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GOP Statists **by Sheldon Richman**

Any remaining pretense that the Republican Party is the party of free markets has been blown to smithereens in the election season. Even the lip service to free enterprise has become scarce, as the major candidates threw their arms around flagrantly statist economic proposals.

This is vividly illustrated by the Bush-Pelosi “stimulus package,” which was endorsed by the leading GOP presidential contenders. In response to a slowdown in economic activity, brought about by government-created credit problems and fuel-price increases, the Republican-Democratic ruling class has coalesced around a package of tax rebates and business-tax incentives intended to “get the economy moving” by putting cash into people’s hands and accelerating capital investment by manipulating the tax code. This, at least in part, is the long-discredited Keynesian recipe by which government planners blame the rest of us for insufficient demand and investment and ride to the rescue. It’s a policy that bears no relation to a free-market program, which would permanently root out the cause of our troubles: government intervention.

Once again, we see that when people don’t understand basic economics they are pigeons for any political con game foisted by unscrupulous politicians. (Now there’s a redundancy.)

Economics properly conceived is just common sense about human activity. Nearly all Republican politicians claim the economy needs a stimulus that only they can provide. This is odd right off the bat. Politicians produce nothing; they spend other people’s money and, in the process, interfere with their productive activities. Why would anybody think politicians could stimulate an economy?

A Republican president and Democratic and Republican House leaders agreed on a \$150 billion package of tax rebates and business incentives. This is said to be the needed boost to keep “the economy” from falling into a recession. Even the words that politicians use to talk about the subject are chosen to convey that their power can be constructive. Their language, however, is deceptive. The “economy” is a concept, not a thing. The convenient term stands for nothing apart from people exchanging their property (goods and money) and labor in order to acquire the things that will make their lives better.

But politicians and most economists talk about the economy as though it were a machine or a vehicle separate from the people who constitute it. In this misleading view, the economy can slow down or overheat. It may need a stimulus, after which it may need a cooling down.

Politicians are attracted to this language because it justifies the power they wish to exercise. If people automatically translated statements about the economy into flesh-and-blood terms, they wouldn't let their (mis)leaders and public (self-)servants get away with the standard mischief.

Government officials are endlessly capable of interfering with our economic activities. Their central bank can inflate the money supply, artificially lowering interest rates and distorting investment decisions while raising consumer prices. Bureaucrats can promise to bail out banks and firms when they make bad decisions, guaranteeing an abundant supply of such decisions. Regulators can pile burdens on business owners, making the cost of expansion prohibitive. The tax collectors can siphon off so much capital that investment is stymied, inhibiting the growth of productivity and incomes. Politicians can shovel so many advantages at established firms that new competition is crippled or even stillborn.

The upshot is that the economy is you and I. And our economic activities are at the mercy of government power.

Politicians prefer that we not understand that. They want us to believe that their job is to tend the economic machine. The big lie is that they know what they are doing. They don't.

Stimulating the economy

Consider the economic-stimulus package. If the plan were to remove the mountain of burdens that government has imposed on us, that would make sense, recession or not. But that's not the plan. No burdens will be removed, but new ones will be created. This is easily seen once you realize that government creates no wealth but can only move it around. When it sends out tax rebates while running a budget deficit and without cutting spending, it must get the money by taxing others, borrowing it, or, through the Federal Reserve, creating it out of thin air (inflation). But each of these methods reduces other people's wealth. When inflation pushes up prices, everyone's wealth shrinks. How can these measures "stimulate the economy"?

True, if the government suddenly puts money in lots of people's hands, economic activity will appear to be stimulated. But as the great 19th-century French economist Frédéric Bastiat wrote, the key to understanding economics is to look for the unseen effects. If the government weren't borrowing and taxing in order to magnanimously hand out money, it would be available for the production of goods and services. More important, it would be available for investment, which increases productivity and hence incomes.

The government's plan diverts resources from investment to consumption, as though consumption creates wealth. In fact, consumption is the effect not the cause of economic growth. You can't consume what doesn't exist.

Energy and the free market

If you are still not convinced that these candidates are phony free-enterprisers, look at what they say about energy policy. They are full-out socialist — or, more precisely, fascist — when it comes to energy. Listening to the presidential debates, I have been struck by how anti-free market all but one of the candidates are on this matter. (The exception is Ron Paul.)

They each have a list of things “we must do to end our dependence on foreign oil.” “We,” of course, means “we who are to be forced by government.” Not one shows even a glimmer of understanding that a truly free market would be more than up to the task of ensuring steady and plentiful supplies of energy. It would move us smoothly away from oil as conditions warranted by providing the profit incentives for innovators to find efficient alternative fuels. In fact, *only* the free market can do a good job of that without the corruption and the boondoggles that mark politically managed programs. We have the evidence of history to demonstrate this.

The free market — which is what we need but do not have — is much smarter than any cast of bureaucrats and politicians. Entrepreneurs have two characteristics that serve the public well: the price system to guide them and their own capital at risk. The price system provides critical information and feedback, signaling which projects have the potential to succeed and which do not. Since entrepreneurs, unlike bureaucrats, risk their own wealth, they have a direct stake in getting things right.

Prices guide consumers as well as entrepreneurs, and if prices go up, we can expect appropriate conservation without government mandates. Government-backed fuels, however, will not be subject to free-market pricing. Politicians, ever eager to dispense favors to their patrons, will manipulate the tax and regulatory system to give their pet energy products a price advantage over alternatives.

Any fuel that needs government help to make it in the marketplace is uneconomical and represents corruption. Take ethanol. The only reason anyone is making it is that the tax system treats it more favorably than gasoline. A special interest — the corn farmers supported by the food processor Archer Daniels Midland — favors the creation of this artificial market. There's no other reason for it. Ethanol doesn't save energy, once you account for how much energy is required to make it, and it has its own environmental drawbacks. Moreover, the government-fueled boost in demand for corn has distorted that market, raising world food prices and drawing land out of the production of other needed crops.

Yet most Republican (and Democratic) candidates blithely promise to mount costly programs that would impose a variety of “alternative fuels” on us. Such hubris! As though these politicians know what’s good for a large, diverse society such as ours.

The cry for “energy independence” is peculiar for self-styled advocates of free enterprise. The global division of labor is a pillar of the free market and prosperity, and any drive for self-sufficiency would retard economic growth. So why would we want to stop buying economical fuel from foreign sources? The Republicans say the reason is the threat of terrorism from the Middle East. But the oil market is global, with diverse suppliers. According to the American Petroleum Institute, “Less than 15 percent of the oil the United States consumes comes from Persian Gulf countries.” Of the top ten crude-oil exporters to the United States (86 percent of our imports), only two — Saudi Arabia and Iraq — are in the Middle East. Two of our top three suppliers are in North America — Canada and Mexico.

This is not to say current U.S energy policy is proper. The government should repeal all subsidies and privileges, including intervention in the Middle East, that shield the oil companies and everyone else from the full costs of their choices. In other words, contrary to most of the candidates, we need a real free market in energy. Energy fascism is intolerable.

Henry David Thoreau knew what to say about the economic flimflam being peddled by the leading Republican candidates: “This government never furthered any enterprise but by the alacrity with which it got out of the way.”

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