cannot be rediscovered and reinstituted as the foundation of our economic system, then the process will stop; it will be reversed in a cataclysm of failure. The process is not self-sustaining; rationalization can go on only so long as men seek to subdue each other. Convince the masses that the system is out to subdue them (rather than their neighbors), and a massive impulse will be created to destroy the system. Rationalization is simply a product of rational minds; remove the rationality and creative impulses from the system, substitute the drone who does not understand the rationalization process, and the process will stop. And that stoppage, given the degree of specialization and interdependence of today's economy, will be costly beyond our imaginations.

Failure, in short, is the inescapable concomitant of life. It is a basic human right. Remove the right to personal failure, and you dehumanize mankind; a dehumanized mankind cannot hope, as a collective entity, to do anything but fail. Hayek's point is well taken:

12. Hayek, *op. cit.*, p. 117.

"Thus, the more we try to provide full security by interfering with the market system, the greater the insecurity becomes; . . ."[13] It would seem that we are on the brink of total insecurity. We must convince men that they are personally responsible for their actions, and with responsibility alone comes true human freedom. *The right to fail,* like the right to succeed, *is one of mankind's most fundamental rights.*

13. *Ibid.,* p. 130.

Chapter XXI

FAMILY, STATE, AND MARKET

[This is a composite essay. The first half is a defense of the family as a bureaucratic, personalistic institution that acts as a buffer against the expansion of the totalitarian State. The second half seeks to reshape certain aspects of family authoritarianism that impede the development of mature, responsible children. The family should promote responsibility through a limited decentralization of command in the control of property. On the whole, however, the family must remain basically authoritarian, for the father is responsible before God for the affairs of his family (I Tim. 3). The first half of this essay appeared in The Alternative.]

Christians, almost by definition, are institutionally oriented. They suspect the motives and the sanity of all armchair social theorists who proclaim radical human autonomy as the foundation of their social analysis. Individual creativity, and a society's ability to appropriate and use such creativity, require the existence of stabilizing institutional supports. Randomness is a threat to man; he seeks to thwart it in the day-to-day affairs of his life. Randomness, if it is widespread, requires too much capital, both human and material, to deal with it. Scarce economic resources, especially time, are diverted from the task of positive creativity in order to subdue, in a negative fashion, the contingency of life. Therefore, as Robert Nisbet has argued so forcefully in his *Social Change and History*, stability rather than change should be the primary presupposition of sociological analysis. It is the error of modern thought (and has been for three centuries) to elevate change to the position of ultimacy, thus relegating stability into the realm of the abnormal. Stability is the setting of social change, not the other way around.

The standard account of the basic components of society which might appear in any of a hundred Christian analyses would include family, church, and State, generally in that order. Furthermore, subordinate institutional arrangements, probably more fleeting historically, but of considerable importance to society, are such things as school, business (i.e., occupational calling), fraternal organizations, gangs, or any number of other voluntary associations. Without the emotional stability provided by these associations—which Tocqueville said were so fundamental in American life in the 1830's —men are left to find meaning and purpose as social atoms. The "anomie" of modern industrial life, as Durkheim called it at the end of the last century, results from just this kind of social fragmentation and atomization. The alienation of mankind which so appalled the young Marx—an alienation, within the framework of the Christian philosophy of the West, which stems from the ultimate alienation between God and man—flourished far more easily in the milieu of industrial Europe than it had in the more personalistic culture which had preceded it.

It has been a hallmark of totalitarian parties that ultimate sovereignty has been ascribed to the leader, for it is he who is the incarnation of the spirit of universal meaning (*Volkgeist*, the proletarian class, the forces of history, etc.). The leader is the sole source of temporal meaning, the fountain of power, the source of legitimate change, the touchstone of community. Men participate in community, thus bringing purpose into otherwise autonomous, contingent lives, through the leader and the party. Totalitarian systems deny the validity of alternative institutional sovereignties, for these operate as buffers against central political power. At best, such competing institutions are regarded as derivative sovereignties, drawing legitimacy, power, and meaning from the party and the party's State. Thus, the premise of absolute totalitarianism is the simultaneous existence of radical individualism (i.e., social atomism) and the total integration of each human personality into the overarching sovereignty of the leader and his party.[1] From Rousseau to Stalin, a man is defined only as citizen or comrade; no other membership has any legitimacy. As Koestler has put it, in *Darkness at Noon*, a man is defined as one million men divided by one million—a pure social atom.

Christians rest the case for human freedom on the existence of legitimate multiple sovereignties, each with the authority to express itself by means of establishing institutional restraints on members and on each other. Men can be a part of several of them at any point in time, and each will impart a degree of meaning and stability into his life. No one human institution can legitimately claim full sovereignty, for men are sinful, rebellious creatures, and not creator

1. Cf. Hannah Arendt, *The Origins of Totalitarianism* (New York: Harcourt, Brace, & World, [1951] 1966); Robert A. Nisbet, *The Quest for Community* (New York: Oxford, [1953] 1970); J. L. Talmon, *The Origins of Totalitarian Democracy* (New York: Praeger, 1961).

gods. Destroy the system of plural sovereignties, each with its own legitimate realm of authority, and society faces the creation of a vast bureaucracy. In fact, the existence of the deadening bureaucratic hand will be the single sovereignty that can compete effectively with the capriciousness of the will of the ruler. The citizen is caught in the cross-fire between the impersonal cage of bureaucracy and the contingent world of the totalitarian leader. Total personalism doing battle with total impersonalism, with the individual citizen crushed in the middle. (Nazi Germany has been described as a "confusion of private armies and private intelligence services," in which the traditional army, the Reichswehr, was confronted with, first, the S.A. forces under Roehm, and second, the S.S. forces under Himmler, and few men ever knew where they stood in relation to the various bureaucracies. The faceless bureaucrats and Hitler were the foundations of men's lives.)

The one institution which is universally acknowledged by conservative social analysts and philosophers as being inescapable for the maintenance of a free society is the family. The family's relationship with that other crucial institutional arrangement, private ownership of property, is inescapable. Rushdoony has pointed this out in his study, *Bread Upon the Waters*:

> Biblical law places power and authority into the hands of the parents, especially the father, and, as long as the family has liberty, liberty based on the power of property, the parents have authority. The primary purpose of the inheritance tax has been to destroy this parental power; the total financial gain to the state by means of inheritance taxes is small. Similarly, transfer of power over education, income, and property from the family to the state has undercut parental power and authority.
>
> Because the modern state controls the education, income, property, and labor of *all* its citizens, it thus controls the totality of powers within the country. The result is totalitarianism. Every country that weakens the independence and liberty of the family and property moves steadily into totalitarianism. It makes no difference in which country this occurs, and what laws the state passes as a restraint on itself. *Property is power, and when the state grows in its controls over property, it grows in the same degree towards totalitarian power.* No political program can stop this growth unless it restores to the family its control over property, income, and education. As long as the state retains the control, it will retain the power and the authority, and it is naive to expect anything but tyranny.[2]

It is therefore not surprising that the Soviet Union officially

2. R. J. Rushdoony, *Bread Upon the Waters* (Nutley, N. J.: The Craig Press, 1971), pp. 70-71.

abolished the family as a legal entity until 1936. The conservative would argue that Stalin was forced to return to at least a somewhat conservative position with respect to the family because the very nature of human society demands acknowledgment of this most crucial of institutions. Without it, and the stability, meaning, and purpose it brings to the lives of human beings, men cannot be productive, and even the Communist State needs basic economic production more than it needs ideological consistency. There is an order that is built into creation that must be respected by men; deny it, and you deny both order and man. Deny the legitimacy of the family, and you deny the operational existence of human society. That is why totalitarianism in its purest theoretical form cannot exist over the long run or over the large geographical areas, for it negates the possibility of social control when it negates the possibility of society. This does not mean, however, that attempts to abolish the family by totalitarians and radical anarchists (who work together initially to tear down the fabric of existing society) cannot cause great social havoc. They can, and they have. They may again.

Socialism: Statist vs. Family

The family is the central law-making body in human society, not the civil government. It is the structure which teaches children original attitudes toward law, property, and other human beings. It is the primary agency of social welfare, as well as education. Steadily, as the State appropriates the functions of the family, a basic distortion of social life becomes manifest. Those social functions that can best be ordered through the operations of a local, highly personal, structure—one which is basically voluntary at its point of origin, i.e., marriage—become totalitarian and inefficient when appropriated by distant, politically controlled bureaucratic hierarchies that use coercion to gain access to their economic resources.

The family is essentially bureaucratic and socialistic in its internal structure. For some reason, this fact seems to bother libertarians. Some of them—at least those conservative enough to defend the family—actually try to deny the obvious. Robert Nisbet, the most influential conservative sociologist in this country (and perhaps the world—there are so few of them), writes in his book, *The Social Bond*:

> The difference between limited and total authority is perhaps clear enough when we are considering liberal and totalitarian political states. But the interest of sociology in these two types of authority does not stop with the state. For there are several

> other forms of total authority to be found in society, all of them in the liberal or democratic political order as well as in the totalitarian. I refer to such patterns found in the asylum, the prison, the military organization, and, from the point of view of the small child at least, the family. In each of these the authority of the organization—what we referred to in the preceding chapter as a "closed aggregate"—is total in its reach, fully encompassing the individual's life. Within each of these patterns there is, in effect, a disappearance of limits to authority except those that are set by the organization itself. The individual, plainly, is not free to withdraw from the prison or asylum or military organization until his term is up, even if its authority comes to seem oppressive. And, within the organization, he is subject to the full sweep of its authority.[3]

Or, as it was beautifully put in a cartoon showing a confrontation between a father and his teen-age son: "But Dad, Mom volunteered for this outfit. I was drafted!" Unless the family is in the process of collapse, the parents are in possession of the rights of control: allocation of economic assets, allocation of family tasks, family discipline. Where this "internal socialism" is not present to a considerable degree, the family in question is in very serious danger.

Does this mean that Christians favor the establishment of basically socialistic institutions? Of course it does. If a society does not establish a multitude of such institutions, it will see the establishment of that single overarching socialist institution, the totalitarian State. Christians favor the establishment of such bureaucratic and internally socialistic agencies as police forces (preferably local) and armies (preferably small and professional). They favor the establishment of churches, libraries, schools, and other institutions that need not always be operated on the basis of profit and loss statements. We desperately need more externally voluntary but internally bureaucratic institutions to act as buffers against the expanding sovereignty of the totalitarian State. Most of all, we need strong families.

To criticize the family because it possesses features that are repulsive when found in the institution of the State is as misguided an effort as the criticism of the State because it does not function as a family. Radical libertarians tend to practice the first form of criticism, while socialists are in the second category. Both fallacies rest on the same error: the inability to understand that different human institutions have different functions, different structures, different means of financing, different strengths and weaknesses, different laws governing them. Obviously, the family is not the civil govern-

3. Robert A. Nisbet, *The Social Bond* (New York: Knopf, 1970), p. 134.

ment. It is not impersonal. It trains its members to exercise responsible leadership in all areas of their lives, inside and outside the family. It produces children and, through the dual program of discipline and love, can transform rebellious infants into responsible men and women. Children are regarded as children only while they are children. The very process of aging in the parents adds incentive for them to rear up responsible children who can make a mark in the world and later will be able to support their parents when the elders can no longer care for themselves. The family unit, because it operates under the laws of biology (unlike the State), provides for its own internal transformation; children are not treated as children forever. "Therefore shall a man leave his father and his mother, and shall cleave unto his wife: and they shall be one flesh" (Gen. 2:24).

The State, if it attempts to imitate the family's structure and functions, becomes a crude, inefficient, exceedingly dangerous parody. Impersonal (or randomly personal and capricious), devoid of love, legalistic (or terrifyingly antinomian), unwilling to grant the distinction between childhood and adulthood among its subjects, the State attempts to make perpetual children out of all men and women. Rather than a school for responsibility, the "familistic state" creates a bureaucratic socialism that would transform society into a huge Skinner Box of perpetual youth and perpetual servitude.

The Assault on the Family

The assault on the family comes in many forms. One of the most common in Western society, from the Romans to the present, is the concept of romantic love. By viewing marriage as a product of romantic love, the integrity of a stable family is destroyed. The momentary irrational "feelings" of two persons becomes the foundation of society's primary institution. The concepts of binding law and permanent mutual obligation are undercut. Jim Moran, generally regarded as a master of the practical joke (or mental hotfoot, as he likes to refer to the art), came close to the meaning of romantic love several years ago when he was able to enlist the support of several psychiatrists in a peculiar project. He was trying (probably as a publicity stunt) to get a court to consider the following argument: if a partner can prove that at the time of the marriage he or she was actually in love, there are grounds for divorce on the basis of temporary insanity. How crude a travesty of justice is this? When "mental cruelty" or "irreconcilable differences (unstated)" have become the escape clauses for marriages built upon the shifting sands of romantic love, Moran's little stunt does not seem too outlandish after all. It certainly seems more honest than what actually prevails in American law.

Historically, Western culture has prospered when marriage was seen as a function of faith and character primarily, property secondarily, and romantic affection last. The arranged marriage, subject to a negative in cases of extreme hostility on the part of either prospective partner, served men, women, and society quite well. If for no other reason, it was useful for blaming your marriage's many failings on your parents' lack of insight rather than your own stupidity.

Another attack on the integrity of the family has come from the chief representative of the anarchist right, Murray Rothbard. Rothbard has distinguished himself as a major defender of the right of voluntary contract; indeed, he would prefer to see the complete abolishment of the civil government, resting the whole of society on individually contracting men and women. Yet in one area, defined as the area of "slavery," he would deny the right of men to make permanent, binding contracts. Somehow, *a priori*, by definition, forever and ever, rationally, inescapably, by the God who probably does not exist and who always is irrelevant to economic analysis, *this* kind of contract is forbidden! And the marriage contract is just this kind of voluntary slavery. Contracts, yes, but not a permanent marriage contract! Contracts for mutual prostitution, homosexuality, pornography, heroin sales to anyone who has the money, and every other kind of "non-coercive" human depravity: these are all legitimate, since they add to human welfare (as all voluntary contracts must), he says.[4] But not permanent, binding marriage contracts![5] That would be immoral. That would be a form of slavery. It is almost enough to make the Christian suspicious about Rothbard's claim that his social and economic analyses stem from totally neutral, rational presuppositions. In fact, it is more than enough.

The depersonalization and rationalization of modern Western culture have produced major changes in all traditional, personalistic, status-oriented institutions, including the family. Nisbet's comments are illuminating:

> The conflict of traditional folkways and new technicways is, of course, a clear feature of our own society. The past lives on with us too. Some of the problems of the modern conjugal family are the result of the disenchantment which Weber applied to Euro-

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4. Murray N. Rothbard, "Toward a Reconstruction of Utility and Welfare Economics," in Mary Sennholz (ed.), *On Freedom and Free Enterprise* (Princeton: Van Nostrand, 1956).

5. Rothbard, *Man, Economy and State* (Los Angeles: Nash, 1971), I, 441, note 35.

> pean culture as a whole. For the family too has been quite extensively rationalized, and in ways that differ little from those in which industry, government, professions, school, and church have been rationalized. The impress of science and technology upon the several roles forming the family is evident in the ever-greater individualization of these roles, and the ever-greater autonomy each role possesses as the result of such technological intrusions as scientific baby and child rearing, the automobile, radio and television, forms of birth control, labor-saving devices around the home, dependence increasingly upon specialists for crucial advice in family matters, and so on. It is impossible for the traditional structure of the family to maintain itself wholly, or for the traditional authority of the parent to assert itself, when through all of these and associated technicways, the *traditional functional value* of the family and of the parent has diminished. Who needs it? A great deal of contemporary adolescent judgment on the family might be so expressed.[6]

Christians can therefore conclude that there are built-in limits on the extent to which society can be depersonalized. The family, although under heavy attack from all sides, does survive, as the voluminous studies of Carle Zimmerman indicate. The American family, while visibly shaken by the expansion of secularism and the inroads of the modern State, will survive long after the heralds of new (or very ancient) utopias without families have ceased from their labors of scribbling tracts. These utopians live in mentally fabricated worlds; they are, as Nisbet calls them, adolescent judges.

Ownership, Responsibility, and the Child[7]

The family is obviously under severe attack from modern culture. Women's liberation, gay liberation, and numerous other modern cults of insanity and depravity constantly call for a major revision of the family structure. Christians, understandably, react negatively to such cries for reform. But in some ways, the family is in need of new approaches—not major revisions, but a clearing of some of the debris of humanism that has built up in American attitudes toward family life.

It is the thesis of this book that the free market system of resource allocation, grounded in the private ownership of property, comes closer to meeting the biblical requirement of personal stewardship and responsibility before God than any brand of socialism can possibly come. The family, as we have already seen, is not structured along the lines of the market, however. It is a centralized bureaucracy,

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6. Nisbet, *The Social Bond*, p. 247.
7. "Ownership, Responsibility, and the Child" first appeared, in slightly different form, in *The Freeman* (Sept. 1971).

although it operates in terms of a free market and can train children to function within the framework of a free market. But humanism has made serious inroads into family life, and some features of the family have to be reconsidered. If the family is to continue to rear responsible adults, this is imperative.

Men and women who are personally committed to the idea of the moral superiority of the voluntary market and private ownership seem incapable of grasping the parental role of imparting their faith to their children. The family is the training ground for children in every sphere of their young lives. Why should the concept of private ownership and personal responsibility be deferred until the child reaches his teens? If the first eight years are the crucial ones in the development of the child's perception of things, the establishment of his habits, the beginning of his intellectual tools, and the channeling of his emotions, then why are these years so ignored by parents as a time of training in the ideas of property?

Is there any concept that a child learns more rapidly than the concept of "mine"? I know virtually nothing of Soviet education at the preschool level, but I am certain that "correcting" this concept gives the teachers at the child day-care centers their most difficult intellectual problem. Unfortunately, the child does not seem to learn the equally important concept of "yours" with anything like the same facility. It would seem to be the moral problem with the child, not an intellectual one. That is why the authority of the parent is so vital in getting the child to acknowledge the validity of both of these interlocked concepts.

Children learn at astonishing rates of speed. All parents take pride in this fact, yet not one parent in a hundred really seems to understand just how fast his child does learn. The ability of a child to understand and act in terms of the most subtle human nuances—the look, the change of voice, a parent's weariness—is so great that it puts to shame whole teams of social psychologists and their computer cards. Children are connivers; they are seldom stupid. At times they seem to affect stupidity in order to better expedite their conniving. Parents who fail to see the signs of an infant's con job only confirm the child in any lack of respect he may have for the family. Children see and they remember differences between stated principles and demonstrated action. That is a child's means of survival, and he learns it very well and very early.

Parents for centuries have used the phrase, "Do as I say and not as I do," as a cover for their own moral weaknesses. A child may do just as his parent says, but in all likelihood he is thinking something very different. The mind of the child must be challenged by something more than brute force as he grows older; the sooner his mind is challenged, the better. Force, used to conquer a child's rebellious will, does not guarantee anything about the state of the child's thoughts. Yet, in the long run, the parent's real battle is for the mind of his child; and there are innumerable competing institutions that are in the business of intellectual conversion. The competition begins the day the child goes to school.

If the concept of private property is worth defending, and if personal responsibility is the moral basis of private property, then the family must be the scene of the child's introduction to the responsibilities of ownership. Sadly, most parents have been so utterly compromised—morally compromised—by the collectivistic concept of "the well-integrated child" that they fail to take advantage of a marvelous opportunity to teach their children the meaning of responsible ownership. These same parents are later shocked to discover that their teenager has abandoned "bourgeois concepts of property and morality." The child drops out of his tax-supported university, joins a commune, and openly defies the parent to stop him. Of course he has no respect for such bourgeois concepts; he was never expected to adopt them! The family structure that produced him never rewarded him in terms of those concepts. He might have been expected to do well individually outside the family—in school, in athletics, and so forth—but not inside the family.

Take, for example, the idea of "sharing." All well-integrated children share their toys with their brothers and sisters and with all the other boys and girls they play with. "Let Billy play with your airplane, sweetheart." Now "sweetheart" may know very well that Billy is a semiprofessional demolitionist, but he is supposed to let Billy play with his airplane, whether or not it took him a week to build it. Or maybe "sweetheart" is just another Ebenezer Scrooge. It really does not matter one way or the other. If Mama enforces her request that Billy be allowed to play with the airplane, she has begun to undercut the idea of ownership in the mind of her child. A request is one thing; enforcement is another. The child should be given the right to ignore the request without physical reprisal from his mother or Billy.

The parent can always give a whole barrage of cogent reasons why sharing is preferable to stinginess: people do not like selfish people, people will not share their toys with selfish people (which is, I think, the really effective argument), selfish people are mean, selfish people become social outcasts. Yet, the child is simultaneously informed that it is impossible to buy people's friendship. It is up to him to balance these competing propositions in his own mind. (If the parent thinks this is a tough knot to untie, wait until he tries to explain that God's favor cannot be purchased, but that faith without works is dead.) In any case, the decision ought to be the child's. If there are social costs associated with being selfish, let the child find out for himself, and let him evaluate them in terms of his own psychic needs. Maybe he likes toys better than friends. Maybe he will grow up to be like Howard Hughes. But it will have been his option, and he will have borne the costs. That is what the free society is all about. It cannot guarantee that everyone will grow up liked (or even well-liked, as Willie Loman saw life's goal), but it can see to it that everyone pays his own share.

Children are not stupid concerning group relationships. They understand why and how their peers operate. They have a larger stake in this kind of understanding than their parents could have; parental memories grow increasingly dim with age, and parents often have many other things to worry about. A child's concentration is focused. He learns to predict how his actions will be received. He may not act in terms of what he knows, but he is continually learning. If he thinks he ought to share with others, he will. He can test his parents' remarks about the benefits of sharing. If he likes the results, fine; if not, he bears the costs. It is a very good, and from the parent's point of view, very inexpensive, form of training.

One example of how the education in property rights goes on can be seen in voluntary trades made between children. The parent is understandably upset when he discovers that his son, age five, has just traded his $25 tricycle for the next-door neighbor's goldfish. The parent is tempted to force the neighbor's child to give back the tricycle. The parent who does this is making a serious mistake. A child must learn very early that a bargain is a bargain, that once a man shakes hands, figuratively speaking, on a deal, that deal is closed. A contract, in short, is a contract. Besides, the child may well prefer a goldfish to a trike. If he changes his mind later, the permanence of his contract will manifest itself. He may try to trade back with his friend. If he can do it, fine. But a parent who forces the kids to trade back, or a parent who allows his neighbor to force a trade, is a moral weakling. If authority is not there to enforce property rights in a family, the child may decide that the civil government is useless in providing the same service. A forfeited trike is a cheap way to teach a child to respect contracts, property, and the authority of law.

If the parent continually interferes with the right of the child to do what he wants with his own property, he is setting up the child for every kind of collectivist panacea. He will learn that titles to property are less valid than the ability to manipulate the authorities to your own purposes. He will learn that the authorities cannot be trusted to fulfil their promises with respect to ownership. He will learn that "yours" really is not that fundamental a concept, since "mine" is not enforced either. He will learn very early of the realities of what Ayn Rand has called "the economy of pull."

If a child is not taught the meaning of personal responsibility from the beginning, the family has failed in part of its function. That is why enforced sharing is so insidious. It destroys the links among ownership, power, and responsibility. The parent who makes his child share anything with anyone for any reason (other than disciplinary action for an infraction against another child's right of ownership) is courting long-run rebellion. He can suggest; he dare not enforce.

It should come as no surprise that violation of the rights of property by a parent brings with it an immediate punishment. I have seen parents spend whole evenings trying to straighten out what can only be described as property disputes among children. Hours and hours of listening to "Johnny took my fire engine," and "Bobby took my Baby Jane Throw-up Doll," and "Well, she won't give me back my Frankenstein monster." It must drive them crazy, as it does me; but I can go home later on. Kids are manipulaters by trade, as all people without power have to be; if the parent sets himself up as the allocator of children's scare resources, he can expect to spend a lot of time at that task.

Children can disrupt the family for so many reasons. They hit each other, tease each other, knock each other down stairs, compete for parental affection. That is what they do collectively; individually they can be equally trying on a parent. "When they're quiet, I worry," is a universal sentiment among mothers. So when the property issue is added to the long list of parental harassment devices, it ought to be shut off from the start. Each child must learn very early that the rights of his brothers must be respected, and that when the parent learns of an infraction, punishment follows with the regularity of a machine. Not that the parent comes in and settles the dispute in a friendly way, but that he comes in and settles it by swift justice. If the parent is only a friendly mediator, he will be a harassed mediator; no kid will cooperate with his brother when he thinks the authorities will only restore the *status quo ante*. He has nothing to lose and the toy to gain, and his brother knows it. But if he knows that the minute the story of his infraction gets to the parent, he will be punished, he may begin to see the advantages of self-discipline. He may begin to mature. (If States would see the truth of this with respect to mediating labor-management disputes, there would be fewer strikes and fewer non-negotiable demands—i.e., there would be more industrial maturity, more voluntary contracts, and no Wagner Act.)

There is one justification that is used by children for every kind of deviation: "He wouldn't give my toy to me so I. . . ." A parent who stands ready to enforce the right of property in his household will not have to listen to that one; he can punish both the thief (for that is what he is) and the vigilante who retaliated. He can encourage victims to come to him because they can trust him to uphold them in their arguments. We expect that much as adults from the civil authorities; we should provide it in that sphere where we are the officials. We should be able to be trusted, day in and day out, to render justice, whether we are tired, happy, sour, busy. The regularity of justice, the very predictability of it, is more respected by the child than any theories that a parent might spin in those rare heart-to-heart talks. It takes self-discipline in an adult to provide this kind of regularity; that is why there is truth to the phrase that delinquent parents are the chief cause of delinquent children. The lack of self-discipline becomes a heritage of families throughout several generations.

A judicious use of the weekly allowance should be started as soon as the child can say, "Buy it for me" at the supermarket. He learns what buying means very early. That is why supermarket psychologists set up the candy counters by the check-out stands, and at eye level for tots. They know that few mothers have the moral fiber to say no to a squalling child; at least, they will not do it every time. The best argument to "Get it for me," is "Shut up or I'll tan your hide" (if it is meant); the second best answer is "Buy it yourself." The older the child, the better is the second answer.

One of the appalling things I have witnessed over the years is the sight of parents at church giving their children money to put in the collection plate. They think they are teaching their children to sacrifice for God. They under-rate the child's intelligence. He knows quite well the difference between "giving" and acting as a financial broker for a parent. If a parent plays this game, the child should be told that he can keep every cent of it to use as he would his other income. Then the child can learn what sacrifice is. If the parents hold to the ancient and respected custom of tithing, then the child should be encouraged to tithe his income. But the only justification for a parent's requiring the child to tithe would be that the elders over the parent have the same institutional option. If he is not institutionally obligated to tithe, then the old rule holds: do as I say *and* as I do, for they are of one piece. The child should not be forced to tithe. The Bible says that God loves a cheerful giver; that is what the child should be taught to be.

The defense of the free market cannot be made simply in terms of charts and graphs and technical explanations of market efficiency by professional economists. It must be defended by a willingness on the part of its supporters to understand its principles and apply them in all the relevant spheres of their personal lives. "But be ye doers of the word, and not hearers only, deceiving your own selves," wrote the Apostle James. Indeed; if a parent is not willing to take the time to apply the principles that he professes to hold most dear within the confines of the institution that he holds most dear, he is not serious about his commitment to those principles. If parents use the family as a zone of safety from the responsibility of laboring to apply basic moral principles, then they should be ready to see their children on television during the mass arrests at the local university. If the principles of private ownership and personal responsibility are not worth teaching by word and example to one's children, they are not worth teaching at all.

Chapter XXII

THE CRISIS IN SOVIET ECONOMIC PLANNING

[*Part of this essay has been included in the Appendix I included on the Soviet economy in my book,* Marx's Religion of Revolution. *In the present form it was published in* Modern Age *(Winter, 1969-70). The allocation of scarce economic resources is best handled through the operation of a free market, i.e., that system of property ownership in which individuals are allowed to control their own property, reaping profits or losses by acting in terms of a voluntary market. The market must permit free pricing of goods and services if it is to register the true conditions of supply and demand. The Soviet economy is a massive failure precisely because it compromises on all of these factors: people do not have full control over property as individuals, the markets are not voluntary (especially the labor and housing markets), pricing is not left flexible and free. It is an irrational way to organize production and distribution, and its very irrationality lends support to the arguments in favor of a free market system.*]

It was in 1920 that Ludwig von Mises first presented his critique of socialist economic planning. Without the private ownership of property, and without a free market in which consumption goods and especially production goods can be exchanged, it is impossible to achieve rational economic calculation of costs. The entrepreneur needs to know the marginal cost of his methods of production, and this means that he must know the possibilities for profit by employing his capital in other ways. Without a free market, it is impossible to make this calculation, and socialism, by definition, cannot permit such a market to exist, since it requires the State ownership of the means of production.[1]

This argument has never made much of an impression on the socialists. Oskar Lange, whose supposed "refutation" is quoted in countless textbooks as "having answered Mises," acknowledges the importance of the criticism, but since no socialist country has ever

1. Ludwig von Mises, "Economic Calculation in the Socialist Commonwealth," (1920), in F. A. Hayek (ed.), *Collectivist Economic Planning* (London: Routledge & Kegan Paul, 1935).

put Lange's theory into practice (probably because the State planners sense that the plan is unworkable, given the political and economic goals of socialism), socialists can be said to have simply ignored Mises.[2] The claim is still made that socialism is more efficient than capitalism, and more moral.

I shall bypass the question of morality in this essay, and focus instead on the very concrete case of the Soviet planning. If centralized State planning is to equal the efficiency of a decentralized free market economy, certain features of the free market's mechanism should be present within the planning bureau. First, planning should be based on a full *knowledge* of each product, including its true cost (i.e., its marginal cost, or "cost-of-the-most-important-use-foregone"), its market, the productive apparatus necessary to create it, and the local environment in which it is produced (transport difficulties, availability of labor, and so on). This knowledge must be at least comparable to that provided by the market's pricing mechanism under capitalism.[3] Second, the planners must be able to *integrate* all these data into a working plan, and supplies and demands must be matched with a smoothness comparable to that of the open market, with its use of the profit and loss guidelines to direct production into its most important uses. Third, the planners must be able to *foresee* the effects of new processes and products in each of the prospective markets. Errors in foresight should be registered (and compensated for) as forcefully as they are when they occur in a free market. All this involves the fourth, and perhaps the most important problem of knowledge, the measurement of *profit and loss* in an economy without a market. This is Mises' point against the rationality of socialism. Finally, the socialist must assume that there is such a thing as *economic law*, and that these laws can be known and used by planning agencies in their activities.

Alexander Gerschenkron, one of the foremost experts in the field of Russian economic history, has summarized the issue as well as anyone could desire:

> The official view of the Soviet economy is premised upon the

2. Oskar Lange and Fred M. Taylor, *On the Economic Theory of Socialism* (New York: McGraw-Hill, [1938] 1956). Paul Craig Roberts has put it well: "Lange refutes Mises by utilizing the market mechanism and the value criteria it generates—precisely the mechanism and values that were to be replaced under socialism by a planning mechanism, the impossibility of which was the contention of Mises." Roberts, "The Polycentric Soviet Economy," *The Journal of Law and Economics*, XII (April, 1969): 166n. Cf. T. J. B. Hoff, *Economic Calculation in the Socialist Society* (London: Hodge, 1949), for a thorough discussion of Mises' theory and the supposed refutations of it.

3. On the whole question of economic knowledge and planning, see Hayek's essay, "Economics and Knowledge," in his *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948).

> assumption of unrestricted knowledge and foreknowledge on the part of the central planners. Needless to say, this assumption is far from realistic. The stream of paper reports that flows from the plants to the central authorities may belittle the majesty of the Volga River, but it provides no assurance of real insight into the conditions within the individual plant. The fundamental ignorance of the central authorities restricts their ability to enforce their will. Obversely, it is the knowledge of the manager that assures for him his area of freedom.[4]

In other words, the central planning of supply assumes the omniscience of the central planners. Without this omniscience, the system is faced with overwhelming difficulties. The main one is that to which Gerschenkron alludes: How can the on-the-spot knowledge of the local manager be integrated into the overall central plan? Will not the freedom to allocate scarce economic resources at one level interfere with the planning activities of the other? This is the inescapable, inevitable, perpetual problem of the USSR's economic planners.

Despite the grandiose claims of the proponents of central planning, the Soviet Union carries on only the most general aggregative planning at the center. Gosplan, the central planning agency, coordinates the production of a few major products and services. In a frequently quoted article, Herbert Levine has estimated that between eight hundred and fifteen hundred commodities are planned totally at the center.[5] He outlines the planning process. The complexity is staggering. *First,* a statistical analysis of the base period is made in the first half of the planning year (in preparation, of course, for the plan for the following year). A survey of the previous year is made to gain at least a superficial aggregate estimate of what will be needed (and possible) in the plan. As Paul Craig Roberts has added, the individual firms present these forecasts to the central planners, and therefore "the initiative lies essentially with the enterprises since they have better knowledge of their productive capacity. . . ."[6] *Second,* control figures are drawn up for a dozen or so of the chief products and investment targets. These serve as guideposts for economic units at lower levels. *Third,* and most important, is the confirmation of the plan by the political hierarchy, and as might be imagined, a great deal of political maneuvering takes place at this

4. Alexander Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge, Mass.: Harvard-Belknap Press, 1962), p. 287.
5. Herbert S. Levine, "The Centralized Planning of Supply in Soviet Industry," *Comparisons of the United States and Soviet Economies* (Joint Economic Committee, Congress of the U. S., 86th Congress, 1st Session, 1959); reprinted in Wayne A. Leeman (ed.), *Capitalism, Market Socialism, and Central Planning* (Boston: Houghton Mifflin, 1963), p. 55.
6. Roberts, p. 176.

point. The maneuvering appears at all levels of the economy and in every local district. An extremely complicated and often varied process of surveying begins: local plants are supplied with forms relating to forthcoming production goals and supply needs; these forms, when completed, are sent to the Gosplan board for confirmation or revision. The ocean of data is then coordinated at the top into some kind of hopefully workable plan. *Fourth*, the detailed plan is then returned to the firm for implementation.[7] Unfortunately for the managers in the local firm, though quite understandably, these final plans too often arrive late, a constant complaint of enterprise directors. Theoretically and ideally, this delay should never happen, but it does. Managers cannot always wait for plan figures to arrive, so they begin on a tentative production plan. Naturally, it frequently needs drastic revisions once the official plan is delivered. (There is, I suspect, a good prospective market for DiGel in the Soviet Union.)

Politics, rather than economics, has dominated Soviet production plans for decades. Naum Jasny has argued that the very planning units—the Five Year Plans—were originally propaganda devices, and that the annual and quarterly plans were the real basis for planning; this, he says, prevailed until the advent of the Seven Year Plans, which came in the mid-1950's.[8] For most of the history of Soviet planning, in other words, the long range plans were irrelevant for economic purposes. The goals of the 1930's were set so high that it would have been impossible for any regime to have reached them; this resulted in what Jasny calls "bacchanalian planning." Planning for long term goals was a function not of economic realities but rather of oratory. In a very real sense, Soviet planning in these years was, in Mises' provocative term, "planned chaos."

The magnitude of the statistical problem in centralized planning is inconceivable. Victor M. Glushkov, the head of the Soviet Union's research program in cybernetics, has warned that a radical revamping of present methods of planning is vital if the economy is to survive. Without such a reform in the near future, Glushkov estimates that the planning bureaucracy will have to grow thirty-six-fold by 1980, requiring the services of the entire population![9] If the central planners should hold as an ultimate ideal the idea that every nail and screw of every factory under construction must be known to the planning board in advance, there will be no hope for them. Glushkov

7. Levine, pp. 55-58.

8. Naum Jasny, *Soviet Industrialization, 1928-1952* (Chicago: University of Chicago Press, 1961), pp. 25-27.

9. Reported by Leon Smolinski, "What Next in Soviet Planning?" *Foreign Affairs*, XLII (1964); reprinted in Morris Bornstein and Daniel R. Fusfeld (eds.), *The Soviet Economy* (Homewood, Ill.: Richard D. Irwin, 1966), p. 239.

has estimated that even if high speed computers were used, performing thirty thousand operations per second, it would require one million computers working without interruption for several years to plan the entire economy. The total economic relationships within the Soviet Union approach several quintillion. And the economy is forever changing, meaning that the data fed into the computers would be revised continually. They could never catch up.[10]

As an economy develops, the planning task becomes progressively less manageable. Professor G. Warren Nutter has put it this way: "Centralized planning becomes less and less efficient as the number of products multiplies."[11] Gosplan implicitly recognizes this, and the board plans only about eighteen thousand products even indirectly, less than one-tenth of 1 percent of total Soviet output.[12]

At this point, the reader may detect a problem. If as few as eighteen thousand products are considered at the top of the planning hierarchy, and only about a tenth of these are fully co-ordinated there (Levine's estimate, cited earlier, of from eight hundred to fifteen hundred), then how can we say that the Soviet economy is a socialistic command system? In a fascinating article, "The Polycentric Soviet Economy," Paul Craig Roberts has dealt with this issue with considerable insight. He argues that "a more productive way of viewing the Soviet economy might be to see it as a polycentric system with signals that are irrational from the standpoint of economic efficiency."[13] The Soviet system, in other words, is not an operative hierarchical system in practice, though socialist theory requires that it should be. It is instead a system which tries to follow a whole host of mutually conflicting directives. Roberts quotes Tibor Liska, a Hungarian economist, who has made one of the most profound observations concerning central planning that I have ever encountered. Liska says that,

> . . . as the number of directives to be observed increases, the more detailed and the stricter they become in a most intricate economic life hardly lending itself to standardization, the greater the liberty of individual planners and economic managers. The intricacy of economic life follows, namely, primarily from the

10. *Ibid.*, p. 335.
11. G. Warren Nutter, *Growth of Industrial Production in the Soviet Union* (A Study by the National Bureau of Economic Research, published by Princeton University Press, 1962), p. 64.
12. Peter Wiles and Leon Smolinski, "The Soviet Planning Pendulum," *Problems of Communism* (USIA), XII (Nov.-Dec., 1963), p. 21. As they say, "the complexity of planning grows also with the square of the number of establishments. . . ." Planning today is some 1600 times more complex than in 1928.
13. Roberts, p. 175.

> fact that hosts of contrary tendencies must be brought into harmony with optimum efficiency. The stricter and more rigid the regulations proscribing the enforcement of such contrary tendencies, the more contradictory the directives must become. One receiving the directives has but a single choice: *not to observe all the directives.*

The freedom here is not the freedom of the free market economy, because the operation of a flexible price mechanism is absent in the Soviet Union. The freedom of the Soviet factory manager is the freedom to be economically irrational for the sake of political survival. The attempt by the Soviet planners to create a unitary system of economic coordination by the state has resulted in increasingly fragmented economic units at the bottom of the economic pyramid.

