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# FUTURE OF FREEDOM

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VOLUME 25 | NUMBER 7

JULY 2014

*Go forth and set the world on fire.*

— *St. Ignatius Loyola*

# FUTURE OF FREEDOM

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The Future of Freedom Foundation is a nonprofit educational foundation whose mission is to advance liberty and the libertarian philosophy by providing an uncompromising moral, philosophical, and economic case for individual liberty, free markets, private property, and limited government.

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## The U.S. Embrace of Monetary Tyranny, Part 3

by *Jacob G. Hornberger*



In 1933, in one of the most shocking events in the history of the United States, Franklin Roosevelt issued a series of executive orders, backed by Congress, that required the American people, on pain of fine and imprisonment, to surrender their gold coins to the federal government, for which they would receive irredeemable federal bills and notes. Although many, if not most, Americans today remain unaware of his nationalization of gold, his seizure nonetheless ranks as one of the most notorious acts in the history of the country. It was really no different, in principle, from the nationalizations of private property that characterized communist regimes in various parts of the world.

Remember: The American people had been using gold coins as their official money for 150 years. That's because the Constitution, which called the federal government into existence, established a gold-coin standard for the United States. The Constitution had empowered the federal government "to coin money and regulate the value thereof." Moreover, it had not granted the federal government the power to issue paper money or to make paper money legal tender. The Constitution had also expressly prohibited the states from issuing paper money (i.e., emitting bills of credit) and from making anything but gold coins and silver coins legal tender.

Any reasonable reading of the Constitution can lead to but one conclusion: Having personally experienced hyperinflation during the Revolution with the Continental currency ("Not worth a Continental") and having been familiar with the ravages of inflation throughout history, the last thing the Framers wanted was a paper-money standard for the new government that they were calling into existence with the Constitution. Their clear intent was to establish a monetary system based on sound money — money that consisted of gold coins and silver coins.

That monetary system of sound money contributed to making the United States the most prosperous nation in history. For the first time ever, people did not have to concern themselves with the possibility of government debasement of the currency. There was virtually complete confidence in the trustworthiness of U.S. gold coins and silver coins — that is, that such coins contained the weight and fineness that they purported to contain. Few people gave much thought to the possibility that the federal government might shave the edges of the coins to make new coins — a larcenous process known as “clipping the coin,” which governments throughout history had used to enrich themselves.

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**People had lost 40 percent of the value of their gold holdings that the Roosevelt administration had taken from them.**

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In fact, there was so much trust in the U.S. gold-coin standard that people showed no reluctance to lend enormous amounts of money to private companies in return for bonds that didn't mature for 100 years. Why would people do that? Because they didn't fear that their bonds would be wiped out by infla-

tion over that long period. That's because the bonds had “gold clauses” — clauses that expressly provided that the bond had to be repaid in the value of gold coins that existed at the time the debts were incurred.

Thus, if for some reason later generations of Americans were to reject the gold-coin standard in favor of a paper-money standard, the bonds, by virtue of their gold clauses, would nonetheless still have to be paid back in gold coins of the same value that were lent at the time the contract was originally entered into.

### Nationalization

Yet, in 1933 — 150 years after the Constitution was ratified — the money that had been the official money of the United States was nationalized and confiscated by U.S. officials. Even worse, Americans who were caught owning or possessing what had been the official money of the United States for a century and a half were criminally prosecuted for committing a felony, suffered forfeiture of their gold, and were fined double the amount of any gold they were caught possessing.

Adding insult to injury, soon after the gold nationalization, U.S. officials devalued the paper dollar by 40 percent relative to gold. That ef-

fectively meant that people had lost 40 percent of the value of their gold holdings that the Roosevelt administration had taken from them, with the gain going instead to the benefit of the federal government.

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**Roosevelt justified the gold seizure by saying the people's "hoarding" of gold contributed to the Great Depression.**

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In one of the more laughable aspects of this sordid act, Roosevelt justified the gold seizure by saying the people's "hoarding" of gold contributed to the Great Depression. It was part of the government's shameful campaign to convince Americans that the Great Depression reflected the failure of America's free-enterprise system rather than the failure of the Federal Reserve System, which had come into existence 20 years before.

With the federal government's adoption of a fiat-money monetary system, irredeemable paper money replaced gold coins as the official money of the United States. That meant the floodgates for federal spending could be opened to fund ever-growing expenditures of the federal government.

One of the most fascinating aspects is how it was accomplished.

The fundamental and permanent altering of America's economic way of life wrought by the adoption of a fiat-money standard was done through presidential decrees and congressional acts rather than by amendments to the Constitution, the charter that had established the gold-coin standard in the first place.

What about the gold clauses in those 100-year bonds that had been issued by American companies? Roosevelt felt that they were interfering with his new-fangled monetary system, and so he simply decreed that those private contractual obligations were null and void. Never mind that the Constitution did not delegate to the federal government the power to impair contracts.

When the Gold Clause Cases came before the U.S. Supreme Court, the Court, in a 5-4 decision, upheld the constitutionality of Roosevelt's actions. Even though the gold clauses had been expressly agreed to between lender and borrower, the Court held that the debtor could nonetheless pay the debt back with devalued paper money. The dissent in the Gold Clauses Cases had the better position:

[If] given effect, the enactments here challenged will bring about

confiscation of property rights and repudiation of national obligations. Acquiescence in the decisions just announced is impossible; the circumstances demand statement of our views. “To let oneself slide down the easy slope offered by the course of events and to dull one’s mind against the extent of the danger, ... that is precisely to fail in one’s obligation of responsibility.”

Just men regard repudiation and spoliation of citizens by their sovereign with abhorrence; but we are asked to affirm that the Constitution has granted power to accomplish both. No definite delegation of such a power exists; and we cannot believe the farseeing framers, who labored with hope of establishing justice and securing the blessings of liberty, intended that the expected government should have authority to annihilate its own obligations and destroy the very rights which they were endeavoring to protect. Not only is there no permission for such actions, they are inhibited. And no plenitude of words can conform them to our charter.

## Other changes

The Roosevelt regime revolutionized America’s governmental system in at least two other major ways, which worked perfectly in tandem with Roosevelt’s embrace of a fiat-money standard.

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**The federal government would be charged with the responsibility of taking care of people.**

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One of the changes was to firmly convert the United States to a welfare state in which the federal government would be charged with the paternalistic responsibility of taking care of people. Roosevelt’s New Deal, of course, marked the beginning of Social Security, a permanent government program that taxed young people in order to give the money to seniors. The Constitution had never authorized the federal government to adopt such a program. The idea was imported from Germany, where socialistic programs had already become and were becoming increasingly popular.

Another fundamental change in America’s governmental structure occurred as a result of World War II, the war in which Roosevelt was bound and determined to involve the United States, notwithstanding the fierce opposition of the Ameri-

can people to involvement in another European war. World War II set the stage for the Cold War against America's partner and ally, the Soviet Union. The Cold War, in turn, gave the United States an enormous permanent military establishment; an overseas empire of military bases; the role as international policeman, judge, and executioner; the job of containing communism all over the world; a national-security state apparatus; the CIA; the NSA; foreign aid to dictatorships; and all the dark-side practices and policies (e.g., torture, assassination, invasions, occupations, indefinite detention, secret prisons, and renditions) that came with this fundamental altering of America's governmental system — again, all without even the semblance of a constitutional amendment.

It was no surprise that the welfare-warfare state proved to be expensive, with decade after decade of ever-growing federal expenditures to fund ever-growing welfare-state and warfare-state programs.

That's where the income tax and Federal Reserve, both of which had been authorized in 1913, and Roosevelt's adoption of a fiat-money standard in 1933 came in handy. The income tax and the power to debase the currency provided the

federal government, decade after decade, with the ability to fund ever-increasing welfare-warfare state expenses.

