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The Socialist Bailout of Wall Street, Part 1

by Jacob G. Hornberger

The massive federal bailout of U.S. financial firms reflects everything that’s wrong with the economic system of welfare and interventionism under which the United States has operated since at least the 1930s. There are critically important lessons in the bailout that the American people ignore at their peril. While most politicians and mainstream pundits are viewing the bailout as a necessary “reform,” it is imperative that we place this “reform” in a much wider and deeper context. In doing so, we need to return to first principles.

Our nation was founded on the most unusual set of economic principles in history. It is impossible to overstate the radical, even extreme, nature of America’s economic system from the founding of the republic to the early 20th century.

Imagine: No income tax, no capital-gains tax, and no estate tax. For the first time in history, people were free to accumulate unlimited amounts of wealth, and there was nothing the federal government could do to prevent it. People were going from rags to riches in one or two generations.

Imagine: No economic regulations. People were free to pursue occupations and trades and enter into mutually beneficial economic transactions without any government supervision, control, or regulation. What was meant by the terms “free enterprise” and “free market” was that economic activity — enterprise and markets — was free of government supervision, control, or regulation.

Imagine: No welfare. No Social Security, Medicare, Medicaid, or education grants. Charity was voluntary. If people wanted to help others, they were free to do so. But people also understood that freedom entailed the right to say, “No.” Thus, government did not wield the power to take money from people in order to give it to other people.

Imagine: No immigration controls. People from all over the world were free to come to the United States. With the exception of a cursory health inspection for such things as tuberculosis, no one was denied admission, no matter how poor, illiterate, or uneducated.

Imagine: No systems of public (i.e., government) schooling. No compulsory-attendance laws and no school taxes. Education was left to the free choices of families and individuals.

Imagine: No Federal Reserve System. Banks were privately owned and there was no government central monitoring authority.

Imagine: No paper money. People believed in sound money, which is why they used the Constitution to establish a gold standard. People transacted their business with gold and silver coins.

I'm not suggesting that there weren't exceptions to these principles from time to time in the 1800s and early 1900s. Perfection is impossible to attain, but, by and large, these were the overall principles of the paradigm known as "economic liberty" to which our American ancestors subscribed and under which they lived.

Let's examine the economic system under which Americans live today.

First, extremely burdensome progressive income taxes, capital-gains taxes, and estate taxes.

Second, an enormous regulatory scheme in which government bureaucrats have the power to supervise, monitor, and control people's financial and economic activities.

Third, a massive welfare system, including Social Security, Medicare, Medicaid, farm subsidies, education grants, federal deposit insurance, and much, much more.

Fourth, an enormous and complex plan for immigration. The plan entails restrictions on the ability of people to freely enter the United States, with an enforcement mechanism that grows ever more severe.

Fifth, a nationwide system of government education systems, which involve government planning, direction, and control of what is taught to the children of America. While the public-school systems are run by state and local governments, what is taught is strongly influenced by federal officials as a result of federal aid to education.

Sixth, a monetary system in which the federal government has the authority to print unlimited amounts of paper money. The government also closely regulates, supervises, and monitors banks across the United States.

Seventh, paper money. The gold standard is nonexistent and people now transact their business with nonredeemable paper money, whose value has steadily diminished over the decades.

The life of the lie and unreality

Do you notice any differences between the economic system under which our American ancestors lived and the economic system under which today's Americans live?

Why is that important? Two reasons.

First, throughout the financial crisis mainstream commentators, both liberal and conservative, have been claiming that the crisis reflects a failure of “free enterprise” and, therefore, that government intervention is needed to fix the crisis.

Second, this crisis provides the opportunity for libertarians to raise people’s vision to a much higher level than some “reform” plan, a level that brings to an end the economic system under which we’ve all been born and raised and that restores and builds upon the economic system to which our American ancestors subscribed.

Throughout the bailout controversy, there have been those who have railed against unfettered capitalism, free markets, deregulation, free enterprise, self-interest, and greed. The crisis, they argue, is proof positive that America’s much-vaunted free-enterprise system has failed and, therefore, that it’s necessary for government to step in and save the system.