The careful observer of the Soviet economy must understand what planning is in the Soviet Union. It is not a totally integrated system directed by an omniscient central planning bureau. When, earlier in this essay, I used the term "planning," I was using it in the restricted sense of the specification of inputs, product mix, quality controls, output, and so forth. The central planners attempt this only with the key industries such as steel, armaments, power, and education, and even here the planning is not really total. The direction given for most production, therefore, is provided in the form of *arbitrary prices* established by the planning agencies. This leaves managers "free" to achieve or exceed their firms' goals (selected out of a multiplicity of conflicting, though required, goals) as best they can, but always within a framework of prices established by fiat. The ideology of full socialist control has been sacrificed on the altar of quasi-market efficiency.

The central planners, whether they know it or not, are involved in an enormous sham. Roberts' question is well taken: "What then is the function of the planning bureaucracy?" His answer is ingenious: "Whatever the intention might be, in effect the primary function of the planning bureaucracy is to act as supply agents for enterprises in order to avoid free price formation and exchange on the market so that productive inputs will not have the appearance of [capitalistic] commodities. This satisfies the ideology underlying the whole effort at the expense of notorious failures of supply."[14] To the extent that the planners allow local autonomy—sometimes almost autarky—of firms, because they must rely on data supplied by those firms, they sacrifice full socialism and the accompanying ideology; yet they avoid implementing a free pricing system, i.e., the only means available to integrate the local firms into a rational

14. *Ibid.*, p. 177.

aggregate, in order to give the illusion of maintaining the ideology. They achieve neither ideological consistency nor economic efficiency. Peter Wiles and Leon Smolinski have drawn the necessary conclusion:

> It is thus obvious from the administrative point of view that planning must be decentralized if it is to exist at all. It always has been and still is: the center draws up a general skeleton and the subordinate bodies put flesh on the bones. . . . Confining ourselves still to economics, it is plain that such technical planning disiderata as consistency and punctuality are compatible with, even possibly favored by, decentralization.
>
> One planning function, however, is very seriously disfavored: the rational allocation of resources. From this point of view decision-making should be *either* central *or* peripheral; a mixture is bad.[15]

We see the inevitable, inescapable problem in operation: the constant tension between centralized, ministerial planning and localized decision-making. The Soviet economic planners constantly shift the locus of planning back and forth in their attempt to discover a solution to their problem of administrative balance. As Gregory Grossman says, "To put it schematically at the risk of oversimplification: overcentralization, imbalance, and autarky are the three corners of a triangle of hazards within which the Soviet-type economy seeks to find an organizational solution."[16] One Sovietologist, Z. M. Fallenbuchl, has pinpointed the issue: "Hence the perennial dilemma of the Soviet economic organization: how to decentralize some economic activities without losing control over the economy and the possibility of central planning."[17]

The crisis has grown steadily more critical. "The authorities that hand down plans," writes Alec Nove, "are often unaware of the tasks already given that enterprise by other authorities." He quotes a statement made by I. Borovitski, a disgruntled enterprise manager, which appeared in *Pravda* (Oct. 5, 1962):

> The department of Gosplan which drafts the production program for *Sovnarkhozy* [regional economic councils] and enterprises is totally uninterested in costs or profits. Ask the senior official in the production program department in what factory it is cheaper to produce this or that commodity? He has no idea, and never even puts the question to himself. He is responsible only for the distribution of production tasks. Another department, not really

15. Wiles and Smolinski, pp. 24-25.
16. Gregory Grossman (ed.), *Value and Plan: Economic Calculation and Organization in Central Europe* (Berkeley: University of California Press, 1960), pp. 7-8.
17. Z. M. Fallenbuchl, "How Does the Soviet Economy Function Without a Free Market?" in Bornstein and Fusfeld (eds.), *The Soviet Economy*, p. 35.

> concerned with the costs of production, decides on the plan for gross output. A third department or subdepartment, proceeding from the principle that costs must also decline and labor productivity increase, plans costs, wages fund and labor on the basis of past performance. Material allocations and components are planned by numerous other departments. Not a single department of Gosplan is responsible for the consistency of these plans.[18]

In short, too many blind cooks are spoiling the soup. All of these problems are compounded by the constant meddling of Communist Party officials at all levels of the economy. This interference naturally leads to irrationality in planning. "The problem is not, of course, new; it is inherent in the separate existence of party and state hierarchies."[19] The Soviet planning system, in the words of Wiles and Smolinski, is "a crazy quilt of agencies organized according to several principles."[20] It should not be surprising that the economic puzzle in the aggregate never seems to fit together in the particulars.

The preceding discussion has been based on the presupposition that the choices of the planners, if only they could be coordinated, would be rational. That assumption in itself is highly suspect. Socialists would have us believe so, of course. Peter Wiles has asked whether or not we should believe them. "The possibility of the private consumer being irrational is of course an accepted cliché of Western economies. But none of this makes planners' preferences rational. It is astonishing that people with an intimate knowledge of how the Soviet system works should consider the possibility of operating on the assumption that planners' preferences are in fact rational in a Communist country."[21] Those who would construct such a system of production with as many built-in irrationalities as the Soviet system contains can certainly be questioned with regard to their overall rationality.

The almost incredible bureaucratization of Soviet planning is evidenced by two frequently encountered examples. In one case, a plan for the production of ball bearings had to go through so many agencies for approval that a staggering (literally) total of 430 pounds of documents was generated.[22] In another instance, one "autonomous"

18. Alec Nove, *The Soviet Economy: An Introduction* (New York: Praeger, 1966), p. 207.
19. Alec Nove, "Revamping the Economy," *Problems of Communism*, XII (Jan.-Feb., 1963), p. 15.
20. Wiles and Smolinski, p. 25.
21. Peter Wiles, "Rationality, the Market, Decentralization, and the Territorial Principle," in Grossman (ed.), *Value and Plan*, pp. 186-187. Cf. Gerschenkron, *Economic Backwardness*, pp. 287-288.
22. Abram Bergson, *The Economics of Soviet Planning* (New Haven, Conn.: Yale University Press, 1964), p. 150.

Republic, the Tatar ASSR, had its investment plan changed almost five hundred times in 1961.[23] Under these conditions, the task of enterprise management would be impossible if it were not for some ingenious (and often illegal) solutions worked out by factory managers.

The basic solution has been the creation of a vast network of "independent" supplies—a black market. This is the phenomenon known informally as "*blat*." Joseph S. Berliner, in his valuable study, *Factory and Manager in the USSR* (1957), has described this process. Since supply channels are often exasperatingly slow and frequently deliver the wrong or inferior goods, managers must turn to alternative sources of inputs if their production quotas are to be met (and their bonuses and promotions received). For example, a plant may have a surplus in any given year; this, in turn, is probably due to the fact that the manager overstated his supply needs and understated his plant's productive capacity in the previous year, when the central plans were drawn up. These additional goods may be traded to some other firm for some future service or present luxury from that firm. This aids not only those smaller firms that are on a lower priority list for supplies, but it also helps the high priority industries during periods of crisis.[24] Certain "middlemen" with informal connections are employed, usually under a bogus administrative title, as the agents for the *blat* operations. They are "pushers" whose activities coordinate the underground facilities of supply and demand. They are called the *tolkatchi*. Some firms employ only part-time *tolkatchi*, especially the smaller ones. In recent years, the government has wisely removed the criminal sanctions that were once imposed upon such activities of unauthorized exchange or resale of supplies. In addition to this softening, the procedures for obtaining official authorization to purchase extra supplies have been eased.[25] The State planners have, in effect, recognized the necessity of these "capitalistic" practices. Production goals are sometimes more important than official ideology. These practices go on as long as the conditions of inefficient production and distribution remain. As Berliner says, "The *tolkatch* thrives in an economic soil watered by shortages and fertilized by unrealistic targets."[26]

At this point, it would be wise to quote Alec Nove's summary of

23. Alec Nove, "Prospects for Economic Growth in the USSR," in Bornstein and Fusfeld (eds.), *The Soviet Economy*, p. 318.
24. Joseph S. Berliner, *Factory and Manager in the USSR* (Cambridge, Mass.: Harvard University Press, 1957), chaps. 11, 12.
25. Berliner, "*Blat* Is Higher than Stalin," in Abraham Brumberg (ed.), *Russia Under Khrushchev* (New York:. Praeger, 1962), p. 173.
26. *Ibid.*, p. 175.

the "centralization-decentralization" antinomy of the Soviet production system:

> While centralized planning overburdens the organs charged with carrying it [the plan] out, decentralization—the obvious remedy—proves completely unworkable as long as planners' instructions are the principle criteria for local decisions. The modest attempt to dissolve authority to territorial economic organs, in 1957, was inevitably followed by renewed centralization. Within the system as is, only the center is in a position to know the needs of industry and society at large, since these are not transmitted by any economic mechanism to any territorial authority. The latter is therefore unable to foresee the effects of its decisions on the economy of other areas, and, in the circumstances, decentralized decision making must lead to intolerable irrationalities. . . . Thus, decentralization is both indespensable and impossible.[27]

In the final analysis, the theory of Mises, Hayek, and other free market advocates appears to be justified, or at least hardly disproved, by Soviet economic practice. Most non-Marxist commentators are willing to admit that in terms of economic efficiency as such—low production costs, higher output, allocation according to demonstrated consumer preferences—the free market economies out-perform the Soviet system. It must be borne in mind, of course, that the goals of the Soviet hierarchy have seldom been consumer preference oriented; the goal has been the establishment of rigid, total, centralized political power. Waste has always been a less important consideration than the strengthening of the Party and the Soviet State. There has been economic growth, to be sure, especially in the areas of heavy industry and military armaments. In terms of economic growth as such, Abram Bergson's restrained conclusion seems damaging enough: "As it has turned out, the outstanding example of socialism that has yet come into existence has distinguished itself not so much for effective use of resources as for the novel and strange ends imposed on a great state."[28] But Jan Prybyla's comment comes closest to the mark:

> What the Russians have shown is that cockeyed economic growth at rapid rates can be achieved without economists and without economic science; but that after the economy outgrows its teenage crisis, elusive and subtle problems of resource allocation among an increasing number of competing "priority" ends demand an economic science for their solution.[29]

That is precisely the problem: the USSR has never been able to

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27. Nove, "Perspectives," Bornstein and Fusfeld, *op. cit.*, p. 318.
28. Bergson, *Economics of Soviet Planning*, p. 358.
29. Jan S. Prybyla, "Soviet Economic Growth: Perspectives and Prospects" (1964), in Bornstein and Fusfeld, p. 314.

create a science of socialist economics. It is indicative of the political attitude toward economics in the Soviet Union that from 1928 until 1954—the years of Stalin's planning and the years of the country's most rapid economic growth—it was found necessary to cease teaching all classes in economics in the institutions of higher education, and not one general textbook in political economy appeared![30]

How they propose to solve these problems remains to be seen. It seems clear that without a decentralization based upon the rational coordination of a flexible price mechanism, and without the advent of a consumer economy based upon the private ownership of the means of production, the basic issues will remain unsolved. The so-called Liberman reforms have not yet fundamentally altered the structure of the Soviet economy, and the limited decentralization and production-for-profit techniques of those reforms have been restricted to less than 150 industries, carrying small weight in the aggregate economy.[31] If these reforms should become basic to the Soviet system, then the entire structure of ownership and control of the firm will have to be revamped in order to permit entrepreneurs to gain access to their share of the total value of output.[32] It is unlikely that such a restructuring will take place; it would be impossible within the framework of a traditional socialist ideology. Therefore, we can expect the Soviet economy to shift back and forth between centralized planning and local autarky mediated primarily by a black market supply system, and growing more and more irrational as the complexity of the planning task grows ever greater. The system, in good Marxian terminology, contains the seeds of its own destruction.

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30. Nove, *The Soviet Economy*, p. 282.
31. Marshall I. Goldman, "Economic Controversy in the Soviet Union," *Foreign Affairs*, XLI (1963), in Bornstein and Fusfeld, *op. cit.*, pp. 339-351. Cf. Ludwig von Mises, "Observations on the Russian Reform Movement," *The Freeman* (May, 1966).
32. Svetozar Pejovich, "Liberman's Reforms and Property Rights in the Soviet Union," *The Journal of Law and Economics*, XII (April, 1969), pp. 155-162.

Chapter XXIII

THE MYTHOLOGY OF SPACESHIP EARTH

[*"The Mythology of Spaceship Earth" is self-explanatory. The Spaceship Earth propaganda has intensified since the time that I first published this piece in* The Freeman *(Nov., 1969). The big problem is that everyone using the Spaceship Earth slogan thinks that his group should be universally accepted as the officers of the crew. There are a lot of people who are itching to be captain of the ship.*]

The flight of Apollo XI was probably the most stupendous technological achievement of the decade. (Unquestionably, it was the most stupendous bureaucratic achievement of the decade: scheduled for 1969, it actually took place in 1969!) Editorials in every paper in America, I suppose, have lauded the flight as the monument to the capacities of mankind to conquer nature and order our affairs, the assumption being that the ability to fly a rocket implies the ability to organize a society, in theory if not in practice. The flight has brought to the forefront that old cliché, "Man's scientific wisdom has outrun his moral wisdom"; we can go to the moon, yet somehow we have failed to solve the problem of mass poverty in the United States.

The gap between moral wisdom and scientific knowledge has been a problem since the scientific revolution of the sixteenth century. Immanuel Kant, writing in the late 1700's, struggled mightily with this very question: How can man bridge the intellectual chasm between scientific knowledge (the realm of law and necessity) and moral knowledge (the realm of freedom and choice) without sacrificing the integrity of one or the other? Hegel, Marx, and the modern moral philosophers have all lived in the shadow of this dilemma, and the crisis of modern culture reflects man's failure to resolve it. The responses to this dilemma, as a rule, take one or the other of two forms, symbolized by Arthur Koestler as the Commissar on the one hand, and the Yogi on the other.

The Commissar is enraptured with science and technology; he is confident that scientific planning in proper hands can so alter man's environment as to bring about a new earth and a new mankind.

The Yogi takes the opposite tack of disengagement from "the world," laying stress on each man cultivating his own garden. Find inner peace, he urges, and the external world will take care of itself. His assumption is that science and technology are neutral, that developing from their inner imperatives they will eventually find their own benevolent level.

But this assumption is invalid because the planners won't let it happen this way. Once accept scientific planning as a legitimate and even necessary function in a society and any form of "spirituality" which assumes the impotence of moral concepts in the social and economic affairs of men is helpless before the planning elite. If a change in the hearts of men only has impact on their internal lives, then the external realm of science is left free to do its "neutral" best. Unfortunately, the planners can never be neutral; hence, their application of technology to the affairs of men cannot be neutral. Planning involves the allocation of scarce resources, and some programs must be accepted while others are rejected. The planners must use a scale of values—nonempirical, *a priori* moral values—in the administration and formulation of their plans. Hayek's arguments along these lines in his *Road to Serfdom* (1944) have laid the question to rest. Unless one's moral commitment involves a view of external reality, one will remain helpless to reverse the course of external affairs. For this reason, those who counsel retreat from the world actually cooperate with the drift into totalitarian planning.

From the Moon to the Earth

During the week of the moon shot, I fully expected some local television station to show George Pal's 1950 classic, *Destination Moon*. Sure enough, a Los Angeles station presented it one evening. No doubt it was shown in other cities around the country. I missed it this time, but I have seen it often enough to reproduce some of its dialogue verbatim (the dialogue, however, was considerably inferior to Pal's special effects). Tom Powers played a military man whose rocket programs kept producing failures. He finally is able to convince John Archer, a captain of private industry, to construct the rocket that will get the job done. The message: only American private enterprise can get us to the moon.

That was great stuff in 1950. Yet the reality is far, far removed in 1969. The moon shot was, by its very nature, a task for the State. Private firms could be contracted, but the NASA officials were behind it, financially and administratively, from start to finish. Tom Wicker, writing in his nationally syndicated column, put the fact in all its clarity: "No one ever made the remotest pretense that men could get to the moon via free enterprise, states' rights, rugged individualism, or matching grants."[1] The reason: ". . . this was government-managed enterprise, pointed toward an agreed goal, operating on planned time and cost schedules, with ample administrative authority derived from Federal power and wealth." An amen is due here. Good show, Mr. Wicker.

Mr. Wicker, unfortunately, made a great leap of faith when he began to compare our heavenly achievement with our supposed capabilities for solving more earthly tasks. He was not alone in this leap. Editorial after editorial echoed it, and I single him out only because he is widely read and generally regarded as one of the superior liberal pundits. He makes the leap seem so plausible: "So the conclusion that enlightened men might draw is that if the same concentration of effort and control could be applied to some useful earthly project, a similar success might be obtained." He recommends a vast program of publicly owned housing construction, say, some 26 million new units by 1980.

Flora Lewis' column was far more optimistic; her horizons for mankind's planning capabilities are apparently much wider. "If the moon can be grasped, why not the end of hunger, of greed, of warfare, of cruelty?" She admits that there are problems: "They seem provocatively within our new capacities and yet maddeningly distant. We are told it is only lack of will that frustrates these achievements, too."[2] Nature is boundless, apparently; only our "lack of will" prevents us from unlocking the secrets of paradise and ending the human condition as we know it. This is the messianism of technological planning. It is basic to the thinking of a large segment of our intellectuals, and the success of the Apollo flights has brought it out into the open.

Mr. Wicker wisely set for our government a limited goal. Miss Lewis does not necessarily limit the task to government planning alone, but it is obvious that she is basing her hopes on a technological feat that was essentially a statist project. At this point, several questions should be raised. First, should the State have used some $25 billions of coerced taxes in order to send two men to the moon's surface? Would men acting in a voluntary fashion have expended such a sum in this generation? In short, was it worth the forfeiting of $25 billions worth of alternative uses for the money? Second, given Mr. Wicker's plans, could we not ask the same question? Is

1. Tom Wicker, Riverside, Calif., *Press*, July 22, 1969.
2. Flora Lewis, Los Angeles *Times*, July 22, 1969.

the construction of public housing, and the use of scarce resources involved in such construction, on a priority scale *that* high in the minds of the American public? Would a non-inflationary tax cut not be preferable?[3] It is typical of socialistic thinkers to point to emergency spending (e.g., a war) or some statist rocket program and recommend a transfer of funds from one branch of the State's planning bureaucracy to another. I have never heard them recommend a reduction in spending by the State. Spending precedents set in wartime, like "temporary" taxes, seem to become permanent. Finally, in Miss Lewis' example, is the mere application of the techniques of applied science sufficient to end warfare and cruelty? Or could it be, as the Apostle James put it, that our wars come from the hearts of men?[4] Conversion, in and of itself, may not redeem technology, but can Miss Lewis be so certain that technology can redeem mankind?

Technology is a tool. Like any tool, it has its limitations. One must be very careful to keep from using an inappropriate tool to complete some task. It makes it imperative that the user specify the exact nature of his task beforehand.

Any standard economics textbook will usually compare economics with engineering. The contrast is not perfect, but it does set before the reader the different ways an economy must plan. The engineer must decide, *given a specific goal*, how to allocate the available resources to complete it. The economist must look at the available resources, and decide where to allocate them, given a *multiplicity of goals*. In some cases, it will be difficult to separate the two jobs, but the distinction is useful for purposes of conceptualization.

The Technocrats of the 1930's urged us to accept the economic guidance of the engineering elite. They would eliminate "waste." Yet the engineers of the Soviet Union have been forced to construct crude economic accounting techniques in order to deal with such "capitalistic" phenomena as value and the rate of interest. Engineering—meaning specialized, technological competence—cannot deal with such psychological imponderables as consumer preferences. Only the price mechanism of a free market can do this with any degree of accuracy, which is why Ludwig von Mises rejects socialist planning.[5] If we confuse engineering with economic calculation, we will destroy the rational allocation of scarce resources by the market.

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3. Cf. Gary North, "Urban Renewal and the Doctrine of Sunk Costs," *The Freeman* (May, 1969) [Chap. 26, below].
4. James 4:1.
5. For a summary of this literature spearheaded by Mises, see my chapter on "Socialist Economic Calculation," in *Marx's Religion of Revolution* (Nutley, N. J.: The Craig Press, 1968).

It would involve turning over the task of ordering literally quintillions of economic relationships to a centralized elite with necessarily limited knowledge.[6] The results can be predicted: irrational decisions, petty bureaucratic coercion, and a loss of political freedom.

Governments can provide certain services that, by their very nature, men do not want to see offered to the highest bidder, as on a free market. Justice is not to be purchased for the profit of the judges involved. Governments are seldom efficient in solving complex, interpersonal problems that require a *careful balancing* of supplies and demands (for they are plural until registered, specifically, on a market, by a given supplier and a specific purchaser); when personal preferences of many individuals involving varied and even conflicting goals are the issue, governments are not particularly successful agents for getting things settled. The fine shadings are lost in the aggregate decisions.

Therefore, to take a leap of faith from some particular instance of a "successful" government project—success defined as the operationally satisfactory completion of a certain unquestioned goal—to the realm of economic planning involves a faith far greater than anything imagined by the medieval scholastics. Yet Dr. Irving Bengelsdorf, a staff writer with the Los Angeles *Times*, thinks that "there may be hope" along this line of thinking, in spite of the difficulties inherent in any computerized quantification of qualitative personal preferences. He states the problem well; he cannot show how his answer is linked operationally with the problem he states:

> In contrast to the novel and uncluttered venture of getting to the moon, [an] uninhabited, non-social, non-political moon, the problems of society are exceedingly complex to solve because any solution demands that people have to change their daily ways of life, their interactions with other people. This is difficult to do. For, from birth, people already come overlaid with traditional prejudices, encrusted with hoary cultures, and swaddled in ancient customs. And these are hard to change.
>
> But, there may be hope. Both the Apollo 11 flight and the Manhattan Project of World War II show that once a clear goal has been set, a vast, complex project involving large numbers of people with different training and skills working together can achieve a solution.[7]

Between the first paragraph and the second lies a social revolution. Also present in the gap is the unstated assumption that we can reduce the complexities of society to "a clear goal," which is precisely the problem governments have not learned to solve. I am

6. *Ibid.*, p. 193.
7. Irving S. Bengelsdorf, Los Angeles *Times*, July 24, 1969.

at a loss to see how a wartime bomb project or a trip to the moon indicate anything except the amazing capacity for spending that governments possess.

Barbara Ward, one of the most respected Establishment thinkers in Britain, and former editor of *The Economist,* has taken Buckminster Fuller's spaceship analogy and has turned it into an effective neo-Fabian propaganda device: "The most rational way of considering the whole race today is to see it as the ship's crew of a single spaceship on which all of us, with a remarkable combination of security and vulnerability, are making our pilgrimage through infinity."[8] This assumes, of course, a chain of command, a previously agreed upon destination, and some shared faith in the way one goes about getting there. But what are a few assumptions among rational men, especially planners? Now, fellow crewmen, "Think what could happen if somebody were to get mad or drunk in a submarine and run for the controls. If some member of the human race gets dead drunk on our spaceship, we are all in trouble. This is how we have to think of ourselves. We are a ship's company on a small ship. Rational behavior is the condition of survival." Clearly, as she points out, "Rational rules of behavior are what we largely lack."[9] All is not lost, however. Our divisions are based on divisions of power, wealth, and ideology, but these can be overcome through reason. There is a universal means of instant communication—technology—which brings us together.[10] "Quite apart from common tools and methods, we also have mental attitudes that do not vary from culture to culture and are common to a single world civilization."[11] What these common bonds are, she fails to mention; nevertheless, "in short, we have become a single human community."[12]

The problem with all of this "spaceship reasoning" is that it assumes as solved those fundamental problems that need solving in order to make possible the spaceship analogy. The thing which strikes me as ironic is that the language of the spaceship involves a chain of command approach to the solution of human problems. These humanitarian intellectuals who decry the petty military dictatorships in underdeveloped nations want to impose a massive system of command over the whole earth. That is what the call to world government implies.[13] The spaceship analogy necessarily views society as a vast army. Yet for some reason, Hayek's identical con-

8. Barbara Ward, *Spaceship Earth* (New York: Columbia University Press, 1966), p. 15.
9. *Ibid.*
10. *Ibid.*, p. 4.
11. *Ibid.*
12. *Ibid.*, p. 14.
13. *Ibid.*, p. 17.

clusion about the implications of socialist planning is invariably rejected as absurd. *It is the mentality of the militarist.* Miss Ward even is willing to admit that our experiences in wartime helped to create the foundation of modern economic policy:

> Thus, not by theory or dogma but largely by war-induced experience, the Western market economies have come to accept the effectiveness and usefulness of a partnership between public and private activity . . . but there is now no question of exclusive reliance on any one instrument or any one method. The pragmatic market economies have worked out their own evolving conceptions of public and private responsibility and the result is the dynamic but surprisingly stable mixed economy of the Western world.[14]

I would have put it a different way. I would have pointed to the signs of our contemporary system's increasing inefficiency, corruption, and extra-legal practices which we more usually associate with those warfare economies from which she says we borrowed our planning techniques. What we have created is a noneconomics, and Miss Ward proclaims the benefits of such a system:

> But, on the whole, in economics the Western world can move from position to position with little sense of contradiction and incompatibility. We had no very fixed views before so we do not have to bother too much about what we believe now. It is a considerable source of strength.[15]

This, then, is "reason, spaceship style." It is the triumph of intellectual chaos, and it is inevitably recreating the economy in its own image.

Dr. William G. Pollard, a physicist who was a part of the Manhattan Project, has written a little book which tries to undergird the spaceship analogy with a theological framework. His theology is radical, but he is honest in seeing the purpose of the Apollo flights as being ultimately religious. He thinks it marks the end of the era of science-worship. Diminishing marginal returns are about to set in:

> Sending men to the moon and bringing them back in 1969 may prove to be from the perspective of the twentieth century the central symbol of the golden age of science in the twenty-first. Like the great pyramids of Egypt or the lofty cathedrals of medieval Europe, this feat will stand out as a peak expression of the spirit of the golden age; the maximum economic investment which a great civilization could make in a feat which served no useful purpose other than making manifest the lofty height to which the spirit of an age could rise. It will not be worth repeating except perhaps by Russia for the purpose of sharing in

14. *Ibid.*, pp. 9-10.
15. *Ibid.*, p. 10.

> its glory. Thereafter, even more massive applications of science and technology to basic human needs will have become so urgently necessary that no further diversion of available talent and resources to manned space flights can be permitted.[16]

We can hope that he is correct, but who knows for certain? The government was so successful, as it usually is, in achieving a feat "which served no useful purpose" other than its own glory, that we may have more of the same. But this much should be clear: the analogy of spaceship earth is more than an analogy; it is a call to religious commitment. The call is to faith in centralized planning.

At the beginning of this essay, I pointed to the dual theories of regeneration, symbolized by the Yogi and the Commissar. They feed on each other, take in each other's intellectual washing, so to speak. If we are to confront the mythology of spaceship earth, it must be in terms of a rival moral philosophy, one which has social and economic implications, as well as technological implications. We must deny the validity of any vision of man as central planner, a little god who would arrange in an omniscient fashion the lives of all men in all the spheres of their existence, as if we were some permanent military crew. We must acknowledge the validity of the late C. S. Lewis' warning in *The Abolition of Man* that when we hear men speaking of "man's taking control of man," we should understand that it implies certain men taking control of all the others.

When men seek to divinize the State, they succeed merely in creating hell on earth. The Christian church fought this point out with the Roman emperors, both pagan and Arian. The State may not claim to be God's exclusive or even chief representative on earth.[17] The theology of spaceship earth would have us return to the religious political theory of the ancient world, all in the name of progressive technology and planning.

The astronauts are back on earth. We must seek to keep them here. It is time to ground our spaceship programs, both interplanetary and domestic. Let the captains go down with their ideological ship. There are better ways of allocating our scarce resources than in constructing spaceship earth.

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16. William G. Pollard, *Man on a Spaceship* (Claremont, Calif.: Claremont Colleges, 1967), pp. 59-60.
17. R. J. Rushdoony, *Foundations of Social Order* (Nutley, N. J.: The Craig Press, 1968).

Chapter XXIV

THE FEMININE MISTAKE: THE ECONOMICS OF WOMEN'S LIBERATION

[*This is by far my most widely read economic essay. Reprinted in* Human Events *and in* The Christian Observer, *it drew the fire of the Director of the Women's Bureau of the U. S. Department of Labor's Workplace Standards Administration. She tried to argue, in a letter sent to (but not published by)* Human Events, *that the enforcement of the Federal Equal Pay Act of 1963 has been effective in "a wide range of industries." Over $25 million in illegal underpayments due to wage differentials have been found, she says, between June of 1964 and December of 1970. Some 68,000 employees were supposedly affected. This, it should be pointed out, is a tiny fractional percentage in a country in which one-third of the labor force is composed of women, and wage payments total in the billions each month. What the letter proves, and the accompanying documents prove, is that (thank heaven) the enforcement of the absurd provisions of the Federal Equal Pay Act is simply not having any measurable impact in the American economy. It may have impact, unfortunately, very soon:* U. S. News and World Report *(Dec. 11, 1972).*

What I wrote concerning women is only an elementary application of economic analysis. It is a minor case of the more general analysis of the effects of minimum wage laws. Yale Brozen and Henry Hazlitt, plus a small army of graduate students, have demonstrated beyond a shadow of a doubt that minimum wage laws are, if enforced, causes of unemployment. To that extent, they produce poverty. If you like poverty, you'll love minimum wage legislation.]

I first read about the Women's Liberation Front in the spring of 1969 in a copy of *New York*, a new magazine devoted to the crucial problem of how to survive in New York City. That description of WLF opened with an account of a young heiress demonstrating karate as one of the basic skills needed for her survival. At the time I was inclined to dismiss the WLF as just another of the freakish movements that seem to flourish in alienated urban cultures, or in the educated segments thereof. But in recent months I have come to the conclusion that the WLF is important, and that it is dangerous.

Not because of the "crazies" on the fringe—who grab the headlines—but because WLF has latched onto an appealing (and fallacious) slogan: "Equal pay for equal work."

By focusing attention on the very real fact of differential pay scales between men and women, WLF activists have gained a wider audience than might otherwise have been likely. Here, it would seem, is a legitimate complaint against the supposed inequities of the capitalist system. Here is where "male chauvinism" makes itself felt: pure discrimination that is in no way related to one's personal capacities or performance. This argument cannot be dismissed with a shout of "You look like last year's sneakers, sister!"

The reason the WLF has been able to gain a hearing on the "equal pay for equal work" proposal is because it is already right in line with the last thirty or forty years of government interventionism. It presupposes that the government, merely by enforcing a wage law, can in some way influence the aggregate economy to move along "positive, humanitarian" lines. This proposal, because it is not radical in 1970, lends an aura of respectability to an otherwise ludicrous movement. "Some of their rhetoric is exaggerated," one intelligent woman remarked to me, "but you can't argue with them on this point." Yes I can.

"Fair Employment"

The argument in favor of "equal pay for equal work" rests on a concept of labor that was overturned in the 1870's. It assumes that there is such a thing as concrete human labor, a physical entity that in some way can be measured. Value is in some way linked to labor, and pay should reflect value. This was the economic premise of virtually all economists until the advent of modern economics; Karl Marx was the last major economist to hold the labor theory of value. Modern economics rests on the concept that value is linked to usefulness; the value of labor depends on the value of labor's output. The distinction between the two concepts of value is crucial.

When Women's Liberation activists argue that a basic immorality exists in any economic system that does not reward all laborers equally for equal work, they imply that capitalism has in some way failed the test of common decency. What they do not realize is that competitive market capitalism actually comes closer than any other operational economic system to meeting their demands. All factors of production are rewarded exactly according to their productivity in a model of pure competition; in practice, market capitalism approaches that model in a remarkably close way. But the reward is not in terms of the "equal pay for equal work" slogan; the reward is based on the concept of marginal cost, or "cost of the most important use foregone." The *cost* of *any* factor of production is based on the cost of the *least expensive substitute* for that factor; its *value* is dependent upon the *economic value of its product.* In the long run, the free market tends to work, through competition, toward a balancing (or equating) of economic value and economic cost. Any factor of production that is receiving too large a share of net revenues will be forced to accept a smaller share through competition. This is true whether the factor of production is a computer or a secretary.

The advocates of "fair employment" keep pointing to the production side of the equation, vaguely identifying the product with "work." But the return to any factor of production is based upon the cost of replacing that factor just as much as it is based on the value of the factor's product. Competition is supposed to equalize the two—cost and value—if maximum economic efficiency is to be maintained. (By economic efficiency, the economist means the highest value of production from a given input of resources, or a given level of production from the least expensive input of resources.) Therefore, the return to the computer is not based on "work," and neither is the return to the secretary. The return to each is based upon its contribution to production in comparison to the potential contribution of the nearest competing factor. That is truly fair employment. (Now, one can also speak of *charity* as a means of increasing the return to a particular human factor of production—paying him or her more than he or she is economically worth—but one should not argue for this in terms of economics, a mistake made by virtually all of the "fair employment" advocates.)

A woman who is seriously concerned with getting fair pay for her contribution—mental, physical, or simply resembling Raquel Welch—has to ask this question: *what would it cost this company to replace me?* If a woman knows that there are five other women ready and willing to take her secretarial job at $350 a month, then she would be wise not to demand very much more than $350 a month in wages. She can demand a bit more, given the costs of training a new girl, the difficulties involved in all bureaucratic changes, and the tastes of her boss with regard to what constitutes someone who is sweet, cute, and so forth. But she *must* limit her demands.

The WLF complains that women are forced to accept menial wages. But in many, many cases, the reason she can accept such wages is precisely because she enjoys the advantages of being a woman: she has a man who will help bear the financial burdens of her own upkeep. She is on the job in order to supplement his earnings, so she is willing to work for wages that are essentially supplemental in magnitude. This, of course, means considerable hardship for the working woman who has no husband to support her. But her case is not fundamentally different from the man in his late thirties who has eight children and who is faced with competition from bright, young, single college graduates who are willing to take over his job at the sâme pay, or perhaps slightly less pay. The value of one's contribution to a company is not directly related to one's marital status or the number of children involved.

If the advocates of "fair employment" are really concerned with morality, then they must ask an additional question: *What are the burdens imposed on the person who is unemployed but who would be willing to take a job at lower pay?* Fairness should relate to all those in the economy, not just those insiders who happen to have the jobs in question. The supporters of "fair employment" legislation are unwilling to face the other half of the labor equation, the "unfair unemployment" generated as a direct consequence of the "fair employment" law.

Minorities and Costs

The explanation of the "menial wages" paid to secretaries is not too difficult to present, once the concept of the return to a factor of production is grasped. Competition keeps wages down, just as it keeps prices down. The WLF women are not really that concerned with the wages of the secretary, however. The members of the WLF are the better educated segment of the female population; what they refuse to accept is the fact that *women executives* are paid lower wages. That, it is argued, is a consequence of male chauvinism. Why aren't their M.A.'s worth as much as some man's M.A. (or even B.A.)?

I am willing to concede that there is such a thing as a corporate bias against employing women. For one thing, men inside corporations have little desire to expand the pool of available labor to compete for their jobs. For another, most men probably resent the idea that women could replace them in their jobs. Like most prejudices against collectives, the thought which galls male employees is not the idea that a particularly gifted woman might replace a particular man (which is, really, the kind of decision that is made in a business firm), but the idea that "women" can replace "men."

People are geared to think in terms of aggregates, even in those decisions that are essentially individual (or, in economic terms, "marginal"). So those inside complain, "If you let one of them in, you'll have to let them all in," which is patently false, and to combat it, those on the outside yell, "Then if you won't take one of us on his (or her) own merit, by George, you'll have to take all of us!" So they put pressure on the government to pass a "fair employment" act that prohibits discrimination, and thereby confirms the worst fears of the insiders. And then there is pressure to take the incompetents into the firm, just to meet the external requirements of the legal system. Pass a law against economic bigotry, and you help to confirm the dire predictions of the bigots. Tokenism replaces competition.

Let us therefore assume that men are bigots when it comes to hiring women. Some of the bigotry, however, is not irrational. There are basic institutional reasons why women are not sought after as men are to serve in executive positions. The obvious one is that women marry and have children. For a job requiring considerable training and experience, the threat always exists that the woman will quit for family reasons. Men also quit their jobs, but generally for economic reasons. A company can raise a man's salary and at least have some chance of success in keeping him. Also, a woman's husband may decide to move out of the area; it is his decision, and his wife must follow. There is no way a company can fight his decision with much possibility of success.

Another basic reason why women are not hired is simply because they have not been hired in the past. Bureaucracies do exist, and habitual patterns do get established, and there are fundamental costs of reorienting any bureaucratic structure. A change in hiring practices certainly affects one important part of any company's organizational pattern. You do not "shake up the system" any time without bearing certain institutional disutilities—costs. The greater the break with traditional hiring policies involved, the greater the disorientation, at least initially, of the company.

There is one final comment that seems appropriate. If a survey were to be made of any random secretarial pool in the corporate structure of America, it would be quite likely that a sizable majority of the women would prefer to be under male supervisers. Given the opportunity of serving under a woman holding a B.A. or a man holding a B.A., most women, I think it is safe to say, would choose the man (assuming similar personalities and competence of the competing candidates). If the men of a corporation had the choice, an even larger percentage would be likely to prefer masculine superiors. This is a fact of life, unlikely to change in the near future. A corporation must weigh the initial disadvantages of thwarting this preference among its employees. The woman probably will have to offer some special advantage to the company that her masculine competitor cannot or will not.

I appeared on a Los Angeles television show in November of 1969. It was one of those afternoon talk shows aimed at the "lunch bunch"—a distinctly feminine audience. Preceding me was an articulate, middle-aged lady from England, the founder of a female labor exchange organization which supplies womanpower to various corporations. By pre-1968 standards, she would have been considered a militant for women's rights. As the director of this multimillion-dollar organization (an even more remarkable feat by British economic standards), she was asked what she thought of the fact that women get paid less than men for their labor. "Well," she replied, "the best form of competition we women have is our willingness to work at lower wages. If you were to eliminate that, you would remove our most effective employment weapon." That woman understands the nature of competition.

The fact that the "equal pay for equal work" law is not fully enforced makes it possible for a woman to obtain that initial access to a previously masculine occupation. If she were to demand a man's wages initially, she would stand far less chance of gaining her real objective, namely, the opportunity to prove her capacity in the occupation of her choice. The company hesitates to hire a woman, given the definite uncertainties in hiring women in general. (Is she a Woman's Lib type? What is she after?) But if she can offer the company a premium to offset the logical risks involved (not to mention the questionable hostility), she can make it worth the company's risk. The most obvious premium is a willingness to take a lower wage. If she should fail on the job, the company has not lost so much.