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**It's no surprise that the value of the paper dollar today is equal to about 5 percent of its value in 1913.**

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Whenever the overall price level rose to reflect the lower value of the dollar, federal officials would blame the situation on private greed and rapaciousness. Most people, not knowing any better, would chime in by condemning the evil, greedy, profit-seeking bourgeois businessmen who were supposedly gouging the public with ever-rising prices, or labor unions that were demanding higher wages and more benefits.

It's no surprise that the value of the paper dollar today is equal to about 5 percent of its value in 1913. That's what happens when a government, decade after decade, debases the currency. The ever-lowering value of the dollar certainly would not have surprised the Framers. That's precisely what they were attempting to avoid when they established the gold-coin standard with the Constitution.

It is interesting that, while the federal government was punishing Americans caught possessing gold

coins, the people were still legally permitted to own silver coins. Gradually though, the silver coins were driven out of circulation, a process that Roosevelt would have called “hoarding.” That’s because “bad money drives out good money,” as Gresham’s Law holds. Today, while it would be legal to put silver quarters into a vending machine to purchase a \$1 soft drink, everyone knows that it would be stupid to do so, because even one silver quarter is worth much more in paper dollars. That’s what happens when a government inflates the amount of paper money in circulation — its value depreciates relative to gold and silver and nearly everything else.

### Free-market money

So, where do we go from here?

One option is to continue the status quo, as statisticians want us to do. That would be one gigantic mistake. The statist road on which the statisticians have taken our country is the road to bankruptcy, impoverishment, high taxation, inflation, moral debauchery, and loss of freedom.

The better route is to build on what our American ancestors accomplished in 1787.

Many years ago, the Nobel Prize-winning Austrian economist

Friedrich Hayek published an essay entitled “The Denationalization of Money,” in which he proposed a free-market monetary system, one in which people would be free to use whatever money they choose — gold coins, silver coins, banknotes, bitcoins, or anything else.

That’s the monetary system that the American people should embrace for the third century of our nation’s existence — a monetary system based on America’s heritage of competition and free markets.

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**The American people should embrace a monetary system based on America’s heritage of competition and free markets.**

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Such a system would necessarily entail an abolition of the Federal Reserve System, a system that has done nothing but produce never-ending cycles of boom and bust and inflation, recession, and depression. Such consequences shouldn’t surprise us. After all, the Fed is nothing but a variant of socialist central planning, one in which a small group of monetary officials labor under what Hayek called the “fatal conceit” that they can actually plan the complex monetary activities of hundreds of millions of people. By now, it should be obvious that cha-

os inevitably comes with socialist central planning of any economic endeavor.

The ideal would be not only a free-market monetary system but also a total dismantling of the welfare-warfare-state way of life that has wrought so much damage and destruction to the lives, resources, and liberties of the American people.

By dismantling the welfare-warfare state apparatus that statist grafts on our constitutional order while ending the twin engines that have provided the funding for welfare-warfare state programs — the

income tax and the fiat-money system — Americans would lead the world into a new millennium — toward societies based on peace, prosperity, harmony, and freedom.

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*Jacob Hornberger is founder and president of The Future of Freedom Foundation.*

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### NEXT MONTH:

**“The Presidential Power to Torture and Assassinate, Part 1”**  
*by Jacob G. Hornberger*

*Our supplies of natural resources are not finite in any economic sense. Nor does past experience give reason to expect natural resources to become more scarce. Rather, if history is any guide, natural resources will progressively become less costly, hence less scarce, and will constitute a smaller proportion of our expenses in future years.*

— Julian Simon

## What Social Animals Owe to Each Other

by Sheldon Richman



If I were compelled to summarize the libertarian philosophy's distinguishing feature while standing on one foot, I'd say the following: Every person owes it to all other persons not to aggress against them. This is known as the nonaggression principle, or NAP.

What is the nature of this obligation?

The first thing to notice is that it is unchosen. I never agreed not to aggress against others. Others never agreed not to aggress against me. So if I struck you and you objected, you would not accept as my defense, "I never agreed not to strike you."

Even an explicit agreement rests on an unchosen obligation. Let's say you lent me five dollars, I refused to repay the loan, and when you demanded repayment, I said, "Why

am I obligated to repay the money?" You would probably reply, "Because you agreed to repay me." If I replied, "True, but when did I agree to abide by my agreements?" what would you say? If you said that failure to repay constituted aggression, and I replied that I never agreed not to aggress against you, we'd be back where we started.

Of course that would point the way to absurdity — an infinite regress of agreements to keep my agreements. We would get nowhere. There has to be a starting point.

If I were to ask, "Why do we owe it to others not to aggress against them," what would you say? I presume some answer rooted in facts would be offered because the alternative would be to say this principle has no basis whatsoever, that it's just a free-floating principle, like an iceberg. That would amount to saying the principle has no binding force. It's just a whim, which might not be shared by others. In other words, if a nonlibertarian demands to know why he is bound by the unchosen NAP, libertarians will have answers. Their answers will differ — some will be more robust than others — but they will have answers. At least I hope so.

Now if we have an unchosen obligation not to aggress against

others and that obligation is rooted in certain facts, it raises a new question: Might the facts that impose the unchosen obligation not to aggress also impose other obligations? If one unchosen obligation can be shown to exist, why couldn't the same foundation in which that one is rooted produce others?

### Ends and means

To the question “Why do we owe it to others not to aggress against them,” I would respond along these lines: because we individually should treat other persons respectfully, that is, as ends in themselves and not merely as means to our own ends. But some libertarians would reject that as too broad because it seems to obligate us to more than just nonaggression. They might answer the question this way: “Because one may use force against another only in defense or retaliation against someone who initiated the use of force.” But that can't be sufficient because it amounts to a circular argument: To say that one may use force only in response to aggression is in effect merely to restate the nonaggression principle. One shouldn't aggress because one shouldn't aggress. But the NAP can hardly justify itself.

So we need a real justification for the NAP, and the one I've offered seems like a good start. The NAP is an implication of the obligation to treat persons respectfully, as ends and not merely as means. Of course that also requires justification. Why should we treat other persons respectfully?

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“Why do we owe it to others not to aggress against them?”

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Many libertarians, though certainly not all, approach the question of just conduct — specifically, as it relates to the use of force — from egoistic considerations, such as those provided by Ayn Rand. They say we should never aggress against others because doing so would be contrary to our self-interest: the dishonesty required by a life of injustice would be psychologically damaging, and we'd eventually run out of victims.

Socrates and Plato saw a problem with the first part of that answer. If one could act unjustly toward others while appearing to be just, could unjust conduct serve one's self-interest? Egoistic libertarians can be asked the same question. What if you could lead an unjust life with a guarantee of the appearance of justice? Must dishonesty be dam-

aging? The same people who would say yes to that question, however, would also say that a person who spins a complicated web of lies to keep the Nazis from learning he is harboring Jews in his attic won't suffer such damage. If that person can escape harm, why not the unjust liar? Saying that one set of lies is for a good cause doesn't strike me as an adequate answer. How would a good cause save someone from the harm of "faking reality"?

So it seems that a simple self-interest model doesn't take us where we want to go: to the unchosen obligation to respect people's freedom, or more broadly, to treat persons as ends and not merely as means. I would be a little uneasy if a libertarian told me that it is only his self-interest that prevents him from clubbing me on the noggin and making off with my wallet.

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**I would be a little uneasy if a libertarian told me that it is only his self-interest that prevents him from clubbing me.**

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And yet, self-interest still might provide an answer. Roderick Long tackles this problem in his extended essay "Reason and Value: Aristotle versus Rand" (<http://bitly/1j9zxKH> [PDF]). What Long shows, to my

satisfaction at least, is that Rand's notion of self-interest as expressed in her nonfiction essays is too flimsy to support the libertarian prohibition on aggression and the general injunction to treat people respectfully. To be more precise, Long shows that Rand's explicit writings on ethics are a tangle of at least three different and inconsistent defenses for the nonaggression principle (one of them Kantian — how's that for irony?).