This mindset is what might be called the “life of the lie” or the “life of unreality.” After all, when we compare the principles that guided the paradigm of economic liberty on which our nation was founded with the principles of today, we find completely opposite principles. If the economic paradigm under which we are living is capitalism and free enterprise, then what was the economic paradigm under which our American ancestors lived?

The key to this life of the lie and life of unreality lies with a monumental event in the life of the republic — the Great Depression, which began with an enormous stock-market crash in 1929 and lasted for more than 10 years. Although the event took place long before most of us were born, it is impossible to overstate the impact that it continues to have on most Americans.

The role of government schools

An important digression is in order at this point. There is a reason that so many mainstream pundits believe (perhaps honestly) that the current financial crisis reflects a failure of free enterprise. The reason is rooted in the Great Depression or, to be more precise, what these pundits have learned about the Great Depression. Here is where the government program known as public schooling plays a critically important role in people’s understanding of what is happening today.

While most people believe that the primary purpose of public schooling is to ensure that everyone receives an education, nothing could be further from the truth. The reason that governments everywhere force the children of the nation into these government facilities is to mold their minds. Long ago, government officials learned that if they could control what children learn every day from the age of 6 through 18, over a course of 12 years they could indoctrinate them into accepting officially approved interpretations of historical events.

No better example of this phenomenon could be found than that relating to the Great Depression. If one conducted a poll of Americans asking whether the Great Depression reflected a failure of America’s free-enterprise system, my hunch is that the overwhelming majority of them

would answer, “Yes.” They would also respond that President Roosevelt’s response to the crisis — the New Deal — saved America’s free-enterprise system.

Now, ask yourself: How is it that so many Americans have arrived at the same conclusion about the Great Depression? It’s not a coincidence. It is what American students are taught in public schools and, for that matter, in government-approved private schools. In fact, it is also what most American college and university students are taught in state-supported universities and colleges.

There is just one big problem with what Americans have been taught about the Great Depression and the New Deal. It’s all a lie. It’s that simple. All those years of state indoctrination produced mindsets that are filled with lies and deceptions.

The truth is that the Great Depression reflected not the failure of America’s free-enterprise system but rather the failure of the system that replaced America’s free-enterprise system. And contrary to popular belief, Franklin Roosevelt’s New Deal programs didn’t save free enterprise; they instead fully and completely rejected and abandoned the free-enterprise system that America had embraced since our nation’s founding and replaced it with a system in which the federal government’s primary purpose became to confiscate and redistribute wealth and control and regulate economic activity.

Economic liberty versus socialism

There have been economists who have pointed out this uncomfortable truth. They include Ludwig von Mises, Friedrich Hayek, and Milton Friedman. Mises and Hayek were members of the so-called Austrian school of economics, a school of economic thought that advances free-market principles. Friedman was an economist in what became known as the Chicago School. Hayek and Friedman were winners of the Nobel Prize.

All three of these economists, along with countless of their students and successors, have long maintained that what failed in the Great Depression was not free enterprise but rather government intervention. They have also long pointed out that Roosevelt’s New Deal programs, based on socialist and fascist principles, actually prolonged the Great Depression. Finally, they have long pointed out that the economic system under which Americans of today were born and raised isn’t free enterprise but rather welfare-state socialism and regulatory interventionism.

Obviously, what Mises, Hayek, and the Austrians, as well as Friedman and the Chicago School, were saying for decades hasn’t sat well with liberals, conservatives, or mainstream pundits. Thus, it shouldn’t surprise anyone that their ideas, philosophy, and policy prescriptions were not likely to be discussed in any history or economics textbook or lectures in government schools or even government-approved private schools.

What is of paramount importance, from the standpoint of those who subscribe to the status quo, is that the indoctrination of America’s young people continue as usual, no matter how false

or fallacious. The last thing that federal officials wanted in the 1930s was for people to figure out that the federal government was responsible for the Great Depression. It's also the last thing they want people to discover today.