By removing this most effective of weapons, the WLF would seriously jeopardize the possibilities for advancement by women into the higher echelons of American business. Only the most obviously competent women, the ones from the best schools with the highest grades and most impressive outside activities, would have a shot at the better jobs. Actually, the WLF proposal borders on the suicidal: certainly it would not be the WLF type who would be hired unless she could show some overwhelming economic reason why she should be selected over a less radical miss from a prestigious finishing school (plus an M.B.A. from Harvard School of Business). The upper echelon posts would be converted into semimonopolies of these women who already hold them. If the WLF's goal is really to open the doors of American business to women—large numbers of women—the "equal pay for equal work" proposal is ridiculous.

It is self-defeating. Of course, for those women already in the system, the law would be an almost flawless grant of monopoly returns.

Minimum Wage Law for Women

Inescapably, from the point of view of economic anaylsis, the "equal pay for equal work" proposal is the demand for a minimum wage law for women. The minimum wage would be equal to the minimum pay scale for a man of comparable talents and responsibility. Like all minimum wage laws, it is primarily a legally operating barrier against all those worth less than the minimum wage. As shown in the earlier part of this paper, the woman initially *is* worth less, not because of her lack of work, but because of the higher risks and economic-institutional disutilities associated (in the majority of American firms) with hiring women.

In general, minimum wage laws force the less productive, higher risk, less desirable (for whatever reasons) persons into lower paying jobs not covered by the minimum wage laws. If the job market as a whole is covered, then the laws tend to force them out of work entirely. A person who generates only $1.25 worth of returns to his company will not be hired if the minimum wage is $1.75. Those least able to afford unemployment—the least skilled, least educated—are the ones hurt most by the laws. In this country, as study after study indicates, this means the Negro teen-age male, but it also means the less skilled women. Those just entering the market, with little experience and training, are the "first fired, last hired."

Our WLF propagandists insist that housework is the intolerable curse of the American woman. It is housework's boredom and lack of creativity that oppresses women, degrades them into beasts of burden. That women would have to seek employment as household workers is, for the WLF, the ultimate example of male chauvinism. So what do we find? The minimum wage laws have been the most effective means of forcing more women into employment as household domestics!

Household employment is not covered by minimum wage laws. As a result, those women who have been excluded from jobs in the covered industries (since they are not allowed to compete by bidding down wages) are now forced to seek less desirable employment. This means they must go to the uncovered industries. It also means that more of them than would enter this market in the absence of the laws now try to get in, thus forcing wages even lower. Professor Yale Brozen of the University of Chicago made a study of precisely this effect of the minimum wage laws in the October, 1962 issue of *The Journal of Law and Economics.* He surveyed the employment figures, before and after a rise in the minimum wage law, in three different periods. His conclusion: "In each instance when the minimum wage rate rose, the number of persons employed as household workers rose." He then made this warning:

> However, the coverage of the Fair Labor Standards Act has been broadened, and further broadening is proposed. Much further broadening will close the safety valve [i.e., the noncovered industries into which the unemployed flee]. We will, then, find the amount of structural unemployment (i.e., unemployment concentrated in certain age groups, in one sex, or race, in groups of less than a given level of education, and in certain regions) increasing as minimum wage rates increase.

This prospect, of course, applies only to the less desirable employees or potential employees. "For families with large numbers of children [which can now employ cheaper servants] and women employed in better paying occupations, further increases in minimum wage rates and their coverage may be very desirable, however unwelcome this may be to the less educated, less skilled female worker foreclosed from a better paying job by the rise in the minimum rate and coverage."

Brozen is considering only the more familiar minimum wage law, the kind which sets a fixed minimum wage per hour for all members of the population in the covered industries. The WLF scheme is not quite the same. What the "equal work for equal pay" scheme would produce is a minimum wage law for all women throughout all covered industries, from the secretaries to the female vice-presidents. It would not be limited to merely those employees in the $1.50 to $2.50 per hour range. Instead of seeing only the bottom segment of female employees forced to take less desirable positions, i.e., those which the men would not be bidding for anyway, the WLF proposal would see to it that *all* entering female employees would be downgraded (except for the few token women hired for the purpose of fending off a federal investigation). There would be a downgrading all the way along the employment ladder.

Companies would not outwardly break the law, of course, but there are many ways to avoid regulations that are undesired by personnel departments. For example, two applications are received: a man holds a B.A. and a woman holds a B.A., and both seek the same post. The woman had better be from a prestigious academic institution or have had some kind of previous business experience, or else be physically attractive, and the man should have no exceptional qualifications to distinguish himself. The woman might very well be qualified for an even higher post, one which her male counterpart would not even be considered for, so she is, in effect, downgrading her opportunities to be employed in the higher echelon job. For her to meet the true demand for labor on a competitive market, she can take a prestigious job at lower wages than her male counterpart, or take a less prestigious job at equal wages to her male counterpart. She cannot take a higher job, given equal qualifications of the two applicants and equal pay scales, for the reasons outlined above: women are less desirable employees for most companies, and they must distinguish themselves in order to be hired. A law will not change the basic economic parameters of the labor market; it can only change the ways in which the discrimination is accomplished.

The downgrading effect will, as always, be most harmful to those women who are not members of the population segments from which the WLF recruits its membership. As women at one level of employment are forced into the jobs below—the jobs in which less training and lower educational qualifications are required—the women who would originally have applied at the lower level will be forced to accept an even lower classification. Finally, the glut will appear in the "uncovered" portion of any company's jobs, i.e., those jobs unaffected by the "equal pay for equal work" law simply because no man would apply for them with or without the law. The law will produce structural unemployment in these jobs, or else the older pattern of wage competition will appear once again: women competing only against other women on a market in which not only the usual secretarial candidates are scrambling for jobs, but also the women forced out of the next higher level of employment by the "equal pay for equal work" law.

Women without husbands or wealthy fathers to supplement their incomes will be the losers. Women who have not attended the better colleges will suffer far more than the very bright, highly qualified, highly ambitious types who can gain access to the prestige jobs from the start. Men, of course, will continue to be hired. Women will then be in competition primarily with women. By changing the competition parameters from wage competition into educational or experience competition, the women without the "paper qualifications"—college degrees, years of successful employment, an attractive photograph—will be the losers. Their most effective tool of economic survival, namely, their willingness to compete with the male employees by accepting lower wages, will have been removed. The beneficiaries will be those women with the college degrees and those already in their chosen jobs.

Conclusion

The WLF, by the very nature of its economic proposals, has relegated itself into a role more generally associated with the operation of a medieval guild. It has become the advocate of a monopolistic, prestige competitive, high security employment system, one geared to all those women with impressive educational backgrounds and/or impressive physical proportions. The "equal pay for equal work" scheme is essentially elitist. As Max Weber pointed out half a century ago, the mass market demand for goods and services came to the West only when competition shifted to price competition. He called it "the democratization of demand," contrasting it with the medieval emphasis on the production of luxury goods by and for elites within the economy. As he wrote, the shift from production for elites to production for a mass market "is characterized by price competition, while the luxury industries working for the court follow the handicraft principle of competition in quality."

What Weber wrote about the expansion of the market for goods is equally true for the expansion of the market for labor. If you want to create a market that permits free entry, mass employment, and increased benefits for those not in elite categories, you must permit wage competition. Otherwise the employment game will be played in terms of paper quality: employment resumés, college transcripts and photographs.

Naturally, the WLF members tend to be recruited from just these elite segments of the nation's population. They are the girls with the college degrees and the affluent fathers who will be able to support them until they can find "the right job." The WLF girl who is willing to put on a little makeup and hide her militancy to her employer will have access to the jobs denied to her less advantaged sisters. She can drop out of the WLF and into a prestige job at her discretion. Therefore, what we find in the case of the WLF is a replay of a very ancient tune: a group calling for the imposition of a government law for the "good of the masses" ultimately encourages a law which would benefit the elitist stratum from which it recruits its members. Here is another example of the privileged minority which does quite well by doing good.

For the woman who is really competent in what has generally been regarded as a man's world, the "equal pay for equal work" scheme cannot help her, and it may hinder her initial access to the job in which she expects to demonstrate her abilities. Once she gets the job she wants, at whatever salary, she can prove her worth as a valuable factor of production, assuming she is talented. She will need no federal law to get her legitimate reward from the employer, assuming the employer is serious about staying competitive in the world's markets.

There are, of course, inefficient firms. These will not strive to stay competitive, i.e., by rewarding every factor of production according to the value of its output. This is the kind of overstuffed, flabby corporation that Robert Townsend attacks in his delightfully iconoclastic book, *Up the Organization.* Townsend's recommendation to the talented but underpaid woman is identical to his recommendation for the talented, underpaid man: *quit.* That kind of firm is not interested in competition and therefore uninterested in creativity and production. It is best to get out. Townsend's article in the September, 1970, issue of *McCall's* warns women that a company which consistently discriminates against women at all levels is probably filled with hacks, especially at the top; a good firm will pay her what she is worth. She should shop around until she finds one, just as Mary Wells, the enormously successful advertising executive, was forced to do. If a firm is competitive, Townsend writes, it will pay women fairly.

By implication, we ought to conclude that the hostility to women who have proven their capability rests on a commitment to security above competition. Another minimum wage law will not solve this problem. What will solve it is a return to the decentralized, profit-oriented, free market business firm that is not shielded from competition by a host of federal regulations and federal subsidies, both direct and indirect. What the competent woman needs, especially the woman who is not loaded down with paper qualifications, is that initial shot at the job that will serve as her testing ground, regardless of whether she gets a paycheck as large as a man's. What she does not need, and what those of us who benefit from her greater productivity do not need, is the establishment of the WLF's neo-medieval principle, "equal pay for equal work."

Chapter XXV

SUBSIDIZING A CRISIS: THE TEACHER GLUT

[There is a continuing crisis in education in this country. Basically, there are too many educational institutions, and not enough education. This is only to be expected; most education in this country is subsidized by the State. Therefore, we are overloaded with schools and in need of educated people. We have a lot of technically competent people, and too many half-educated "effete snobs," to quote Vice President Agnew, but very few people who have critical minds coupled with faith in basic principles. The one sign of hope, however, is that the whole structure of public education is under seige. Liberal secularism is at last coming home to roost. The schools approach bankruptcy, the taxpayers are in revolt, the judicial messiahs of integration have, in the last few months, struck down as unconstitutional both the property tax and county lines as barriers to full integration and "balanced" education. And very quietly, the private elementary schools are springing up in community after community. Some of these are Christian schools. As the public schools become more and more consistent with the secular presuppositions that undergird it, they erode, and private schools move in to pick off the better students (not necessarily the richer ones, just the better ones).

The public schools are the established church in America. Nothing will bail them out, whether vouchers or value-added taxes, whether "new" curricula or "relevant" teachers. The State blessed education with its financial favors and coercive laws, and education is dying. There is a lesson to be learned here.]

The shocked surprise in the spring of 1970, when the graduating class suddenly found out that they had to go out and look for jobs, may have been the first sign of a typical "inventory crisis" —which always takes everybody by surprise. Whatever the economic climate, the next few years will be years of sharp readjustment in the "careers market." The "career" boom of the 1960's is as much a thing of the past as the stock market boom in "takeovers," "conglomerates," and growth ventures."

Peter F. Drucker
***The Public Interest* (Fall, 1970)**

Advocates of the free market as a tool for efficient allocation of scarce resources have long been critical of the way in which education is financed in the United States. A host of studies are available that deal with the lowering of quality, the uncreative uniformity, and the spiraling costs of public education.[1] Only in recent months have communities even contemplated the possibility of a system like Milton Friedman's voucher program, in which the parent would receive the educational subsidy rather than the local public school.[2] The obvious crises since 1965 in our public schools, coupled with the realization on the part of black militants that educational pluralism is advantageous, have led to at least some rethinking of the assumptions of American public education. With the realization that education is not neutral, some former advocates of racial, intellectual, and cultural integration have come to the conclusion that "democratic education" has produced a generation of uprooted graduates—drones and revolutionaries—who are not really very different from Dustin Hoffman's caricature.

This realization, however, has been a distinctly minority revelation. The message has not come to the institutions of higher learning in this country. They have gone on as before, tinkering occasionally with the curriculum, adding a handful of courses like Black Studies or Chicano Studies, but generally proceeding in a "business as usual" fashion. Nevertheless, the violation of supply and demand that is fundamental in any system of subsidized education has now resulted in something wholly unforeseen by the bulk of American educators: the perennial shortage of teachers came to an end, quite abruptly, in 1968. The shock waves of that event are only now registering on the bureaucratic structure of American higher education.

For how many years were Americans subjected to the perpetual hand-wringing of professional educators over the teacher shortage? How many news releases from the National Education Association were printed, without any criticism, by the public news media? It

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1. Cf. Benjamin A. Rogge, "Financing Higher Education in the United States," *New Individualist Review,* IV (Summer, 1965); available also from the Center for Independent Education, Wichita. E. G. West, *Education and the State* (London: Institute for Economic Affairs, 1967). Roger A. Freeman, "Crisis in American Education," *Christian Economics* (Sept., 1970).

2. Milton Friedman, *Capitalism and Freedom* (University of Chicago Press, 1962), chap. 6; Robert L. Cunningham, "Education: Free and Public," *New Individualist Review,* III (Summer, 1963). Governor Reagan of California mentioned the possibility of instituting a voucher system as an experiment; this, however, was in a campaign speech. The Center for the Study of Public Policy, located in Cambridge, Mass., has recommended the establishment of a 5-8 year experiment of 12,000 elementary students; the plan would cost $6-8 million. This was the conclusion in the Office of Economic Opportunity-financed study, *Education Vouchers.*

was one of the favorite themes of nearly everyone associated in any way with public educational institutions. Yet the myth was shattered in one academic year, 1968-69.[3] The glut of teachers at all levels, from kindergarten to the graduate school, appeared almost overnight. The teacher-job "gap" simply was swallowed up in the outpouring of graduates in June of 1968; only in "special education" —the euphemism for the handicapped, the culturally deprived, and the retarded—is there a comparable gap, and the openings there are being depleted by falling school revenues.

This glut is not strictly an American phenomenon. It is as serious in the British Isles, perhaps worse. The British teaching certificate is just that, a license to teach; it is not easily transferred to any other occupation. The English have overbuilt their institutions of higher education, and the graduates are now reaping the whirlwind.

Previously sacrosanct fields like physics are now oversupplied. The post-Sputnik era saw a seemingly endless barrage of propaganda in favor of expanding our pool of available scientific talent. The "science fairs" in the high schools, the federal scholarships, the televised miracles of space travel all combined to convince American students that the ticket to guaranteed security was the engineering degree and the Ph.D. in physics. Easy Street has once again turned into a dead end, as too many people crowded down its narrow path. Federal grants from such agencies as NASA have fallen dramatically; federal loans to students have begun to dry up. Budget cutting has removed the fat from many federal science programs, to the dismay of those scientists who have an ideological commitment to State-financed research.[4]

The extent of the glut in physics can be seen through a very specific case. Heidelberg College in Ohio last year had an opening for a teacher in physics. It received a total of 361 applications. Tiny Dayton High School, in Dayton, Texas, received applications from 15 Ph.D.'s in physics, yet the school has only 455 students, and it offers only a single course.[5] Industry has been less and less willing to interview Ph.D.'s due to the highly specialized, inflexible nature of Ph.D. training. The cut-backs in aerospace have hurt the market for these trained specialists. An outstanding 40 percent of the 1969 graduates in physics were on post-doctoral fellowships in 1970.[6]

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3. *Newsweek* (June 29, 1970) reports that the first year in which a surplus existed was 1967-68. This was not manifest at the time, however; it took a year for the glut to register as a permanent phenomenon.

4. *Science* (March 12, 1972), p. 1092. Cf. Michael D. Reagan, *Science and the Federal Patron* (New York: Oxford University Press, 1969). Reagan favors such patronage, but he shows the problems inherent in such a relationship. He also provides considerable economic data on the extent of the aid.

5. *Time* (June 29, 1970).

6. *The Chronicle of Higher Education,* IV (June 8, 1970), p. 8.

The situation in the humanities and social sciences is even worse. A fantastic 1,000 applicants applied for eight positions in the English Department of the University of Massachusetts.[7] A total of 29,000 Ph.D's were turned out in 1969-70, perhaps double the number needed for college teaching posts. *The Chronicle of Higher Education*, a newspaper for college administrators, ran a series of articles on the crisis in the late spring and early summer of 1970 dealing with the oversupply of teachers. It reported that the Cooperative College Registry, a nonprofit placement service for some 300 Protestant colleges, announced that in mid-May there were still 45 percent of its 9,500 applicants without offers. Some 55 percent of the applicants had the Ph.D.; prior to 1970, 45 percent had been the maximum.

The extent of the crisis may be estimated by the fact that the Cooperative College Register is the "last chance" employer registry. The colleges tend to be small, low-prestige schools that can afford only below-average salaries. This normally makes them more flexible, however, since pay scales are more responsive to the conditions of supply and demand. A glut here indicates a crisis unrivaled since the mid-1950's.

A standard explanation offered by the educational establishment is that there really is no oversupply of teachers, and there still is a shortage. However, the demand has dried up, a direct consequence of short-sighted legislators and angry citizens who keep rejecting bond issues.[8] In other words, the failure of the educational market to clear itself of all prospective teachers is in no way related to the excessive zeal of academic departments in expanding course offerings and graduate fellowships; it is due to the tight-fisted taxpayers who refuse to spend additional billions on educational facilities, programs, and salaries.

This makes for good propaganda; economically, it skirts the real issue. Naturally, there is a limited supply of teachers. There is a limited supply of automobiles, television sets, diamonds, clean air, pure water, tortilla chips, and anything else that commands a price. We live in a world of scarcity. A scarce good, by definition, is one for which there is greater demand than supply at zero price. Imbalances in any market can be blamed on high or low demand, just as they can be blamed on high or low supply. The problem arises when prices are not flexible, thus creating permanent imbalances. If the

7. *Time* (June 29, 1970).
8. Cf. statements by Cleo Craig and H. R. Rouse of the Wilson Scholarship Foundation (whose Ford Foundation funds were recently cut off): *Chronicle of Higher Education*, IV (May 25, 1970), p. 7.

phrase, "shortage of teachers," is to have any meaning at all, it must be qualified by the phrase, "at a particular wage level." There is no question about the fact that, at present high wage levels, there is nothing resembling an undersupply of teachers. There is no question that there is an imbalance of supply and demand at present wage levels.

Educators need to ask themselves two crucial questions. First, why are wages so inflexible downward? Second, why were those whose task it is to forecast the needs in education so shortsighted? How did it happen, for example, that in 1963 the estimated need for new teachers at the college level in history was set at 390 for 1969-70, whereas the actual need turned out to be 500, and the actual supply was 881?[9] Why did so few graduate advisors take seriously the estimates presented by Clark Kerr, then president of the University of California (1966), that only two-thirds of the 1971 Ph.D.'s could be employed in the colleges?[10]

Minimum Wage Floors

About 75 percent of those attending institutions of higher learning are in tax-supported public schools. By their very financing structure, these institutions are notoriously unresponsive to market conditions of supply and demand. For many decades, legislatures have met the basic budget demands of the colleges in the United States, and this has tended to insulate the schools and scholars from external economic realities. They are not paid to forecast market conditions in the future, and they do not concern themselves with such matters, at least not at the graduate advisory level. The private schools, supported by foundations and government research grants, are frequently as lax as the public schools. They are, in every sense of the word, guilds.

Historically, guilds have resisted price and wage competition. They speak of themselves as "quality-oriented," which implies an elitist perspective, since it is price competition which has always characterized production for a mass market.[11] Educational institutions have been caught in a dilemma: they are supposed to maintain quality without compromise, yet supply the needs of mass education. Schools are to be simultaneously democratic (supported by tax funds) and

9. *Chronicle* (June 8, 1970), p. 7.

10. Kerr's estimate was revealed at a meeting of California Club, the student advisory body in the University of California. He was simply reporting the data. Allan Cartter, chancellor of New York University, had produced the figures as early as 1964, but few scholars believed him. Things are getting worse, he says now: *Science*, 172 (April 9, 1971), pp. 132-140.

11. Max Weber, *General Economic History* (New York: Collier, [1920] 1961), p. 230.

elitist (preserving quality, ignoring "crass" economic affairs). Higher education in America is institutionally schizophrenic.

A competitive market institution would respond rapidly to new conditions of oversupply of a factor of production by bidding down the price of the good. That is what faculties should do in the face of the Ph.D. glut. They should drop salaries at the starting level. It would enable schools to hire more people, and it would make very plain to prospective Ph.D. students just what the economic facts are in the employment market. But that is not the response of faculties. Faculties like high salaries for all those employed; it supposedly is a sign of institutional prestige to pay high wages, and thus prestigious to be employed by such institutions.

Faculties also have the ultimate job security: tenure. This protects those who have tenure from being fired. Thus, any drop in demand must be exercised at the level of the new professors, fresh out of graduate school. But if their salaries are lowered disproportionally, considerable institutional conflict may result. It may even lead to the decision by the administration to lower the salaries of those men whom it cannot dismiss. There is a built-in preference, therefore, for high wages and low competition on a semi-closed market. It is a guild-like attitude. Those outside the system have a hard time breaking in. Their chief economic weapon, namely their willingness to take a lower wage, is not easily exercised.

This is especially true in State schools which have fixed wage floors set by the legislature or local junior college school district. The California junior colleges are the prime examples. Like the high schools from which they recruit their teachers, the junior colleges pay men in terms of formal educational achievement: so many units beyond the B.A. yields so much extra pay. So much experience yields so much extra pay. The new Ph.D. has to be paid, in 1971, about $13,000; there is no bargaining possible. Few districts want to pay that much to a man who (1) may quit and go to a four-year college, (2) may embarrass a local administrator who holds only an M.A. in education, (3) may not teach the junior college's substandard students as well as a man who has taught high school for ten years. The Ph.D. is effectively locked out of junior college employment (unless he started as an M.A. and earned his degree while employed). There is simply no wage flexibility. As a result, junior college districts are permitting an opportunity to "upgrade" their faculties at less cost than before to slip through their administrative fingers.

Tenure supposedly protects the professor from being fired for expressing opinions abhorrent to administrators, legislators, or local citizens (including students). This was a keystone in Prussia, where

State-supported higher education was pioneered in the nineteenth century. It makes very little sense today. As Robert Nisbet has argued in his iconoclastic and reasonable essay on our Permanent Professors, no one is fired for mental or moral incompetence any longer, the two chief ways of dismissing tenured men. The exceptional mobility of modern teachers removes any serious threat to academic freedom, since institutions are varied enough to let men find a platform to teach almost anything. The very guild structure promotes a basic uniformity of methodology today, insuring general agreement within most academic departments—or so we found until the mid-1960's. Finally, Nisbet argues, if academic freedom is really the issue, why limit it? Why not let junior members have it? "On what logical grounds, then, do we claim exemption for age and rank, in certain respects the most feudal of all feudal qualities?"[12]

Tenure, far from protecting men in their expression of controversial opinions, has enabled men to express no opinions at all. Teaching has become lethargic as men pursue their academic careers in the academic journals (100,000 in the world today[13]) and their annual meetings. Tenure protects the man without the flair for teaching, the man who has no controversial opinions to distinguish his lectures, the man whose very blandness insures his protection from "academic witch-hunters," but who has never learned to compete in the world of student education. Tenure has turned the university over to the drone, the pedant, the writer of overfootnoted, mindless articles. It might even be true to say that the spirited junior teacher with controversial opinions has more to fear from his tenured, spineless, drab colleagues than from the outside public. And drones, it should be noted, are not known for their flexibility. Wage scales reflect this, especially when conditions dictate a downward revision. Institutional inflexibility rewards the inflexible. Nonmarket financing keeps the structures inflexible.

The Subsidized Product

The discussion above focused on the implications of the demand side of the equation. We must now turn to the supply side of the Ph.D. equation. Why are there so many of them being produced?

Many reasons exist. A primary factor was the existence, until 1968, of the graduate school military draft deferment. This functioned as an indirect subsidy to graduate departments. "Canada"

12. Robert A. Nisbet, "The Permanent Professors: A Modest Proposal" (1965), in Nisbet, *Tradition and Revolt* (New York: Random House, 1968), p. 241. Cf. *U. S. News and World Report* (Dec. 11, 1972): breakthrough!

13. M. King Hubbert, "Are We Retrogressing in Science?" *Geological Society of America Bulletin*, LXXIV (1963), p. 366.

was as close as the nearest university. Another factor is the tendency of all bureaucracies to expand to the limits of their fiscal capabilities. For example, academic departments in most state schools are funded in terms of student enrollment; this figure establishes the so-called FTE rating: Full Time Employees. In California, a fixed formula is used. A 28-students-to-one-faculty-member ratio operates, with lower division students rated 1, upper division students at 1.5, Master's degree candidates at 2.5, and Ph.D. candidates at the maximum weighting, 3.5. As David Breneman comments: "Note that each advanced doctoral student enrolled brings the campus ⅛ FTE faculty position."[14] He adds that no strict mechanical relationship exists at the dapartmental level, but faculty appointments relate closely to weighted student enrollments. Furthermore, once the number of faculty appointments is established, "other resources such as office space and nonacademic personnel can be functionally related to the faculty members."[15] It pays a department to expand graduate programs.

This does not mean that it pays departments to actually award a large percentage of degrees. On the contrary, departments must limit such awards to those students who will produce the greatest prestige for the department in the academic community. Also, some science departments must provide access to sophisticated experimental equipment to Ph.D. students, so some attempt will be made to flunk out inferior students at an earlier stage. This is not true, however, in the humanities. Breneman's comments are illuminating:

> From the perspective of the French faculty, then, the graduate student must be viewed as a very valuable member of the department's economy. Not only does the graduate student teach the dull introductory courses, but he is a source of student credit hours and demand for advanced instruction. Departmental technology is such that having graduate students in residence for several years is costless to the faculty, and not without certain advantages. . . . Consequently, in this type of department faculty members have no incentives to make rapid decisions to terminate Ph.D. aspirants.[16]

The taxpayers, of course, bear the major costs of this decision. The student may drop out for many reasons, but the longer he stays in, the closer he believes himself to be at the pay-off point, the granting of the degree. In the humanities, the degree is all-important, since it is the union card for college-level teaching, and industry has

14. David W. Breneman, "An Economic Theory of Ph.D. Production: The Case at Berkeley," mimeographed, June, 1970, a study sponsored by the Ford Foundation, p. 49.
15. *Ibid.*, p. 50.
16. *Ibid.*, pp. 67-68.

little need for highly specialized humanities students. Thus, departments get bloated with graduate students, and while the percentage of those who are awarded the degree may stay low, the absolute number of awards increases. Jobs open up in other universities which are also expanding their graduate programs, thus creating demand for more Ph.D.'s. The entire structure is geared to the growth of graduate enrollments.

Colleges gain greater prestige by becoming full universities. If they do, they can gain access to federal research funds, and these have expanded exponentially since 1950 (the cut-off came in 1968). Fellowships and teaching assistantships were multiplied, while loan programs at low interest were made available to those students who did not become part-time employees of departments. These loans, especially under the National Defense (the magic budgetary word in the mid-1950's) Education Act, could be canceled after five years of teaching by the recipient.

Graduate students in the humanities do not generally understand economics. They are not so aware of the employment situation, and, as Breneman shows, departments are often rewarded by keeping their students in the dark on this issue, thus encouraging them to stay in the program. Students without the Ph.D. have few college teaching employment opportunities, so the opportunity costs of staying in the program are lower than, say, an engineer who can take his M.A. and get a good job in industry (again, before 1968). So the main concern for the student in a state university is the size of his state-supported subsidy: the number of campus jobs, the size of tuition costs, the availability of loans.

Graduate education is costly. Obviously, in terms of faculty members employed, the Ph.D. student is around three times as costly, especially if he does not assume any teaching load as an assistant. There is simply no way of estimating the cost per student per year, or so I am told by the university budget department. French students cost less than physics students in applied physics, and possibly more than those in theoretical physics or mathematics. But it is possible to estimate in a crude fashion that it costs, at an average, $3,500 per student in the University of California; graduate students are more costly, though by how much it is difficult to say. But tuition, until 1970, covered at best less than 10 percent of this, or $300. For the graduate student, the subsidy would be even greater, possibly double.

Subsidize the production of a scarce economic good, and there will be an oversupply of that good in terms of true market demand. That law is as applicable in the Ph.D. market as in that for surplus wheat or army fatigues. This is the fundamental cause of the oversupply of Ph.D.'s: planning was not made in terms of an unhampered market but rather in terms of a government-subsidized market. Demand was cut off sharply by falling school budgets, but candidates for the Ph.D. degree are not rapidly responsive to this contraction: the other man may not be able to find a job, but each candidate believes that he will finish his dissertation and get the available position. A market geared to the dream of continual expansion has been cut short, and few persons within the structure are economically oriented enough to respond as rapidly as free market participants are forced to do. Like the civilized Eskimos who have forgotten how to build an igloo, those supplying Ph.D.'s have forgotten the hard realities of a market characterized by uncertainty. The result has been the teacher glut.

This market, like all markets, will eventually respond to the conditions of supply and demand. Departments will cut back on enrollments, especially as budgets are trimmed during a time of inflation. Fellowships will shrink in number. Federal grants to the scientists will not increase exponentially any longer. In time, teaching loads will be increased in many universities; wage inflexibility downward will be compensated for through these increased teaching responsibilities. But it is unlikely that these changes will come overnight. It *is* likely that the glut will continue for some time. New graduates will find it very difficult to break into their first jobs; professors' mobility will drop, the inevitable result of wage inflexibility. One rigidity creates others. Inflation will continue to eat away at teachers' salaries, thus bringing real wages into line with the conditions of supply and demand, and the oversupply of available talent will thwart attempts to unionize the profession—attempts which are on the increase now, as the Ph.D., in and of itself, no longer functions as an effective barrier to entry into the guild.

What we are witnessing is a major transformation of the function of the Ph.D. degree itself. Once a prestige indicator and a monopolistic grant to the holder, today it is faltering in both capacities. In the long run, this development may be for the best. The mystique of the Ph.D. has for too long been unchallenged. It has degenerated into little more than an official certification of intellectual drudgery. As E. Alden Dunham of the Carnegie Corporation of New York has written:

> Every ill besetting our colleges and universities is related in one way or another to the Ph.D. degree—student alienation, irrelevant curricula, uninspired teaching, ironclad adherence to what may be outmoded traditions, absentee professors, extravagantly high costs of research and graduate education. . . . [It is] inappropriate for most college teaching jobs in this country, especially at the lower division level. Yet it remains the only

> respectable degree for college teachers as we move into an era of mass higher education. The percentage of Ph.D.'s on the faculty continues to be the index of quality. Our system makes no sense.[17]

Pluralistic Education

For too long, to paraphrase a generally accepted slogan when it applies to the military, education has been in the hands of the educators. Monopoly grants continuing over long periods of time tend to degenerate into less efficient units of service or production. Yet the crisis of the teacher glut is only one aspect of a major crisis in education. It is essentially a crisis of faith; relativism has led to irrelevance on the campus. Few students—few bright students—are dazzled by the initials "Ph.D." after a name, at least not beyond the sophomore year. No one knows where the educational crisis will lead us by 1980, but this seems certain: any crisis in financing will produce radical changes in the operation of any bureaucracy, even the educational bureaucracy. Inflation will take its toll; so will the allocation problem with regard to the creation of Ph.D.'s. Radical students will strike the institution at a time of change, internal confusion, and financial contraction. Or else, as we see in 1973, student apathy will debase it. Few schools that have been caught up in the race for academic prestige will escape the coming transformation.

There is cause for hope among people who have not clung to a philosophy of relativism as a means of academic salvation. If both public and private academic institutions that have embraced relativism are now reaping the whirlwind, parents and students are going to be looking for alternative educational structures. Prospective teachers may not be able to compete in terms of price or academic degree on most academic markets, but they can compete in terms of both price and ideological commitment on those academic markets that are more openly committed to a particular view of the world. Pluralistic education has been stifled for almost a century by a philosophy of neutral education grounded in relativism and enforced by the various academic guilds. But the fruits of that view of education are exploding on those campuses that have been the formulators of the creed. Columbia, Harvard, Berkeley have all been hit precisely because the very bright students have seen through the myth of educational neutrality. Pluralistic education can conceivably be the ultimate beneficiary of the institutional crisis which we face.

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17. Dunham, quoted in the *Chronicle of Higher Education*, IV (March 16, 1970), pp. 1, 5. Edmund Wilson, in his devastating essay, *The Fruits of the M.L.A.* [Modern Language Association] (New York Review of Books Publication, 1969), writes that we missed our chance to abolish the Ph.D. as a "German atrocity" during World War I.

Since the vast majority of the people holding the Ph.D. and other higher degrees are not really committed to anything beyond the latest fad among the professorial guild, the serious man who holds a degree but who also holds a systematic philosophy of life now is in a position to distinguish himself from the hordes of other applicants for jobs. The savings in search costs that the Ph.D. once offered ("no non-Ph.D.'s need apply") no longer works in a glutted market. There is an oversupply of degree-holders, but not an oversupply of free market advocates holding the degree. If the swing away from the intellectually castrated philosophy of neutral education (the only kind legally permitted by State-financed schools) continues, there should be a new demand for men and women committed to a consistent view. Only with such a view can serious education that is content-oriented rather than mere technique-oriented, i.e., liberal education in the traditional meaning, be maintained. Only value-oriented teaching can pick up the institutional pieces. This should be the hope of those behind private educational institutions.

There is one last consideration. The imposition of price and wage controls becomes more and more of a possibility. These controls have disastrous effects in the long run, but initially certain zones of the economy are favored.[18] One of these, as Prof. Hans Sennholz has pointed out, is private education. As money continues to be printed by the State and the State's central bank, it seeks markets. Controlled markets within the economy dry up, as capital and labor shift to the uncontrolled zones—collectors' markets, luxury goods, entertainment, travel, and education. State-financed educational institutions are caught in the wage-price squeeze: legislatures and bond voters are tight-fisted (as their purchasing power continues to decline). But the private schools reap at least an initial subsidy. State schools limit or close enrollments, but people have money to spend, and these funds find their way increasingly into educational outlets. We should expect to see the expansion of private education of all kinds: high schools, colleges, night schools, cultural institutions. A true opportunity for the establishment of truly universal, pluralistic education would make itself available. The shift away from the public educational monopoly that is already showing signs of life would be subsidized by the very imposition of statist controls.

In the last analysis, the educational system has become overly dependent upon the State and the necessary educational philosophy of all State-financed education, i.e., the philosophy of neutral education. Today we see the erosion of the monopolistic foundation of

18. Gary North, "Price-Wage Controls: Effects and Counter-Effects," *Commercial and Financial Chronicle* (Aug. 21, 1969) [chap. 12, above].

the professional elite, as the overproduction of members continues—an overproduction financed through the taxation of the democratic masses. The masses are finally saying no with their funds. A glutted elite will feel the pinch, as only an elite which has never faced squarely the realities of supply and demand can feel an economic pinch. The facts of economic scarcity can no longer be avoided in the ivy-covered halls. And that very fact may herald a new day for the advocates of value-oriented education. Technocratic liberal arts departments are running out of funds.

Chapter XXVI

URBAN RENEWAL AND THE DOCTRINE OF SUNK COSTS

[The concept that I am trying to convey to the reader in the following essay is that past economic decisions are past. Good or bad, they are past. Therefore, the rational thing to do is to make the best of the present, which includes making the best of the future, given the limitations of the present. People must not let fallacious, meaningless economic concepts like "equity" or "unused capacity" misguide them in their decisions. Godly stewardship requires that each man use his gifts to the best of his ability. The doctrine of sunk costs should help men to accomplish this ethical goal.]

One of the most frustrating experiences in the area of economic reasoning is to explain in detail why a particular government welfare project is economically unsound and therefore wasteful of scarce resources. After giving assent to point after point of the argument, the listener refuses to accept the logical conclusion that the project should be abandoned: "But we can't stop now. We've already sunk too much into it. If we stop now, it would mean that we've lost everything!" On the face of it, this answer seems convincing. So, how does one deal with it?

Take, for example, the urban renewal program. It has been in operation for two decades, and apparently is a permanent and expanding part of the expenses of the federal government. Its spectacular failure to accomplish its stated goals—to provide inexpensive housing for low-income groups—has been thoroughly explored in Professor Martin Anderson's study, *The Federal Bulldozer* (M.I.T. Press, 1964). We can ignore here such aspects of the program as the destruction of community bonds which relieve the alienation of urban life, the inevitable result of tearing down old, familiar neighborhoods. We need only point to the conclusion of Professor Anderson: "Most of the new buildings constructed in urban renewal areas are high-rise apartment buildings for high income families; only 6 percent of the construction is public housing." This fact is amply demonstrated: "The median monthly rent of the private apartments built in 1962, which mainly replaced low-rent housing, was $195." The program has aggravated the housing shortage for these low-income groups by evicting them from their present residences, forcing them to compete for the remaining available space in other neighborhoods. Since the new accommodations are those that were passed over by these people, voluntarily, before they were forced to move, the conclusion is obvious: these people have been coerced by the federal government to accept living conditions that are less satisfactory to them than those which they previously had occupied.

Between 1950 and 1960, over 125,000 dwellings were destroyed under the auspices of the urban renewal program. Only one-fourth of these have been replaced, and most of these are high-rent units. Professor Mises' warning that State interference into the operation of a free market is likely to produce exactly the reverse of what the planners originally expected is aptly demonstrated by the urban renewal program. It has involved a multibillion-dollar subsidy, as Anderson's book shows, to "upper income people and a few elite groups." Who paid for the subsidy? Those of us whose taxes went to finance the projects, and those millions of urban poor who were forced to leave their homes by the administrators of the urban renewal program.

Anderson's recommendation is that we phase out the whole program. Let the projects now under construction be completed, but no more. He is aware of the reality of today's politics: the public would not tolerate the program's demise before present projects are finished. Half-completed empty buildings are a standing testimony to failure; neither the public nor federal planners are likely to accept the implications of that failure. Yet, from the point of view of economic reasoning, those buildings should not be completed at all. At best, they will only benefit special elite groups that can afford other housing; at worst, they will result in actual economic losses, when rents fail to repay the original investment. Why should the public be unwilling to grasp this basic economic fact? Why should the public prefer to waste even more resources on projects that have proved to be unwise in the past? Why not call a halt to the waste immediately? Would it not be wise to offer these projects, as is, to the free market, accepting in payment whatever competitive private bidders would pay? The State could at least retrieve some of its losses by doing so.