Before we get to that, however, we must invoke an important distinction that Long emphasizes: instrumental versus constitutive means to an end. An instrumental means is external to the end. A constitutive means is intrinsic to the end: we can't imagine the end without it. Long uses the example of a man dressing up for an evening out (where "dressing up" includes a necktie). Shopping for a tie is an instrumental means. Wearing the tie is a constitutive means — it is part of what we mean by "dressing up." One can dress up without shopping for a tie, but one cannot dress up without wearing a tie.

We can look at justice, which includes respect for other persons' rights, in both ways. Does respect for their rights serve our self-interest merely because we would earn

good reputations and others will cooperate with us? (That is Thomas Hobbes's position.) Or is respecting their rights also a constituent of living a good human life? The answer is crucial. In the first case, one's self-interest could be served by acting unjustly so long as one could appear to be just. In the second case, one could not flourish by acting unjustly even if one could go undetected. As Socrates suggested, it is preferable to live justly with a reputation for injustice than to live unjustly with a reputation for justice. (For the same reason he also said it is better to be a victim than a perpetrator of injustice.)

### Human flourishing

Long shows that Rand has both instrumental and constitutive elements in her nonfiction writing on ethics; in some places she says a person's goal should be survival, while in other places she speaks of survival "qua man." It isn't entirely clear whether individuals should aim at the longest possible life regardless of the type of life or at a particular type of life regardless of its length. (Her novels appear to take the latter position — suicide is even contemplated by heroic characters.) If it's the first, then violating someone's rights might occasional-

ly be in one's self-interest. Imagine that at 4 a.m. you pass an alley in a deserted part of town where a man is passed out and a \$100 bill is sticking out of his pocket. The chances of getting caught are zero. Do you take the money? If not, why not? An instrumental model of justice should say to take the money. A constitutive model would not.

It might be said that a rational person acts on rational principles even if in particular cases his self-interest is not served. But Long points out that such "rule egoism" ends up being no egoism at all, since the rule is followed regardless of its consequences. This approach is deontological, not teleological, as Rand would want it. So the reply is inadequate.

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**"To violate the rights of others is to lessen one's humanity."**

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What are the grounds for accepting the constitutive model of virtue, including justice? Turning to Aristotle, Long writes,

For Aristotle, a human being is essentially a *logikon* animal and a *politikon* animal....

To be a rational animal is to be a language-using animal, a conversing animal, a discus-

sive animal. And to live a human life is thus to live a life centered around discourse.

Our nature as *logikon* is thus closely allied with our nature as *politikon*. To be a *politikon* animal is not simply to be an animal that lives in groups or sets up governments; it is to cooperate with others on the basis of discourse about shared ends....

Being *politikon* is for Aristotle an expression of being *logikon*; just as *logikon* animals naturally conduct their private affairs through reason rather than through unreflective passion, so they naturally conduct their common affairs through public discourse and rational persuasion, rather than through violence....

Thus, Long adds, “To violate the rights of others, then, is to lessen one’s humanity.... To trample on the rights of others is never in our self-interest, because well-being cannot [quoting Aristotle] ‘come about for those who rob and use force.’”

One’s goal is to flourish by achieving excellence in those things that make us human — Aristotle says that “the task of man is a cer-

tain life, and this an activity and actions of soul with *logos*.” One cannot flourish if one lives in a nonhuman way. If that sounds like Rand, it’s because her fictional characters understand it, even if her nonfiction essays do not express it unambiguously.

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**One’s goal is to flourish by achieving excellence in those things that make one human.**

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Long concludes,

A truly human life, then, will be a life characterized by reason and intelligent cooperation. (Bees may cooperate after a fashion, but not on the basis of discourse about shared ends.) To a *logikon* animal, reason has value not only as an instrumental means to other goals but as an intrinsic and constitutive part of a fully human life; and the same holds true for cooperation. The *logikon* animal, insofar as it genuinely expresses *logos*, will not deal on cooperative terms with others merely because doing so makes others more likely to contribute instrumentally to the agent’s good; rather, the agent will see

a life of cooperation with others as an essential part of his own good.

Aristotle's book on friendship in the *Nicomachean Ethics* beautifully elaborates this point. Long's and Neera Badhwar's article on Rand in the *Stanford Encyclopedia of Philosophy* is also worth reading, especially the section on virtue, vice, and egoism (<http://stanford.io/1j9APoN>).

If Long is right, we owe respect to others' humanity by respecting their rights because the activity manifesting that respect is a constituent of our own flourishing as *logikon* and *politikon* animals. We owe it to ourselves to owe it to others. This Aristotelian insight points to an interpersonal moral realm in which the basic interests of others meld in important ways with our own. "To the extent that we are *logikon* animals," Long writes, "participation in a human community, together with a shared pursuit of the human good, is a constitutive part of a truly human life."

But does that show that we owe anything more than nonaggression? It seems so. We abstain from aggressing against others because, as *logikon* and *politikon* animals, we flourish by engaging the humanity of other individuals. Clearly, ab-

staining from aggression is not the only way to engage their humanity, just as aggression is not the only way to deny their humanity. Thus these Aristotelian considerations entail the obligation to treat others respectfully broadly.

### Other obligations?

One last question remains: Is the obligation broadly to treat other persons as ends and not merely as means a libertarian matter? It is, at least in this way: The obligation broadly to treat other persons as ends and not merely as means is validated by the same set of facts that validate the nonaggression principle. Nonaggression is simply one application of respect. Thus, a libertarian society in which people generally thought that nonaggression was all they owed others would be a society that should fear for its future viability qua libertarian society.

Finally, I'm sure libertarians do not have to be reminded that non-aggressive affronts against persons may be responded to only in non-aggressive ways. Neither governmental nor private force may be deployed to counter peaceful offenses. Why not? Because the rule of proportionality dictates that force may be used only to meet force. In other

words, some obligations are enforceable and others are not.

(While thinking about this article, I profited mightily by conversations with Gary Chartier.)

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*Time to Repeal the Welfare State and two other books published by FFF. Visit his blog, “Free Association,” at [www.sheldonrichman.com](http://www.sheldonrichman.com).*

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**NEXT MONTH:**  
**“On Work”**  
*by Sheldon Richman*

*It is not certain that with this aid alone [possession of arms], they would not be able to shake off their yokes. But were the people to possess the additional advantages of local governments chosen by themselves, who could collect the national will, and direct the national force; and of officers appointed out of the militia, by these governments and attached both to them and to the militia, it may be affirmed with the greatest assurance, that the throne of every tyranny in Europe would be speedily overturned, in spite of the legions which surround it.*

— James Madison

## How Early U.S. Trade Policy Spurred Wars and Injustice, Part 2

by James Bovard



In 1845 the Democrats took over the White House and began working for tariff reduction. Secretary of the Treasury Robert Walker issued a report in 1845 on the nature and effects of the tariff, observing, “At least two-thirds of the taxes imposed by the present tariff are paid, not into the treasury but to the protected classes.... [The tariff] is too unequal, and unjust, too exorbitant and oppressive, and too clearly in conflict with the fundamental principles of the Constitution.” Walker concluded, “If England would now repeal her duties upon our wheat, flour, Indian corn, and other agricultural products, our own restrictive system would certainly be doomed to overthrow.” Walker assumed this because

American protectionists had eternally pointed to English trade barriers to justify the perpetuation of high American tariffs. In 1846 the British repealed almost all tariffs on agricultural products. Yet American protectionists were not satisfied, and quickly invented new reasons that the United States should have high tariffs. For the next 40 years, anyone who advocated free trade was loudly accused of having taken “British gold.”

