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The Wizards of Washington **by Sheldon Richman**

Remember that scene in *The Wizard of Oz* when Toto reveals the “great and powerful wizard” as nothing but a homunculus operating an imposing thunder-and-lightning machine? “Pay no attention to that man behind the curtain,” he bellows, not knowing enough to quit even when he’s exposed.

The government’s response to the current economic turmoil reminds me of that scene. We are assured by the awe-inspiring U.S. Treasury and Federal Reserve that if we trust them with essential control of the American economy, all will be set right.

Behind the curtain, however, are just a bunch of bureaucrats who couldn’t possibly put the economy right because no one can know how to do that. They would be better able to give a cowardly lion courage, a tin man a heart, or a scarecrow a brain.

Sloppy metaphors to the contrary, an economy is not an engine that occasionally needs a mechanic to go under the hood to tune it up. An economy is people pursuing their preferences by engaging in endless varieties of exchanges with others while coordinating disparate plans founded on unspoken expectations. It’s an amazingly orderly process — when it is allowed to operate in peace and without government intervention.

Unfortunately, governments rarely let it operate in peace. Government planning is power, and with only a few exceptions, most people attracted to top government jobs want to wield power. While they are incapable of fixing an economy — if that means restoring it to its consumer-serving function — they are capable of skewing it to their own purposes.

Government interference with the economic process represents a substitution of political for consumer objectives. In a freely functioning economy — absent government privileges and burdens — entrepreneurs work to arrange the productive process ultimately to satisfy consumers’ subjective preferences. This idea is implicit in the very concepts *production*, *investment*, and *labor*. Their fruits must have value in the eyes of consumers or they are not productive.

Thus when government “creates jobs” or saves companies by taking money from the private sector, it is not truly productive activity. Rather, the government has preempted the

economic process, forbidding it to serve consumers so that it can instead serve the objectives of politicians and bureaucrats.

President-elect Obama's chief of staff-designate, Rahm Emanuel, says, "You never want a serious crisis to go to waste. Things that we had postponed for too long, that were long-term, are now immediate and must be dealt with. This crisis provides the opportunity for us to do things that you could not do before." Emanuel here unwittingly affirms Robert Higgs's thesis in *Crisis and Leviathan*: government will use a crisis (real, exaggerated, or imagined) to expand its power. And Emanuel clearly grasps Higgs's corollary: when the crisis subsides, the new powers will not be shed. Some will remain in force; others will be put on the shelf to await the next crisis.

The current financial turmoil is a textbook illustration of Higgs's principle. In just the last few months the Fed and Treasury have engaged in activities they had not dared engage in before, such as bailing out investment banks and insurance companies and buying shares in banks. The precedent has been set. Next time, such activity will be even easier.

None of this will fix the economy. The federal government as of late November had committed more than \$7 trillion to the financial system in loan purchases and guarantees of various sorts. But Treasury borrowing only moves money from point A to point B, while Fed policy creates money out of thin air. Every dollar the Treasury borrows is a dollar the private sector can't invest in consumer-oriented projects, and every dollar the Fed creates distorts the economy by transferring purchasing power from the people to privileged interests. The resulting economy is built on false signals and expectations — which can't be sustained without government support. That is hardly the route to sustainable economic growth.

When you recall that today's economic turmoil is the direct result of earlier distortions from government policies — guarantees to lenders, so-called affordable-housing policies, et cetera — it is clear that ground is being seeded for the next crisis.

At our peril do we pay no attention to those men behind the curtain.

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