The Sunk Costs Doctrine

The policies of waste are increasingly pursued by those who are well aware of the waste. Political considerations often overshadow economic realities. But there can be no possibility of reform if people will not understand or act upon a basic economic principle: the doctrine of sunk costs. It is not a principle readily grasped through intuition. It involves a careful, systematic line of argumentation, and many people are unwilling to devote the effort to master it. Nevertheless, it is vital that we do so; failure to grasp the issue will cost us heavily.

Let us turn from urban renewal for a moment to the more familiar area of private industry. How does the private entrepreneur make his decisions? At any point in time, he must decide whether or not to continue the projects already underway and whether to begin new projects. He decides on the basis of *expected* profits. What his firm has invested in fixed capital is no longer a relevant economic consideration, amazing as it may seem. What *is* a consideration is the value of the fixed capital if it should be sold *now* or rented *now*, but not what was invested before. Previous investments are a part of what is called "sunk costs"; that is, they are past costs which no longer enter into economic consideration. Professor Israel Kirzner, in his excellent economics textbook, *Market Theory and the Price System* (Van Nostrand, 1963), explains why and how entrepreneurs make their decisions:

> In making these decisions, the entrepreneur must still consider the costs of production necessary for a continuation of production. He must, as in all entrepreneurial decision-making, balance expected revenue against expected costs. But in making this calculation, *he pays no attention whatsoever to the expenses of production that he has already paid out (or that he has irrevocably committed himself to pay).* What has been paid has been paid.
>
> But in comparing anticipated costs to anticipated revenues, the entrepreneur *pays no heed to those amounts that do not depend on his present decisions.* These past amounts may have been wisely or unwisely incurred, but there is nothing that can be done to alter the past. The aim must be to exploit *now* the favorable position the entrepreneur may find himself in (as a result of the past decisions that now appear to have been wise ones); or to make the best of a poor situation he may find himself in (as a result of past decisions that now appear to have been unwise ones).

The doctrine of sunk costs reminds us of the old truism: there is no use crying over spilt milk. What each planner must do, whether in private business or in government, is to make the best of the alternatives available to him now. If losses are sure to be incurred by continuing in some line of economic endeavor, then the planner should abandon it. For every minute that the project is allowed to function it is taking money out of the business. In other words, it is using up scarce resources when those resources might better be employed to satisfy some other consumer demand (or be used by a more efficient firm to satisfy a given demand more effectively).

A rather far-fetched analogy might be used here to clarify the meaning of the sunk costs concept. Imagine a man who is suspended from a large helium balloon by a rope. How he got there is irrelevant for our example. It seemed like a good idea at the time. He is now some fourteen feet above the ground. Naturally, he does not want to let go at this point. But the balloon carries him higher, say, to twenty feet. He is now in a worse position than before. The issue which confronts him is simple: shall he let go of the rope now or later? His decision will be promoted by what he thinks the situation will be in the future: if the balloon is likely to climb higher, he should let go; if it will soon be slowly descending, he should hang on. This much, however, is certain: he failed to drop when he was only fourteen feet off the ground. Perhaps he should have let go then; possibly he now wishes he had done so. But the fact remains that he did not let go then, and his decision cannot now be based upon any consideration of a fourteen-foot-drop-five-minutes-ago universe. It is the future as compared with the present, not the past, which must determine any rational decision. The past is gone, for better or worse.

Unused Capacity

Along these same lines, we are frequently confronted with the familiar socialist argument that capitalism creates unemployment and permits idle resources. "Look at the deserted steel mills. Under socialism, the government sees to it that all the capacity of the economy is fully utilized." The answer to this line of reasoning involves the concept of sunk costs.

Take the steel mill example. Many mills were built years ago. They were built under an earlier system of technology: the plants may have cost more to construct than today (not in dollars, of course, but in comparison to the cost of living at that time); the plants were designed for processes of steel production now outdated. They were built under a certain set of assumptions about the state of the economy: the demand for steel, the nature of the competition, the alternative metals that could be substituted for steel, the costs of raw materials and labor, and so on. Some or all of those assumptions have proven erroneous with the passing of time. The plants began to produce losses because the entrepreneurs, being human, were not omniscient at the time when they drew up their plans. They made inaccurate forecasts. Their competitors, who made more accurate forecasts, will have prospered accordingly. Those who made the errors were informed of the mistakes through the operation of the price mechanism of the free market. Instead of compounding their errors by continuing to waste scarce resources in inefficient production processes, they "let go of the rope." That is, they shut down the inefficient mills. Thus, they released raw materials and laborers for the more efficient producers to use. Capitalism, in short, eliminated economic waste; it did so through the profit and loss mechanism of the market.

The socialist wants us to believe that capitalism is wasteful *because* it permits plants to be shut down by owners. "Look at all the investment that is wasted; capitalists sank so much capital into those projects, and now it is all lost." The argument rests on a half-truth. Yes, that investment is lost. It is lost under *any* system of economics; in fact, it was lost the day the plant was built. The entrepreneurs knew full well that it was lost; the point is that they expected this loss to produce profits in the future. That is the heart of all investment, whether under socialism or capitalism. Scarce resources used for one thing cannot simultaneously be used for another. It is the rational calculation of the free market which tells us whether or not the use of the scarce resources was a wise one, but it is not capitalism as such which destroys the investment.

The fact that under capitalism plants lie empty should be seen as a blessing. Capitalism has permitted us to count the cost of continuing any given process of production. It encourages us to abandon the wasteful processes. The market is a constant reminder to us that there are such things as errors of investment. It reminds us that once a plant is built, we must make the best use of it that we can, and sometimes this means doing *nothing* with it, if doing *something* with it ties up additional scarce economic resources and wastes them. The market forces us to examine the probable future results of our decisions, while it encourages us to accept the reality and inescapable finality of those decisions that we have made in the past. Capitalism demands that we make the *best* of a poor decision in the past; socialism, by keeping plants in operation which are wasting scarce resources, permits men to make the *worst* of a poor decision in the past. The "unused capacity" argument is utterly fallacious.

An economically irrational refusal to acknowledge the validity of the doctrine of sunk costs has led many people to personal financial disaster. Consider the stock market decline of 1929-33. Many investors saw their paper profits collapse after October of

1929, when the inflationary policies of 1922-29 were reversed by officials of the Federal Reserve System. People saw that the general level of prices in the nation was declining, especially stock prices, but they refused to acknowledge the reality of the situation. Instead of considering the possibility that prices might fall even more, they concerned themselves with the amount of money they had put into their investments. This in turn led them to hold on; the result was financial disaster, as prices continued to skid. The man who refuses to let go of the rope at fourteen feet had better be fairly sure that the balloon is not going to carry him even higher.

One of the most common of all fallacies involved in the refusal to accept the sunk cost doctrine is that of "equity" in a home. During a depression, or any recession, some owners who want to sell their homes or land refuse to sell at the prevailing prices. They argue, "I have $5,000 equity in this piece of property; if I sell now, I'll lose it." The fact is that there is nothing tangible or marketable about "equity." Once a mortgage payment is made, it is gone. It entitles one to remain the owner of the property until the next payment falls due. It entitles one to make decisions now as to the sale or retention or rental of the property. But there is nothing known as equity in economic reasoning: you may sell a house for more than you put into it, or less, or the same amount; but the market price is not determined by the amount of money sunk into the property. One cannot have something "in" the home, as if it were a refrigerator stocked with food. We only have a title to the home which permits us to sell it for whatever we can obtain on the open market. "Equity" is a misleading concept which is stored in people's minds, not something which is in some mysterious way stored in a piece of property.

There is one sense in which equity might have meaning economically. If the idea of equity is equated with net worth, and net worth is defined as the present market value of a resource minus all economic liabilities held against it, then it is all right to speak of "equity." But this is not what people mean when they use the term. Therefore, it is best to avoid using the word "equity" unless the full meaning is spelled out precisely.

The labor theory of value is a concept analogous to "equity." It assumes that an economic good is worth a given amount of money on the market because a certain quantity of human labor has been invested in producing it. This idea was basic to all economic thought until the advent of the "marginalist-subjective" economics of modern times (1870's). Karl Marx was the last major economist to hold to the position; only Marxists, among serious economists, hold it today. The concept is wrong. A buggy whip, even if it were made by a painstaking master craftsman, is only worth in 1969 what the market will pay; the quantity of labor involved (which itself is a misapplied concept from mechanics, since there is no way to measure labor) is absolutely irrelevant. The buggy whip does not have value because of the labor; the labor has value only because of the value the buggy whip may have on the market. An hour's labor by a brain surgeon commands a higher price than an hour's services of a ditch-digger (in most economic situations, anyway).

So it is with a factory. The amount of labor invested in its construction is irrelevant, once it is built; the amount of raw materials invested is irrelevant, too. Once it is built, the factory (like the buggy whip) must be valued in terms of what it can produce on the market or by what it could be sold for, either now or in the future. Profit and loss will determine what is to be done with the factory, not the money already invested in its construction. The doctrine of sunk costs was the inevitable replacement for the labor theory of value. Today, it is only the Marxist entrepreneur or planner who ignores the doctrine of sunk costs; the inefficiency of Soviet planning is, in part, traceable to just this ignorance.

Conclusion

Thus, we should look at any government project with an eye to the present and the future. The *past*, because it is past, is *economically irrelevant*. Unfortunately, the past is *not politically irrelevant*: politicians and bureaucrats may have made specific promises concerning some project. But that is another issue as far as the economist is concerned. If it is a question of economic waste versus economic benefit, the past must be discarded as part of our thinking. Our concern is in getting the greatest possible benefit from the resources that are available now. For economics, the words of Omar Khayyám are most relevant:

> The Moving Finger writes; and having writ,
> Moves on: nor all your Piety nor Wit
> Shall lure it back to cancel half a Line,
> Nor all your Tears wash out a Word of it.

Chapter XXVII

PROPERTY TAXES: SOVEREIGNTY AND THE PROBLEM OF ASSESSED VALUATION

[*This essay should not be regarded as a defense of the idea of either the property tax or eminent domain. But it does point out the flagrant arbitrariness allowed to tax assessors under the present system. That arbitrariness should be removed. Property taxes have been with us since the days of the Puritans, and a survey of the records of their towns and the colonies will indicate that the tax has always been arbitrary. Anyone who doubts this should read the book by Holmes F. Crouch,* How to Fight Taxes, *published by Astronuclear Press, 217 W. Julien St., San Jose, Calif. The biblical view of taxation is sketched by Rushdoony, "Taxation,"* Christian Economics *(April, 1972).*]

***Practically*, the general property tax as actually administered is beyond all doubt one of the worst taxes known in the civilized world. Because of its attempt to tax intangible as well as tangible things, it sins against the cardinal rules of uniformity, of equality and of universality of taxation. It puts a premium on dishonesty and debauches the public conscience; it reduces deception to a system, and makes a science of knavery; it presses hardest on those least able to pay; it imposes double taxation on one man and grants entire immunity to the next. In short, the general property tax is so flagrantly inequitable, that its retention can be explained only through ignorance or inertia. It is the cause of such crying injustice that its alteration or its abolition must become the battle cry of every statesman and reformer.**

E. R. A. Seligman
***Essays in Taxation* (1931), p. 62**

Chief Justice John Marshall, in one of the key judicial decisions of his career, *M'Culloch v. Maryland* (1819), laid down this principle: "That the power to tax involves the power to destroy. . . ." This is hardly the kind of language that one might expect from a high official in the federal government. The historical circumstances involved in this case may help to explain such an anomaly. The state of Maryland attempted to place a tax on the notes of all banks not chartered by the state. Mr. M'Culloch, a cashier of the branch bank at Baltimore of the Bank of the United States, refused to pay. Marshall and the Supreme Court affirmed the validity of M'Culloch's decision: the bank, as an instrument of the federal government, chartered by Congress, was immune from levies made upon it by any other government. "If the States may tax one instrument, employed by the government in the execution of its powers, they may tax any and every other instrument." Thus, the sovereignty of one government may not be challenged by any other. No one government has complete sovereignty over all spheres of life. Here is a basic principle of American political history; Marshall put it concisely:

> In America, the powers of sovereignty are divided between the government of the Union and those of the States. They are each sovereign, with respect to the objects committed to it, and neither sovereign with respect to the objects committed to the other.[1]

Several important points can be inferred from Marshall's decision. First, the power to tax involves the power to destroy. Taxation involves coercion, and the right of coercion necessarily involves the power to destroy. Second, the right to lay coercive taxes upon any individual or institution is an assertion of sovereignty. For example, the right of *eminent domain* is an assertion of sovereignty just as the right of taxation is. An important legal study, *Ruling Case Law,* published in this country before our entrance into the First World War, makes this clear.

> Accordingly it is now generally considered that the power of eminent domain is not a property right or an exercise by the state of an ultimate ownership in the soil, but that it is based on the sovereignty of the state. As that sovereignty includes the right to enact and enforce as law anything not physically impossible and not forbidden by some clause in the constitution, and the taking of property within the jurisdiction of the state for public use on payment of compensation is neither impossible nor prohibited by the constitution, a statute authorizing the exercise of eminent domain needs no further justification.[2]

Sovereignty, coercion, taxation: to challenge one is to challenge the others. It behooves us to think through the implications of this proposition. The tithe, for example, was mandatory in ancient Israel; the priests, who administered the funds for the benefit of private agencies of culture and charity, had legitimate sovereignty.

1. Extensive excerpts from this decision are found in Henry Steele Commager (ed.), *Documents of American History* (6th ed.; New York: Appleton-Century-Crofts, 1958), pp. 213-220.
2. William M. McKinney and Burdett A. Rich (eds.), *Ruling Case Law* (Rochester, N. Y.: Lawyers Co-operative Publishing Co., 1915), vol. 10, p. 13.

The Property Tax

This taxation prerogative has historically been granted in the United States to the county governments. R. J. Rushdoony emphasizes this point in his book, *The Nature of the American System*:

> The people of an area thus controlled their tax assessor and their county supervisors, so that the taxing power was not beyond their jurisdiction. When the power to tax [property] leaves the county, tyranny will then begin in the United States. Socialism or communism will be only a step away. The people of a county will be helpless as their property is taxed to the point of expropriation by a distant state capital.[3]

Local control of this vital tax is mandatory. Centralize this aspect of political sovereignty, and you threaten the very foundation of human productivity and initiative. Rushdoony quotes Franklin D. Roosevelt's warning in this regard (F.D.R. was at the time governor of New York): "Now, to bring about government by oligarchy masquerading as democracy, it is fundamentally essential that practically all authority and control be centralized in our National Government."

Yet even the localization of the property tax may not be enough to restrict the exercise of arbitrary political power over our lives. Several years ago, a Los Angeles television news program featured a story concerning an elderly couple living in Canoga Park, a Los Angeles suburb. The couple was living on the husband's small pension—a pension squeezed by the federal government's most damaging of all taxes, the invisible tax of inflation—and the two were able to make financial ends meet only because the mortgage on their home had been paid off years before. Then came the news that the local tax assessors had re-examined the "assessed valuation" of the property, and had decided to triple the figure imposed the previous year. There had been no way possible that the owners could have predicted such a discontinuous, catastrophic change in their finances, and they were forced to place their home on the market in order to escape the new tax burden. After so many years in their home, they were reluctant to leave, but at the time of the television report they could see no other alternative.

This incident points up a very serious problem in all schemes of taxation that are based on the concept that the paid hirelings of the sovereign government are the people best capable of determining the value of a particular piece of property. Californians should multiply this example, according to Mr. Howard Jarvis, the leader of a Los

3. R. J. Rushdoony, *The Nature of the American System* (Nutley, N. J.: The Craig Press, 1965), p. 9.

Angeles taxpayers' group. He claims that 7,500 outright tax foreclosures took place in California each month in 1969. As soon as the validity of the property tax is granted, the threat of coercive foreclosure (or forced sale by the owners in order to meet present taxes) is a distinct—indeed, inescapable—possibility.

Tax structures in most mid-twentieth-century industrial nations are notoriously arbitrary. Examples like England's income tax and inheritance tax come to mind, taxes so steeply graduated that some wealthy Britishers have fled to the Channel Islands or even to permanent residence on ships in order to escape. Few taxation schemes endow a government with more raw, arbitrary power than the presently prevailing "assessed valuation" system. When the value of a piece of property is estimated by paid bureaucratic functionaries of the taxing agency itself, rather than by a free market, the possibilities for corruption and coercion are obviously multiplied. It should not take too much thought to understand why this might be the case. Where political monopolies can reap monopolistic taxation returns, let the citizen beware.

The goal of any free society is to establish a framework of law that makes the actions of the administrators of the law predictable by those living under the jurisdiction of the State or those who, living outside that jurisdiction, nevertheless have to deal with those who live inside it. This element of predictability is basic to political freedom, as Hayek has argued so forcefully.[4] Without continuity of enforcement in terms of written, previously announced laws, it becomes very difficult to plan for the future with any degree of security. Without general, abstract law, free men find it difficult to exercise their creative capacities, since in an arbitrary political world, creativity in individuals may be regarded by the authorities as a threat to their positions. As Hayek says:

> There is probably no single factor which has contributed more to the prosperity of the West than the relative certainty of the law which has prevailed here. This is not altered by the fact that complete certainty of the law is an ideal which we must try to approach but which we can never perfectly attain.[5]

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4. F. A. Hayek, *The Constitution of Liberty* (University of Chicago Press, 1960).

5. *Ibid.*, p. 208. Even as a theoretical ideal, however, it is unlikely that a purely abstract formal legal structure is either possible or desirable, since some degree of flexibility is necessary in the concrete application of all law. On the complex interconnections of formal and substantive law, see Max Weber, *On Law in Economy and Society* (New York: Simon & Schuster Clarion Book, [1954] 1967), esp. chaps. 8, 9. This is also available as a section of Weber's posthumously published *Economy and Society* (New York: Bedminster Press, [1924] 1968).

For the sake of prosperity, personal freedom, and individual creativity, our tax laws should avoid all elements of arbitrariness, whether in the original legislation or in the actual administration and collection.

Valuation Without a Market: A $35 Billion Gamble

The whole issue of assessed valuation raises a set of unanswerable problems. How accurate, or fair, is the assessed valuation scheme? The First National City Bank of New York, in its *Monthly Economic Letter* (May, 1972), sketches a few of these difficulties:

> The value of taxable property can be estimated only within a wide band of error. In about half the areas sampled by the Census of Governments in 1966, the typical nonfarm house was found to be assessed at a rate 20% above or below the average assessment of similar properties sold recently for the same price in the same tax area. Yet, this record was better than it had been in earlier years when variations in assessments had been even greater.
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> Part of the problem lies in poor assessment techniques that may be amenable to improvement. But estimates are always subject to serious error. Market conditions are always changing, and the concept of market value is not free of ambiguity. The existence of one eager or unsophisticated buyer can result in the sale of an individual piece of property for a price significantly higher than otherwise. Alternatively, a forced sale can yield a low price. There is no way in which assessors can anticipate such market imperfections. Nor is it clear that it would be equitable for them to try. Furthermore, assessments are sometimes affected by extra-legal policy decisions by tax officials, who, for example, may decide to shift tax burdens from homeowners, or to encourage business by lowering its rate of taxation.

The tax assessor, unlike his counterpart in private industry and finance, the property appraiser, is not limited by any institutional structure that is directly controlled by considerations of economic profit and loss. The tax assessor may make errors in valuation over a period of several years, and be subject to no threats from discouraged customers or superiors (as in the case of the private property appraiser); conversely, he may make a very accurate assessment—painfully accurate, from the point of view of the taxpayer who may have been enjoying a lower rate—and be subjected to organized political opposition. The private estimator will be forced out of business eventually if his estimates deviate too much from the market's evaluation of the economic contribution of the particular pieces of property. The tax assessor faces political pressures rather than market pressures, so his guidelines will tend to be biased in favor of political realities. This state of affairs is inescapable, given the fact that two different kinds of management functions are in operation: a market oriented business and a politically administered agency.[6] The operational difficulties (let alone theoretical difficulties) associated with the neo-Keynesian concept of the "fiscal fine-tuning of the economy" are to some degree intertwined with the fact that tax policies are not always based on economic considerations of efficiency but political considerations of expediency.

What is needed is a system of tax assessment which corresponds to the realities of the economy, and yet arouses no large-scale political opposition because of its blatant favoritism of one group or another. In short, how can county tax administrators devise a means of assessing property values at a single rate that is acceptable to all those being taxed? How can the county obtain its income without favoring one group at the expense of all the others? What should be used as the proper guide to assess the value of property?

When prices are free to rise or fall according to the dictates of supply and demand, the free market provides the most efficient means of assessing the economic contribution of a piece of property. It also provides the best means of predicting the economic future. The foundation of this element of predictability is the existence of competing entrepreneurs who are engaged in the task of risk-taking and planning in terms of an uncertain future. The successful ones reap economic rewards—profits—while the less successful ones take economic losses, and will ultimately be forced out of this line of endeavor if their errors continue. This leaves the job of allocating scarce economic resources to the men most efficient in predicting the demands of future consumers. With better men predicting the future state of supply and demand, the range of uncertainty is narrowed (along with profits) on the market. Theoretically, if all economic actors were omniscient, no profit or loss could ever arise.[7] If some way could be found to transfer this element of economic predictability to governmental taxation policies, the presently prevailing range for the exercise of arbitrary decisions by tax assessors would be drastically reduced. The difficulty is in discovering a means of transference. The process of valuation—the imputation of value to a particular scarce economic resource—should in some fashion be linked to the market's pricing mechanism.

The central core of the difficulty lies in the fact that all prices are

6. Cf. Gary North, "Statist Bureaucracy in the Modern Economy," *The Freeman* (Jan., 1970) [chap. 20, above].

7. Frank H. Knight, *Risk, Uncertainty, and Profit* (New York: Harper Torchbook, [1921] 1965); Joseph Schumpeter, *The Theory of Economic Development* (New York: Oxford University Press, [1911] 1961), chap. 4; Mises, *Human Action* (3rd ed.; Chicago: Regnery, 1966), pp. 289-303.

historical phenomena once they are recorded. A price is registered at a given point in time and place by the act of exchange. Without this actual concrete fact—a given price—how can the tax assessor estimate the value of some good? He can estimate money income of an individual or corporation with some degree of success, since income involves concrete historical data: paychecks, records of cash payment, records of the transfer of goods. Non-monetary income, like the value of land or a house, is impossible to estimate directly. And because such estimation is indirect, a governmental monopoly of the right of so estimating can lead to great opportunities for error, both conscious and unconscious.

If taxes should be assessed in terms of economic value, and since this cannot be estimated directly for property which is not exchanged on a market except through the use of a hypothetical price, who should have the right to do the work of estimating hypothetical prices? Who is most competent? The proper answer, as I see it, should be that the person who *owns* the property is best able—legally, morally, and operationally—to make this decision. All true ownership involves the right to disown the property, as F. A. Harper has wisely pointed out.[8] Therefore, we ought to conclude that the right to disown a thing conveys to the owner the necessity of estimating the value of the object in his possession. He is the one who bears the cost of misallocating his own scarce economic resources; he should be the one who is best capable of estimating the value of those goods. With responsibility goes the right of exercising power: this principle is basic to any free society. Personal sovereignty, like governmental sovereignty, involves, by definition, the right to exercise power.

A Proposal for Reform

The owner of a piece of property decides what the value of that property is to him. He can set in his mind some minimum price below which he will refuse, under present circumstances, to sell his property. He can then easily submit this figure to the tax department of his county, just as he submits income figures to state and federal governments. This figure is then used by the tax administrator to compute the citizen's tax assessment. The figure submitted by the citizen would then be multiplied by some constant rate—one percent, five percent, or whatever—in order to compute the assessment to be required of each person. In practice, the citizen would probably compute his own tax in terms of the previously announced rate of assessment, just as he computes his income tax payments. As always,

8. F. A. Harper, *Liberty: A Path to Its Recovery* (Irvington-on-Hudson, N. Y.: Foundation for Economic Education, 1949), p. 106.

someone will call for progressive taxation, and someone else will deny this on the same grounds that progressive (graduated) income taxes are denied, but the basic procedure will remain the same, with or without graduated taxes.

What the county tax assessor must be certain of is that the figure submitted by each taxpayer is the latter's true estimate of the value of his property. It is at this point that the element of coercion would have to be applied. No tax structure can exist without coercion; the problem for Christians is to discover and apply the best means of making this coercion correspond with the needs of individual freedom and responsibility. It is possible to imagine at least three methods of applying coercion within the framework of a system of taxpayer estimation of property value.

First, the county could require that all estimates be made a part of the public record. Anyone wishing to purchase the land or home or factory for the price stated by the taxpayer would be permitted to do so. In other words, the owner would be compelled to sell. This proposal would favor members of minority groups who wish to move into a "restricted" neighborhood. It would also be advantageous to large-scale land developers or factory managers who desire to purchase land or homes in large blocks, while avoiding the phenomenon of increasingly higher prices being demanded by the remaining members of a neighborhood for their unsold plots. One lump sum could purchase them all. The defects of such a system are obvious. It would involve a subsidy to the developers, since land which would normally have to be purchased bit by bit, thus forcing up the actual value of the remaining plots, could now be purchased for a lower aggregate price. It would also tend to upset prevailing patterns of community ownership that are based on non-monetary factors. Perhaps the worst aspect of this plan would be the requirement that all estimations would be made public, an invasion of privacy that might not be warranted by the advantages of owner-estimated taxation.

Second, the county could purchase a fraction of the property in the community, on a *purely random* basis, and then offer the plots for sale at an auction. This would frighten owners into submitting true estimates of property value. Also, any person who had, by accident, overvalued his own property, could then take the money paid to him by the county, repurchase his property for less, and pocket the difference. This plan, too, has defects, though probably not so glaring as the previous one. The civil government is seldom to be trusted to exercise its massive powers in a purely random fashion. Even with computers operating with random numbers, one suspects that enterprising men would find ways of circumventing this randomness if by such manipulation they were to reap gratuitous profits. Where there is much power, there will be temptation for the most ruthless people to try to claim the benefits of power for themselves.[9] On the other hand, the very randomness of the coercion, if successfully kept random, might diffuse the threat of coercion. An individual might decide that the risk of confiscation is so tiny that it would pay him to take the risk and submit a deliberately underestimated figure. If enough people were to do this, tax rates would have to go up to compensate for the loss of revenue, thus burdening the honest taxpayers even further. Furthermore, the element of pure randomness would infuse an element of chaos into the lives of the citizenry, since all would face the ever-present possibility of compulsory eviction, whether or not they really intended to sell.

The final plan is the one I favor, although I have no doubt that many modifications would be necessary in order to make it operational. Still, I believe it is sound in its basic outline. The owner submits his estimate and is presently prepared to pay his taxes in terms of that estimate. He may, at some point, decide to sell the property because he finds that he can get more for it than he had originally thought. He must submit the new estimate to the authorities, with penalties to be incurred if he fails to do so. The highest figure submitted in any fiscal year would serve as the base figure for the whole year. (This is an arbitrary enactment, advocated in terms of efficiency. Some other system might be possible, such as a tax assessment payable from the date of the new estimate through the end of the year, or perhaps a percentage of the difference between the two prices, but I suspect that savings in time and money would be made by a flat rule: the highest estimate in any year serves as the base figure for computing the assessment for the entire year.)

Under such a system, the county would act in terms of a figure of imputed value that would be as accurate as any hypothetical figure could be. It would be superior to other hypothetical figures, since the person closest to the property, the owner, would decide how much it is worth. It would eliminate the need for a corps of professional bureaucratic tax assessors. It would also bring a new element of predictability into taxation, to be used by taxpayers, county administrators, and legislators in making judgments about future revenues. Most of all, it would eliminate the arbitrary quality of assessed valuations that are not in terms of the market, but in terms of the decision of an assessor possessing monopolistic

9. Hayek, *The Road to Serfdom* (University of Chicago Press, 1944), chap. 10: "Why the Worst Get on Top."

power. Assessed valuations would not be tripled overnight apart from economic forces that could cause such a tripling, bringing also the *benefits* of a tripling of his property's value to the owner.

Closing the Loophole

The critical reader by now has probably seen what the chief problem is in this proposal. It involves the dual requirement of the rights of sovereignty: the county's sovereignty of tax collection and coercive power to enforce that sovereignty, and the owner's sovereignty of ownership.

One option for considerable latitude—even dishonesty—exists in the proposal. An owner might submit a $5,000 figure on a $30,000 home for a period of ten years. Then, when he finally decides to sell it, he can declare the increased valuation and pay taxes on the $30,000 declaration for only as many months beyond the beginning of the fiscal year as it takes him to sell the house and relieve himself of the tax burdens of ownership. This is an extreme example, but in my tax proposal so far, the county government could do nothing to prevent such a thing from happening.

If the county does, in fact, have the right to tax land values, then it has the right to know how much a particular piece of land is worth. A price is a function of two forces, supply and demand. So far, my theoretical model has been constructed only on the existence of a hypothetical seller who is in no way compelled to sell his property at the price he has declared. He has no reason, from a legal point of view, to declare his true estimation. For that matter, he may be misallocating his property; maybe he thinks that it is worth only $25,000 when it is worth $30,000, and he would sell it if he thought it were worth $30,000. Who is to say he is wrong?

There is one obvious answer: a prospective buyer can say that he is wrong. The buyer makes up the other half of the transaction which produces a price. If he is willing to pay $30,000 (plus the transaction costs), then the property is worth $30,000, and the county is entitled to receive its taxes in terms of this valuation. Therefore, a fundamental part of my proposal for property tax reform should include the right of the county government's tax assessor to increase the assessed valuation of a particular piece of property upon the receipt of a statement of a legitimate offer to buy from the prospective purchaser. A buyer, making an offer to buy to an owner, would have the right to appeal to the tax offices in the case of a refusal to accept the offer on the part of an owner. The new price would stand as the owner's assessed valuation for the year in question.

Now, in order to assess the validity of a "legitimate offer to buy," the owner must have protection from self-proclaimed buyers who are not prepared to buy. Some group of malicious individuals, or some minority with a "cause," could force up the tax rates of a community merely by systematically going through a neighborhood, making false offers far too high, declaring the offer to the tax assessors, and then they could quietly disappear, leaving the owners with new assessments. The protection would be in the form of a requirement on the part of those making an offer to purchase at that price if the owner decides to sell, given either the pressure of higher taxes or the temptation of a higher purchase price than he had imagined possible. Any prospective buyer or buyers, upon failing to make good their offer to buy, would then be assessed a fine, to be paid to the owner (not the county, or at least not solely to the county). A reasonable fine might be triple the annual increase in taxes that the offer would have forced upon the incumbent owner. The owner, as the one potentially damaged by the false offer, would be the recipient of the fine—restitution to him for an act of potential theft (economic loss) that the false offer would have caused him.

One final provision seems in order. What would prevent an owner from accepting the higher tax figure for one year, and then declaring a lower figure the next year, on the assumption that the previous potential buyer has probably purchased elsewhere? The county could counter with one last bit of coercion: it could publish a list of all addresses at which the owners had declared a drop in property value since the previous year. The list would not list names of owners, nor would it list the actual declared valuation. It would list only the percentage of the drop, and the book could be printed with the properties experiencing the greatest fall in declared valuation appearing higher on the list. Prospective buyers would be alerted to bargains. Property owners would be encouraged to list their properties at figures approaching true market value. No man would be compelled to sell, but he would pay in terms of what the market determines that his property is worth.

Benefits

The major advantages have already been sketched. There are others. First, the assessed valuation would now tend to reflect market valuation. Not only would this reduce the arbitrariness of the tax assessor (and perhaps even the size of the bureaucracy, or at least the costs associated with training "skilled" assessors), but it would reduce another arbitrary factor in government. It would eliminate the need for disputes over eminent domain. From a Christian standpoint, it would be preferable, theoretically, to abolish the right of any civil government to confiscate property (apart from taxation and associated penalties). If this were done, the State could still obtain the land it desired, but it would have to pay what the owner wanted in exchange. By making continually higher offers, the State could force onto the owner increasingly higher taxes. An individual owner would have the right to refuse to sell, but it would cost him to make the decision. On the other hand, the State would have to pay what the owner demands, not what some State bureaucrat determines is the "fair price." Even if the right of eminent domain were retained by the State, there would now be an official statement by the owner—an estimate accepted as a legal statement by an agency of the local civil government—with regard to the value of his property. There would be less tension, fewer reprisals, fewer court cases, if that figure were established as the legal minimum that the State could pay as compensation for its confiscation. It would also reduce the possibility of that bugaboo of all "eminent domainists," namely, the increasingly higher prices demanded by owners of property at the very end of the State's building project, e.g., the last mile of the freeway. The State could pay at one time for all the land on its proposed route; holdouts would not be in a strong position to defend themselves, yet they would be able to receive the price they considered fair. There is still a degree of coercion, but at least the market, rather than a State bureaucrat, would impose the pricing parameters.[10]

There would be another effect of my proposal. Members of minority groups would now be able to remind those dwelling in "restricted communities" of the costs associated with their unwillingness to sell to those trying to escape from some ghetto area. The individual would still retain his right to refuse to sell, but if the price offered were greater than the owner's declared assessment, he would now have to pay for his decision. To the extent that a ghetto is the product of statist interference with the free market—rent controls, zoning laws, etc.—this would point the fact out to the taxing authorities. The present property tax system, to the extent that it ignores the market's assessment of the value of a particular piece of

10. The State in this case would have a competitive advantage over private land developers. Civil governments can generally amass more wealth through coercive taxation for a single project than corporations can through voluntary, competitive investment. The State can more easily afford the huge payment needed to purchase an entire unit of property in one lump sum. The right of eminent domain would obviously permit the State to make a promise to pay at a point in time, thus escaping the problem of rising land values due to the very existence of the project. This, of course, involves a subsidy by owners (who lose their ability to bargain for higher payments) and the county (which loses tax revenues) to the state or federal government agency buying the land. On the whole question of eminent domain, see Rushdoony, *Politics of Guilt and Pity* (Nutley, N. J.: The Craig Press, 1971), pp. 325-330.

property, is very likely a contributing cause of enforced "ghettoization"; it makes it more difficult for the person who is financially able to move out of a particular geographical area to do so, since it grants an indirect subsidy to the owners in the restricted areas. The form that subsidy takes is a lower annual property tax bill than would have been assessed under a market-oriented tax assessment system. Discrimination should be a private right, but the civil government should not enforce such discrimination with subsidies to those doing the discriminating. Men should not receive something for nothing, including the right to discriminate.

The Taxation of Church Property

Libertarians are inclined to support the demand made by Madalyn Murray O'Hair, that property taxes be assessed to churches. The case before the Supreme Court, *Walz v. Tax Commission of the City of New York*, argues that Frederick Walz, a small property owner in New York City, is forced to pay higher taxes because churches are entitled to the exemption. One estimate runs as high as $35 million in lost taxes for New York City (on $700 million worth of property).[11] Martin A. Larson, a constant critic of tax exemption for profit-making church properties, has estimated (as of 1965) that total religious property, including Roman Catholic schools but not independent religious schools, totals $80 billion. This represents some 60 percent of the $135 billion worth of all private, tax-exempt, charitable property.[12] This means, he estimates, that about $1.6 billion worth of property taxes are lost each year, as a direct result of the tax exemption of the religious institutions.

This, of course, is a purely economic analysis. It is no doubt true that taxes might be lowered, temporarily, if all church property were taxed. Property taxes do not go down, however. The local governments would simply absorb the new revenues. Furthermore, churches do perform charitable activities. Taxing church properties would reduce funds in the churches available for social welfare purposes, thus adding to the burden of local civil governments or non-religious charitable organizations. Given the efficiency of governmental welfare organizations, this should not be a source of rejoicing for the poor. Nevertheless, from an economic point of view, tax-exempt church properties are indirectly subsidized.

The issue goes beyond economic analysis. The power to tax, as Marshall pointed out so long ago, is the power to destroy, for it

11. Tony Cook, "Should Churches Be Taxed?" *Eternity* (March, 1970), p. 21.

12. Martin A. Larson, *Church Wealth and Business Income* (New York: Philosophical Library, 1965), pp. 50-51.

represents sovereignty. Counties may not tax land belonging to other branches of civil government. This justification of tax exemption is based on the sovereignty of the other branches of civil government. If true separation of churches and the State is to be maintained, then the sovereignty issue cannot be avoided. Churches, like hospitals, tax-exempt foundations, and other agencies of government (not civil government, but social government nonetheless), should be able to claim the right of sovereignty. And if this right is not valid, then *all* property, without distinctions as to ownership, should be subject to the property tax. If the agency of the worship of God is not entitled to an exemption, then other equally religious agencies are not so entitled: public schools, federal defense areas, state welfare agencies, and so forth. If all exemptions were eliminated, then the churches could not complain. It would also force local, state, and federal agencies to make rational economic decisions as to the location of their various bureaus, since the market's assessment of land and structural values would be in operation. It would also permit private individuals or corporations to bid on government lands, thus forcing up the particular agency's tax rate, just as the government could do (and would continue to do) to land owned by private agencies and citizens. If no agency is sovereign, then the market-oriented property tax system of each county would operate in both directions: land and buildings could flow back toward the private sector of the economy. Civil governments at all levels would have to take this fact into consideration when selecting sites for their exercise of eminent domain. The agencies of each branch of civil government would be forced to take seriously the economics of location. We might begin to see a more efficient allocation of scarce economic resources as a direct result.[13]

If one branch of civil government can legitimately claim exemption from the taxation power of another branch, then this same ex-

13. The federal government owns about one-third of all the land in the United States, mostly in the western states. See the *Statistical Abstract of the United States, 1971,* sect. 7. In California, for example, the federal government ownes 45 percent of the state: *ibid.*, p. 189. The state and other agencies of government own an additional 25 percent, for a total of 70 percent government ownership: "Tax Exempt Foundations and the Property Tax," a sheet distributed by United Organizations of Taxpayers, Inc., 6431 West 5th St., Los Angeles. An additional 10 percent is owned by tax-exempt organizations, whose numbers total 80,000 in the state. The *New York Times* (May 9, 1972) reports that at the present time, there are half a million such organizations in the United States. Between the State and tax-exempt organizations, as Alfred Balk, the editor of *The Free List: Property Without Taxes* (New York: Russell Sage Foundation, 1971), points out, some $600 billion, or one-third of the U. S. total of all property, is tax exempt. The areas most affected are the core cities of metropolitan areas. Cf. Robert Cassidy, "The Trouble With Property Taxes," *The New Republic* (May 15, 1971).

emption must be granted to other sovereign agencies of government—social, moral, and cultural government. They should have this same right, for they, too, have legitimate sovereignty in a world of plural, limited human sovereignties. No single institution can claim total sovereignty; only God is truly and absolutely sovereign.[14] Therefore, if the religion of the State receives its exemption (and therefore its subsidy), then the religion of God should be entitled to the same treatment. Those Christians who naively recommend a voluntary payment of taxes by the churches or Christian schools have not faced the issue of sovereignty. They add to the growing secularism of the age, for they promote a non-Christian idea of earthly human sovereignty, one which elevates the State to the throne of total sovereignty. That was what the Christians of the ancient world struggled and died to deny.[15]

Conclusion

Because of the inescapable threat of confiscation involved in all schemes of direct property taxation, it is a tax to be avoided on principle. Rushdoony's comments are apt:

> Basic to the Biblical law of liberty for man is property. When a man is secure in the possession of his property, he has an area of liberty and dominion which is beyond the reach of other men. If no man and no state can reach in to tax or to confiscate his property, man can enjoy true liberty and great security, whether he be prosperous or poor. Every attack on private property is, therefore, an attack on man's liberty. Man's freedom and security in the possession of his property is not only basic to man's independence, but it is also basic to his power. A man has power if he can act independently of other men and the state, if he can make his stand in the confidence of liberty. Every attack on private property therefore is also an attack on the powers of free men as well as their liberty.
>
> It follows therefore that a transfer of property from man to the state is a transfer of liberty and power from the people to the state. The necessary way for any state to become powerful and totalitarian is to restrict and suddenly or gradually confiscate and abolish private property. No new set of legislators can stop or stem any state's march towards total power if they leave untouched the state's power over property, real property, personal property, and monetary property. No groups of "reform" politicians have kept their promises unless they set property free from statist control and intervention.[16]

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14. Cf. Rushdoony, *Foundations of Social Order: Studies in the Creeds and Councils of the Early Church* (Nutley, N. J.: The Craig Press, 1968).
15. *Ibid.* Cf. Ethelbert Stauffer, *Christ and the Caesars* (Philadelphia: Westminster Press, 1955).
16. Rushdoony, *Law and Liberty* (Nutley, N. J.: The Craig Press, 1971), p. 65.