But in the late 1840s a series of tariffs were slashed. The 1850s, an era of low tariffs, was widely recognized as by far the most prosperous era in American history to that point. However, the rise of the Republican Party would soon put an end to such policies. Abraham Lincoln campaigned on a promise to boost tariffs — a key factor in helping him carry Pennsylvania and win the presidency in 1860. But Lincoln’s tariff agitation further alienated Southern states and convinced many Southerners that they would be sacrificial animals for Northern industrialists.

After seven Southern states seceded — over slavery — Republicans in Congress rushed to enact a prohibitive tariff bill even before Lincoln took office. A *New York Times* editorial on February 14,

1861, warned that boosting the tariffs as high as 216 percent could drive the border states out of the Union: “One of the strongest arguments the [seceded states] could address to [border states] would be furnished by a highly protective tariff on the part of our Government, toward which they cherish the deepest aversion.” The *Times* condemned the bill as a “disastrous measure” that “alienates extensive sections of the country we seek to retain” and will “deal a deadly blow ... at the measures now in progress to heal our political differences.” The *Times* noted that “the tendency of all leading commercial nations, is unmistakably toward free trade.... We should be in a pretty fix, with free trade at every Southern port, and a prohibitory tariff at New-York, Philadelphia and Boston.” The *Times*’s sound arguments had no impact on the Republican stampede, and six more states seceded after the Morrill tariff bill was enacted and after Lincoln mobilized troops in response to the Fort Sumter episode.

### 1880s follies

Tariff fights were intense in the 1880s, producing some of the best analysis of the folly before or since. Rep. Frank H. Hurd declared in

1881, “It is beyond the sphere of true governmental power to tax one man to help the business of another.... This is robbery, nothing more nor less.” And there was no reason to expect benevolent guidance. Economist Henry George observed, “To introduce a tariff bill into Congress is like throwing a banana into a cage of monkeys. No sooner is it proposed to protect one industry than all industries begin to screech and scramble for it.” Yale professor William Graham Sumner testified to the Tariff Commission in 1882, “Protective taxes have never been laid in view of any true knowledge of the industrial circumstances, and they never can be. Now, from a tangle of absurdities and contradictions, and ignorances, and guesses, it is expected that guidance will come which shall lead the American producer to a better organization of industry than he could arrive at if left alone, so that greater accommodation of capital and larger wages would follow.”

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The *Times* noted that “the tendency of all leading commercial nations, is unmistakably toward free trade.”

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Rather than boosting American manufacturing across the board,

the high tariffs of the 1880s sacrificed some industries to others. As Henry George noted,

Thus iron ore has been protected despite the fact that American steel-makers need foreign ore to mix with American ore, and are obliged to import it even under the high duty. Thus copper ore has been protected, to the disadvantage of American smelters, as well as of all the many branches of manufacture into which copper enters. Thus lumber has been protected in spite of its importance in manufacturing as well as of the protests of all who have inquired into the consequences of the rapid clearing of our natural woodlands. Thus coal has been protected, though to many branches of manufacturing cheap fuel is of first importance.

High tariffs in the 1880s were widely recognized as a ball and chain on American exports. As Jacob Schoenhof observed in his 1885 book, *The Destructive Influence of the Tariff*, “The word ‘Protection’ presupposes the existence of a foreign power against which protec-

tion is desired. Excepting Spain, perhaps, it is only the United States, who in spite of the experience of other nations, maintain that a Chinese wall [of high tariffs] is necessary to the well-being and happiness of her people.” Schoenhof pointed out the adverse impacts of trade barriers: “It is the nature of all protection that it either stimulates over-production or invites to indolence, carelessness, and neglect.” He pointed out a basic truth that congressional policymakers perennially ignored: “Protection of industries and [import] taxes on raw materials cannot coexist.”

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**High tariffs in the 1880s were widely recognized as a ball and chain on American exports.**

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In his influential “Report on Manufacturers,” Treasury Secretary Alexander Hamilton had promised that a short period of protection for infant industries would result in higher industrial productivity that would soon deliver a bounty of lower prices to consumers. By the 1890s, protectionists were using a far different argument, claiming that it was unfair for American producers to have to compete with foreign producers who had any cost advantage whatsoever. The House

Ways and Means report on the McKinley Tariff of 1890 proclaimed an ideal of equalizing domestic and foreign costs of production. Yet that standard never made any sense.

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**Tariffs from 1890 onwards were based on the principle that any foreign advantage was inherently unfair.**

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A 1908 congressional investigation of the paper industry concluded, “The difference in the cost of production between up-to-date, well-located plants and inefficient, badly-located plants in this country, was greater than the difference between efficient plants here and efficient plants abroad.” The tariff code had “evolved” from a way to provide future benefits to consumers into a means to provide unlimited and permanent protection to producers, regardless of their efficiency, competence, or greed. Tariffs from 1890 onwards were based on the principle that any foreign advantage was inherently unfair.

### Tariffs and wars

The McKinley Tariff of 1890 also helped drag the nation into war later that decade. As John Dobson explained in his 1976 book, *Two*

*Centuries of Tariffs: The Background and Emergence of the U.S. International Trade Commission,*

When William McKinley was drafting his sweepingly protective revision of the tariff schedules in 1890, he realized that some sources of the surplus revenue would have to be eliminated in order to justify raising other rates. For this and other reasons, sugar ended up on the free list, effectively reducing the income from customs duties by approximately \$50 million to \$60 million a year.... In order not to leave U.S. producers without a competitive advantage, the act authorized the Government to pay them a 2 cent per pound bounty on their production.... When the Democrats revised the tariff 4 years later, they restored a portion of the old duty on sugar and dropped the bounty. Then in 1897, the Republicans restored the bounty, but did not eliminate the duty.

Because planters in the Kingdom of Hawaii could not profitably export sugar to the U.S. market over post-Civil War tariff rates, the Royal Government finally succeed-

ed in negotiating a reciprocal trade agreement in 1875 that allowed Hawaiian sugar to enter the U.S. without being taxed. In return, Hawaii reduced or eliminated taxes on certain U.S. goods it purchased. The U.S.-Hawaiian reciprocal trade agreement made sugar growing tremendously profitable in the islands, and U.S. planters or planters of U.S. descent settled in the islands and cultivated huge tracts of land, importing thousands of Japanese and Chinese laborers to work their fields. Between 1875 and 1890, U.S. consumption of Hawaiian sugar increased over 1400 percent. Thus, the reciprocity treaty confirmed Hawaiian economic dependence on the U.S. When the 1890 McKinley Act eliminated the tariff on sugar, it effectively destroyed the reciprocity advantage Hawaii had over other tropical regions and the islands' economy collapsed. In the ensuing economic crisis, the American planters on the islands overthrew the Hawaiian monarchy, set up a Hawaiian Republic, and sought annexation by the United States.

While the cancellation of the U.S. sugar tariff had drastically damaged Hawaii's economy, it had benefitted the Spanish colony of Cuba enormously. The Cuban economy boomed dramatically, since Cuban sugar could now be shipped tax-free into U.S. markets. The restoration of the duty in 1894, coming on the heels of the worldwide depression of 1893, seriously damaged Cuba's prosperity. In a few months, Cuban revolutionaries had capitalized on the discontent of the impoverished Cuban peasants and had renewed a bloody fight for independence begun 25 years before.... This conflict ultimately drew the U.S. into a war with Spain in 1898. The war, in turn, led the U.S. to establish possession of several islands in the Caribbean and the Pacific as well as triggering the annexation of Hawaii. Thus, the seemingly innocent juggling of the sugar duty had important consequences for the U.S. and for the world.