While Roosevelt's New Deal constituted a wholesale rejection of free-enterprise principles, the rejection of economic liberty had actually begun years before. The intellectual battle began in the late 1800s, with economic libertarians on the one side and advocates of government control over enterprise on the other. Slowly but surely, the supporters of socialism and interventionism began making headway with their ideas.

For example, there was the Sherman Antitrust Act in 1890, a federal law that criminalized voluntary mergers or combinations between businesses. It was the first of many economic crimes that would later be enacted by federal officials. There was also a growing push at the state level for economic regulation, for example, occupational licensure, minimum-wage laws, and inspections of businesses. The movement toward increased government involvement in American economic life was manifested by the Progressive movement, the socialist and interventionist philosophy and ideas of which would later be embraced by both Republicans and Democrats.

Two of the most significant changes in American life took place in 1913. In that year, the Sixteenth Amendment was adopted, which reflected the national urge to permit the federal government to impose taxes on income, something that earlier Americans had abhorred. The Congress also established the Federal Reserve System, a central bank that had the monopoly power to expand and contract money and credit, another program that early Americans had rejected.

As Mises, Hayek, and Friedman pointed out, throughout the 1920s the Federal Reserve was artificially expanding credit. Have you heard the phrase "the Roaring Twenties"? One of the reasons the decade was roaring was that the Fed, through the expansion of credit, was making the economy "roar."

As prices started to rise, however, in response to the Fed's inflationary policy, the Fed moved in the opposite direction — contraction of the money supply. The Fed over-contracted, however, sucking massive amounts of money out of the system, which produced a massive recession.

Rather than simply letting things sort themselves out, Roosevelt convinced people that what was actually needed was a major transformation of America's economic system — a "new deal" in which the primary mission of the federal government would be to tax and redistribute wealth and regulate economic activity.

Here are the roots of Social Security, Medicare, Medicaid, FDIC, and the rest of the welfare state. Here are the roots of the SEC, the departments of Labor, Agriculture, and Commerce, a multitude of regulatory agencies, and a never-ending stream of tax, banking, labor, economic, and

commercial regulations. Here are the roots of America's 20th-century and 21st-century experiment with socialism and interventionism.

Roosevelt's political brilliance was not just in bringing about a revolutionary change in America's economic system. His political acumen was also reflected in how he sold his revolution — as a free-enterprise reform designed to save America's free-enterprise system.

What could be more brilliant than that? After all, the last thing most Americans wanted was to be called socialists or interventionists. They wanted to be considered as pro-free enterprise as their predecessors. So Roosevelt made them feel good about what he was doing — adopting a paternalistic welfare, regulatory state, but continuing to call it “free enterprise.”

It was important, for both Roosevelt and the American people, that the lie be maintained. It was important that people continued believing that everything was the same as before. So what if early Americans rejected income taxes, welfare, economic regulations, a central bank, drug laws, paper money, and public schooling? So what if their successors embraced all those things? What mattered was that the lie and the myth be maintained, at all costs.

Now do you see why so many modern-day commentators, both liberal and conservative, are maintaining that the current financial crisis constitutes a failure of America's free-enterprise system? Ever since they were children, they have lived in a system whose economic principles are totally contrary to those of our ancestors, but their minds have been molded into believing that opposites are the same.

Where do libertarians fit in all this? We are the advocates of the principles of economic liberty to which our ancestors subscribed. Is it any surprise that we make government officials and mainstream pundits so uncomfortable? Is it any surprise that they do everything they can to ignore or shun what libertarians are saying? Is it any surprise that they erect mountains of electoral barriers to candidates with libertarian perspectives?

We expose their life of the lie. We cause them to confront reality. We remind them of what they have done. We put their abandonment of principle on display. We show them how they've been indoctrinated. That's not a pleasant experience for someone whose life is dedicated to socialism and interventionism but whose mind has been molded into thinking that he's an advocate of the free market.

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