Two things are absolutely fundamental to any free market society: non-arbitrary law and the protection of private ownership. The system of property taxation which presently exists goes very far in the denial of both principles. The assessed valuation scheme is arbitrary, and the threat of confiscation through taxation implicitly denies the second principle. Even in the three possible reforms outlined in this chapter, the property owner faces an invasion of his privacy (scheme one), random computerized disruption of his daily affairs (scheme two), or the possible harrassment of his budget by potentially hostile, malevolent minority groups (scheme three). When this is the best you can say about property taxation, the system is not a good one.

The slogan used by advocates of the so-called Liberty Amendment (to abolish the sixteenth amendment), "taxation of things and not incomes," does not face the problem of confiscation through property taxation. The tax on a man's increase is the principle of the tithe, so long as the tax schedules are not graduated, and therefore not discriminatory, confiscatory, and wealth redistributing. If only our governments were willing to let us retain 90 percent of our incomes—even the tyrants promised in I Samuel 8 let the people have that much!

By considering "ideal" schemes of property taxation, the reader is enabled to assess just how arbitrary the assessed valuation scheme is, and how dangerous property taxes are in any form. The experience of Mr. Holmes Crouch, author of *How to Fight Taxes*, is illuminating. In 1969-70, he and his neighbors had their assessed valuations raised. Mr. Crouch, who appears in the italicized figures below, reports on the arbitrary, discriminatory practices involved in his own particular case:

Property Number	*Lot Size sq. ft.*	*1969-70 Assessment*	*Assessment per 100 sq. ft.*	*Percentage Above Lowest*
391-29-005	15,550	$2,600	$16.70	14%
391-29-006	14,850	2,600	17.50	19%
391-29-007	*9,950*	*2,500*	*25.20*	*84%*
391-29-008	11,900	2,600	21.70	48%
391-29-009	12,450	2,500	19.95	36%
391-29-010	17,750	2,600	14.65	—

What principle of assessment could have led to the astounding deviations recorded in the last column? Only one, that governing column three, "1969-70 Assessment." Everyone was simply assessed whatever would bring the tax authorities approximately $2,550 per lot. So much for the expertise of trained property assessors. The free market, however imperfect, is better than this.

If a property tax is to be used to raise revenue, however, it is vital that the power be kept in the county, where local citizens have greater impact in pressuring the agencies of the civil government. It is of extreme significance that 1971 decisions of two state supreme courts, one in California and one in Texas, have challenged the legitimacy of property taxation for public education. By removing financing from the local citizenry, sovereignty over the schools shifts either to the states or to the federal government. Property tax revolts are easier to sustain than other forms, given the power of the federal government to raise taxes through monetary debasement. This is an argument in favor of the local property tax, but only in comparison to a confiscatory, graduated federal income tax and the right to tax through the monetization of debt, a monopolistic right which the federal government jealously guards.

No proposal for tax reform, given the insatiable lust for new revenues by all levels of government today, is valid unless it is a proposal to substitute a new tax for an older one. No proposal should be given a moment's thought that calls for the addition of another tax, however "rational" it may appear. The only way to reform the system is to oppose all new tax schemes that do not replace the old ones. The rules to follow are clear enough: reduce taxes at all levels, decentralize taxation sovereignty, make them less arbitrary, and force them to conform to the biblical means of taxation, i.e., the non-graduated income tax and the head tax, applied to all citizens. The only exceptions should be those who may not (or should not) exercise the right to vote: the criminal, the indigent, and the minor. If a man claims the right to exercise political sovereignty, then he must face the demands of sovereignty over him by his fellow citizens. No man should exercise the franchise at any level of government unless he pays taxes, equally applicable to all other voters, at that level. Any suggestion that the right to vote should be separated from the duty of paying taxes spells the death of the right of private property. Ireton, Cromwell's son-in-law, stated this clearly in his answer to the Leveller, Col. Rainsborough, in the 1647 Putney Debates.[17] So did Karl Marx:

> . . . the state as a state abolishes *private property* (i.e., man decrees by *political* means the *abolition* of private property) when

17. The Putney Debates are reproduced in A. S. P. Woodhouse, *Puritanism and Liberty* (London: Dent, 1938). Ireton stated clearly that strangers without permanent interests in the community should not be given the vote. "And if we shall go to take away this, we shall plainly go to take away all property and interest that any man hath either in land by inheritance, or in estate by possession, or in anything else. . . ." *Ibid.*, p. 53. Cf. Robert S. Paul, *The Lord Protector* (Grand Rapids: Eerdmans, 1955), chap. 7.

> it abolishes the *property qualification* for electors and representatives. . . . Is not private property ideally abolished when the non-owner comes to legislate for the owner of property? The *property qualification* is the last *political* form in which property is recognized.[18]

Admittedly, Marx's prophecy has not been entirely borne out in American experience. We have a wide franchise, but the drift into socialism was retarded in the nineteenth century and has accelerated drastically only since the 1930's. We have had serious State intervention for a century, as Prof. D. T. Armentano's book, *The Myths of Antitrust* (1972), shows so clearly, but not full socialism. There are reasons for this. We have been, until quite recently, an optimistic, future-oriented people—an inheritance from first-generation Puritanism and Great Awakening postmillennial theology[19] Furthermore, this future orientation has given the American middle classes and even some of the lower class groups—class here being defined in terms of income—an upper class perspective, emphasizing thrift, personal responsibility, and the legitimacy of one's work.[20] Prof. Aaron Director's "law" has also been in effect: "Public expenditures are made for the primary benefit of the middle classes, and financed with taxes which are borne in considerable part by the poor and rich."[21] Then, too, large numbers of poor people refuse to vote, as apathy, illiteracy, and ignorance take their toll. But as the middle classes have become infected with guilt feelings, philosophies of wealth redistribution, and a lower-class present-orientation, we have witnessed the advent of socialistic programs, just as Marx and McCaulay predicted in the mid-nineteenth century.[22] Ideas have consequences. We cannot halt the march into socialism's institutional irresponsibility simply by linking the fanchise to taxpaying, even if such a move were politically possible. But it would certainly help.

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18. Karl Marx, "On the Jewish Question" (1843), in T. B. Bottomore (ed.), *Karl Marx: Early Writings* (New York: McGraw-Hill, 1964), pp. 11-12.
19. On the postmillennial impulse in Puritanism, see Iain Murray, *The Puritan Hope* (London: Banner of Truth Trust, 1971); cf. Gary North, *Puritan Economic Thought: Winthrop to Franklin* (forthcoming, 1973). On the Great Awakening, see Alan Heimert, *Religion and the American Mind* (Cambridge, Mass.: Harvard University Press, 1966).
20. Cf. Edward Banfield, *The Unheavenly City* (Boston: Little, Brown, 1970).
21. Paraphrased by George Stigler, "Director's Law of Public Income Redistribution," *Journal of Law and Economics*, XIII (April, 1971), p. 1.
22. McCaulay to H. S. Randall, May 23, 1857: G. Otto Trevelyan, *The Life and Letters of Lord McCaulay* (New York: Harper & Bros., 1875, II, 408-410.

Chapter XXVIII

OWNERSHIP: FREE BUT NOT CHEAP

[One of the recommendations which is offered concerning a means of legitimate Christian social action is the establishment of Christian labor unions. This is almost a theological dogma among Dutch immigrants, who look back fondly to the mid-nineteenth-century political activities of Groen van Prinsterer and Abraham Kuyper at the end of the century. If this is to be strictly a voluntary association, it would be harmless enough, and possibly even helpful in reducing the impersonality of factory production. But to give this advice in a nation which has compulsory labor union legislation like the Wagner Act of 1935 is nothing less than suicidal. Such a recommendation stems from either ignorance or a radical economic philosophy that is at odds with the biblical view of personal responsibility and godly stewardship. Hopefully, the following essay will explain the fallacies of arguments in favor of compulsory trade unions, whether "Christian" or more consistently pagan.]

Ownership of the means of production is not a privilege, but a social liability. Capitalists and landowners are compelled to employ their property for the best possible satisfaction of the consumers. If they are slow and inept in the performance of their duties, they are penalized by losses. If they do not learn the lesson and do not reform their conduct of affairs, they lose their wealth. No investment is safe forever. He who does not use his property in serving the consumers in the most efficient way is doomed to failure. There is no room left for people who would like to enjoy their fortunes in idleness and thoughtlessness.

Ludwig von Mises[1]

There is no more fundamental question in the field of political economy than that of the ownership of property. Marx, no less than Adam Smith, saw this clearly. Invariably, the question of ownership must raise the question of sovereignty. It also raises the question of stewardship.

The roots of Western civilization extend back to the Hebrews.

1. Ludwig von Mises, *Human Action* (3rd ed.; Chicago: Regnery, 1966), pp. 311-312.

The message of the law and the prophets of the Old Testament returned again and again to the issue of ultimate sovereignty. The message was clear enough: God is sovereign, and not man. God is Lord of all, not any human institution. All earthly, human sovereignty is therefore derivative and limited. The concept of sovereignty was a fundamental theological inheritance of Christianity, and it was precisely this doctrine that brought the early church into a direct, extended, and ultimately triumphant confrontation with the Roman Empire and its doctrine of the "genius" of the emperor—a muted assertion of divinity which later became open deification.[2]

If full sovereignty belongs to God exclusively, then the ultimate ownership of the earth's resources must belong to God. This was basic to the Hebrews' structure of political economy (Ps. 50:14). Christians were informed that all good gifts come straight from God's merciful hand (James 1:17). To affirm this, however, is not, by definition, to solve the related question of derivative sovereignty and ownership. The difficulties of pinpointing the loci of earthly limited sovereignties have beset Christian social theorists from the start. Is the church sovereign, or the State? If Adam had original title to the fruits of the earth, should ownership be collective or private now that men are fallen from grace? Is the example of common ownership (Acts 4:32) binding on all Christians at all times, or is the affirmation of the rights of private property (Acts 5:4) the basic guideline? The early church struggled with these questions, and the answers ranged from a more forthright recommendation of communism by Ambrose to the more moderate position of Clement of Alexandria and Augustine.[3] The debates went on just as heatedly in the scholastic period, and the Roman Catholic Church still has room for both William F. Buckley and Father Groppi, which indicates that the questions of sovereignty and ownership are still unanswered in contemporary Christian literature.

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2. Cf. R. J. Rushdoony, *Foundations of Social Order: Studies in the Creeds and Councils of the Early Church* (Nutley, N. J.: The Craig Press, 1968); Ethelbert Stauffer, *Christ and the Caesars* (Philadelphia: Westminster Press, 1955). On the idea of "genius," see Rushdoony, *Chalcedon Report*, No. 78 (Feb., 1972), 23365 Balmoral, Canoga Park, Calif. 91304. On the intellectual collapse of the ancient world, see Charles Cochrane, *Christianity and Classical Culture* (New York: Oxford University Press, 1940).

3. Cf. Arthur O. Lovejoy, "The Communism of St. Ambrose," *Journal of the History of Ideas*, III (1942), pp. 448-469. Clement of Alexandria, The Instructor, III:6, in *Ante-Nicene Fathers* (Grand Rapids, Mich.: Eerdmans, [1880]) II, 279 ff.; *Who Is the Rich Man That Shall Be Saved?*, Book XIV, in *A-NF*, vol. II. On Augustine, see Herbert A. Deane, *The Political and Social Ideas of St. Augustine* (New York: Columbia University Press, 1963), p. 105 ff. For a general survey, see Charles F. Aiken, "The Doctrine of the Fathers of the Church on the Right of Private Property," *Catholic World*, XCV (May, 1912), pp. 197-211.

The tendency of Protestant thinkers to allow secular economists to take the lead in handling such questions has been pronounced since the seventeenth century.[4] Even the New England Puritans, whose commitment to the idea of a revelational Old Testament holy commonwealth was striking in 1650, saw fit to abandon specific answers to concrete questions of political economy after 1676.[5] As a result, Protestant nations have tended to drift along economic lines laid out by one or another school of secular economics.

The advent of rationalist and outright anti-Christian philosophies shifted the language of the sovereignty issue, but not the difficulties. If God were removed from the day-to-day operation of the universe, then sovereignty would have to be found elsewhere. Who or what economic institution, in principle, possesses ultimate economic sovereignty? Is it the nation-state, the local political community, the individual citizen? To whom or what are individual men responsible for their economic decisions? Is a man responsible only to himself, or to a community as expressed in some political unit, or to a community as represented in a theoretically impersonal, unhampered market? Eighteenth-century rationalists—from Adam Smith to Jean Jacques Rousseau, from the Physiocrats to the Jacobins—attempted to discover where sovereignty lies, in principle, in human affairs, and their answers concerning the abstract locus of sovereignty determined the kind of society they hoped to attain through the use of political action.[6] Obviously, they arrived at very different answers.

Ownership involves responsibility. It therefore involves stewardship. Stewardship is an inescapable issue. If God is the owner of the universe, then we are stewards of God's property. If the State is the ultimate owner, then we are stewards of the State. If the community is the ultimate owner, then we are stewards solely of the community. In practice, we find ourselves stewards for more than one, if: (1) the ultimate sovereign delegates limited sovereignty to the others; or (2) if there is competition for full sovereignty operationally.

It is possible, of course, to imagine full sovereignty apart from

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4. Cf. William Letwin, *The Origins of Scientific Economics* (New York: Doubleday Anchor, 1965); R. H. Tawney, *Religion and the Rise of Capitalism* (New York: Mentor, [1926] 1954), chaps. 4, 5; Richard Schlatter, *The Social Ideas of Religious Leaders, 1660-1688* (London: Oxford University Press, 1940), pp. 221-226.

5. On the collapse of the operational specifics of the holy commonwealth idea in New England, see my study, *Puritan Economic Thought: Winthrop to Franklin* (forthcoming, 1973). Cf. Richard Morris, *Government and Labor in Early America* (New York: Columbia University Press, 1946), pp. 56 ff., 77.

6. Cf. Robert A. Nisbet, *Social Order and History* (New York: Oxford University Press, 1969), chap. 4; Louis I. Bredvold, *The Brave New World of the Enlightenment* (Ann Arbor: University of Michigan Press, 1961).

organized institutions possessing the right of legal compulsion. Sovereignty might be claimed strictly on the basis of conscience: voluntary tithing to a church, for example, or voluntary taxation by the State (as some market advocates have argued). As a rule, however, where we find any institution which claims sovereignty and receives support from a majority of the citizenry, we also find compulsion. In the United States, the classic example is the shift in sovereignty from State-established religious denominations, that once received tax funds to support their operations, to the government educational institutions. The public schools became the institutionalized churches of the local communities, and recent court decisions indicate that they are about to become national churches.[7] Those who officially denied that church and State ought to be linked, in most cases simply substituted a new priesthood for the older one, i.e., the one which no longer could convince a majority of citizens of its claims of sovereignty.[8]

In modern, industrialized nations, the conflict over sovereignty is between the State and the market. In the Soviet Union, and presumably in the other iron curtain countries, the conflict is four-way: national state, planning region, market, and Communist Party.[9] (In Communist China, who knows? Hypothetically, Mao is the ultimate sovereign, but operationally the whole power structure is up for grabs. What happens when the sovereign dies is anybody's guess.) As Mises puts is, the control of scarce economic resources can be handled in two ways: profit management or bureaucratic management.[10] Both are legitimate in their own spheres, but in the modern economy, statist bureaucratic management seems to be triumphant everywhere we look.[11]

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7. The concept of the public schools as America's only established church is brought out forcefully in Sidney E. Mead's *The Lively Experiment* (New York: Harper & Row, 1963), chap. 4; cf. R. J. Rushdoony, *The Messianic Character of American Education* (Nutley, N. J.: The Craig Press, 1963).

8. The separation of church and state, it must be stressed, came to the American colonies quite early; Rhode Island accepted the principle from the beginning. But orthodox Connecticut was forced to adopt it as a result of the religious tumult caused by the Great Awakening of the mid-eighteenth century; it was brought into existence by Christians, not secularists or the tiny handful of Unitarians and Deists: Richard L. Bushman, *From Puritan to Yankee* (Cambridge, Mass.: Harvard University Press, 1967), chap. 13.

9. Paul Craig Roberts, "The Polycentric Soviet Economy," *The Journal of Law and Economics*, XII (April, 1969); Herbert S. Levine, "The Centralized Planning of Supply in Soviet Industry" (1959), in Wayne A. Leeman (ed.), *Capitalism, Market Socialism, and Central Planning* (Boston: Houghton Mifflin, 1963); Gary North, "The Crisis in Soviet Economic Planning," *Modern Age*, XIV (Winter, 1969-70) [chap. 22, above].

10. Ludwig von Mises, *Bureaucracy* (New Rochelle, N. Y.: Arlington House, [1944] 1969).

11. Gary North, "Statist Bureaucracy in the Modern Economy," *The Freeman* (Jan., 1970) [see chap. 20, above].

Our universe operates in terms of the fact of economic scarcity. *At zero price*, there is greater demand for than supply of economic goods and services. (If there is an equality of demand and supply, or an excess of supply, the goods are not economic goods, and therefore they are not objects of human action.[12]) Those who possess skills or resources that are desired by the public at a price greater than zero must, by definition, act as stewards for those who are willing and able to purchase these desired products. No matter how secure his legal title to ownership, each owner must face the economic responsibilities of stewardship. This, in fact, is one of the miracles of market arrangements. The requirements of the many, considered as a collective unit, are met by the activities of individual men and women. The philosophical problem of the one and the many, which transforms itself into the problem of the collective and the individual, is answered in the realm of economics by the operation of the market. The fact that few men take the market seriously is indicative of the collapse of philosophical inquiry into this crucial intellectual problem over the last century.[13]

The so-called "mixed economy" is one of the means by which men attempt to avoid the implications of the market's solution. "We are neither socialists nor capitalists" is a rallying cry for contemporary economists, theologians, and "practical" businessmen. These people think that they are saying something quite profound and very modern when they promote such a slogan. What they are saying is in reality quite muddled—the product of a lack of serious thought. To say that you favor neither full collectivization nor full economic anarchy is not saying anything at all. No one in a position of political authority advocates full collectivization, as the survival of the Liberman reforms and the private farm plots in the Soviet Union ought to indicate. Pure anarchism, while it may find more vocal and intelligent advocates than pure collectivism, has always been a tiny intellectual stream in human history. So the "neither socialist nor capitalist" slogan is not relevant as a philosophically unique statement. Mises, as usual, has seen the emptiness of such slogans, and he calls our attention to the crucial contribution the market makes in solving the problem of stewardship:

> All attempts to abolish by a compromise the contrast between common property and private ownership in the means of produc-

12. Murray N. Rothbard, *Man, Economy and State* (Los Angeles: Nash, [1962] 1971), p. 4.

13. R. J. Rushdoony, *The One and the Many* (Nutley, N. J.: The Craig Press, 1971), surveys the history of this vitally important philosophical problem. He argues that modern philosophers prefer to avoid discussing the issue because they have been able to find no secular answer to it.

> tion are therefore mistaken. Ownership is always where the power to dispose resides. Therefore State Socialism and planned economies, which want to maintain private property in name and in law, but in fact, because they subordinate the power of disposing to State orders, want to socialize property, are socialist systems in the full sense. Private property exists only where the individual can deal with his private ownership in the means of production in the way he considers most advantageous. That in doing so he serves other members of society, because in the society based on division of labour everyone is the servant of all and all the masters of each, in no way alters the fact that he himself looks for the way in which he can best perform this service.[14]

Mixed economies do not stand still. They do not allocate resources and tasks according to permanent, fixed definitions. The mixed economy is a battleground for competing ideologies; without solid, concrete definitions of sphere sovereignty—rules that specifically limit, in principle, the operations of bureaucratic management and profit management—the idea of the mixed economy will remain an intellectual monstrosity and, in practice, a very poor means of getting things accomplished.

> It is not possible to compromise, either, by putting part of the means of production at the disposal of society and leaving the remainder to individuals. Such systems simply stand unconnected, side by side, and operate fully only within the space they occupy. Such mixture of social principles of organization must be considered senseless by everyone. No one can believe that the principle which he holds to be right should not be carried through to the end. Nor can anyone assert that one or the other of the systems proves the better only for certain groups of the means of production. Where people seem to be asserting this, they are really asserting that we must demand the one system at least for a group of the means of production or that it should be given at most for a group. Compromise is always only a momentary lull in the fight between the two principles, not the result of a logical thinking-out of the problem. Regarded from the stand-point of each side, half-measures are a temporary halt on the way to complete success.[15]

Is it really true that the market, as an impersonal mechanism, pressures individual citizens, in their role as economic actors, to satisfy the needs of their fellows? A brief analysis should help answer this question in the affirmative. Consider the occupation of the farmer. He owns land and tools. He possesses skills and specialized knowledge. The more productive he is, the more specialized his

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14. Mises, *Socialism* (New Haven, Conn.: Yale University Press, [1922] 1953), pp. 275-276.
15. *Ibid.*, p. 276.

labor and, presumably, his tools. These assets constitute his capital. The very fact of his legal ownership brings the problem of cost into the forefront: how much does it cost him to own his assets? The doctrine of alternative costs tells us that he must forfeit the use of all those economic goods and services that he could purchase if he were to sell or lease his capital (including his human capital). He has chosen to remain the owner of these particular assets, but he must forfeit all those assets that are lower on his scale of values, but that might be purchased if he divested himself of the ownership of his present scarce economic resources.

There is only one way in which his legal ownership, and therefore control, of these scarce economic resources would cost him nothing: if he has absolutely no other desires than to be exactly what he is, where he is, controlling just these economic resources and no others. This is the ultimate goal of economic perfection toward which men strive, of course, but it does not describe the conditions of real, acting men. But it is only under this assumption, that a man has no other alternative uses for his capital or the assets that could be gained in voluntary exchange, that zero opportunity costs would prevail. So long as men have unfulfilled desires for additional scarce economic resources, they will bear the burdens of opportunity costs. They must choose one goal or set of goals and not another; they must select the appropriate means of achieving their economic goals; they must exercise responsible choice.

"Every man has his price." Most of us believe this to be valid as a regulatory principle, despite the fact that we know that on some issues, at some points in time, some men could not be compelled by the whip or induced by the carrot to respond to the desires of other men. Men are always trying to improve their economic conditions. This means that they must bear the costs of change in a world of limited resources. Even a decision to remain inactive is a decision: one forfeits the benefits that change would have brought. In short, there is always a trade-off in economic choosing, even in decisions not to trade at all.

Any resource—human, animal, inanimate—which can command a price imposes costs on its owner. Each individual must use the resources under his authority in order to serve others, either through the mechanism of the market or the coercive power of the State. To the extent that the market is allowed to function as the sovereign authority over economic transactions, individual owners must attempt to meet the demands of other possessors of scarce economic resources, as registered on the market in terms of discrete prices. Hence, total human autonomy is inconceivable. Those who argue that the market involves anarchy are unaware of how the market operates. Economic actors must meet the demands of the public if they are to survive. The farmer in our original example is required to use his land, tools, brains, and skills more effectively than do his competitors. If he obstinately or ignorantly refuses to do this, he will lose control over his resources. Under the market economy, a man holds his goods as a steward for other men; he cannot hold his goods autonomously. Under the free market, *ownership is a social function.*

> The meaning of private property in the market society is radically different from what it is under a system of each household's autarky. Where each household is economically self-sufficient, the privately owned means of production exclusively serve the proprietor. He alone reaps all the benefits derived from their employment. In the market society the proprietors of capital and land can enjoy their property only by employing it for the satisfaction of other people's wants. They must serve the consumers in order to have any advantage from what is their own. The very fact that they own means of production forces them to submit to the wishes of the public. Ownership is an asset only for those who know how to employ it in the best possible way for the benefit of the consumers. It is a social function.[16]

Is this a denial of the free ownership of private property? Absolutely not; it is the necessary concomitant of such ownership. It is therefore a denial of the *gratuitous* ownership of property. Nothing is free from costs under a market economy—not lunches, not talents, not even dreams, for dreams must use up that highly valuable and irreplaceable scarce economic resource: *time.*

Men, in their decision to compete for access to some particular resource, bid up its price. By bidding up the price of an economic good, they impose higher and higher costs of ownership on the man holding legal, exclusive title to the good. These costs come in the form of opportunity costs. Since the scarce economic resource is now more valuable in the opinion of the public, it commands a higher price, and therefore the resources that the owner could gain access to by selling his title of exclusive control of the resource to someone else are continually increased. He pays a price, moment by moment, for his refusal to part with his property; if he retains title to one piece of property, he is thereby prevented from gaining access to other goods and services that his property could be exchanged for. In the immortal words of Kris Kristofferson, "Nothin' ain't worth nothin', but it's free." Precisely; and nothing is the only thing that is free, i.e., gratuitous. If something commands a price,

16. Mises, *Human Action*, pp. 683-684.

it is not gratuitously possessed. Free ownership may command very heavy costs. It is the right of free, exclusive control over property which makes the economic burden inescapable; the free market imposes responsibility with every grant of economic power.

The farmer who does not wish to sell his land, whether for sentimental reasons, or a fear of change, or a commitment to the ideals of rural life, or just to keep old Charlie Drackett from getting his dirty hands on the bottom forty, is thereby compelled to pay for his use of that land. He has to defend his possession of exclusive control, daily, in the marketplace. It is not his legal title that is in question; it is his economic ability to defend it against others who think they could use his property in order to better service the needs of the public. He does not have to defend it in the way that his great-grandfather did—shooting Indians or revenuers or Hatfields or McCoys—but by using it to satisfy the incessant demands of an unsentimental public. If he fails to do this, he suffers economic losses. He may have to dip into his life savings to keep his farm going. He may have to go deeper into debt. Finally, if he continues to fail to meet the public's demands for more food, cheaper food, better quality food (or even lower quality food, nutritionally, if that is what the public wants), his mortgage will be foreclosed. The bank will sell it, or the tax collector will sell it, to the highest bidder. The highest bidder is a middleman. He is acting on behalf of the public. He thinks he can use the land and other capital assets more efficiently than anyone else can. If he is wrong, the process will start over again. Private property is held in stewardship for the public.

Title to property is not held by "the public." Titles are held by individual owners. But the market combines the myriad discrete demands of many individuals and imposes costs on the possessors of all desired economic resources. No owner can resist the pressure of market demand without bearing these costs. Day after day, market pressures force all owners to ask themselves, "What's it worth to me to hold onto this?" The public responds, through the market, "You'll have to meet our price if you want to keep it." Day after day, all those who retain free title to a particular piece of property meet this price. They pay in the forfeited opportunities that might have been: the vacation, the new car, the shares of IBM, and silence from "the little woman" who wants to sell out. This is the law of survival in the free market. May the best (most efficient) man win.

During the English Reformation the problem of the justification of ownership came to a head with the confiscation of the property of the monasteries. "The Reformation theorists," writes Richard Schlatter, "failed to solve their first great problem. They were not able to work out a theory which would justify large-scale confiscation and at the same time mesh with their other ideas about the nature of private ownership and its rights. For a consistent theory they substituted an emotional attack."[17] They attacked clerics for their alleged misuse of wealth. But Sir Thomas More, the great Roman Catholic layman, answered this argument in *A Supplication of Souls.* If this is a valid premise for expropriation, he wrote, then there will be no end of expropriation. The king may use it against the church, but then the people will use it against the merchants (who bought the land from the king). Thus, concludes Schlatter, "The theorists of the Reformation could not answer More's argument without admitting that all ownership was contingent upon right use. But no property owner was willing to grant that that principle should be enforced by any authority in this world. The theoretical problem was left unsolved."[18]

The solution to this theoretical problem is found in the analysis of the operation of the free market. Yes, ownership does depend, economically, on proper use of resources. The legal title, however, does not rest on economic foundations but on historical or formal legal principles. It is the magnificent fusion of the right of free legal ownership and cost-bearing economic control of resources which the free-market commonwealth provides that overcomes the theoretical dilemma of medieval property theory. Laws against the confiscation of private property insure the smooth operation of the free market, and this in turn produces a system of economic organization which requires each owner of property to assume the costs associated with the control of property. Mises summarizes it quite well:

> Private property is a human device. It is not sacred. It came into existence in early ages of history, when people with their own power and by their own authority appropriated to themselves what had previously not been anybody's property. Again and again proprietors were robbed of their property by expropriation. The history of private property can be traced back to a point at which it originated out of acts which were certainly not legal. Virtually every owner is the direct or indirect legal successor of people who acquired ownership either by arbitrary appropriation of ownerless things or by violent spoliation of their predecessor.
>
> However, the fact that legal formalism can trace back every title either to arbitrary appropriation or to violent expropriation has no significance whatever for the conditions of a market society. Ownership in the market economy is no longer linked up with the remote origin of private property. Those events in a far-distant

17. Richard Schlatter, *Private Property: The History of an Idea* (New Brunswick, N. J.: Rutgers University Press, 1951), p. 81.
18. *Ibid.*, pp. 86-87.

> past, hidden in the darkness of primitive mankind's history, are no longer of any concern for our day. For in an unhampered market society the consumers daily decide anew who should own and how much he should own. The consumers allot control of the means of production to those who know how to use them best for the satisfaction of the most urgent wants of the consumers. Only in a legal and formalistic sense can the owners be considered the successors of appropriators and expropriators. In fact, they are mandataries of the consumers, bound by the operation of the market to serve the consumers best. Under capitalism, private property is the consummation of the self-determination of the consumers.[19]

The confusion in men's minds between the concept of free legal title and gratuitous ownership has led to numerous injustices in political and economic affairs. Mistakes in analysis at this point too often lead to cries of political intervention to right some supposed wrong. People want the State to enforce false analyses that seem, in the short run, to benefit some special-interest group.

Some men believe that free ownership is gratuitous, and that the deviation from such a hypothetical universe is the result of "exploitation." They do not comprehend that they must defend their ownership in the market, satisfying the demands of the public efficiently. An example of this kind of erroneous thinking can be found in the case of American farmers during the great depression of the 1930's. It was not uncommon for farmers to face the foreclosure of their mortgages by the local bank, or else by the solvent bank which had acquired the assets of the bankrupt rural bank. (Over 9,000 banks suspended payments in the years 1930-33, *not* counting banks that merged with others and those closed temporarily by the states or the federal government during "bank holidays."[20]) Sometimes tax foreclosures would occur. In any case, local farmers would occasionally attend the auction, and a group of them would surround or threaten potential bidders, especially if they were outsiders to the community. Violence, or the threat of violence, was used directly to reduce the price of the bids, thus lowering the particular farmer's costs in regaining title to his farm. The true costs of operating the farm were therefore artificially reduced, thereby lowering the owner's burden of responsibility to the public, as registered on the open market.

This, however, was too crude and direct a form of violence to be

19. Mises, *Human Action*, p. 683. Mises is wrong on one point: the idea of private property *is* sacred. It *is* ordained by God.

20. *Historical Statistics of the United States: Colonial Times to 1957* (Washington, D. C.: Bureau of the Census, 1960), p. 636 (explanation of statistics on p. 619).

used often, even when local law-enforcement authorities permitted it. Violence could be applied far more effectively through state legislatures and the United States Congress. In 1934 three acts were passed by the federal government, adding even further intervention into an already controlled farm market (e.g., the Farm Credit Act of 1933): the Farm Mortgage Refinancing Act, involving federally insured loans; the Farm Mortgage Foreclosure Act, extending the authority to the Land Bank Commissioner to enable him to make loans to farmers, allowing them to redeem their farm properties prior to foreclosure; the Frazier-Lemke Bankruptcy Act, allowing the farmer who had lost his farm through foreclosure to demand a "fair and reasonable" appraisal and to repurchase his property over a period of six years at one percent interest (interest rates were fairly low in the free market in these years, however). This last act was declared unconstitutional in 1935, but a similar act, shortening the repurchase time to three years, was upheld in 1936. In short, the coercive monopoly of legitimate power which belongs to civil government was applied in order to thwart the operation of the free market. Men successfully reduced the costs of ownership through collective violence or the threat of violence. Harold Underwood Faulkner, no supporter of the free market, has commented on the implications of these early policies of New Deal agriculture:

> A survey of the farm legislation passed during the five years 1933-1938 makes clear certain facts. First of all, "economic planning" was carried further with respect to agriculture than to any other economic interest. The government took upon itself the responsibility of attempting to determine both production and prices as well as maintaining soil resources and handling most of the credit resources of the farmers. In the second place, this program was carried out at the expense of the consumer. Agriculture was to be a favored industry, with the taxpayer and consumer paying the bill. This, of course, did not disturb the farmer; he insisted that agriculture was now merely receiving protection as industry had long received it through the protective tariff. Finally, it should be noted that the government entered so definitely into the program of financing agriculture that by 1937 its agencies held about half of the long-term agricultural paper of the country. This was indeed a big step from the *laissez-faire* policies of a quarter century earlier.[21]

Not only do men erroneously believe that free title to a piece of property ought to bring with it gratuitous ownership, but they also err in believing that the right to bid on another's property is, in

21. Harold Underwood Faulkner, *American Economic History* (5th ed.; New York: Harper & Bros., 1943), p. 656.

and of itself an exclusive possession of one bidder or one group of bidders. Such exclusive access involves a legal title, by definition. In other words, they think that their legal right to increase another's opportunity cost for retaining possession of his property is, in effect, their own gratuitously held prerogative—a titled right to exclusive control of one segment of the market. Trade unions, for example, call in the coercive power of the federal government (through the Wagner Act and the National Labor Relations Board) to defend their exclusive right to bid on a particular labor contract, utterly free from the outside competition from other workers who might be willing to work for less money. The members of such organizations assume that they have a legitimate right to hold a job (or gain access to one through the union) apart from the daily competition necessary to defend their presence in that particular occupation. They call in the State to create by fiat a title to that occupation by arbitrarily excluding others from bidding.

What members of a union do have title to is their ability to work. But members of such coercive structures think that because they have legitimate title to their labor they also should have legal title to an opportunity to exercise their talents in some specific occupation, apart from outside competition, thus forcing the employer's costs of operation higher than a free labor market would have permitted. They exclude other citizens who equally have title to their own labor, but who are not permitted to bid down the cost of hiring labor. By granting, by fiat intervention, titles of exclusive bidding rights to one group of laborers, the State effectively robs other men of their right to bid, and therefore of their right to exercise their personal talents.

By this confusion of the right to bid in the market and a title of exclusive access to that segment of the market, the State increases the employer's costs of operation, reduces the union member's opportunity costs (it does not cost him as much to retain his job, for outside competition for that job is eliminated, by State fiat), and it deprives non-union laborers of their right to exercise their particular callings before God and society. A man's legitimate right to bargain for his job, continuously (or whenever his labor contract is subject to renewal), is transformed by State fiat and legalized coercion, into his right to avoid continuous bargaining. A three-way bargaining structure—employer, union member, and non-union member—becomes, through the threat of State violence, a two-way bargaining structure, as the non-union member is driven to accept other employment which he would not have chosen voluntarily. An exclusive title—a property right, in other words—is created by State fiat, where only a right to bargain in an open market had existed previously.

Trade union members are not alone in this confusion, unfortunately. Many, many businessmen involve themselves in precisely the same error. They use the interference of State violence to keep outsiders away from the bargaining table. A three-way structure should exist: the consumer, the American producer, and the foreign producer. Instead, the American businessman seeks to make the structure a two-way arrangement: the consumer and only the American producer. Like the labor union member, he seeks to transform a right to bid in the market into an exclusive title of entry into the market. The usual means for this kind of operation is the tariff or the import quota. In principle it is identical to the activity of the State-supported trade union. Ironically, many businessmen who derive great personal satisfaction from castigating the "immoral" trade unions involve themselves in the same "immorality." The game is the same: State "protection" from outside interference—the exclusiveness of a legal title to private property. Instead of a legal title to dispose of their assets and skills as they see fit, in open competition, subject to the imposition of the burdens of the responsibilities of ownership, businessmen want title to an exclusive right to dispose of their assets, apart from competition, apart from the full burdens (costs) of responsible ownership. Only the intervention of the State can grant such an escape from responsibility, so they call for the intervention of the State. Men simply like to enjoy the fruits of ownership apart from the responsibilities of ownership. They give up some of their freedom (or their neighbor's freedom) in order to escape from responsibility. They call for the creation of legal titles where none could exist on a free market.