The Republicans recaptured the White House in 1896, and a big tariff increase followed in 1897. As the

classical-liberal editor of *The Nation*, Oswald Garrison Villard, observed on the 1897 tariff, “Its effect on the American working man’s standard of living appears from the fact that in the first ten years after its enactment the price of raw materials increased 50%, and of manufactured goods 32%, while wages in more than four thousand establishments rose only 19%.”

The Reform Club of New York released a study in 1903 that showed “out of an average family expenditure of \$940, no less than \$111 represented the total tariff tax, and that of this \$111 only \$16.52 was taken by the Government, the other \$94.48 passing to the Capitalists in the protected trades.”

During the First World War, normal trade with Europe was cut off. As with the War of 1812, many new American industries sprang up. Naturally, since there were new industries, the nation required much higher tariffs after the war. Tariffs were raised sharply in 1921 and 1922, even though the United States had a huge trade surplus at the time. The higher tariffs bushwhacked Europeans who had borrowed billions during and after the war, practically barring them from earning dollars to pay back their debts. More than a hundred thousand Americans died

in a war claimed to prevent the subjugation of Belgium, France, Britain, and other countries. Then, as soon as the troops got home, Congress worked feverishly to prevent Americans from buying Belgian, French, and British products. The Republican high-tariff policy climaxed in the Smoot-Hawley Tariff Act of 1930 — one of the primary causes of the worldwide Great Depression that helped pave the way to World War II.

The history of U.S. trade policy should vaccinate anyone against expecting visionary economic thinking from Capitol Hill. Unfortunately, most Americans are unaware of the role of U.S. trade barriers in spurring exploitation at home and conflict abroad.

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**NEXT MONTH:**  
**“America’s Cluster-Bomb  
Congress”**  
*by James Bovard*

## Class Theory, Part 3: Libertarian Class Analysis Revisited

by Anthony Gregory



The Left has long dominated the basic idea of two classes in society — the common people and the power elite — each with its own, usually conflicting, interests. When the Left speaks that way, the Right tends to accuse it of “class warfare,” even though conservatives have recently adopted such rhetoric. To reconcile the two groups’ different versions of class analysis, and to see why neither grasps the full picture, we can refer to the classical-liberal tradition that first employed the class analysis that has survived to this day, albeit in altered forms.

Libertarian historian Ralph Raico identifies the origins of class analysis within old-school liberal-

ism, not Marxism or modern leftism. In his talk “Classical-Liberal Roots of Marxist Class Analysis,” delivered at an event sponsored by the Ludwig von Mises Institute in October 1988, Raico said,

We can have a theory of class conflict but one that has nothing to do with Marx, one that in fact antedated Marx. Because the fact of the matter is that there was a theory of class conflict developed by classical liberals before Marxism and on which Marx himself drew.

As Raico explains in his important work “The Conflict of Classes: Liberal vs. Marxist Theories,” Marx himself appears a little confused on the definition of class, gravitating between one based on economic production and another based on legal caste. “The history of all hitherto existing society,” Marx famously wrote, “is the history of class struggles. Freeman and slave, patrician and plebeian, lord and serf, guild-master and journeyman, in a word, oppressor and oppressed, stood in constant opposition to one another.” As Raico observes, those distinctions all rely on legalities. At times, however, Marx ridiculed the very idea that class was grounded in power.

Marx did not claim to invent class theory. “No credit is due to me,” he said, “for discovering the existence of classes in modern society or the struggle between them. Long before me bourgeois historians had described the historical development of this class struggle and bourgeois economics the economic anatomy of the classes.”

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**Professional armies were seen as part of the ruling class.**

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Marx was probably referring to the ideas prominent among such 19th-century French scholars as Augustin Thierry and Charles Dunoyer, as well as Jean-Baptiste Say and his followers Charles Comte and Jérôme-Adolphe Blanqui. Say loved commerce and saw government privilege handed out to favored economic interests as a great sin: “If one individual, or one class, can call in the aid of authority to ward off the effects of competition, it acquires a privilege at the cost of the whole community.” An important component in this liberal class theory is the emphasis on opposing war and standing armies. Professional armies were seen as part of the ruling class.

Blanqui, in Raico’s words, wrote “what is probably the first history of

economic thought, published in 1837,” in which the French classical liberal explained,

In all the revolutions, there have always been but two parties opposing each other; that of the people who wish to live by their own labor, and that of those who would live by the labor of others.... *Patricians and plebeians, slaves and free-men, guelphs and ghibellines, red roses and white roses, cavaliers and roundheads, liberals and serviles, are only varieties of the same species.* [Emphasis in original.]

### Libertarian analyses

In “Libertarian Class Analysis,” appearing in *Freedom Daily* (2006, now *Future of Freedom*: <http://bit.ly/1j9QtAH>), Sheldon Richman noted that the Manchester School’s classical-liberal rhetoric adopted class analysis, as seen in Richard Cobden and John Bright’s fight against the Corn Laws. Bright viewed the struggle as “a war of classes: I believe this to be a movement of the commercial and industrial classes against the Lords and the great proprietors of the soil.”

Other 19th-century stalwarts of classical liberalism carried on this

tradition. In the 1830s, American editor William Leggett, who favored separation of banking and government, identified the corporate state, and foreshadowed the most astute of today's Wall Street Occupiers two centuries later:

Have we not, too, our privileged orders? our scrip nobility? aristocrats, clothed with special immunities, who control, indirectly, but certainly, the power of the state, monopolise the most copious source of pecuniary profit, and wring the very crust from the hard hand of toil? Have we not, in short, like the wretched serfs of Europe, our lordly master? ... If any man doubts how these questions should be answered, let him walk through Wall-street.

John C. Calhoun believed that government divided society “into tax-payers and tax-consumers.” And French theorist Frédéric Bastiat saw legal plunder as the basis of class division:

Men naturally rebel against the injustice of which they are victims. Thus, when plunder is organized by law for the profit

of those who make the law, all the plundered classes try somehow to enter — by peaceful or revolutionary means — into the making of laws. According to their degree of enlightenment, these plundered classes may propose one of two entirely different purposes when they attempt to attain political power: Either they may wish to stop lawful plunder, or they may wish to share in it.

According to libertarians, Marx transformed class analysis to focus on the economic exploitation of workers. At times he saw the state itself as the ruling class — a “parasite feeding upon, and clogging, the free movement of society” — and its executive as an “appalling parasitic body, which enmeshes the body of French society like a net and chokes all its pores.” At other times, he regarded the state as the capitalists’ tool — the true ruling class being the capitalists. Under mercantilism and proto-corporatist systems, wealthy merchants held political power, and so Marx easily adapted analysis from a theory based on legally defined categories to one based on one’s status in the process of economic production. His focus on the capitalists

who use the state to exploit workers rather than on the state itself has allowed class analysis to become a rationale for expanding state power rather than dismantling it.

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**Modern libertarians have carried the torch in identifying class analysis as an important part of educating the people.**

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Modern libertarians have carried the torch in identifying class analysis as an important part of educating the people about their plight and fomenting intellectual revolution. Murray Rothbard's work was full of libertarian class analysis, as seen in his strategic writings and such writings as "Wall Street, Banks, and American Foreign Policy" and "Anatomy of the State." In 1977, guided by libertarian class consciousness, he wrote that the mark of a radical libertarian was that he demonstrates "a deep and pervasive hatred of the State and all of its works, based on the conviction that the State is the enemy of mankind."

Modern radicals, such as "the Levellers, Patrick Henry, Tom Paine, Joseph Priestley, the Jacksonians, Richard Cobden," and other historical antecedents, saw themselves as actual enemies of the state,

"which must be hacked away" wherever possible. While Marxist economics has informed radical leftist class theory, Austrian economics guided Rothbard's. Finding that his economics mentor, Ludwig von Mises, had touched on class analysis himself, Rothbard, writing the preface to a 1978 publication of Mises's *Clash of Group Interests and Other Essays*, wrote,

[We] have to abandon the cozy view that all of us, we and our privileged rulers alike, are in a continuing harmony of interest.... [We] conclude ... that the interests of the State privileged and of the rest of society are at loggerheads — and further, that only moral principles beyond utilitarianism can ultimately settle the dispute between them.