Conclusion

On the one hand, the owner of an exclusive title—a property right—cannot escape the costs of ownership and the concomitant obligation to act as a steward of his goods for the public's benefit. He cannot escape so long as political intervention into the market does not occur. The fruits of ownership are not separated from the burdens of ownership. On the other hand, those who seek to make a bargain cannot, apart from State coercion or private violence, transform the right to dispose of one's own property (talents) into an exclusive title to dispose of that property on a specific market apart from entry by other property owners who wish to bargain with their property. Titles of ownership refer to the control of property and skills by the owner; they do not refer to reciprocal relationships of exchange, where two owners seek to dispose of their property in a mutually acceptable manner. In fact, if exclusive titles are granted respecting the reciprocal human relationships, the rights of control over one's own assets are thereby diminished. The title to property, which involves the right of voluntary disposal of that property, is compromised when the State interferes in the market in which men seek to dispose of their property. By granting titles of exclusive access to certain markets, the State thereby revokes some of the rights of ownership. The rights of ownership involve both the right to bid and the right to be bid against. Compromise either of the last two rights, and you have compromised the original rights of ownership.

The *right to be bid against* is the provision of the legal structure which allows individuals in the marketplace to have the costs of ownership imposed on themselves and all other owners. Each time any group gets the State to protect it against the economic bidding of the public, it thereby reduces the efficiency of the market as well as the members' own responsibility to bear the full costs of ownership. The overall wealth and overall freedom of the community are simultaneously reduced, because without efficiency wealth is reduced, and without responsibility freedom is reduced. If men would remain free, they must demand that they and their neighbors retain the *right of responsibility.* They must resist the attempts of men who would seek to escape both freedom and responsibility by lowering their competition from other participants in the market. Ownership is free, but not cheap. The same is true of freedom.

Chapter XXIX

TARIFF WAR, LIBERTARIAN STYLE

[We come now to the economic issue that separates the economists from the special interest pleaders. There are a lot of supposedly free market capitalists who shout the praises of open competition, but when the chips are really down, they call for the intervention of the monopolistic, coercive State to keep Americans from trading with other Free World countries. Competition among Americans, but not between American companies and foreign companies: here is the cry of the tariff advocates. The fact that less than 5% of our economy is directly involved in foreign trade never phases these enthusiasts: free trade is "destroying" the other 95% of the American economy! Somehow, the principles of capitalism operate only within national boundaries. Somehow the intervention of the State will "protect" Americans. Henry Hazlitt's classic little book, Economics in One Lesson, *so completely destroys the arguments of the tariff supporters that there is nothing left of their position; still they keep coming. For two centuries their position has been intellectually bankrupt; still they keep coming. Tariffs hurt all consumers except those on the public dole of tariff intervention, e.g., the "infant industries" such as steel or textiles. Yet the advocates say that all Americans are "protected." The logic of economics cannot seem to penetrate otherwise rational minds.*

This fact bothered me for many years. How could men use the arguments of the free market against "those dirty commies" and "those dirty fascists" and still argue for tariffs? Were they simply corrupt men, arguing to keep their suppliers competitive but their competition screened out? I have finally come to a conclusion which professional economists will reject as utter superstition. The apparently indomitable, though economically erroneous, arguments favoring tariffs are a part of God's overall curse of the Tower of Babel (Gen. 11). As He divided the language of the rebellious, unified culture, as He scattered them over the face of the earth, so He may have implanted a basic hostility to economic unification through free trade into the minds of most people, at least for this present era. It keeps men divided. Long-term economic ignorance is in some way a part of His restraint of rebellious secular cultures. In short, the arguments favoring *tariffs have a similar function in God's universe as the lying prophets He sent before Israel as the curse of the nation (Ezek. 14). He may be deliberately blinding men's eyes (cf. Isa. 6:9 ff.; Matt. 13:10 ff.). I may be seeing too much of God's hand in the failure of economists to convince men of a simple, basic fact of economic reality, but the thought has comforted me at those times when "conservatives" have tried to tell me how much they appreciate free enterprise, and how much we need tariffs against Japanese imports. When His kingdom arrives, on earth and in time, those arguments will finally cease. Free trade will come, but perhaps only in those days when wars cease.*]

"Common sense economics" is a phrase used to describe the economic reasoning of the proverbial man in the street. In many instances, this knowledge may rest on principles that are essentially correct. For example, we have that old truism that there are no free lunches. If some of our professional experts in the field of governmental fiscal policy were to face the reality of this truth, they might learn that even skilled application of policies of monetary inflation cannot alleviate the basic economic limitations placed on mankind.[1] Such policies can make things worse, of course, but they are powerless to do more than redistribute the products of industry, while simultaneously redistributing power in the direction of the State's bureaucratic functionaries.[2] On the other hand, not all of the widely held economic beliefs are even remotely correct; some of these convictions are held in inverse proportion to their validity. The tariff question is one of these.

The heart of the contradictory thinking concerning tariffs is in the statement, "I favor open competition, but. . . ." Being human, men often will appeal to the State to protect their monopolistic position on the market. They secretly favor security over freedom. The State steps in to honor the requests of certain special interest groups—which invariably proclaim their cause in the name of the general welfare clause of the Constitution—and establishes several kinds of restrictions on trade.

Fair trade laws are one example. They are remnants of the old medieval conception of the so-called "just price," in that both approaches are founded on the idea that there is some underlying objective value in all articles offered for sale. Selling price should not deviate from this "intrinsic" value.[3] Monopolistic trade union

1. Cf. Gary North, *Marx's Religion of Revolution* (Nutley, N. J.: The Craig Press, 1968), pp. 56-57.
2. Bertrand de Jouvenal, *The Ethics of Redistribution* (New York: Cambridge University Press, 1951), pp. 72-73.
3. Gary North, "The Fallacy of 'Intrinsic Value,'" *The Freeman* (June, 1969) [chap. 7, above].

laws are analogous to the medieval guild system; they are based in turn upon restrictions on the free entry of nonunion laborers into the labor market.

Tariffs, trade union monopolies, and fair trade laws are all praised as being safeguards against "cutthroat" competition, i.e., competition that would enable consumers to purchase the goods they want at a cheaper price—a price which endangers the less efficient producers who must charge more in order to remain in business. The thing which most people tend to overlook in the slogan of "cutthroat competition" is that the person whose throat is slashed most deeply is the solitary consumer who has no monopolistic organization to improve his position in relation to those favored by statist intervention.

People are remarkably schizophrenic in their attitudes toward competition. Monopolies of the supply of labor are acceptable to most Americans; business monopolies are somehow evil. In both cases, the monopolies are the product of the State in the market, but the public will not take a consistent position with regard to both. The fact that both kinds operate in order to improve the economic position of a limited special interest group at the expense of the consumers is ignored. Business monopolies are damned no matter what they do. If they raise prices, it is called *gouging;* if they cut prices, it is *cutthroat competition;* if they stabilize prices, it is clearly a case of collusion *restraining free competition.* All forms may be prosecuted. No firm is safe.

The State's policies of inflation tend to centralize production in the hands of those firms that are closest to the newly created money—defense industries, space-oriented industries, and those in heavy debt to the fractional reserve banking system. It is not surprising that we should witness a rising tide of corporate mergers during a period of heavy inflationary pressures, as has been the case during the 1960's in the United States. Yet, with regard to business firms (but not labor unions) the courts are able to take action against almost any firm which is successfully competing on the market.

As Dr. Richard Bernhard has pointed out, "What is becoming illegal under federal law in the United States is monopolizing—as the law now defines monopolizing; and, since this is now considered a crime, it is possible that perfectly legitimate business actions by one firm may, if they 'inadvertently' lead to monopoly power, put a firm in jeopardy of the law."[4] Thus, we see a rational economic re-

4. Richard C. Bernhard, "English Law and American Law on Monopolies and Restraints of Trade," *The Journal of Law and Economics* (1960), III, 142. Our tax structure also favors conglommerates.

sponse on the part of business firms—consolidation for the sake of efficiency on an increasingly inflationary market—prosecuted by the State which has created those very inflationary pressures. There is an inconsistency somewhere.

Tariffs Are Taxes

A tariff is a special kind of tax. It is a tax paid by importers for the right to offer foreign products for sale on a domestic market. Indirectly, however, the tax is borne by a whole host of people, and these people are seldom even aware that they are paying the tax.

First, let us consider those in the United States. One group affected adversely by a tariff is that made up of consumers who actually purchase some foreign product. They pay a higher price than would have been the case had no duty been imposed on the importer. Another consumer group is the one which buys an American product at a high price which is protected by the tariff. Were there no tariff, the domestic firms would be forced either to lower their prices or to shift to some line of production in which they could compete successfully. Then there is the nonconsumer group which would have entered the market had the lower prices been in effect; their form of the "tax" is simply the inability to enjoy the use of products which might have been available to them had the State not intervened in international trade.

Others besides the consumers pay. The importer who might have been able to offer cheaper products, or more of the products, if there had been no tariff, is also hurt. His business is restricted, and he reaps fewer profits. All those connected with imports are harmed. Yet, so are exporters. They find that foreign governments tend to impose retaliatory tariffs on our products going abroad. Even if those governments do not, foreigners have fewer dollars to spend on our products, because we have purchased fewer of theirs.

Two groups are obviously aided. The inefficient domestic producer is the recipient of an indirect government subsidy, so he reaps at least short-run benefits. The other group is the State itself; it has increased its power, and it has increased its revenue. (It is conceivable to imagine a case where higher revenues in the long run result from lower tariffs, since more volume would be involved, so we might better speak of short-run increases of revenue.) We could also speak of a psychological benefit provided for all those who erroneously believe that protective tariffs actually protect them, but this is a benefit based on ignorance, and I hesitate to count it as a positive effect.

A *second* consideration should be those who are hurt abroad, although we seldom look at those aspects of tariffs. Both foreign importers and exporters are hurt, for the same reasons. The fewer foreign goods we Americans buy, the fewer dollars they have to spend on American goods and services. This, in turn, damages the position of foreign consumers, who must restrict purchases of goods which they otherwise might afford. This leaves them at the mercy of their own less efficient producers, who will not face so much competition from the Americans, since the availability of foreign exchange (U. S. dollars) is more restricted.

The tariff, in short, penalizes the efficient on both sides of the border, and it subsidizes the inefficient. If we were to find a better way of providing "foreign aid" to other countries, we might provide them with our goods (which they want) by purchasing their goods (which we want). That would be a noninflationary type of aid which would benefit both sides, rather than our present system which encourages bullies in our government and creates resentment abroad.

What about our vital industries, especially our wartime industries? If they are driven out of business by cheaper foreign goods, what will we do if we go to war and find our trading patterns disrupted? Where will we find the skilled craftsmen?

There is some validity to this question, but it is difficult to measure the validity in a direct fashion. It is true that certain skills, such as watchmaking, might be unavailable in the initial stages of a war. There are few apprentice programs available in the United States in some fields. Nevertheless, if there really is a need for such services, would it not be better to subsidize these talents directly? If we must impose some form of tax subsidy, is it not always preferable to have the costs fully visible, so that benefits might be calculated more efficiently?

A tariff is a tax, but few people ever grasp this fact. Thus, they are less willing to challenge the tax, re-examine it periodically, or at least see what it is costing. Indirect taxes are psychologically less painful, but the price paid for the anesthetic of invisibility is the inability of men to see how the State is growing at their expense. What Tocqueville referred to as the "Bland Leviathan"—a steadily, imperceptibly expanding State—thrives on invisible and indirect taxes like inflation, tariffs, and monthly withdrawals from paychecks.[5] It ought to be a basic libertarian position to discover alternative kinds of tax programs, in an effort to reduce the economic burden of the State by making the full extent of taxation more obvious.

One advantage of the direct subsidy to protected industries is that

5. Robert Schuettinger, "Tocqueville and the Bland Leviathan," *The Freeman* (January, 1962).

such subsidies would not normally result in trade wars. When one nation sees its products discriminated against by another State, it is more apt to retaliate directly. It threatens to raise tariffs against the offending country's products unless the first country's tariffs are reduced. If there is no response, pressures arise within the threatening country's State bureaus to enforce the threat. That, it is argued, will frighten other nations which might be considering similar moves. So the tariff war is born. The beneficiaries are the inefficient on both sides of the border and the State bureaucrats; the losers are all those involved in trade and all consumers who would have liked to purchase their goods at lower prices. This kind of war is therefore especially pernicious: it penalizes the productive and subsidizes the unproductive.

There are many reasons why these wars get started. During periods of inflation, certain countries wish to keep their domestic currencies from going abroad. These currencies, if they have international acceptability, are grounded in gold or in reserve currencies theoretically redeemable in gold. Foreign central banks can ask for repayment, and the inflating nations can be put into extreme financial embarrassment when too many of these claims are presented at one time. So they try to restrict purchases of foreign goods by their domestic populations. Tariffs are one way of accomplishing this end. Tariffs, in short, prevent international "bank runs," at least for limited periods of time.

Another cause is the fear of State bureaucrats during times of recession or depression that domestic industries will not be favored when domestic populations buy from abroad. This was the case under the infant neomerchantile philosophies so popular in the 1930's.[6] The depression was accompanied by a wave of tariff hikes in most of the Western nations, with reduced efficiency and economic autarky as a direct result. Domestic manufacturers cry for protection from foreign producers. What they are crying for with equal intensity is protection from the voluntary decisions of their own nation's domestic purchasers; it takes two parties to make a trade, and protection from one is equally protection from the other.

The effect of tariff wars is reduced efficiency through a restriction of international trade. Adam Smith, in the opening pages of *Wealth of Nations,* presents his now famous argument that the division of labor is limited by the size of the market. Reduce the size of the market, and you reduce the extent of the division of labor. The cry

6. "The interests which, in times of prosperity, find it hard to enlist support for their conspiracies to rob the public of the advantages of cheapness and the division of labor, find a much more sympathetic hearing." Lionel Robbins, *The Great Depression* (London: Macmillan, 1934), p. 65.

for protection should be seen for what it is: a cry for a reduction in efficiency.

In a country like the United States, where less than 5 percent of our national income stems from foreign trade, the cry is especially ludicrous. We hurt the other nations, whose proportion of international trade to national income is much higher (West Germany, Japan), without really aiding very many of our own producers. But there are so few vocal interest groups representing those who benefit from freer trade, while those who have a stake in the intervention of the State make certain that their lobbyists are heard in Washington. The scapegoat of "unfair foreign competion" may be small, but being small, it is at least easy to sacrifice.

The Balance of Trade

In precapitalist days, economists believed that nations could experience permanent "favorable" balances of trade. A favorable balance was defined as one where you sold more goods abroad than you imported, thus adding to the national gold stock. Wealth was defined primarily in terms of gold (a position which, even if fallacious, makes more sense than the contemporary inclination to define wealth in terms of indebtedness). Prior to the publication of *Wealth of Nations* (1776), the philosopher, David Hume, disposed of the mercantilist errors concerning the balance of trade. His essays helped to convert Adam Smith to the philosophy of classical liberalism. Hume's essay "Of the Balance of Trade," was published in 1752 in his *Political Discourses;* it established him as the founder of modern international trade theory.

The early arguments for free trade still stand today. Hume focused on the first one, which is designated in modern economic terminology as the *price rate effect.* As the exported goods flow out of a nation, specie flows in. Goods become more scarce as money becomes more plentiful. Prices therefore tend to rise. The converse takes place in the foreign country: its specie goes out as goods come in, thus causing prices to fall. Foreign buyers will then begin to reduce their imports in order to buy on the new cheaper home markets; simultaneously, consumers in the first nation will now begin to export specie and import foreign goods. A long-run equilibrium of trade is the result.

A second argument is possible, the *income effect.* Export industries profit during the years of heavy exports. This sector of the economy is now in a position to affect domestic production, as its share of national income rises. It will be able to outbid even those foreign purchasers which it had previously supplied with goods.

Last, we have the *exchange rate effect.* If we can imagine a world trading community in which we have free floating exchange rates on the international currency markets (which most governments hesitate to permit), we can see the process more easily. In order to purchase domestic goods, foreigners must have a supply of the exporting nation's domestic currency. As demand for the goods continues, the supply of available currency drops lower. Foreigners competitively bid up the price of the exporting nation's currency, so that it costs more to obtain the currency necessary to buy the goods. This will discourage some of the foreign buyers, who will turn to their own markets. Where we find fixed exchange rates, the same process exists, but under different circumstances. Either black markets in foreign currencies will be established, or else some kind of quota restrictions will be placed on the availability of the sought-after currency, as demand rises for exchange. Foreigners will simply not be able to obtain all the currency they want at the official price. Thus, what we witness is an equilibriating process of the exchange of goods; there can be no long-run imbalance of trade. No nation can continue to export more than it imports forever.

Tariff War, Libertarian Style

When some foreign State decides to place restrictions on the importation of goods from another country, what should be the response of that latter country's economic administrators? Their goal is to make their nation's goods attractive to foreign purchasers. They should want to see the international division of labor maintained, adding to the material prosperity of all involved. If this is the goal, then policies that will keep the trade barriers at low levels should be adopted. Instead, there is the tendency to adopt retaliatory tariff barriers, thus stifling even further the flow of goods. This is done as a "warning" to other nations.

If the 1930's are anything like representative years of such warnings, then we should beware of conventional tariff wars. In those years a snowballing effect was produced, as each nation tried to "out-warn" its neighbor in an attempt to gain favorable trade positions with all others. The result was the serious weakening of the international specialization of labor and its productivity. At a time when people wanted cheaper goods, they imposed trade restrictions which forced prices upward and production downward.[7] Professor Mises' old dictum held true: when a State tries to improve economic conditions by tampering with the free market, it usually

7. Wilhelm Roepke, *International Economic Disintegration* (London: Hodge, 1942), chap. 3.

succeeds in accomplishing precisely the results which it sought to avoid (or *officially* sought to avoid, at any rate).

The best policy for "retaliation" would be to *drop* all tariff barriers in response. A number of things would result from such action. For one thing, it would encourage the importation of the goods produced by the offending country. Then the three effects described earlier would go into operation. The offending nation would find that its domestic price level would rise, and that its citizens would be in a position to buy more foreign goods (including the goods of the discriminated country). What would be done with the currency or credits in the hands of citizens of the high tariff nation? They could not spend it at home. If we, as the injured party, continued to make it easy for our citizens to buy their goods, we would provide them with lots of paper money which could be most easily used to buy our goods in return. We would gain the use of the consumer goods produced abroad, and we would be losing only money. We would be getting the best possible goods for our money, so the consumer cannot complain; if we had imposed retaliatory tariffs, consumers would have had to settle for domestically produced goods of a less desirable nature (since the voluntary consumption patterns are restricted by the imposition of a tariff). Our prices would tend to go down making our goods more competitive on the international markets.

The tariff is a self-defeating device. As American dollars came into the high tariff nation, they could be exchanged for our gold. But this would tend to increase the rate of inflation in that country, as the gold reserves would most likely serve as the foundation for an expansion of the domestic money supply. Domestic prices would climb, and the citizens would attempt to circumvent the tariffs in various ways. Black markets in foreign currencies and goods are established; foreign goods are purchased in spite of tariff barriers; pressures for freer trade can arise, especially if the discriminated nation has wisely refused to turn to retaliation in the traditional way.

The statist tariff war is irrational. It argues that because one's citizens are injured by one restriction on foreign trade, they can be aided by further restrictions on foreign trade. It is a contemporary manifestation of the old cliché, "He cut off his nose to spite his face." It is time that we accept the implications of David Hume's two-hundred-year-old arguments. The best way to overcome restrictions on trade, it would seem, is to establish policies that encourage people to trade more.

PART IV

ANTINOMIANISM

Chapter XXX

SOCIAL ANTINOMIANISM

[*Antinomianism—the denial of the validity of the concrete application of Old Testament law in this era—has infected modern Christianity to such an extent that virtually no Christian seminary even teaches a single course in it. Anglo-Israelite sects do pay attention to biblical law, which is, I believe, the reason that Garner Ted Armstrong's "The World Tomorrow" has such a huge radio audience and why he is more interesting than any orthodox Christian broadcasting today. He can comment successfully on the collapse of modern culture because he has concrete alternatives to offer.*

Social antinomianism makes itself manifest in many ways. In the Reformed Protestant circles the Dutch Calvinist movement associated with the name Herman Dooyeweerd is increasingly influential in this regard. Always searching for the "true Christian attitude," the radical young neo-Dooyeweerdians proclaim almost complete freedom from the restraining hand of concrete biblical law. Thus, attitude is substituted for obedience to revealed law. The non-Dooyeweerdian churchmen seem unable to refute the radicals precisely because they hold a similar, though less rigorous, antinomian philosophy. Their instincts may be conservative, but their operating presuppositions do not allow them to challenge successfully the young radicals. The leaders of the neo-Dooyeweerdians, located primarily at the Free University of Amsterdam and the Institute for Christian Studies in Toronto, combine a preference for government intervention and orthodox Christian language. The following article criticizes this combination. Troost's answer appeared in the same issue (Oct., 1967) of the International Reformed Bulletin. *It did not convince me.*]

In the issue of the *International Reformed Bulletin* for Jan./April, 1966, an article written by A. Troost appeared, "Property Rights and the Eighth Commandment." Troost, the article informs us, is a professor of social ethics at the Free University of Amsterdam, and as such he seems to be representative of an increasingly large number of Dutch Reformed scholars who claim to be building upon the foundation laid down by Herman Dooyeweerd. It is my belief that the basic implications of Troost's essay are ultimately antinomian, and for this reason it deserves an extended analysis.

The problem which faces the Christian scholar in the area of social philosophy is a very great one: he must make an attempt to outline policies for social reconstruction that are in accord with the Biblical framework, and at the same time he must make use of a vast quantity of scholarship which has been produced by non-Christian thinkers. In other words, he must acknowledge that common grace has enlightened the unregenerate scholar to the extent that some of his endeavors may be useful to the Christian, but at the same time the Christian must sift and choose from this scholarship in the light of Reformed, Biblical standards. Clearly, it is not a simple task, and some errors are bound to creep into the work of even the most careful Reformed thinker. Yet part of the heritage of the Reformation is the rejection of perfectionism, and the fact that some errors are inevitable does not relieve us of the task of working out the implications of our Christian position.

The Bible, in short, is absolutely fundamental in this work of social criticism. Without it, the Christian is left without a basic frame of reference by which he can evaluate the various proposals for social change. Bearing this in mind, the reader may be able to understand my hostile reaction to Troost's starting point: "As we saw in section 12, the Bible does not provide us with data, points of departure or premises from which to draw logical conclusions relevant to modern society's socio-economic problems, including property relations" (p. 32). The question immediately arises: By what standard are we to evaluate the validity of any particular political or social proposal? If, as Christians, we cannot approach the special revelation presented in the Bible in the hope of finding our standards for social action, then where are we to go? It is Troost's position (and the position of many of his fellow Calvinist scholars) that the Bible gives us no data, no concrete recommendations, by which we can judge political programs; the task of ushering in the Kingdom of God is apparently to be accomplished without the guidelines of special, concrete revelation.

Nevertheless, Troost can assert that "The message of the Bible reveals something to us!" What is it which the Bible reveals? It gives us the story of the coming kingdom, of "the re-establishment of all things, to the total reconciliation, liberation and renewal of life by the person and work of Jesus Christ through his cross and resurrection." Even more than this, "The cross and the resurrection promise to our practice of property relations a complete liberation from the powerful grip of the sins of injustice and lovelessness" (p. 32).

Apparently, there *are* standards of "injustice and lovelessness." What are they, the Christian must ask, and where do we find them? So far, all that we know is that the Bible cannot provide them, at least not in the socio-economic realm. Troost reaches an impasse at this point. He has proclaimed a vague pietism in the name of Reformed scholarship. Unless he can find concrete standards of judgment that are somehow self-evident and eternally valid apart from the Bible, he leaves us without any basis for decision-making.

In spite of the fact that he has eliminated the Bible from the realm of social affairs, he now refers back to the book of Acts: "These first Christians did not abolish property, nor yet the means of production (e.g., landed estates). No, they put ownership and property rights back into the place where they belong, back into their proper function. 'Not a man of them claimed any of his possessions as his own, but everything was held in common' (Acts 4:32) . . ." (p. 33). Two preliminary observations should be made with regard to the interpretation of this passage. First, the decision to enter into such common ownership was voluntary, and that anyone was permitted to hold his private property out of the common stock (Acts 5:4). Peter, in other words, proclaimed the right of private ownership as a perfectly legitimate Christian practice. Second, it is also relevant that the Christians in Jerusalem were expecting the fulfilment of the prophecy of the destruction of Jerusalem (Luke 21:20 ff.), and any application of the early church's practice of common ownership should be interpreted in this light. In times of social catastrophe (and in times of the confiscation of property by the State), it may be a wise decision for Christians to hold some common property, especially property which is mobile and easily hidden. But is it a general law?

The real issue, however, goes much deeper than either of these two criticisms. Troost argues from this passage in the following manner: "Thus did the practice of this church confirm the preaching of the gospel with signs and powers. Property relations were set free from their neutral self-willed self-assertion and employed for loving service of God and neighbor" (p. 33). Now what are we to conclude from all of this? The Bible, Troost has argued, does not give us any "data, points of departure or premises from which to draw logical conclusions relevant to modern society's socio-economic problems, including property relations." Nevertheless, we are now told that the early Christians "put ownership and property rights back in the place where they belong," and Troost obviously expects us to take this example seriously. But on his grounds—on the presuppositions upon which he began his analysis—why should we pay any attention to what the early church did? Troost wants us to make an application of the church's practice in today's world, but why should we, if the Bible is not relevant to present-day economic and social problems? Does he mean that we should create a society in which property is held in common (socialism) and yet at the same time believe that we are not living under socialism (since property, he says, was not "abolished")? The whole argument is vague, but it appears that this is Troost's conclusion. If it is not, then I do not understand what he is talking about.

He refers to the fact that the early church "did not abolish property, nor yet the means of production (e.g., landed estates)." Private property was preserved in the sense that it was not sold to the State, true enough. They sold some of their fixed assets to non-Christians and deposited the wealth in the common treasury. They also gave some of their other goods directly to the Christian community. But this means that in order to follow their example in our day, we must sell our goods to unbelievers, thus making ourselves perpetual wage-earners and salaried laborers. It means that as private individuals, we can no longer own fixed capital goods like land and especially machinery. We are to become, in other words, a sort of huge Christian cooperative movement, at best employed by each other, but more probably employed by the unregenerate world. And if we are not to draw such conclusions, then why did Troost bring up the subject in the first place? Either it is a concrete example to be followed or else the whole incident is irrelevant. Again, we can admit that under social conditions comparable to those faced by the early church, something like this might be necessary, but as a prescription for all eternity it seems silly, especially in light of the fact that Peter did say that a total contribution to the common treasury was not required. When Troost does not think that the Bible provides us with concrete data concerning economic affairs, it does not seem logical to bring up the matter at all. If he means simply that Christians should, on occasion, be willing to give up some of their private wealth to the Christian community, then he has not said very much.

Troost then mentions the fact that "the New Testament is not socially revolutionary" in the eyes of some Christians. He says that the New Testament, at least on its surface, "does not radically condemn the situation in which its authors preached and wrote" (p. 33). It even accepted slavery as an institution, as Paul's epistle to Philemon indicates. Troost realizes that the New Testament is, in this practical sense, profoundly conservative—it did not attack directly the social fabric of Roman society. This disturbs him, and therefore he returns to his old theme: "It would, however, be entirely at variance with the spirit and intention of the gospel, with the Message, if from the above we were logically to draw up socio-economic conclusions which would then have to be applied in practical politics. Not a few Christians perpetuate in this way an *economic* and *political conservatism.* The same goes for progressivist-socialistic conclusions from biblical 'data' . . ." (p. 34). Common property in Acts 4:32 is somehow relevant today; conservative elements in the Bible are not. He reasserts himself once again: "The biblical message of the kingdom of God does not *directly* address itself to the betterment of human society which includes, among other things, property relations. But, to be sure, it does indeed affect them!" To be sure of *what? How* does it affect them? In his answer, Troost arrives at a position of total antinomian mysticism: "In order to exercise our property rights in everyday life in the right manner, and to handle our possessions before the face of God in a way pleasing to him, nothing less is required than the merciful intervention of God, from above, through the Holy Ghost. Unless regenerated, common sense will change nothing. Renewal must come from the Top down; it will not come up by itself from the bottom. Our natural reason can achieve nothing here" (p .34).

Consider what Troost is saying. The Bible, he has said, does not provide any concrete data—no applicable kind of special revelation—in the area of economic and political affairs. Yet he is also saying that "Our natural reason can achieve nothing here." Not only is there no special revelation in social affairs, there is no general revelation on which we can rely. And so we must sit quietly and wait for the mystical intervention of the Holy Spirit to guide us in all of our private community decisions; God has seen fit to leave us without any concrete standards in such matters. This, I am compelled to conclude is antinomianism. It is strangely like the mystical brand of Christianity that is called Penielism. I am unable to see how it is even remotely Reformed.

This does not mean that Troost has no recommendations for the contemporary world. Naturally, he does not derive them from the Bible, and apparently the "common sense" of the unregenerate world has given him no aid. In fact, he does not specify any source for his recommendations. Nevertheless, he is able to conclude that "It is part of our *religion* to engage whole-heartedly in the battle for a just distribution of income (nationally, but also internationally, through foreign aid), for just property relations, and for a just economic order. It is part of our religion because we are called to it by Him who gave his life for this world . . ." (p. 35). Unfortunately, he does not specify which sphere of life is involved here. Does he mean merely that the church should give private charity (a teaching made explicit by the Scriptures), or does he mean that as Christians we are obligated to promote the political projects of land redistribution and foreign aid sponsored by our civil governments? If he means simply private charity, then he is saying nothing new. If he means public projects of political coercion, then he must show us on what grounds such a conclusion is justified; certainly the Bible teaches no such doctrine, and even if it did, Troost does not accept the Bible's testimony in such matters.

He goes on: "The World Council of Churches itself is sponsoring a study on a large scale dealing with society and social problems, in connection with which a book is to appear entitled *The Theological Foundation of a Christian Social Ethics.* Unfortunately it appears to me that historic Reformation Christianity ('Calvinism') is not making much of a contribution to this study and reflection" (p. 36). Naturally, the World Council can engage in such activities; it is a humanistic organization which is not bound to work within the framework of limits established by the Bible. It has no difficulty in producing all the humanistic, secular documents that it wants to distribute. But given the presuppositions which Troost holds, that the Bible offers no concrete social proposals, and that "common sense" of the fallen world is equally helpless in aiding the thinker in his work, how could we possibly hope that "historic Reformation Christianity" would make any contribution? Troost denies the only two foundations upon which such contributions can be made: concrete special revelation on the one hand, or natural revelation granted by God in common grace. We are left without standards. Troost offers us a classic example of the truth proclaimed by the late C. S. Lewis: we castrate our men and then bid them to be fruitful.

Finally, we are told this truth by Troost: "However, it is plain, inevitable, and imperative that in our society more and more limitations be put on private property rights by social law and economic law, both in the domain of public law as well as in private community law such as internal industrial law" (p. 39). There is *absolutely nothing* in Troost's essay that would indicate that such a requirement is either plain, inevitable, or imperative. Troost does not seem to be aware of the fact that he is inserting conclusions made by modern, secular socialists and Marxists into his essay, and that he is doing it in the name of "historic Reformation Christianity." It is possible that he does not mean socialistic legislation is increasingly imperative, although his language certainly implies this. The reason that it is not possible to say for certain what Troost means is that he stops at this point and refuses to elaborate! He gives no examples of concrete cases, and he offers us nothing to show where such limitations on private property are needed.

Troost has attempted to destroy the biblical foundations of conservatism (and, he meekly asserts, of socialism), yet he then proceeds to make what is inescapably a highly socialistic pronouncement in the name of Christianity. Worst of all, he then uses the "disclaimer" approach, so that he will not have to elaborate: he modestly says that he is unqualified to go on. "Here the theologian must stop, for we landed in the thick of concrete socio-economic problems. As a *theologian* I was allowed to go beyond sections 16 and 18 where I tried to sketch the task of the *church* and her *preaching* with respect to our subject. But now I too have come to the limit of my own competence; beyond this I am not qualified to speak" (p. 41). Troost is a professor of social ethics at the Free University of Amsterdam, and in this capacity he has denied the possibility of concrete biblical revelation in aiding us in our task of Christian social reconstruction. Yet beyond this, he says, he is not qualified to speak. He adds, of course, that we must promote some undefined "economic justice," increase foreign aid, and put even more restrictions on private property in an already frighteningly socialistic era. It is as if a professor of engineering were to tell his Dutch students that the dikes should be blown up, but in regard to any substitute for them, he protests that he is not qualified to speak.

He criticizes conservatives thusly: "One of the causes giving the church a conservative mentality—and the same holds for Christian social organizations—can be that her members keep on thinking in traditional, outdated concepts" (p. 39). But in destroying the only possible foundation for concrete Christian alternatives to such "outdated concepts" (i.e., concrete biblical revelation), Troost leaves the Christian world with nothing but mysticism. He offers us in the name of historic Reformed Christianity the whole amorphous, planless, interventionist ethic of the Dutch economy. It is a decision made on the basis of his personal preference, yet proclaimed in the name of God's kingdom; he denies, nevertheless, that those pronouncements can be based upon the special revelation of the Bible. In short, Troost's conception of Christian social ethics is without foundation, either from the point of view of the Scriptures (which he rejects as a source of data concerning social affairs) or from the point of view of modern economics and politics (which is based upon the logic of the unregenerate world, which he also rejects). Yet because this system is totally without a foundation, we are expected to accept it as "modern" and "Christian," and not part of some "traditional, outdated" world. Because it is without roots, we Christians are to call it our own.

The magnificent theoretical criticism of secular thought which Dooyeweerd began has been eroded away. Dooyeweerd cut the intellectual foundations from under all secular thinkers, but Troost and other Calvinists who stand with Troost are unwilling to replace their secular foundations with concrete scriptural examples and requirements. They have left themselves without any foundations at all. But even this is not quite true, since men cannot think or speak without some foundation. Troost and those who support him have brought back the teachings of the secular world (and, more specifically, the socialist secular world) in the name of Dooyeweerd. That such antinomianism in the social spheres can be considered a part of the Reformed heritage testifies to the loss of the Puritan vision in the modern world.

Chapter XXXI

STEWARDSHIP, INVESTMENT, USURY: FINANCING THE KINGDOM OF GOD

[*The following chapter appears in Rousas John Rushdoony's study,* The Institutes of Biblical Law, *as an appendix. It is concerned with the biblical laws concerning debt and lending, focusing on the differences between a business loan for profit, involving shared risks, and a charity loan to a fellow Christian. It also distinguishes between a charity loan for some emergency and a simple consumer loan for a new television set or other household convenience. Two forms of Christian stewardship are also noted: the stewardship of the vocation and the stewardship of voluntary charity. Such biblical distinctions as these must be acknowledged and respected if Christian economics is to become a reality. Anything less is merely baptized secularism. It is a sad situation when we find that ministers and church denominations refuse to face up to the importance of these biblical categories.*]

But, I hope, it will never be complained, That the Ministers of the Gospel, are by any Sinful Silence, accessory to the Transgressions, which *Deny* the *Doctrine of God our Saviour*, among a People, that are under peculiar Obligations to *Adorn* it. It shall not be complained, That the Ministers do so confine themselves to Preach *Faith* and *Repentance*, that the People forget *Moral Honesty*, thro' any Default of ours.

Cotton Mather
***Fair Dealing between Debtor and Creditor* (1716)**

The question of usury is one which has challenged the exegetical skills of Christian commentators for two thousand years. A considerable proportion of the works devoted to the practical application of Christian principles—casuistry—was devoted to this very issue, from the 12th century through the 17th. Before the Christian era, Hebrew leaders and prophets struggled against the constant pressure of usury. Pre-exilic and post-exilic prophets warned their contemporaries against their continual violations of the Mosaic ordinances regarding lending. Jeremiah, in condemning his brethren for their persecution of him, pointed to his innocence of the crime of usury: "I have neither lent on usury, nor men have lent to me on usury; yet every one of them doth curse me" (Jer. 15:10b). Nehemiah warned the rulers of his day not to extort any usurious returns from God's people, for they were oppressed by the ravages of famine and the costs of redeeming their brethren out of bondage (Neh. 5:1-13). The rulers were wise enough to heed his warning, going so far as to return both principal and interest to the debtors (5:11-12). It is unlikely that this example will be followed in our modern, enlightened Christian circles.

Usury, Interest, and Charity

The prohibition against usury as it appears in the Mosaic law refers specifically to the brother who is poor: "If thou lend money to any of my people that is poor . . ." (Ex. 22:25); "And if thy brother be waxen poor . . ." (Lev. 25:35). It was legitimate to take a return above the sum lent from the religious stranger (Deut. 23:20). A tenth of this increase would therefore be tithed to God, thereby extracting from the unregenerate at least a portion of the tithe that all men owe to God. As a slave to sin, the stranger was not protected from the bondage imposed on a poor man by every usurious contract. But to the poor Hebrew brother his lending brother was to show mercy; no increase of any kind beyond the original money or goods could be legitimately claimed by the creditor (Lev. 25:37).

Historically, these restrictions were not acknowledged as binding by the Hebrew commonwealth. The continual violations of all aspects of the Mosaic law brought condemnation on the nation. God had not left them without warning:

> He that hath not given forth upon usury, neither hath taken any increase, that hath withdrawn his hand from iniquity, hath executed true judgment between man and man, Hath walked in my statutes and hath kept my judgments, to deal truly; he is just, he shall surely live, saith the Lord God. . . . [He that] Hath given forth upon usury, and hath taken increase: shall he then live? he shall not live: he hath done all these abominations; he shall surely die; his blood shall be upon him (Ezek. 18:8-9, 13).

The definition of usury is precise Biblically: *any increase taken from the poor in return for having made a loan.* There is no Biblical evidence, nor have Christian casuists generally argued, that the prohibition restricted interest received on business loans, so long as the lender shared the risks of failure along with the borrower. This interpretation of the usury prohibition was basic to the expositions of medieval and early Protestant casuists.[1] By sharing in the risk of a profit-making business,

1. J. Gilchrist, *The Church and Economic Activity in the Middle Ages* (New York: St. Martin's, 1969), pp. 65 ff. Cf. John T. Noonan, *The Scholastic Analysis of Usury* (Cambridge, Mass.: Harvard University Press, 1957), pp. 40, 41, 46, 59, 136. As Noonan shows, the acceptance in the late 15th century by Roman Catholic theologians of the validity of the *contractus Trinus*—a partnership in which one partner bore all risks of failure and paid the other a fixed return

a lender has the right to participate in a portion of the returns. The problem for the casuists came only when the lender was guaranteed a return on his investment irrespective of the success or failure of the enterprise.[2]

The prohibition of usury, as it appears in the Bible, is simultaneously coupled with a requirement that godly men lend to all brethren in truly dire circumstances (Deut. 15:7 ff.). This requirement, if it were universally respected, would have a definite impact on the illicit, immoral usury market. People in emergencies would have access to more money and goods than they would have been able to gain access to had the requirement to lend never been given by God. Christians with extra funds are brought into the emergency loan market apart from an economic incentive. With more funds available, the demands of desperate borrowers can be met more readily. Thus, the prevailing rate of return on the usury market is forced lower: those receiving the charitable loans have no need to enter the usury market, and their presence does not therefore raise rates in that illicit market. They are not bidding up the usury rate because their needs are being met outside of that market.