In 1977 John Hagel and Walter Grinder wrote in their seminal paper "Toward a Theory of State Capitalism: Ultimate Decision-Making and Class Structure" (*Journal of Libertarian Studies*),

The idea of economic interest and economic hegemony or exploitation is directly related to a sense of legitimacy and, as

such, it is of key importance in determining all socioeconomic and political relationships. Ultimately, the question of how individuals will relate to each other in economic matters and in the broader matrix of social organization (i.e., whether it will be exploitative or not) will be determined in this realm of ideas.

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### The Tea Party movement and Occupy Wall Street are both onto something, but have major flaws.

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Richman urges his fellow libertarians to “understand liberal class theory. They must not shy away from it because it was hijacked by the Marxists.... [They] should use whatever influence they have to raise the class-consciousness of all honest, productive people. That is, the industrious must be shown that they are daily victims of the ruling political class.” American history teacher Charles Burris has gone so far as to write in his annotated bibliography of the New Deal (LewRockwell.com, August 1, 2007), “An understanding of Libertarian Class Analysis is the ‘litmus test’ separating real libertarians from alternative lifestyle dilettantes dabbling in free market theory.”

### The prospects for a new libertarian class consciousness

From a libertarian perspective, the Tea Party movement and Occupy Wall Street are both onto something, but have major, even fatal, flaws. Polls have tended to show that Tea Partiers became much less resentful of Washington as soon as Republicans won the midterm elections in 2010 and in some conservative states were less likely to support the most libertarian Republican candidate in 2012, Ron Paul, than were other Republicans. The social conservatism within the Tea Party was probably part of the reluctance because, even though Paul is culturally conservative, his libertarianism kept him from making social issues prominent in his campaign. Another major factor was the inherent conflict between the militarism of the Right, which Angelo Codevilla identified as a core characteristic of the conservative Country Class, and Ron Paul’s highest priority of ending America’s wars. Liberty and smaller government appear inherently impossible to reconcile with core values that dominate the populist Right.

The Occupiers, for their part, were hostile to corporate statism, but too often saw more central

planning as the solution. They seemed to vacillate between unworkable radical leftist economic views that did not resonate well with many Americans or most libertarians, and social democratic ideas that, if anything, would only further empower the entrenched establishment. They also ultimately tended toward a partisanship that meant voting for Democratic politicians to stop Republicans, regardless of how illiberal those Democrats were.

There is hope on the horizon, however. Issues such as NSA spying, proposed military strikes against Syria on which Obama failed to persuade the public, and the failures of the Affordable Care Act have appeared to split both Left and Right. New polls show that a majority of young Americans are dissatisfied with Obama, and that other demographics that tend to vote Democratic, such as Hispanics, are also losing faith in the president. A slight majority of Americans now favor a more noninterventionist foreign policy. Most of the public want to legalize marijuana, and a strong majority distrust Washington generally. Conservatives are losing on social issues, and so-

called liberals seem to be once again slowly learning the limits of central planning.

It appears that a political realignment might really be possible, with the more libertarian elements of the Left and Right coming around to opposing wars, corporate welfare, civil-liberties violations, and federal economic meddling across the board. Both the Tea Party and Occupy movement had imperfect but potentially radical conceptions of class analysis, and it is possible they have paved the way for a more libertarian conception of the individual versus the state to take hold. It is the libertarians' chance to explain to our disaffected friends on both sides of the spectrum what they've gotten right and what they've failed to understand. Our time is now.

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*The third tool of discipline or technique of dealing with the pain of problem-solving, which must continually be employed if our lives are to be healthy and our spirits are to grow, is dedication to the truth. Superficially, this should be obvious. For truth is reality. That which is false is unreal. The more clearly we see the reality of the world, the better equipped we are to deal with the world. The less clearly we see the reality of the world — the more our minds are befuddled by falsehood, misconceptions, and illusions — the less able we will be to determine correct courses of action and make wise decisions. Our view of reality is like a map with which to negotiate the terrain of life. If the map is true and accurate, we will generally know where we are, and if we have decided where we want to go, we will generally know how to get there. If the map is false and inaccurate, we generally will be lost.*

— M. Scott Peck

# The Bundy Ranch Standoff: The Bad and the Ugly

by Kevin Carson



The Bundy ranch saga has been the subject of heated good guy/bad guy framing by both mainstream liberals and mainstream conservatives, who differ only on which roles to assign to Bundy and the feds, respectively. But I can't really see any good guys in this.

The respective echo chambers for the two sides differ on whether the land in question was originally federal property from the time of acquisition or originally property of Bundy's ancestors and then taken over by the government. There's disagreement over whether Bundy attempted to pay the fees, and there was some bureaucratic snafu about whom to make the check out to, or he'd just flat-out refused from the beginning.

The claim that Bundy's family owned the land since the 1880s seems rather tenuous, given that one condition for Nevada's admission as a state was the recognition of all federal land claims dating to the acquisition of the land from Mexico. And Bundy doesn't object to the idea of vacant land acquired in war passing into the public domain — he just believes, on constitutional grounds, that it's the state of Nevada or Clark County, and not the U.S. government, that's the rightful owner he should be paying taxes to.

And the Paiute Nation included the whole area of Nevada that Bundy's ranch sits on, before the Paiute were driven into reservations on a minuscule fraction of that land....

But regardless of all that, there's some stuff we should be able to agree on.

The feds aren't good guys. Far from it. Let's start by asking how the federal government came to own such a large share of Nevada land in the first place. The answer is it had been in the domain of one settler state after another from the time of initial European conquest and colonization: First of the Spanish crown, and then of the government of the Republic of Mexico. From there, it passed via the Treaty of Guadalupe-

Hidalgo — following a war of aggression predicated entirely on lies by the United States government — into the U.S. “public” domain.

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**Much of the land in the state domain was never really as “vacant” or “unowned” as it was made out to be in official legal doctrine.**

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Naturally, much of the land in the state domain under all three of these empires was never really as “vacant” or “unowned” as it was made out to be in official legal doctrine (as is the case with the Paiute).

And whether any particular tract of land in Nevada was the rightful property of the First Nations who lived on it, or was genuinely vacant and uninhabited, the preemption of actually or theoretically vacant land is what settler states do. It’s a counterpart to the Old World phenomenon of landed aristocracies claiming “ownership” of already settled areas and collecting rent from its rightful owners: the peasants whose ancestors had been cultivating the land from time out of mind.

Free access to unused land is a nightmare for economic ruling classes. Franz Oppenheimer argued, in *The State*, that economic

exploitation was impossible so long as employers had to compete for workers against the possibility of self-employment — most importantly, until a little over a century ago, self-employment on vacant land. Oppenheimer argued that — at least in predominantly agricultural societies — exploitation is only possible when all land has been appropriated and no more is available for self-employment, leaving no alternative but accepting wage labor on whatever terms are offered. But natural appropriation of all the land — appropriation by occupying and altering it with one’s labor — would be impossible. The world was, indeed, almost universally appropriated, Oppenheimer said. But it was appropriated by law rather than labor — i.e., simply enclosed as artificial property by landed aristocrats in the Old World, as large land grants to politically connected individuals in settler states like the United States, or incorporated into the public domain from which ordinary homesteaders were excluded, as with the Western lands.

In the early days of another settler state, Australia, economist E.G. Wakefield called for state enclosure of vacant land into the public domain. He argued that free access to

land by ordinary settlers was making it impossible for employers to hire labor at a low enough wage to be profitable. In Britain before the Enclosures, likewise, farmers complained that when peasants had access to rights of common pasturage or could erect cottages on the common waste, wood, or fen, it was impossible to get them to work at agricultural labor as cheaply, or for as many hours, as desired.