It must be stressed, however, that the kind of emergency described by the relevant passages is a true emergency. It arises when a poor man has nothing left but his cloak, and even that may be legitimately

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on a loan, irrespective of failure or success of the enterprise—destroyed the medieval objections to usury. One of the defenders of this lattitudinarian contract was John Eck, a hireling of the German banking firm of Fuggers, and the most notable theological opponent of Martin Luther. It was against this liberalization of the usury prohibition that Luther reacted so vehemently. See Martin Luther, "Trade and Usury" (1524), in *Luther's Works* (Philadelphia: Muhlenberg Press, 1962), vol. 45, pp. 249-305. Noonan traces the liberalization of usury legislation in a concise essay, "The Amendment of Papal Teaching by Theologians," in (improbably) Charles E. Curran ed., *Contraception: Authority and Dissent* (New York: Herder & Herder, 1969), pp. 41-75. On the traditional, conservative, semi-medieval attitude of Calvinist thinkers, see Charles H. George, "English Calvinist Opinion on Usury, 1600-1640," *Journal of the History of Ideas*, XVIII (1957), 455-474. Richard Baxter, in his massive study, *A Christian Directory* (1673), began a loosening of the earlier prohibitions. He held to the Biblical position: the poor brother need not pay interest, but interest could be taken from someone who makes a profit on the borrowed funds. Baxter, *Chapters from A Christian Directory*, edited by Jeanette Tawney (London: Bell, 1925), pp. 119 ff., 130-131. As Richard Schlatter writes, "The divines of the Restoration had no revolutionary contribution to make to the discussion of borrowing and lending." Schlatter, *The Social Ideas of Religious Leaders, 1660–1688* (London: Oxford University Press, 1940), p. 217. Baxter's subtlety was lost on his contemporaries.

2. This, of course, was the kind of arrangement established by the *contractus trinus*. It is the essence of the modern banking contract: a fixed, guaranteed, compound rate of interest. It is impossible to guarantee such returns over long periods of time, since profits are not guaranteed in this world, and therefore such an insured rate of return is fraudulent. The bank will eventually go bankrupt, or else it will pay off in depreciated fiat currency. Cf. Gary North, "The Theology of the Exponential Curve," above, pp. 87-88. The quest for timeless security on earth leads to total insecurity.

demanded as collateral in the daytime (thus keeping the debtor from using the collateral to secure multiple loans). The emergency is a situation of desperation; godly men and women are not to indebt themselves for anything less than this. "Owe no man anything, but to love one another" is the binding rule for all non-emergency circumstances (Rom. 13:8a). *Charity* loans were required of affluent believers; *consumer* loans at no interest were not contemplated. No one was supposed to ask for them, so there was no requirement to provide them at zero return. It was assumed that consumer loans were products of a slave mentality. From the ethical slave—the stranger—it was legitimate to take interest. Those who did not regard themselves as slaves were (and are) expected to heed the words of Solomon: "The rich ruleth over the poor, and the borrower is servant to the lender" (Prov. 22:7).

Operationally, the rate of interest, like all prices, is a product of supply and demand. In a non-monetary economy, it would reflect the supply and demand for goods and services; the presence of money confuses the picture somewhat by adding another factor to the equation: the supply of and demand for money. The fact that these two aspects are present in the single rate of interest can lead to highly concrete practical problems, namely, the boom-bust cycle of inflation-depression.[3] For the purposes of this essay, it is not necessary to pursue this dualistic aspect of the interest rate. The problem here is simpler: Why is it that people expect to gain a return above the capital loaned, and why are others willing to pay it?

This highly theoretical problem baffled economists for centuries. Professional economists are not yet completely agreed on the subject, but in the last hundred years a general solution has appeared. A man can claim a rate of return on his money or goods loaned out for three reasons. *First*, because he forfeits the use of the money for a given period of time. This is the so-called *time-preference* factor, also called the originary rate of interest. The use of a good right now is more valuable to a person than the promise of the use of that good at a later time (assuming that tastes do not change, of course). Every rational person *discounts* the value of future economic goods. Men are mortal; they are subject to the burden of time. Each man places a premium on the use of his wealth over time; he will not voluntarily forfeit that use without compensation. His personal time-preference sets his discount rate for the enjoyment of future goods and services that his money

3. Ludwig von Mises, *Human Action* (New Haven, Conn.: Yale University Press, 1949), chap. 20. The revised edition of this work is presently published by Henry Regnery Co., Chicago. For an introduction to the literature supporting Mises' theory of the business cycle, see Gary North, "Repressed Depression," *The Freeman*, April, 1969 [chap. 6, above].

might buy immediately. That rate of discount sets the rate of interest that he will demand from someone who wants to borrow his money. Because money is more highly valued now than the same amount of future money is valued now (assuming a stable purchasing power for money), some men are willing to pay to get access to money now.

A future-oriented society will display a lower rate of interest. Such men do not value the present that much in terms of the future; as a result, the price spread between present money and future money is narrowed. Here is one possible avenue of investigation open for anyone interested in explaining the rapid rates of growth experienced in the past century by the West, and especially the Protestant West. A future-oriented culture produces lower rates of interest, making it easier for capitalist entrepreneurs to gain access to funds for economic development.[4]

The *second* component of the rate of interest is the *risk premium.* The lender knows that he may not get his money back. The borrower may go bankrupt, or he may run away with the loan. To compensate the lender for his risk—a factor which can be estimated with some accuracy by modern statistical techniques—he demands a payment above and beyond his time-preference return. Naturally, in a culture which honors the creditor's claim, the risk premium will be lower. Morality does influence the rate of interest. A society that takes seriously the Psalmist's warning with respect to both borrowing and lending will find a godly "easy money policy," and not a Keynesian, inflationary one: "The wicked borroweth, and payeth not again: but the righteous showeth mercy, and giveth" (37:21). The merciful lender, as we have already seen, helps to keep the illicit usury rate down, and the honest borrower in a business helps to keep the risk premium lower. Christian nations that are not seduced by antinomianism should produce a smaller black market for loans (emergency, usurious loans) and a lower interest rate for commercial loans.

The *third* factor is the *inflation premium.* A lender wants to be paid back in money that will purchase as many goods as the money he lent. In an inflationary society, the lender will add a new demand: enough money to compensate him for the expected fall in the value of the nation's circulating media. Again, if a society honors Isaiah's condemnation of debased precious metals (used by ancient kingdoms as money), and if it also honors the Mosaic law against multiple indebtedness (thus stifling the inflation produced by modern fractional reserve

4. On the distinction of "upper class" cultures from "lower class" cultures in terms of "future orientation" vs. "present-mindedness," see Edward C. Banfield, *The Unheavenly City* (Boston: Little, Brown, 1970).

banking), it will not experience much price inflation.[5] In fact, an expanding economy, given a relatively fixed money supply, will produce a gradually falling price level.[6] It could fall enough to lower the *money* rate of interest (though not the actual rate of interest in terms of purchasing power). A society could conceivably produce a negative money rate of interest if the value of the purchasing power of money were rising at a faster rate than the market's registered rate of time-preference plus the risk premium. If you could buy *more* with the money received in the future, you might need to ask only for an *equal* amount of paper money or coins as a return.[7]

With this as background to the theory of the interest rate, it should be easier to grasp the implications of the *charitable loan* that comes under the usury prohibition. The lender faces a sure loss on his loan. First, he bears the risks associated with loans to the impoverished, for he can ask no extra payment as a risk premium attached to the rate of interest. Second, he receives back goods in the future, but future goods are less valuable to a man than the same goods in the present. He therefore forfeits the use of his goods over time without any compensation. He receives back less-valuable goods, for he has lost the one thing that creatures cannot restore: *time*. Third, during inflationary times, he also forfeits the lost purchasing power if his loan is one in terms of paper money, as it would normally be. He therefore bears two, and possibly three, costs of the loan. That is the extent of his charity. He suffers a loss for the sake of his needy brother. This loss is required of him by God.

Stewardship, Investment, and Charity

The concept of Christian stewardship is a fundamental tenet of the Christian social order. The Bible declares that God is the sovereign owner of all His creation.[8] He delegated the responsibility for the

5. Currency debasement is prohibited by Isaiah 1:22; cf. Gary North, "The Sin of Debased Currency," *Christian Economics*, Oct. 31, 1967, p. 4. Fractional reserve banking is prohibited, since it is a special manifestation of multiple indebtedness—more debts outstanding than resources to meet those obligations on demand if all are presented simultaneously. Multiple indebtedness is prohibited by Ex. 22:25 ff.: the cloak taken as collateral by a lender cannot therefore be used by the borrower to obtain loans from other people.

6. Gary North, "Downward Price Flexibility and Economic Growth," *The Freeman*, May, 1971 [chap. 9 above]. Cf. Mises, *The Theory of Money and Credit* (New Haven, Conn.: Yale University Press, [1912] 1953) p. 417; F. A. Hayek, *Prices and Production* (London: Routledge & Kegan Paul, [1931] 1960), p. 105.

7. Governments are always inflating the money supply, so this is not a statement subject to historical verification in modern times. However, the rate of interest on almost risk-free federal bonds during the 1930's fell as low as one-half of one percent in the United States. With falling prices, increasing unemployment, failing businesses, money increased in purchasing power. Thus, the money rate of interest fell to almost zero. It was considered safer to buy a government bond than to hold cash by many investors.

8. Lev. 25:23; Ps. 24:1; 50:10-12; Hag. 2:8. Cf. Gustave Oehler, *Theology of the Old Testament* (Grand Rapids, Mich.: Zondervan, 1883), p. 235; Milton

care of the earth to Adam, the representative head of mankind (Gen. 1:28). Throughout the Bible man is cautioned to exercise dominion over the earth in terms of God's requirements; God's law-order is the means by which man is to bring the earth into subjection. Any deviation from this law-order involves man in rebellion against God and the destruction of God's property. The great enemy of God, Satan, is pictured in the parable of the tares as the one who violates the rules of planting in order to defy God and to thwart God's plan (Matt. 13:24 ff.). The parable of the husbandman who prepared his vineyard and then turned it over to servants who proved to be unfaithful thieves indicates the hostility of God against those who would violate His rights of ownership (Matt. 21:33 ff.). The faithful steward is he who treats God's universe with respect, causing it to flower and grow in productivity. He is the one who invests his Lord's money wisely, turning an honest profit, expanding the value of the goods entrusted to him (Matt. 25:14 ff.).[9] Yet he is also a man who should be merciful in his dealings with others, as God has been merciful to him. (Matt. 18:23 ff.).

Faithful stewardship therefore involves, at the minimum, the following: (1) a recognition of the sovereignty of God over His creation; (2) obedience to the law-order God has established for the governing of His creation; (3) the productive, fruitful administration of one's vocation or calling; (4) the recognition of the lawfulness of the tithe, in theory and practice; (5) the voluntary giving of alms on a selective, godly basis.[10] Stewardship can be summarized into two overarching principles: *calling* and *charity*. The first of the five aspects of stewardship—the recognition of the sovereignty of God—is the foundation of both the calling and charity.

Charity and calling are linked, and yet they are separate. The principle enunciated by Jesus, "unto whomsoever much is given, of him shall be much required," indicates the link (Luke 12:48b). God grants plenty to men, His vicegerents on earth, but He expects honesty and charity from them. Men are warned specifically against the great danger

G. Evans, "Biblical Teaching on the Righteous Acquisition of Property," *Biblical World*, XVII (1906), p. 277; Vernon Bartlet, "The Biblical and Early Christian Idea of Property," in Charles Gore, ed., *Property: Its Duties and Rights* (New York: Macmillan, 1915), p. 86 ff.

9. The word translated as "usury" by the early 17th-century translators ought to be rendered "interest" in Matt. 25:27, since it refers to a lawful business transaction rather than an emergency charity loan to paupers. The bias of the translators against all forms of interest is indicated by their selection of the prejudicial term "usury."

10. On the selective nature of Puritan almsgiving, see W. K. Jordan's crucially important study, *Philanthropy in England, 1480–1660* (London: George Allen & Unwin, 1959). Jordan writes: "The children of the poor were to be taught a trade and set to work; alms were to be raised by voluntary means in each parish for the support of the helpless poor; while casual alms, so typical of medieval piety, were now declared to be harmful and were carefully restricted" (p. 85).

of benefiting from the open hand of God only to forget the sovereign demands of the giver; destruction will be the result (Deut. 8:11 ff.). But the distinction between investment and usury stands as a reminder against the fusing of charity into the realm of the calling. One may not make a living through loans to needy brothers; such a living is an abomination in the sight of God. It is not the case, as one advocate of a totally laissez-faire free market has attempted to argue, that the best form of charity is a profit-making investment in capital which will create jobs.[11] To accept that premise the Christian would have to blur the God-given distinctions between business and voluntary charity. Business involves an economic return (or at least a potential for making a profit) to the investor; charity involves the transfer of scarce economic resources to another, with no thought of return (Matt. 10:8; Luke 6:35).

A man can hardly call himself a faithful steward if he seals off charity from business in an absolute manner. Businesses are supposed to earn profits if they are to be successful, as several parables of Jesus indicate. However, ruthless competition that is utterly devoid of mercy is also condemned in the parables. But the fact that a particular young ruler was told to sell all of his goods and give everything to the poor does not stand as the requirement for every steward. Nor does the example of the church at Jerusalem in Acts 4:32 prevail as the model for all churches. A man must be careful not to drown out the revelation of God in His word, listening only to the parables of profit or only to the examples of total poverty. He is responsible before God to respond to the leading of God's Spirit at different times and along each turn in life's path. We are warned to grow spiritually by means of earthly parables of economic stewardship. The fact that God may demand a man to give up all that he has does not imply that God is sanctioning the moral validity of continual economic losses. What God is saying is that one must not be morally ruthless in business, nor morally wasteful in charity. "Share the wealth" is a Biblical principle, and the normal means of this sharing is the tithe. The general principle is not "destroy all wealth" through universal, indiscriminate giving. In short, business is not charity, though it may be and should be merciful. Charity should be carefully administered in a "business-like" fashion—with honest accounting, budgeting, etc.—but it is not a business, i.e., not a profit-making economic endeavor. They are separate, sovereign realms. Their differences must be respected.

One important difference is in the very bureaucratic structure produced by each form of stewardship. Professor Mises has distinguished

11. F. A. Harper, "The Greatest Economic Charity," in Mary Sennholz, ed., *On Freedom and Free Enterprise* (Princeton: Van Nostrand, 1956), pp. 94-107.

two basic models of management. The first is the *business* form, the one geared to *profit and loss* statements. It will be characterized by a central entrepreneurial hierarchy that makes the basic decisions as to general goals of the corporation. These goals are transmitted to the lower ranks by professional managers who earn a salary, but who do not participate in the true economic profits. (Profits are the residuals left after all costs are met: taxes, salaries, interest, raw materials. It is a residual based on the accurate forecasting of formerly unknown events; superior forecasters of the future reap profits, while the less-efficient take losses.[12]) The lower ranks of the bureaucracy are left relatively free to do whatever turns a profit in each subdivision, within the general goals of the company. There is far more flexibility at the lower levels precisely because the magnitude of profit and loss is not rigidly fixed in advance. In contrast to this flexible, risk-oriented, free market management is the *government bureaucracy,* or the non-profit charity's bureaucratic structure. They are on *fixed allocations* determined by taxpayers or givers. These bureaucracies have far less flexible budgets, for they are financed from above. They do not make profits and they do not sustain losses, at least not in the sense of the profits and losses sustained by a firm in a competitive market. The only way to increase revenues is to get more money from the taxpayers or the donors. This kind of bureaucracy allows far less freedom to lower echelon bureaucrats to spend as they please; they must follow *carefully delineated budgets* that are fixed in advance. These men are less flexible than their free market counterparts because their budgets are centrally directed, far less flexible, and as a result, the men involved are not subject to the direct competition of the market.[13]

To a limited extent, the tax law structure of the United States acknowledges the validity of both Mises' analysis and the Biblical separation of business and charity. Non-profit corporations are supposed to be essentially charitable—educational, eleemosynary, service oriented, cultural, etc.—and employees are just that—salaried employees. They are paid in terms of services rendered to the functioning of the corporation. They are not allowed to receive all residuals after all costs are

12. The nature of profit under capitalism was first analyzed in a systematic manner in Frank H. Knight's classic study, *Risk, Uncertainty and Profit* (New York: Harper Torchbook, [1921], 1965). Cf. Mises, *Human Action,* pp. 286-297. Joseph Schumpeter, who studied economics with Mises under Böhm-Bawerk, emphasized the role of the entrepreneur as innovator: *The Theory of Economic Development* (New York: Oxford University Press, [1934] 1961), chap. 4. It should be clear that both accurate forecasting and meeting expected demand through efficient, innovative techniques are both a part of entrepreneurial profit-making activity.

13. Mises, *Bureaucracy* (New Rochelle, N. Y.: Arlington House, [1944] 1969). Cf. Gary North, "Statist Bureaucracy in the Modern Economy," *The Freeman,* Jan., 1970 [chap. 20 above].

met, and, for that reason, the civil government grants to these corporations the right to escape a very important operating cost: taxes. The taxable business, however, is allowed to keep profits for the owners, distributing these profits in any way the owners decide.[14] Charitable organizations pay for services rendered; profit and loss corporations try to gain for the owners as much profit as possible. Gains from the first are limited, ultimately, by civil law; gains from the second, except in the case of regulated monopolies or semi-monopolies, are not. The tax laws recognize a distinction between a *return for service* and a *return on an investment.* Charity is not business.

God's Institutional Monopoly

At this point it is mandatory to recognize another distinction. Just as stewardship encompasses both the calling and charity, so the concept of the Kingdom of God includes the work of the institutional church and the godly activity of Christian men in all other legitimate human institutions. This point was made clear by the great Dutch thinker, Abraham Kuyper, when he developed his concept of sphere sovereignty. The Roman Catholic Church is erroneous in equating the Kingdom of God with the institutional church; the kingdom is something far wider than the mere dispensing of the sacraments. It involves the work of Christians in all their various activities.[15]

A crucial question now appears. Is the institutional church primarily under the rules governing those aspects of the kingdom concerned with profit-making business, or is it more properly under the rules governing the charitable organization? The official answer of the churches has to be that the second alternative is the valid one. The business of the church is not the profit-and-loss statement; the business of the church is the spreading of the gospel, collective worship under godly discipline, and the administration of the sacraments. The concern of the institutional church is with spiritual income and economic giv-

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14. Were it not for the enforcement of the state-imposed limited liability laws, corporation owners would be far more responsible for the affairs of corporations. The "separation of ownership and control" which has bothered many scholars—James Burnham, A. A. Berle, Gardiner Means—would be far less likely. Cf. Rushdoony, *Politics of Guilt and Pity* (Nutley, N. J.: Craig Press, 1970), p. 254 ff. Schumpeter has argued that such separation of ownership and control in giant corporations has destroyed the older meaning of property and responsibility, thus helping to break the path into socialism: *Capitalism, Socialism and Democracy* (3rd ed.; New York: Harper Torchbook, [1950] 1962), p. 139 ff. He might better have argued that the weakening of personal responsibility implied and created by limited liability laws has led to the creation of giant companies with their hugh stock issues. The partnership of the closely held corporation would be the outcome of truly responsible ownership. People would not risk all their assets in huge, impersonal, and vaguely responsible corporations.

15. Kuyper, *Lectures on Calvinism* (Grand Rapids: Eerdmans, [1898] 1961); Henry R. Van Til, *The Calvinistic Concept of Culture* (Philadelphia: Presbyterian and Reformed, 1959).

ing; its concern, unlike the Christian business, is not with spiritual income through economic residuals.

Unlike the American fundamentalists' claim that "full-time Christian service" is limited to the affairs of the institutional church or its missionary appendages, the Calvinist recognizes the validity of all godly callings as full-time Christian service. But the principle of sphere sovereignty requires that we distinguish the nature of each calling in contrast to all others. That which is valid for the Christian businessman is not always valid for the church elder or seminary administrator. Simply because all godly callings are valid, we are not allowed to conclude that all of them are identical. They are governed by different rules, and their successes and failures are estimated by different standards.

If any example in the Bible stands out as the premier example, it is the account of Christ and the temple moneychangers. The moneychangers, as the name indicates, were in the business of foreign currency exchange. Part of the annual sacrifice requirements of the Mosaic law was the offering of a census payment of half a shekel of silver (Ex. 30:12-15). Jerusalem was flooded with visiting Hebrews from all over the Mediterranean during the passover, adding to an already diverse population (cf. Acts 2:5 ff.). Various coins from many lands would have to be converted to the proper offering, the shekel. The moneychangers performed this service, and as the hostility of Jesus indicates, they did so at a profit.

What was their crime? The gaining of profit from foreign exchange transactions is an old and respected profession. The most rigorous of the medieval commentators allowed banks to make profits from this service; this was considered banking's foremost legitimate function.[16] Why the overwhelming hostility of Jesus against them? The reason almost certainly lies in the location of their tables. They were set up in the outer court of the temple.[17] The presence of the temple added an obvious, unmistakable aura of holy sanctity to the men whose services were being offered there. The visiting Hebrews would not have to deal with gentile moneychangers on the outside. They could trust the men of the temple, or so they thought. An implicit, and in all likelihood an explicit, demand was being made by the rulers of the temple: the sacrifices required by God should be obtained from the moneychangers (and dove salesmen) inside the jurisdiction of the Lord's house. The moneychangers were reaping a monopoly return because of their close

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16. Raymond de Roover, *The Rise and Decline of the Medici Bank, 1397–1494* (New York: Norton, 1963), p. 10 ff.
17. Matthew Poole, *A Commentary on the Holy Bible* (London: Banner of Truth Trust, [1685] 1969), III, 98.

connection to the institutional church. They were not subject to the competitive pressures of a free market in money exchange. They were shielded by the name of God. By so using God's name they dishonored Him. Monopoly profits are not to be earned in this way.

We can only surmise that the rates of exchange were unfavorable in comparison to rates available outside the temple court. We can only acknowledge the fact that the power to reap monopoly economic returns is one which is unlikely to be ignored over long periods of time. Again, we can only surmise that the moneychangers turned a portion of their profits over to the temple authorities. It would seem reasonable that temple authorities would demand a cut of monopoly returns that had their origin in the very aura of the temple. It is possible that the moneychangers were even salaried employees of the temple. But whatever the concrete economic arrangements, Christ's words made their position in God's eyes quite clear: "It is written, My house shall be called the house of prayer; but ye have made it a den of thieves" (Matt. 21:13). The dove salesmen, the moneychangers, those who bought, those who sold: Jesus cast them all out of the court. Such economic transactions were an abomination. The house of God had its support in the tithes and offerings of His people; He did not sanction huckstering in His name as a means of increasing "holy" revenues.

The institutional church is the means of preaching the gospel, disciplining the saints, and administering the sacraments. It is quite openly a spiritual monopoly. It is *the* monopoly in men's affairs. Christ made it clear that this position of monopoly is not to be exploited by men for their own profit. Payment to God's ordained servants in the service of the institutional church is for services rendered. Economic returns to the church are not to be in terms of the principle made famous in Frank Norris' book, *The Octopus*: "All the traffic will bear." The institutional church is not a business—not a moneychanging business, not a bingo business, and not an insurance business. It is the house of prayer.

Men who come in the name of the Lord and who claim the prerogatives granted to His ordained must be scrupulously careful to distinguish their profit-making callings from their service callings. Paul was a tentmaker. He did not use his position as an apostle to reap monopoly returns from the brethren. He did not market his wares under the auspices of the local church, charging a price higher than the market price because he was ordained. He kept his trade because he desired to relieve the institutional church of the economic burden of supporting him, not because he intended to set up Apostolic Tents, Inc. (available only at your local church).

The institutional church and its related institutions possess legitimate, but limited, sovereignty. When this sovereignty—a monopoly grant from God—is transgressed, a violation of God's law-order occurs. The institutional church then becomes a destroyer, a thief. The institutional church is not a business. It is the house of prayer.

Christian Usury

With this as background, it is time to turn to that practice which is euphemistically known as the "Christian stewardship program." It has many facets, and many, many practitioners. It involves virtually every Protestant denomination. It involves mission societies, institutions of Christian learning, medical aid societies, and Christian charities. Almost any denominational magazine will contain, in any given issue, several appeals for loans of various kinds. There is one contemporary magazine, the official publication of a supposedly Reformed denomination of 250,000 members, that runs almost a dozen such advertisements every issue.

When I began to gather data on these "stewardship" programs, I sent out requests to various Protestant organizations for booklets, charts, or other information. The data poured in, and always by first class mail. Personal letters were sent, and every letter offered to supply further information on request. Then came the telephone calls and the personal visits by "stewardship" expediters. I had two such visits within a month, and I live in an isolated part of a town that is many miles from the offices of the men who came by to talk to me. In my first ten years as a Christian, I had one visit from a local church's elders. That was initiated by the request of the denomination's multimillionaire, who insisted that they visit me. I was not home at the time, and they never returned or phoned. But the interest that was shown to me when I inquired about "stewardship"! I was a man whose Christian soul needed the uplifting experience of true Christian fellowship! An 80-mile round trip was not too far to drive. One would almost be led to conclude that God was wrong—that we *can* serve God and mammon. It is almost as if God had said that He came that men might have profits, and that they might have them more abundantly. Indeed, here were men who were *really* involved in "full-time Christian service"!

What surprised me initially was the remarkable similarity of these programs. The tax laws apparently create this uniformity. Some of these programs use the very same pamphlet, but with their own names stamped or printed on the folder. They offer the prospective "steward" many ways of "giving." Here are a few of the titles of the brochures: *Faithful Stewardship Through Christian Investment* (World Vision); *Christian Living—Stewardship Giving, Inseparably Linked* (Christian and Missionary Alliance); *Effective Giving Through Gift Annuities* (Bible Study Hour). The grotesque link among "investment," "stewardship," and "giving" is so open, so incredibly blatant, that it should shock the sensibilities of all Christians. Obviously, it doesn't. A confusion of Biblical categories so thorough, so willful, and so profitable financially (in the short run), would be difficult to match. The supposedly conservative, orthodox denominations and ministries are right back in the Roaring Twenties world of Bruce Barton, where Jesus could be considered seriously as "The Founder of Modern Business."[18]

Usury, in its Biblical definition, involves the loaning of money to the needy brother and then demanding a repayment of principal plus interest. The question then arises as to the status of the institutional church; I assume that it has already been established that this institution is not to be regarded as a profit-making business. Therefore, to demand the payment of interest by a church for any kind of loan offered to it is a usurious demand. The hierarchy of the church is equally guilty, for the Bible makes it plain that it is immoral to enter into such a transaction, either as lender or borrower (Jer. 15:10b). The *institutional church* must be regarded as a *charitable ministry,* something to be supported by the tithes and offerings of its members. It is not comparable to a corporation. It is not to be financed through the sales pitches of hucksters who offer misleading hopes to elderly couples (as I intend to demonstrate), and who offer them usurious contracts, "guaranteed" annual returns for life, or any other of a multitude of schemes dreamed up by insurance companies and congressional tax committees.

Interest may be taken from businessmen who need to raise money to launch some hopefully profitable enterprise. Interest becomes (Biblically) usury when it is taken from charitable, legally non-profit firms that are not operating in a competitive market in order to *increase*

18. Bruce Barton, *The Man Nobody Knows* (New York: Grosset & Dunlap, 1924). This has been republished in *The Book and the Man Nobody Knows* (Indianapolis: Bobbs-Merrill, 1959). Condensed versions of the volume appeared in *Reader's Digest* in March and June of 1965! Barton's words are almost unbelievable today: "Surely no one will consider us lacking in reverence if we say that every one of the 'principles of modern salesmanship' on which business men pride themselves, are brilliantly exemplified in Jesus' walk and work" (Grosset & Dunlap edition, p. 104). Or again: "He would be a national advertiser today, I am sure, as he was the great advertiser of his own day" (p. 140). Barton's book was only one of a number of such studies. The most complete—perhaps three times as large—was *The Business Man of Syria,* by Charles Francis Stocking and William Wesley Totheroh (Chicago: Maestro Co., 1923), which went through at least five editions in the year of its publication, the year prior to the publication of *The Man Nobody Knows.* Forgotten today, it boggles the imagination. The chapter on John the Baptist is titled, "The Advance Agent Appears." The Sermon on the Mount: "The Business Charter Given"; and " 'Method & Secret' Revealed." But the perspective of the book, like Barton's, is liberal, reformist Protestantism.

revenues, but which are in fact *distributing* revenues in the name of God. Stewardship is undoubtedly involved in the support of the church and its appendages, but it is the *stewardship of charity* rather than the stewardship of a profitable calling. To transfer the concept of the *stewardship of business* to that of charity, thereby justifying usurious loan contracts, is nothing short of blasphemy. He who accepts such a loan is as guilty as he who offers it.

The request for loans to support the work of the church is legitimate in times of emergency, just as the appeal is valid for an impoverished individual. It is not legitimate otherwise. But an appeal for a loan at interest is always usurious, always immoral, and always under the curse of God, if it is made in terms of the need for charity. Men can shut their eyes and stop up their ears, but that is what the Bible affirms. There is no escape from the truth; God only delays the judgment.

The issue of the so-called "life-income contracts" is more difficult to assess, at least for the person who has not had some training in economic theory. Consider the booklet published by "Charitable Giving Publications" and distributed by a leading conservative seminary and the Bible Study Hour. It is written by Robert Sharpe; the seminary version is dated 1967, and the Bible Study Hour version is dated 1968. It presents the case for "gift annuities." These contracts involve the payment of a lump sum in cash; the institution uses these funds, and it pays the investor a stated annual return in dollars until he dies. On his death, the remaining money in the fund (if any) goes to the surviving husband or wife or else it goes to the institution, depending upon the type of contract signed. We are informed by the booklet:

> You accomplish two main purposes with a gift annuity.
>
> FIRST . . . You make a gift to a charity, an educational or other charitable organization. Such organizations must meet certain qualifications for your gift to offer you the tax advantages discussed later.
>
> Second . . . You are providing yourself with a regular and assured income.

Both statements are misleading. A gift is a present sacrifice made to a charity or a person without any thought of return. It is not the same, morally or legally, as a legacy after death (as any tax collector will be careful to explain). A gift involves the sacrifice of the living donor, not the sacrifice of his surviving relatives. That, at least, is the Biblical idea of a gift. An investment is not a gift, either. For example, an annuity may be taken out with a commercial insurance company, a fact admitted in the brochure. Is this to be regarded as a "gift" to Prudential or John Hancock? Is it not rather a form of risk-taking, with the insurance company betting that you will not outlive the actuarial average life expectancy for someone of your age group and sex? Is the company not betting that the accumulated interest on your money plus the principal will be greater, at your death, than the payments made to you during your lifetime?

If the contracts are the same, why does a person go to a church or a missionary organization to make provisions for his "lifetime income"? *Because the church comes to him in the name of the Lord.* The church calls his investment a gift, calls his risk-taking charitable stewardship, calls his usury commendable. A commercial insurance organization does not bear the name of Christ, and it must pay taxes on its profits. It is not really so competitive among the faithful as the church's insurance scheme is. Like the moneychangers, the church's insurance salesmen (and loan brokers) are "inside the temple court." The church possesses that crucial spiritual monopoly, and its administrators have learned that such a spiritual monopoly can be easily converted into a very successful (in the short run) economic monopoly.

Is this an exaggeration? Listen to the words of Mr. Stanley L. Bjornson, of the Christian and Missionary Alliance, in that organization's official pamphlet promoting the "Treasures Tomorrow" program:

> We call it "Treasures Tomorrow," adapted from Christ's injunction to "lay up for yourselves treasures in heaven." Of course, many financial plans offered by the Alliance provide income opportunities for the near future, others in years to come. *All, however, are investments in behalf of God's work* which he has promised to bless (italics in original).

Naturally, these organizations prefer an outright gift to an investment which requires them to repay something to the investor. But donors are not always able to meet the needs of the various organizations, so potential usurers in the audience must be encouraged to embark on a new, more immediately profitable path to "charitable giving." Ezekiel was no doubt right in his day to condemn such practices, but then he was "under law, not grace." We supposedly live in a new dispensation, as Mr. Bjornson indicates:

> The best gift possible, of course, is the outright gift which becomes immediately available for use; however, many Christians "yearn to give but need earnings to live." For them, income-giving gifts, annuities or trusts are preferable and beneficial. It is our sincere desire to serve all who wish to "lay up treasures in heaven" by giving and investing in the Lord's work today.[19]

Christians who play such games with language are laying up something in heaven, no doubt, and perhaps they will be skillful enough to convince

19. *Christian Living—Stewardship Giving, Inseparably Linked* (n.d.).

themselves (on earth) that the thing being stored up for them is a "treasure," but there will come a day of accounting. Whether their stores are treasures or not will be examined by fire (I Cor. 3:12 ff.).

So the pastors of the flock make usurers of the sheep. In order to gain funds for their "kingdom projects," the pastors have turned the house of prayer into a den of thieves—all for a good purpose, of course. The truth or falsity of the Bible's stand against usury is not even a topic for consideration. Men skilled in the most tortuous kind of detailed Biblical exegesis, men trained in the original Biblical languages, men who can spot a flaw in a creedal formulation in an instant, find themselves unconcerned with the practical issue of usury. That is the blight of antinomian pietism: precision in things narrowly theological, utter blindness in anything beyond the scholar's footnote. Its product is cultural impotence. The years of studied irrelevance catch up to a church; the pastors are no longer capable of applying Biblical norms even in the narrow realm of the institutional church. The standards of the world of high finance are assumed, *a priori*, to be eminently transferable to the world of the institutional church. If the tax authorities (once called *publicans*) grant to non-profit corporations certain tax advantages on annuity programs, that is assumed to sanction the practice in God's eyes. And indebtedness, like a narcotic, is very difficult to abandon once the practice is begun. Those lifetime annuities must be paid off in part by the financing of more lifetime annuities. That is the modern way. "Owe no man any thing, but to love one another" is disregarded; that was for first century Rome, not for modern times. We live in a new dispensation.

Inflation and Annuities

Risk is basic to all life. Nothing on earth is a "sure thing." Society has devised many institutions to predict the future and to spread risk, and the insurance company is the most notable of these institutions. A "no-risk contract" is a contradiction in terms: companies go bankrupt, disasters strike, people steal money and disappear, governments devalue currencies or freeze accounts in banks. There are low-risk investments, but never no-risk ones.

Consider the implications of the statement by Mr. Bjornson, in answer to the question, "What is a charitable gift annuity?":

> This is the transfer of money, securities or property to a charity in return for a *guaranteed income for life*. The amount of fixed income depends upon the donor's age at the time of the gift. In addition to certain tax benefits *the donor has the assurance of regular income, free from investment concern and economic fluctuations* (emphasis in original).

The World Vision organization is almost as blatant in its promises concerning safety of the "donor's" so-called "gift":

> An annuity provides a fixed income for life and makes it unnecessary to concern yourself with personal management of the transferred funds. Annuities offer financial security, and because of a saving on taxes, give you additional funds for the Lord's work.[20]

Ah, the wonders of risk-free living, giving, and investment! The mass-produced *Effective Giving Through [So and So's] Gift Annuities pamphlet* spells out the nature of the contract in glowing terms:

> 1. You have an income which you cannot outlive—it is for your lifetime, plus you are giving support to this organization.
>
> 2. You have an income which will never be reduced—it is set at the time you make the gift, and it cannot be changed.

Here is the financial world's answer to the perpetual motion machine. "An income which will never be reduced!" What a marvelous promise to some elderly couple. They lived through the depression, and like so many of their generation, that experience left permanent scars on them. They think of economic catastrophe in terms of collapsing prices and low pay. Europeans of their same generation know better. The more normal form of economic catastrophe is inflation, where pensions and savings accounts are wiped out by the depreciation of a nation's currency. But in America, the appeal is made to the terror that is available, and that terror is the absence of monetary income. So the *Effective Giving* pamphlet presents the reader with a totally meaningless economic statement: "Increasingly, the American economy is based on income rather than wealth." The sales pitch is then made for the safety of guaranteed income. The unsophisticated are encouraged to sign the irrevocable contract; their savings are permanently transferred, by law, to the organization, in return for a fixed money payment (annual, semi-annual, or quarterly).

One unstated premise underlies the promise of permanent income: *income in dollars is the economic equivalent to income in goods and services.* The assumption is made by the buyer of the contract—the so-called "donor"—that the purchasing power of money income will remain stable over the remainder of his lifetime. He is involved in a form of gambling, although the unsophisticated person may not be aware of this gamble. He is betting his savings on the huge gamble that there will be no more monetary inflation by the civil government, and therefore prices will remain stable or even fall. That gamble, since at least 1965, has been a very poor one. It is worse than poor; it is suicidal. From 1958 through 1968, the increase in the American

20. *Faithful Stewardship Through Christian Investments,* p. 4.

money supply exceeded 90 percent. Prices are rising at an annual rate of over six percent; this rate will climb much higher in the 1970's and 1980's. Only price and wage controls will call a halt to this *visible* increase in prices, and the controls will destroy many segments of our free market economy.[21] Inflation has become a way of life for Americans, both politically and economically.

Usury is a crime against God. Today Christians have become usurers in response to the appeals of their leaders. They are no doubt sinning in ignorance. The fact remains, however, that they are involved in rebellion against God's law-order, and there is judgment coming. The miracle of God's universe is its marvelous regularity; its lawfulness is beyond human comprehension.[22] Those who have purchased such usurious contracts have made an economically irrevocable decision. Their hopes are being eaten away by inflation. Their real income is steadily dropping, as value of money tumbles. The usurers are being destroyed by inflators. God will not be mocked.

The American Institute for Economic Research, a respected investment service, is noted for its conservative attitude towards highly speculative investments. The Institute has published a study of the various forms of annuities, evaluating each separately. The *retirement annuities*, whereby a man sets aside a large sum of money, transfers it to the corporation in question, and waits for, say, 25 years for it to mature, at which time he receives a fixed payment for life, is evaluated as follows:

> From an investment point of view, the interest earned on the annual premiums is not especially favorable, because the guaranteed return over a long period of years is less than that paid by most savings banks. . . . if there is any substantial improvement in the average length of life in the future, the option on an annuity may be valuable. On the other hand, probable inflation and the threat of another devaluation of the dollar indicate that deferred contracts of this nature may not be favorable.[23]

Recent reports made available to the news media by the federal government have announced that a marked drop in the average life expectancy for males over five years old has appeared. The pressures of industrial life, coupled (one suspects) with the physically degenera-

21. Gary North, "Price-Wage Controls: Effects and Counter Effects," *The Commercial and Financial Chronicle*, Aug. 21, 1969; North, "Inflation and the Return of the Craftsman," *The Whole Earth Catalog*, Jan., 1971 [chaps. 12, 13 above].