### Public lands

The Homestead Act, passed during the Lincoln administration, is generally framed as a triumph of populism. But it actually involved only a small fraction of total public-domain lands out West, and the sodbusters — who, if a given parcel were genuinely unoccupied and unused, should have automatically become the first owners without anybody's permission when they mixed their labor with it — had to pay for the land.

But guess what? The U.S. government gave a much larger portion of public domain lands to railroad companies — an area the size of France. And not only did they not have to pay for it, they were given 10-mile strips of land on either side of the actual right-of-way, so that the railroads could use the

rapidly appreciating speculative prices of real estate along a future train route as a source of revenue.

As for the enormous tracts of land kept in the public domain, the U.S. government gave preferential access rights to extractive industries like mining, oil, logging — and ranching. And the tracts of land were quite conveniently unencumbered by even sparse homesteading, which would have entailed having to buy out families a lot less favorably disposed than Uncle Sam.

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**The Homestead Act involved only a small fraction of total public-domain lands out West.**

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The government supposedly auctions off leases to timberland, oil reserves, and the like via competitive bidding. But such auctions are always restricted to firms in the relevant industry. They don't have to compete with anyone outside the club like, say, environmentalist groups who might want to hold old-growth forest out of use, and who might bid up the price higher. In one case where it turned out an extractive industry CEO was actually an activist who deliberately bid up the price so as to sabotage the good ol' boy arrangement, the industry and Bureau of Land Man-

agement screamed for blood. So between oligopsony pricing (a market with just a few buyers, who can easily engage in collusion) and the political pull of extractive corporations, the leases are generally kept to sweetheart prices.

If this doesn't yet sound quite loathsome enough, the government frequently subsidizes these favored industries by building access roads on public lands, at taxpayer expense, so the extractive industries can haul off the pillaged resources without having to spend any of their own money.

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**The government frequently subsidizes favored industries by building access roads on public lands, at taxpayer expense.**

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So Bundy really isn't much of a candidate for knight in shining armor, either. Normally the federal government is the natural ally of extractive industries — including ranchers like Bundy — when it comes to exploiting Western lands. The fees that Bundy is charged with not paying were entirely nominal — just another example of those sweetheart prices for favored interests.

What would have been the rightful course of development, then? First of all, of course, the land

would never have been conquered in the first place by either Spain, Mexico, or the United States. The sparsely populated lands out West would have been governed by the simple principle that the land belonged to whatever people were currently living on it and using it, and land not yet in use would belong to the first people to cultivate it. So the First Nations would continue to enjoy their traditional hunting grounds and agricultural land, and settlers would be free to make use of land not in use, without paying tribute to government or corporate overlords of any kind.

Extractive industries could exploit only lands not currently in use, or acquire land from those already using it if they were willing to leave it and found the payment acceptable. And any activity by extractive industries that poisoned surrounding air or groundwater, or interfered with the preexisting uses of their neighbors' land, would be subject to full tort liability without any caps or regulatory exemptions conferred by the state.

As Media Director Tom Knapp at the Center for a Stateless Society commented, the low carrying capacity of land like that Bundy's cattle graze makes it ideal for some sort of commons-based manage-

ment (of the kind Elinor Ostrom wrote about for most of her career) by an association of neighboring ranchers. Of course well-managed common pastures had effectively enforced rules restricting the total pasturage rights apportioned to the sustainable carrying capacity of the land — the kind of rules that self-styled “Sagebrush Rebels” like Bundy would probably object to even if they came from fellow ranchers rather than the government. And it’s equally plausible that areas of Nevada would be nature preserves managed as commons by conservationists.... The rival property claims of homesteaders, First Nations, and managed commons of all kinds would be a matter for horizontal

negotiation based on the agreed-upon civil-law principles of free local juries, not administrative fiat or political pull.

So what we see on the Bundy ranch is really just a fight between bad guys: a corrupt state in league with corrupt economic interests, versus a rogue member of those same corrupt economic interests.

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*The doctrine of nonresistance against arbitrary power, and oppression, is absurd, slavish, and destructive of the good and happiness of mankind.*

— *New Hampshire Constitution*

# The Economics of Foreign Policy

by John Glaser

*Doing Bad by Doing Good: Why Humanitarian Action Fails* by Christopher Coyne (Stanford Economics and Finance 2013), 272 pages.



In the aftermath of the carnage wrought by World War II, Harry Truman committed America to humanitarian action. In his 1949 inaugural address, he pledged to “continue our programs for world economic recovery” and “embark on a bold new program for ... the improvement and growth of underdeveloped areas.”

One of those underdeveloped areas was Afghanistan. The Helmand Valley Project, referring to

Afghanistan’s southern province, received tens of millions of dollars in U.S. aid and aimed to “increase the standards of living of the poor through the development of farms, infrastructure for electricity, and protection against flooding.”

In the ensuing years Washington’s humanitarian project continued to receive funding, but produced little but failure. The first dam built for the Afghans in Helmand Province “resulted in salt deposits, which had devastating effects on the soil, making it useless for farming purposes.” Increases in the inflow of water, intended to help farmers yield their crops, resulted in “numerous instances of flooding of fields,” which led to a 50 percent drop in agricultural output in some areas.

A 1960 article in the *New York Times* described the Helmand Valley Project as a “comedy of errors,” but U.S. involvement in the project lasted until the Soviets invaded Afghanistan in 1979.

Fast-forward several decades. The United States picked up where it left off, tasking itself with a broad reconstruction effort following the 2001 overthrow of the Taliban regime. Reconstruction of the Kajaki dam, built originally with resources from the 1950s-era Helmand Valley Project, was one small part of that effort.

The U.S. government invested \$128 million to rehabilitate the dam and replace two neglected, inoperable turbines to provide electricity to Afghan villages. To this day, the project “remains incomplete.” Only one of the turbines is operational, and while the delivery of the second one “ultimately was successful,” three years later it “remains unpacked and in its original crating.”

### Knowledge and interest

That unnerving anecdote comes from Chris Coyne’s latest book, *Doing Bad by Doing Good: Why Humanitarian Action Fails*. Coyne, a professor of economics at George Mason University, explains with commanding precision why failures like this one pervade the government’s so-called humanitarian interventions.

Humanitarian action fails, Coyne argues, for two reasons: “(1) those carrying out humanitarian actions often lack the relevant knowledge to accomplish the desired goals, and (2) humanitarian action is often not compatible with the incentives of those in political power, both those in power in the nation or in a coalition of nations carrying out the action and those in power in the country where action is taking place.”

For a long time, the libertarian movement has suffered from a dearth of foreign-policy expertise. To be a libertarian, one typically has to be well versed, not just in the principles of limited government, but in economics as well. The focus has therefore been heavily slanted toward domestic economic issues.

Coyne breaks that mold, and *Doing Bad by Doing Good* boldly applies two crucial economic strains of libertarian thought to the realm of foreign policy and international humanitarian action: knowledge-problem analysis and Public Choice analysis.

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**Coyne applies two crucial economic strains of libertarian thought to the realm of foreign policy and international humanitarian action.**

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The first comes from Friedrich A. Hayek’s renowned essay “The Use of Knowledge in Society.” In it, Hayek pits central planning, the “direction of the whole economic system according to one unified plan,” against competition, or “decentralized planning by many separate persons.”

“Hayek’s point,” Coyne explains, “is that economic interactions rely on dispersed knowledge” that is

specialized and “not available to everyone.” In other words, top-down central planning doesn’t work.

The market helps society shortcut this problem of economic knowledge through the price system, which provides signals and coordination to what would otherwise be too complicated and opaque a system.