22. Cf. Eugene P. Wigner, "The Unreasonable Effectiveness of Mathematics in the Natural Sciences," *Communications on Pure and Applied Mathematics* XIII (1960), pp. 1-13. Wigner is a Nobel Prize winner in physics.

23. AIER, *Life Insurance and Annuities from the Buyer's Point of View*, Aug., 1969, p. 25. The Institute does not argue that annuities are totally unwise economic investments, but only that a person should invest but a part of his assets in them. The greater the rate of inflation, the less should be invested.

tive effects of processed foods, have combined to reduce the average life expectancy for males by as much as five years. So the purchaser of a deferred annuity loses both ways: he lives a shorter life and is paid off in depreciated currency.

"Strictly as an investment," the Institute goes on to say, "most retirement annuities are not especially desirable. The interest yield to the maturity of the policy is lower than probably can be obtained from a wise selection of other investments." The study adds this warning: "During an inflationary period, funds should be invested principally in the types of securities that will tend to preserve purchasing power." Publications sent by the Institute since the issuing of this one indicate that in the opinion of the Institute's staff, runaway inflation is now a distinct possibility. The higher the rate of inflation, the poorer the investment in annuities of any kind. The AIER staff recommends that elderly people purchase Swiss annuities only (April 19, 1971).

Since the economic effect of inflation on annuities and other kinds of insurance contracts, as well as on long-term loans, is to destroy the investor's capital, should the churches continue to promote such contracts (even if they were not usurious, which they are)? Can the church's leaders afford not to analyze the causes and effects of inflation, and then bring the warning to their flocks? Does not this aspect of preaching fall under the general requirement of preaching the whole counsel of God? The answer of most of our pastors today is simple: *no.*

When R. J. Rushdoony spoke in a church on the nature of inflation at a special midweek conference, he received a letter from a pastor who was critical of such a message even being presented inside the church's building.[24] On another such occasion, one minister was threatening to have him publicly disciplined by his denomination for having narrated a filmstrip critical of the inflationary policies of the Federal Reserve System. Any number of arguments can be used by the antinomian clergy against this kind of preaching: "Separation of church and state (and never mind about our tax law break)!" "The Bible doesn't talk about inflation!" "The Bible isn't a textbook of economics." "We're under grace, not law." So they continue to lead their unsophisticated, trusting congregations into usury and economic self-destruction. No warnings are offered, no attempt is made to abandon the loan contracts. There is every evidence in our churches today of judicial blindness, a curse imposed by God comparable to the one promised by Isaiah and administered by Christ: "By hearing ye shall hear, and shall not understand; and seeing ye shall see, and shall not perceive" (Matt. 13:14).

24. R. J. Rushdoony, *The Biblical Philosophy of History* (Nutley, N. J.: The Craig Press, 1969) [chap. 32, below].

Irrevocable lifetime annuities, in the context of mass inflation, is irrevocable economic suicide. A pastor who fails to warn his flock of this fact, thus exposing the lies printed in his own denomination's huckstering pamphlets, is nothing but a destroyer—a wolf in sheep's clothing who seeks to impoverish the weakest members of his congregation. The pastors have become proponents of pauperization, encouragers of usury. They are the middlemen of economic whoredom. By validating a wholly illegitimate transfer of moral business practices to the realm of the institutional church, they have become financial pimps.

Hierarchical Autonomy

Hayek, in his masterful book, *The Road to Serfdom*, includes a chapter entitled, "Why the Worst Get on Top." His argument is that centralized power, especially economic power, is a lure for the most unscrupulous men in society. He believes that by the very fact of the concentration of economic power in the sphere of civil government, a strong impulse toward totalitarian rule is established. What he says about the civil government could be easily applied to any non-market, essentially non-competitive religious institution. The more economic power that is lodged at the higher levels of the bureaucratic hierarchy, the less responsive will the leaders be to the demands of the membership. Grant any such organization a large degree of financial autonomy, and it becomes a likely target for take-over by the unscrupulous.

The twentieth century has witnessed the liberalization of virtually every Christian church, both Protestant and Catholic. Theological liberalism and political liberalism have been cooperating partners.[25] A major factor in the success of the conversion of the churches to unorthodox creeds and actions is clearly the hearts of the congregational members. They have listened to the false prophets in the pulpits, complaining only when their leaders' radicalism has infringed on some cultural or economic preserve dear to the hearts of particular members. But a crucial institutional factor leading to the take-over has been the

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25. The most forthright statement of the link between political liberalism and theological liberalism is found in R. J. Rushdoony, *Politics of Guilt and Pity*, sec. IV, esp. pp. 313-317. Cf. J. Gresham Machen, *Christianity and Liberalism* (Grand Rapids: Eerdmans, [1923]), Introduction. For historical accounts of the parallel developments of the two liberalisms in America, see Rushdoony, *The Nature of the American System* (Nutley, N. J.: The Craig Press, 1965), chap. 6; C. Gregg Singer, *A Theological Interpretation of American History* (Nutley, N. J.: The Craig Press, 1964). The chief flaw in Singer's book is his overemphasis on the role of Deism in the coming of the American Revolution. That movement was essentially a Christian counter-revolution: Rushdoony, *This Independent Republic* (Nutley, N. J.: The Craig Press, 1964); Carl Bridenbaugh, *Mitre and Sceptre* (New York: Oxford University Press, 1962); Alice M. Baldwin, *The New England Clergy and the American Revolution* (New York: Ungar, [1928] 1958); Edmund S. Morgan, "The Puritan Ethic and the American Revolution," *William and Mary Quarterly*, XXIV (1967), pp. 3-43.

existence of endowed agencies within the churches: mission boards, educational institutions, denominational publishing houses, and so forth. The financial autonomy from the weekly contributions of the members has been a basic means of subversion.[26] Part of this autonomy is provided by the irrevocable annuity schemes and long-term loan contracts. These favor the perpetuation of the institution in question apart from the theological commitment of the institution. Its future supposedly rests more on income from "prudent investments" than on the preservation of its original theological standards. This, of course, is inevitable, given the nature of the trust agreements, as indicated by the following sales pitch:

> Long after you have gone home to heaven your influence can live on . . . here on earth. A gift to missions—to the ongoing work of the worldwide Church—can mean that your Christian influence will live on through the years in dedicated hearts, hands and feet of the servants of Christ in the far corners of the earth.[27]

What an irresistible appeal for some elderly, unsophisticated widow who has a few thousand dollars saved! And what a curse to the organization which offers her the appeal; it is sealing its own doom, theologically. The structure may survive, but the goals will change. Perpetual annuities and trusts reverse the promise of Solomon: "The wealth of the sinner is laid up for the just" (Prov. 13:22b). Instead, we find that the wealth of the just is laid up for the sinner.

The hypocrisy of the appeal to the elderly Christian to part with his money like this should be manifest. The donor (or in this case, the usurer), is led to believe that the institution, in and of itself, can and will maintain its commitment to the establishment of God's kingdom. What the institution needs, the donor-usurer is told, is a permanent fund. The fund is crucial, and not a commitment to theology. Theology will take care of itself; what is needed is *money!* The fund must expand, even if this means that Christians are turned into usurers, and economically imprudent usurers at that (given the fact of inflation). If the

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26. Another important factor in the take-over of the Protestant churches is an attitude best described as "Protestant sacerdotalism." It regards the minister as standing above and distinct from the ordained elders, and it regards the laity as not merely functionally subordinate but also intellectually inferior. Cf. Paul Ramsey, *Who Speaks for the Churches?* (Nashville: Abington, 1968). For a classic example of the arrogance of the pastors whose votes place denominations in support of radical positions, in direct opposition to the stated opinion of the majority of the members, see John C. Bennett, "Christian Responsibility in a Time that Calls for Revolutionary Change," in John C. Raines and Thomas Dean, eds., *Marxism and Radical Religion* (Philadelphia: Temple University Press, 1970), pp. 75-76. An excellent critique of Protestant sacerdotalism is provided in E. L. Hebden Taylor, *Reformation or Revolution* (Nutley, N. J.: The Craig Press, 1970), p. 413 ff.

27. Bob Pierce, founder of World Vision, in his introductory statement to *Faithful Stewardship Through Christian Investment*, p. 1.

fund can just be built up, the leaders will be able to operate, irrespective of the hostility of the membership; the threat of funds cut off cannot exercise the same force. God save the fund!

Financial autonomy of the hierarchy of an institution is the death knell of its original goals. There were many reasons why all debts were cancelled in the Old Testament every seventh year. Surely this was one of them: the civil government, the banks (in whatever form they took), the lenders, the debtors, and all other institutions were prohibited from living in terms of perpetual debt and "irrevocable annuities," whether secular or usurious. The prohibition must have helped to preserve the responsibility of the bureaucrats of all kinds to the wishes of the people, just as the requirement of the tithe kept the people from becoming tyrants. Plural sovereignties were protected by the various provisions of the law; each had its own rights, and each had its own limitations. None was to become permanent apart from the continuous renewal of God and continual acknowledgment of His sovereignty as absolute.

The essence of *Christian stewardship* is simply this: *full-time, irrevocable, personal responsibility before God.* By their very nature, irrevocable trusts and annuities involve both "giver" (usurer) and debtor in *revocable theological responsibility.* The rate of interest may be irrevocable and utterly impersonal, but that is the only part of the arrangement that is. Christians are not allowed the luxury of such "stewardship," for this kind of irrevocable finance is the *abolition* of Christian stewardship.

There is justice in all of this. The churches that have been too mild and "tolerant" to demand that its members *tithe* (though, of course, not to the church alone, which *would* be illegitimate Biblically) find themselves making usurers of their members because funds are so scarce. Too soft-hearted to enforce the law of the tithe, they have been utterly ruthless in devising a whole complex of usury schemes. But in doing so, they have linked their impersonal economic futures—their irrevocable external "protection"—to the survival of an inflationary economy. When price and wage controls are imposed, the endowments full of "blue chips" will fast turn into "buffalo chips": these controls destroy both stocks and bonds.[28] To the extent that our Christian institutions have participated in the "economic genius" of the modern world, they will perish in terms of such genius. They will learn to their dismay that guaranteed prosperity, like guaranteed income for the widows, is never so simple as it seems. Debts incurred in faith of perpetual economic expansion cannot but fail in the long run; there is no such thing as linear, irreversible, irrevocable growth—of population,

28. Gary North, "Price-Wage Controls: Effects and Counter-Effects," *Commercial and Financial Chronicle*, Aug. 21, 1969 [chap. 12, above].

of money in the bank, of new members, or the rate of interest. At some point, mathematical law informs us, the exponential curve flattens out or falls.[29] Judgment is coming.

The Pitfalls of Huckstering

Where will it all end? An indication of where we are going came to me in the mails, unsolicited, under the "Postage Paid" stamp of a non-profit organization. The organization is Pallotine Missionaries of Baltimore, Maryland. I shall quote from the envelope itself: "Postmaster, Contents: Sweepstakes notification numbers enclosed. $14,000 SWEEPSTAKES. You have 5 chances to win 112 PRIZES." On the back: "TWO 1970 OLDSMOBILES OR $3500 CASH . . . 100 KODAK MOVIE CAMERAS OR $35 . . . TEN COLOR T.V.'s OR $350 CASH." Inside was the promotional:

> *Today May Be Your Lucky Day. . .Why Such a Fantastic Give-away*??? Because a group of supporters of the Pallotine Missions got together and came up with the bright idea of donating all the prizes [tax-deductible, of course—G.N.]. . .God bless them. . .and just think you may be a winner. *Why a Sweepstakes*??? Simply to call attention in a dramatic way to the needs of the poor, hungry and sick children in the Pallotine Missions. . . . Mail me your contribution today. . . . A person with a heart full of love has always something to give, especially to help children. . .Just as loving never empties the heart—giving never empties the purse.

When Bruce Barton wrote *The Man Nobody Knows* half a century ago, he was trying to bring a degree of sanctity into the world of business. He was trying to prove, however ludicrously, that Jesus was a successful organizer, and He was worth imitating, even if a man were in business. Barton's liberal theology at least let him try to bring ethics into business, although it involved a rewriting of church history. Today, all good pastors, liberal or conservative, officially ridicule Barton's book (if they have ever heard of it). Yet they have become far more perverse than Barton. They are not telling the businessman to imitate Jesus; they are trying to convince the followers of Jesus to imitate the businessman, and not the ethical businessman, but the huckster. Tell the half-truth (unchanging income, permanent, for life), but get that contract signed! Promise those color television sets, but make sure the sheep empty those wallets that never empty! "Tell ya what I'm gonna do . . . This week, and this week only . . . All your money down, but a whole lifetime to get it back. . . ."

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29. Gary North, "The Theology of the Exponential Curve," *The Freeman*, May, 1970 [chap. 8, above]. Cf. Garrett Hardin, "The Cybernetics of Competition: A Biologist's View of Society," in Helmut Schoeck and James W. Wiggins, eds., *Central Planning and Neomercantilism* (Princeton: Van Nostrand, 1964), pp. 60-90.

The institutional church is not an insurance company. It is not a raffle service. It is not a place for bingo, even Protestant bingo. It is a house of prayer.

The Riverside, Calif., *Press-Enterprise* (August 29, 1970) printed a column under "Religion Today" by Rev. Lester Kinsolving. The article was run under this headline: "Shearing of the Sheep." Mr. Kinsolving provided a whole rogues' gallery of ordained fundamentalist ministers who promoted the sale of bonds, in this case, Baptist bonds. The church bond market today is a $500,000,000 market. Kinsolving writes:

> Potential investors were promised an opportunity to "do your Christian duty" (at 7 per cent) by investing in bonds issued by BBU [Bethel Baptist University], "a high calibre, accredited university that doesn't mock God, teach 'Apeism' . . . or wreck the student's faith."
>
> Pious investors poured more than $1 million into this Oklahoma enterprise only to learn, after its operators had vanished, that it had never been accredited and that its final enrollment had been four students.
>
> Such shearing of the sheep is no rarity:
>
> One promoter arranged a $20,000 bond issue for a small Arkansas church—but sold $40,000 worth, skipping town with the difference.
>
> The Golden Circle Gospel Federation sold $44,000 worth of what it claimed were church bonds—and then tried to invest the money in a Santa Barbara oil exploration firm when the Securities and Exchange Commission caught up with them.
>
> Claude M. Bond, of Gideon Church Builders, was permanently enjoined from selling bonds issued by 30 churches in the Dallas-Ft. Worth area. The SEC charged that Bond had misled investors by telling them "there has never been a known defaulted church bond."
>
> Not only investors but many state and municipal governments have proven exceptionally naive about such practices. For church sponsorship of such bond issues often means there is no requirement [that] the stock be registered or backed up with evidence of the institution's ability to repay.

Horrifying? Exceptional? What else should Christians expect when churches encourage the violation of God's imposed limitations on the members, the hierarchy, and the type of financing legitimate for each aspect of God's kingdom? Protestants may complain that such examples of defaulting or huckstering are not typical. That is not the point, however. What is crucial is not the fact that these fundamentalist "entrepreneurs" may be in control of only a small percentage of church trust funds; what is crucial is that the churches establish the funds in the first place. It is not simply that the churches are not so efficient as General Motors is in the handling of their internal and external debt; what is intolerable is that they should imitate the kind of debt contracts that General Motors, as a profit-making business, finds it profitable to agree to. General Motors is not the institutional church, and it is not under the same restrictions regarding the giving and taking of interest. General Motors, unlike the institutional church, is not a house of prayer.

Chapter XXXII

THE HERESY OF THE FAITHFUL

By Rousas John Rushdoony

[*The Rev. Rushdoony's essay appears in his book,* The Biblical Philosophy of History *(The Craig Press, 1969) and is reprinted here by permission. It attacks the premise of so much of contemporary Christian thought, the religious system known as pietism. Because pietism is devoid of a concept of external, Christian social and economic law, it is impotent to reconstruct the world according to God's ethical requirements. Very often (but not always) it is coupled to an eschatological pessimism which makes it even more retreatist. It is indeed "the heresy of the faithful."*]

Many people excuse the extensive apostasy in the church by pointing to original sin. Man is so great a sinner, we are told, that we should not be surprised at the extensive sway of unbelief in the very hearts of the faithful, let alone the world. We are reminded that the heart of man "is deceitful above all things, and desperately wicked: who can know it?" (Jer. 17:9). This is true, but the Scripture is not a Manichaean document. It does not assert that Satan and sin have a power equal to or greater than God and His grace. On the contrary, "God is greater than our hearts" (I John 3:20), and "greater is he that is in you, than he that is in the world" (I John 4:4). Great and almighty is our sovereign and triune God, and we cannot limit His power without sinning, nor can we ascribe the helplessness of the church to the greater power of sin and Satan. Rather, we must ascribe it to the heresy and laziness of believers, who limit God in their unbelief.

Related to this acceptance of apostasy, which is an implicit acceptance of the superiority of Satan, is the surrender of this world to Satan and to unbelievers. The whole of the Old Testament speaks of God's judgment against all ungodly nations, and St. Paul speaks in Hebrews 12:18-29 of the second shaking, the judgment of men and nations in the gospel age, so that the things which cannot be shaken may alone remain. Christ, who arose from the dead in the same body in which He was crucified, set forth by His resurrection His victory over history as well as in eternity, over matter as well as in spirit. The work of God's judgments in history is to clear the way for Christ's kingdom to prevail, heralded in Revelation 11:15 with the glorious proclamation, "The kingdoms of this world are become the kingdoms of our Lord, and of his Christ; and he shall reign for ever and ever."

Can we surrender the world to Satan and be true to Scripture? One fine pastor has said that all "matters of political, economic and social concern" should be by-passed by the clergy:

> When you remember what Jesus said about the superiority of the wisdom of the "children of this generation" to that of the "children of light" in such matters (Luke 16:8), you know that society can manage its affairs quite well without the benefit of the clergy.

Let us call this interpretation what it is: *blasphemy!* Is the world better off if the clergy fail to proclaim and apply the Word of God to all things? And what did our Lord teach in Luke 16:8? Did he ask us to yield the world to the "children of this generation," or did He urge us to apply our wisdom even more earnestly? R. C. H. Lenski, in *The Interpretation of St. Luke's Gospel* (p. 830), summarizes the meaning:

> Thus: the *fully developed unrighteousness* we see in this man as regards the unrighteous mammon is to help us to see and to inspire us to attain the complete contrary, *the fully developed righteousness* with which we are to handle this unrighteous mammon: first, in the use to which we put it (v. 9); second, in the estimate we put upon it, which underlies any use we make of it (v. 10-12); third, in the resistance which we offer it, this underlying both the use and the estimate (v. 13).

Unbelief does *not* give superior wisdom, nor does regeneration make men idiots in the affairs of the world, that we should turn the management of society over to unbelievers! Rather, no man is better able to manage himself *and* the affairs of the world than the instructed Christian, and it is the duty of the clergy to instruct the believers in all things according to the infallible Word of God.

Some men claim the authority of Luther for this retreat from the world, this Protestant version of monastic withdrawal. Instead, its origin is in Pietism, which returned the medieval spirit to the church and withdrew it from the world. Instead of a Reformation concern with the whole counsel of God, Pietism concerned itself only with the soul and surrendered the world to the devil. With Pietism, Protestantism ceased to be the army of God, going forth to conquer in Christ's name, and the church became instead a kind of new monastery, where men could retreat from the world and its problems and contemplate heaven.

This writer received a letter from a fine and faithful pastor, criticizing him for speaking on economics in a church building, in the parish hall. Preaching on the gospel, the doctrine of justification, he defined as preaching on "absolutes," and all other teaching dealt with things relative. But the whole word of God is true, and the Scripture speaks to the *whole* of man's life!

The following is my answer to the letter, reprinted on request, because so many Christians are disturbed by the limitations in their clergy's preaching due to Pietism:

"Dear Pastor—:

"Your gracious letter arrived today, and I hasten to answer it before it gets lost in a hundred or more letters which have accumulated during my travels.

"We are agreed, I am sure from your letter, in affirming the infallibility of Scripture, justification by faith, and the sovereignty of the triune God. We alike hold to the doctrine of creation and the fall, and the depravity of man. The difference is, I think, practically summed up in your suggestion,

> "According to our understanding, (a common one, I believe), a public minister of the Gospel is representative of Christ, and therefore under a restriction to declare the whole counsel *of God.*
>
> "For that reason I think that you would be in a more effective position if you were to lecture on such subjects as economics as a lay specialist rather than an ordained minister of the Orthodox Presbyterian Church. Perhaps it would even be helpful to use a public auditorium rather than a church building—simply because of identification.

"At this point, I would disagree, and I believe, from my reading, that I would have Luther on my side.

"There are two approaches to subjects, a humanistic one, of which there are many variations, and a theocentric and Biblical one. My recent lecture in Sunnyvale on economics, the third of a series on money, of which the first dealt with the exegetical foundations, has a theocentric and Biblical basis, and my assertion was that the world, and economics, is under God's law, NOT under man-made law.

"For me, to declare the whole counsel of God means exactly that. The law of God deals extensively with economics, i.e., with money, lending, usury, agriculture, business, etc. (I am enclosing some copies of my recent newsletters of which Number 8 deals with certain aspects of economics relating to debt. These I dealt with in an earlier talk at Sunnyvale.)

"I take the law of God very seriously. I believe that man is saved from the law as a handwriting of ordinances against him, so that man is no longer, as a Christian, under the law as an indictment, but he is under the law as a way of life. The law is now written on the tables of his heart (the sign of the new covenant), and is his joy to keep. Man is not saved to have other gods, commit adultery, kill, steal, or covet, or to break any of God's laws, but, having a new nature, delights in God's will to the extent that he is sanctified.

"The ceremonial and sacrificial law is clearly fulfilled in Christ's atoning death and resurrection. Certain other laws have been subjected to changes by apostolic teaching, or our Lord's teaching, as witness the change of the death penalty for adultery to divorce, and the revision of the day of worship, and the end of the old sabbath regulations (Col. 2:16 f., etc.). Certainly the Reformers did not treat the Old Testament laws lightly, as witness their concern with usury.

"I believe that it is a part of our modern apostasy that we have abandoned much of the world to the devil and restricted the gospel to a narrow realm. The doctrine of creation is to me the cornerstone of our faith. Because the Holy Trinity created all things, all things are understandable only in terms of the triune God, and only He can redeem His creation. Moreover, only under His law can the creation function without ruin. Therefore, God's word must be declared for every realm: we must have a Christian economics, philosophy (which begins with the premise of the infallible word and the triune God), historiography, literature, law, political science, and so on.

"I wrote *The Messianic Character of American Education* as a carefully documented statement of my thesis, that education apart from Christian theistic principles is destructive of itself and of man. I believe that the same is true of every other field of study.

"The doctrine of the bodily resurrection of our Lord is in part a declaration that God's salvation is not restricted to the soul alone, but that time and history as well as eternity, the body as well as the soul, are destined to share in the glorious salvation of our God.

"I would agree that the *church* has no jurisdiction apart from the word of God, the sacraments, and the administration of godly discipline within the church. But the word of God speaks to every condition and to every realm of life.

"My point, in dealing with economics, was, in all three talks, Biblical. I dealt with the Biblical laws concerning money and debt in the first two, and, in the third, I simply emphasized the fact that it is God's law that governs the universe, not the man-made power ploys of contemporary politicians. I was giving a lecture rather than a sermon, but, had I been preaching, I would simply have been exegetical. And debased money is clearly condemned in Scripture, as witness Isaiah's indictment (1:22, which clearly refers to the debasing of silver and the adulterating of wine).

"One of the fearful conditions of our day is that, apart from the modernistic, humanistic, and apostate schemes offered to men today, there is little to be heard except secular conservatism, which is in essence simply another form of humanism and equally to be condemned. I believe in the necessity for Christian conservatism, and I believe that we shall be under God's judgment if we neglect to proclaim the whole counsel of God for every realm, church, state, school, philosophy (where the great classic is Luther's *Bondage of the Will*), economics, political science, etc. This is not making Christ partisan: it is simply asserting, to use the old Reformation battle cry, "The Crown Rights of King Jesus" over every realm.

"I write this, not in any sense in criticism of your position, but in the prayerful hope that you will recognize the full-orbed claims of our Redeemer.

"Very sincerely,
"R. J. Rushdoony"

BIBLIOGRAPHY

Most of the professional economic journals are unreadable. They are primarily mathematical and statistical, imitating the methodology of the physical sciences. In part, this stems from what Prof. Fritz Machlup has called "The Inferiority Complex of the Social Sciences" (in Mary Sennholz [ed.], *On Freedom and Free Enterprise: Essays in Honor of Ludwig von Mises* [Princeton: Van Nostrand, 1956]). Such methodological pathologies as historicism, holism, behaviorism, metromania, predictionism, mathematosis, and experimentomania, Machlup argues, have infected the thinking of the younger scholars. Pick up any issue of *The American Economic Review* or *Econometrica* and see for yourself. Yet it is publication in these two journals, above all, that can elevate the prestige of any economics faculty, a point made clear in the concluding remarks by Prof. John Siegfried in the American Economic Association's own journal, *The Journal of Economic Literature* (March, 1972).

Yet it goes beyond mere intellectual inferiority. The crisis in modern economic epistemology—and it is increasingly recognized as a crisis by some important scholars (*Saturday Review* [Jan. 22, 1972], the issue which is published annually for the Committee for Economic Development)—stems from what Herman Dooyeweerd and C. S. Lewis have recognized as the antinomy of the nature-freedom scheme of post-Kantian thought. The science ideal—prediction, rational control, mathematical precision in measuring all things—relentlessly crushes all that stands before it. Max Weber, the great German sociologist (who was the outstanding social scientist of this century), predicted exactly this train of events, as rationalization and bureaucratization rush onward. ("Science as a Vocation" [1918], in H. H. Gerth and C. Wright Mills [eds.], *From Max Weber: Essays in Sociology* [New York: Oxford University Press, 1947].) Lewis is correct: a full commitment to the science ideal brings with it "the abolition of man" (see Lewis' book of the same name, Macmillan, 1947).

Much of this intellectual game is a hypocritical charade. John Kenneth Galbraith blows the whistle on the players in his *Economics, Peace, and Laughter* (New York: New American Library, 1972):

> The layman may take comfort from the fact that the most esoteric of this material is not read by other economists or even by the editors who publish it. In the economics profession the editorship of a learned journal not specialized to econometrics or mathematical statistics is a position of only moderate prestige. It is accepted, moreover, that the editor must have a certain measure of practical judgment. This means that he is usually unable to read the most prestigious contributions which, nonetheless, he must publish. So it is the practice of the editor to associate with himself a mathematical curate who passes on this part of the work and whose word he takes. A certain embarrassed silence covers the arrangement.

Yet the game goes on, undaunted. Unreadable article after unreadable article appears in the prestige journals. Increasingly, most of the space (about 70 percent) is taken up by faculty members of about 25 universities and two or three research institutes, plus the federal government's employees, including the Federal Reserve System. (See the article by Siegfried, cited earlier.) The academic monopoly is as thorough as the government-created economic monopolies that all the guild economists deplore so vehemently. No one at General Motors, at least, has tenure—anyway, no one in management.

What journals can one read? The University of Chicago's *Journal of Law and Economics* is better than all the other purely academic journals, although it has been drifting into econometrics in recent years. Older issues of the *Journal of Political Economy* also provide good articles. It also is published by the University of Chicago. The best practical journal these days is *The Public Interest* (Box 542, Old Chelsea Post Office, New York City 10011). It is having considerable impact on men of public affairs. (See Robert Bartley's editorial, *Wall Street Journal* [May 3, 1972].) Other periodicals that sometimes have good economics essays are *Reason*, P.O. Box 6151, Santa Barbara, Calif.; *The Individualist*, 400 Bonifant Road, Silver Spring, Md. 20904, at which address is also published *Books for Libertarians*, Rothbard's *The Libertarian Forum*, Box, 341, Madison Square Station, New York, N. Y. 10010. The oldest of the free market journals is *The Freeman*, published by the Foundation for Economic Education, Irvington-on-Hudson, N. Y. 10533. It is published monthly and is free of charge.

The old classics are almost always more readable, more accurate, and more humane than anything produced by the new technicians. Most important is Ludwig von Mises. His most important books are:

Human Action (3rd ed.; Chicago: Regnery, 1966)
Socialism (London: Jonathan Cape, Ltd. [1922])
Theory and History (New Rochelle: Arlington House, [1957] 1969)

The Theory of Money and Credit (Irvington, N. Y.: Foundation for Economic Education, [1912])
Bureaucracy (New Rochelle, N. Y.: Arlington House, [1944])
Planning for Freedom (South Holland, Ill.: Libertarian Press, 1952)
The Anti-Capitalist Mentality (Princeton: Van Nostrand, or Libertarian Press, 1956)

A full bibliography of Mises' works is available from the Foundation for Economic Education. Most of his books are also available from FEE. No longer in print are *The Free and Prosperous Commonwealth, The Ultimate Foundation of Economic Science*, and *Epistemological Problems in Economics*, all published by Van Nostrand.

Mises' influence on F. A. Hayek, Wilhelm Roepke, and Lionel Robbins is generally ignored by the economics profession. The students have become more "respectable" than the teacher, so the source of the original ideas tends to be ignored. It may tend to be, although not entirely. But Mises has never been given the recognition he deserves. The special award by the American Economic Association in 1969, making Mises a Distinguished Fellow, was not so much an ideological mellowing on the part of AEA's mostly neo-Keynesian membership, but rather an award engineered by the Chicago School members who believed that another free-market advocate should be granted his due recognition. The economics guild in general remains blissfully unaware of the crucial nature of Mises' contributions. (See the Sept., 1969, issue of *The American Economic Review*.)

F. A. Hayek's contributions are more widely known. His most important economics books are all published by the University of Chicago Press: *The Road to Serfdom* (1944), *The Constitution of Liberty* (1960), *Individualism and Economic Order* (1948), and *Studies in Philosophy, Politics and Economics* (1967). Routledge and Kegan Paul (London) publishes his *Pure Theory of Capital* (1941), *Prices and Production* (1932), and the book he edited, *Collectivist Economic Planning* (1935). *Monetary Theory and the Trade Cycle* (1936) is available in a reprint from Augustus Kelley in New York. *The Counter-Revolution in Science: Studies on the Abuse of Reason* (1955) is published by the Free Press and is a distinguished contribution to the history of social science.

Wilhelm Roepke, leader of the so-called Ordo School (there is a German scholarly publication, *Ordo*, which is basically a free-market journal), died in 1964. His concerns were always geared to the problems of industrial society and the moral order. He never believed that a pure market economy would solve the basic problems of mankind. He, like Ortega y Gasset, was fearful of the effects of mass production within the framework of a civilization based on the culture of the lowest common denominator. *A Humane Economy* (1960) is now published by the Intercollegiate Studies Institute, Bryn Mawr, Pennsylvania, in an inexpensive paperback. *Economics of the Free Society* (1963), which would make a good introductory textbook, and *Against the Tide* (1969), a collection of his essays, are both published by Regnery. Hodge Co., London, publishes *Civitas Humana* (1948), *The Social Crisis of Our Time* (1950), and *International Economic Disintegration* (1942). *Welfare, Freedom, and Inflation* (1964), a short book, is available from the University of Alabama Press.

Philip H. Wicksteed's *The Common Sense of Political Economy* (1933) is a two-volume set published by Routledge and Kegan Paul, London. Wicksteed, says Mises, was the last great English economist. Routledge also publishes Knut Wicksell's two-volume *Lectures on Political Economy* (1935). George Allen and Unwin, London, publishes *Value, Capital and Rent* (1954) and *Selected Papers on Economic Theory* (1958). Wicksell was quite good on monetary theory, and volume two of the *Lectures* is basic reading.

Eugen von Boehm-Bawerk taught both Mises and Joseph Schumpeter, perhaps the two greatest economists of this century. His monumental *Capital and Interest*, a three-volume set, is available from the Libertarian Press, South Holland, Illinois. The second volume, *The Positive Theory of Capital*, is the crucial one. No one calling himself an economist should avoid reading this book. Boehm-Bawerk was one of the clearest, most careful, most logical economists ever to have written—I think the greatest economist of all time. He avoids no controversy, and his footnotes reveal the extent of his knowledge. Libertarian Press also publishes *The Shorter Classics of Boehm-Bawerk*. (Or, if you prefer, Böhm-Bawerk.)

Frank H. Knight, the most influential teacher-economist in an American classroom, has contributed several important books, among them *Risk, Uncertainty and Profit* (Harper Torchbook, [1921]) and *The Economic Organization* (Harper Torchbook, [1933]). The latter could be used in an introductory economics classroom.

Henry Hazlitt, a man who never graduated from college, and who therefore can write well and think clearly, has written a true classic, *Economics in One Lesson* (Macfadden, [1946]). He is the author of *Man vs. the Welfare State* (Arlington House, 1969) and *The Conquest of Poverty* (Arlington House, 1973). He has compiled an annotated bibliography of libertarian and conservative books, *The Free Man's Library* (Van Nostrand, 1956). His book refuting John Maynard Keynes, *The Failure of the "New Economics"* (Van Nostrand, 1960), is devastating. (It is available, at present, from the FEE library list.) He also edited *The Critics of Keynesian Economics* (Van Nostrand, 1960), a collection of scholarly articles and extracts criticizing various aspects of Keynes's thought.

On Keynes in general there are hundreds of books. The standard introduction, favorable, is Dudley Dillard's *The Economics of John Maynard Keynes* (Prentice-Hall, 1948). Robert Lekachman's *The Age of Keynes* (Random House, 1966), is also available in paperback. David McCord Wright's *The Keynesian System* (Fordham, 1961) and Lawrence R. Klein's *The Keynesian Revolution* (Macmillan, 1965) are useful introductions. The refutations are many: W. H. Hutt, *Keynesianism: Retrospect and Prospect* (Regnery, 1963), Arthur Marget's enormous *Theory of Prices* (Kelley, [1938]), the Hazlitt books, and L. Albert Hahn's *The Economics of Illusion* (Fraser, [1949]). The latest is the compilation of Hayek's critical comments by Miss Sudha Shenoy, *A Tiger by the Tail* (London: Institute of Economic Affairs, 1972). On the causes for Keynes's acceptance, see Peter Drucker's *Men, Ideas and Politics* (Harper & Row, 1971).

Murray N. Rothbard, an anarchist and the major intellectual leader of the anarcho-capitalist movement in the United States, has written the important work, *Man, Economy and State* (1962), and *America's Great Depression* (1963), both reprinted by Nash Publishers, Los Angeles. *What Has Government Done to Our Money?* (1964) is also very useful; it is available from FEE. Two of his essays on monetary theory are important: "The Case for a 100% Gold Dollar," in Leland B. Yeager (ed.), *In Search of a Monetary Constitution* (Harvard University Press, 1962), and "Money, the State, and Modern Mercantilism," in Schoeck and Wiggins (eds.), *Central Planning and Neomercantilism* (Van Nostrand, 1964).

Textbooks proper are useful for learning how economists play the theoretical games that occupy their time and the taxpayers' confiscated money. Textbooks are used for getting into grad school. They are almost always Keynesian. Only Rothbard's *Man, Economy and State* is truly Austrian (Misean) in perspective. Several University of Chicago oriented books are available. They are marred by reliance upon positivist assumptions, a fallacious monetary theory and too many graphs. They are all better than Samuelson's *Economics.* The best ones are Armen Alchian and William R. Allen, *University Economics* (Belmont, Calif.: Wadsworth), Thomas Sowell, *Economics* (Scott-Foresman), and (most delightfully) Henry Sanborn's *What, How, For Whom* (Box 8466, Baltimore, Md.).

There is only one really good intermediate level textbook: Israel

Kirzner's *Market Theory and the Price System* (Van Nostrand, 1963). Widely read and tolerable is Richard Leftwich, *The Price System and Resource Allocation* (Holt, Rinehart, Winston). If available in a used bookstore, George Stigler's *Theory of Competitive Price* (Macmillan, 1942) is good—distinctly superior to his later *Theory of Price*, which is the one, of course, that is still in print.

Macroeconomics is a fraud. Any attempt to explain it from any other perspective will result in error and even more fraud. Its results are predictable—bad. Milton Friedman, who once uttered the magic words, "We are all Keynesians now"—meaning in basic methodology, although not necessarily in conclusions—also admitted at the 1971 meeting of the American Economic Association:

> We have been driven into a widespread system of arbitrary and tyrannical control over our economic life, not because "economic laws are not working the way they used to," not because the classical medicine cannot, if properly applied, halt inflation, but because the public at large has been led to expect standards of performance that as economists we do not know how to achieve. Perhaps, as our knowledge advances, we can come closer to specifying policies that would achieve these high standards. Perhaps, the random perturbations inherent in the economic system make it impossible to achieve such standards. And perhaps, even if there are policies that would attain them, considerations of political economy will make it impossible for these policies to be adopted.
>
> But whatever the future may hold in these respects, I believe that we economists in recent years have done vast harm—to society at large and to our profession in particular—by claiming more than we can deliver. We have thereby encouraged politicians to make extravagant promises, inculcate unrealistic expectations in the public at large, and promote discontent with reasonably satisfactory results because they fall short of the economists' promised land.

The departure from the basic restraints of the Bible on issues of monetary theory and the limits of State sovereignty have brought on the intellectual crisis Friedman deplores. (His statement appears in *The American Economic Review, Papers and Proceedings* [May, 1972], pp. 17-18; it was quoted widely in the press in late 1971).

On comparative economic systems, see Morris Bornstein (ed.), *Comparative Economic Systems* (Homewood, Ill.: Irwin, 1965), Wayne A. Leeman (ed.), *Capitalism, Market Socialism, and Central Planning* (Boston: Houghton Mifflin, 1963). A good book on Soviet economy is Robert W. Campbell's *Soviet Economic Power* (Houghton Mifflin, 1966). My book on Marx, *Marx's Religion of Revolution* (The Craig Press, 1968), contains two appendices on

economic planning. On the so-called "Swedish miracle," see Roland Huntford's *The New Totalitarians* (Stein & Day, 1972).

For high school use, the study by Mrs. Bettina Bien Greaves, *Principles of Economics: Syllabus for Introductory Course*, is best (Foundation for Economic Education, 1973).

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