But humanitarian action, Coyne notes, “takes place through numerous, oftentimes overlapping, layers of bureaucracy, ranging from national governments to local governments to NGOs, often connected to governments through funding,” and therefore doesn’t benefit from a price system or the kind of specialized knowledge that exists in markets.

That creates problems when trying to allocate scarce resources to their most appropriate uses, as was certainly the case in building dams in Afghanistan. Coyne also cites a recent Doctors Without Borders report describing how hospitals in Afghanistan are “piling up with advanced medical equipment — digital X-rays, mobile oxygen generators, scialytic lamps — donated by a range of [foreign] states,” that apparently didn’t have enough local knowledge to understand that Afghans couldn’t make use of those expensive machines.

“This equipment is usually dropped off with little explanation and no anticipation of maintenance; most of it sits in boxes, collecting dust, unopened and unused,” the report laments.

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**The market helps society shortcut the problem of economic knowledge through the price system.**

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Another study Coyne cites, conducted in post-tsunami Indonesia, found that 70 percent of the drugs donated from abroad “had foreign labels that could not be understood by local workers and were therefore unusable,” and 60 percent “were not relevant to those affected by the tsunami.”

Underlying the current fad of humanitarian action, Coyne writes, is a “mentality [which] holds that the world can be improved through well-designed rules planned and implemented by enlightened experts.” Humanitarian projects, whether they’re about long-term economic development or cultural augmentation, suffer from this conceited mentality of the central planner.

The second strain of economic thought Coyne applies is the Public Choice model. “In practice,” Coyne

writes, “political actors at all levels are not guided by some higher, unconstrained ideal of humanitarian benevolence but by incentives created by the political institutions in which they operate.”

Coyne weaves together an array of anecdotes and statistics to demonstrate how those in political power use the brand of humanitarianism to further their own personal ambitions and goals.

The business of humanitarian action has become much like that of other industries with ties to government. Rent-seeking behavior leads NGOs to expend resources to influence the political process to secure precedence and privilege in receiving and distributing humanitarian resources.

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**The business of humanitarian action has become much like other industries with ties to government.**

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There is also bureaucratic competition from within government for resources to address humanitarian crises. The United States Agency for International Development (USAID), the Department of Defense, the Department of Agriculture, the Department of Energy, the Department of Health and Human

Services, the Peace Corps, the State Department, the Treasury Department, and countless others all vie for bigger budgets and the sway that comes with them.

Most of the time it is “political influences, and not just the altruistic desire to help those in need, [that] will play a role in how humanitarian resources are allocated from start to finish.”

The incentive structures of recipients are also important here. So-called humanitarian aid, or development assistance, is highly correlated with corruption. It “often empowers political elites responsible for suffering and discourages reforms to already dysfunctional political and economic institutions,” Coyne writes.

Another illustrative example in the book describes the experience of aid workers who rushed to Haiti after the 2010 earthquake. Many were “required to turn over their donations to Haitian customs officials for inspection [and then] were required to pay a tax to reacquire them despite the fact that they intended to distribute them to those in need free of charge.”

“The implication is straightforward,” Coyne explains, “*all* state-led humanitarian action is political” and subject to the selfish

interests and perverse incentives of state actors.

### Hypocrisy and propaganda

Coyne ably supports the theoretical implications of both the Hayekian “planner’s problem” and the Public Choice model with illuminating empirical data. Popularizing these ideas to an audience interested in humanitarian action is an incredibly important task, but it is not complete.

It is equally vital to inform people of the base hypocrisy and propagandistic nature of the rhetoric of humanitarian action, something Coyne approaches when he discusses the Public Choice model but fails to fully deconstruct.

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**Humanitarianism has often been used to justify colonialism and empire.**

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That is not a failure of adequacy, but of intent, as Coyne lays out his purposes clearly at the beginning: “Economists take ends as a given and focus on whether the proposed means are appropriate to achieve the stated ends.” But when the stated ends of politicians in Washington are almost invariably disingenuous, that can be a grave analytical mistake.

As I said, Coyne does not completely ignore that disingenuity. He mentions that humanitarianism has often been used to justify colonialism and empire, and his erudite critique of the “Responsibility to Protect” (R2P) doctrine is a valuable contribution to this line of thought, although it is tackled too briefly.

Coyne declines the opportunity to flesh out the military-intervention aspect of “humanitarian action,” which is incredibly important at a time when the country seems to be constantly on the verge of new and dangerous military quagmires justified by appeals to saving people from this, that, or the other thing.

The truth is, virtually all wars, no matter how transparently imperialistic, are framed as humanitarian in nature. Hitler justified his invasion of Czechoslovakia by invoking “the security of more than 3,000,000 human beings” who “have been maltreated in the unworthiest manner, tortured ... [and denied] the right of self-determination.”

The Nazi dictator cited the plight of “refugees who have been driven out,” and explained that Germany was “determined to terminate these attempts to deny by dilatory methods the legal claims of oppressed peoples.”

When the Russians invaded Afghanistan in 1979, Washington described it as a cruel attempt to expand the influence of the Evil Empire. But the Soviets described it as a mission to protect the Afghan people from religious extremists with inhumane cultural practices.

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**Even interventions that are almost universally considered altruistic and humanitarian have rested on deceit.**

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In 1991, when the United States went to war in the Middle East to oust Iraqi strongman Saddam Hussein from Kuwait, largely an effort to secure American dominance over the oil-rich region, the suffering of the Kuwaiti people was cited as a justification, not to mention fabricated stories about Iraqi soldiers throwing babies out of incubators.

And when the United States invaded Iraq again in 2003, George W. Bush, in addition to making false claims about Iraqi connections to al-Qaeda and possession of WMDs, insisted, “The lives of Iraqi citizens would improve dramatically if Saddam Hussein were no longer in power,” because Hussein “is a student of Stalin” whose “opponents have been decapitated, wives and mothers of political opponents have

been systematically raped as a method of intimidation, and political prisoners have been forced to watch their own children being tortured.”

Horror stories of oppressed people, and promises to alleviate suffering, lie behind virtually every war in the modern era. Even interventions that are almost universally considered altruistic and humanitarian have rested on such deceit.

The Clinton administration’s intervention in Kosovo is often held up to be the archetypal instance of humanitarian intervention. Most remember it going something like this: the Serbian regime was committing massive atrocities against Kosovar Albanians, and NATO bombs put a stop to it.

In reality, that inverts the chronology. The vast majority of Serbian atrocities against Kosovar Albanians occurred *after* the NATO bombing began. Washington’s intervention sharply increased the humanitarian crisis in the immediate term.

Moreover, the U.S. government was, at the time, helping to perpetrate mass atrocities on a vastly greater scale in Turkey. Ankara had been crushing a Kurdish separatist movement in the southeast in a campaign that killed about six times

as many people as died in the entirety of the Kosovo war — all with enthusiastic U.S. support.

Such conduct typifies the bloody history of U.S. foreign policy. Yet most Americans still think of their government as a leader in “humanitarian action,” and that’s what makes the task of exploring this history so important. The point is that U.S. foreign policy is not just incompetent; it is nefarious.

Coyne’s decision to constrain himself to taking stated ends “as a given” is a missed opportunity to persuade readers on what is probably the most pressing issue within the “humanitarian action” framework.

He has carved out a niche in libertarian academia with his maverick focus on applying economic analysis to the often-neglected realm of foreign policy. *Doing Bad by Doing Good* is an expertly researched and readable book — worthwhile to economists, foreign-policy wonks, and laymen alike — that continues this invaluable mission.

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*John Glaser is a free-lance writer, a columnist at the Washington Times Communities section. His work has also appeared in the Huffington Post, Al Jazeera, The American Conservative, and the Daily Caller.*

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*Little more can reasonably be aimed at, with respect to the people at large, than to have them properly armed and equipped....*

— Alexander Hamilton

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