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Rebellion to tyrants is obedience to God.

— Benjamin Franklin

FUTURE OF FREEDOM

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The Assassination of Orlando Letelier and Ronni Moffitt, Part I

by *Jacob G. Hornberger*



On the morning of September 21, 1976, former Chilean official Orlando Letelier was driving to work at the Institute for Policy Studies, a leftist public-policy institute in Washington, D.C. Accompanying him were his 25-year-old assistant Ronni Moffitt and her husband, Michael, both of whom also worked at the institute and who had just recently gotten married.

When the car reached Sheridan Circle in Washington, a remote-controlled bomb exploded under Letelier's seat, severing both his legs, resulting in his almost-immediate death. Ronni Moffitt's carotid artery was cut, which caused her death within a short time. Michael

Moffitt, who was seated in the back of the car, suffered cuts and bruises but survived the bomb blast.

While the assassinations of Orlando Letelier and Ronni Moffitt have been blamed on Chilean military dictator Augusto Pinochet and his national-security establishment, much less attention has been paid to the responsibility that the U.S. government, especially its own national-security establishment, bears in these two murders. In fact, the Letelier and Moffitt assassinations go to the heart of what the U.S. national-security state, a governmental apparatus that was adopted after World War II, has done to American society and to the morals, values, principles, and consciences of the American people.

Let's begin this long, complex, and fascinating story with the light punishments that were meted out by U.S. federal district courts to the various people who were involved in the Letelier-Moffitt assassinations.

There was Michael Townley, the American who planned the bombing and actually set the bomb under Letelier's car. He served only five years in jail. That's it! There are people who have been convicted for violating marijuana laws who have received much longer jail sentences than that.

It gets better. After he was released from jail, U.S. officials admitted Townley, who openly acknowledged that he had planned the assassination and planted the bomb under the car, into their Federal Witness Protection program, where he has been safely ensconced for more than 30 years.

It gets even better. Even though Argentina and Spain have sought to have Townley extradited for an assassination that left former commander the Chilean Army Carlos Prats and his wife Sofia dead and an assassination attempt that left former Chilean official Bernard Leighton and his wife Ana Maria permanently disabled, a U.S. magistrate ruled against the extradition requests, holding that the plea bargain that U.S. officials entered into with Townley in the Letelier assassination protected him from extradition for other assassinations that he had committed.

**The plea bargain protected
Townley from extradition for
other assassinations that he had
committed.**

In 1991, two men who followed Letelier and the Moffitts that fateful morning and detonated the bomb under their car — Virgilio Paz

Romero and Jose Dionisio Suarez Esquivel — were given plea bargains by the U.S. Justice Department that enabled them to be paroled after only six and seven years in jail ... for the cold-blooded, premeditated murder of two innocent people.

Two men who were also accused of participating in the conspiracy to murder Letelier — Guillermo Novo Sampol and Alvin Ross Diaz — were initially convicted of the murders and given life sentences. However, owing to an extraordinary error in judgment committed by federal prosecutors at trial regarding an evidentiary issue, the convictions were overturned on appeal. In the second trial, the jury acquitted both men. Bottom line: No punishment whatsoever for Novo and Ross.

Prior to the Letelier assassination, a Pinochet administration official named Armando Fernandez Larios entered the United States, monitored Letelier's daily activities, and provided the information to Townley. In January 1987, Larios fled Chile, secretly entered the United States, and lived in an undisclosed place under the protection of the federal government. One month later, under a plea bargain reached with the Justice Department, he was permitted to plead

guilty to being an “accessory after the fact,” given a 7-year sentence, and then released on the order of a federal judge after serving just a few months in jail.

It was later established that Chilean military strongman Augusto Pinochet, who was installed into power in 1973 by virtue of a coup orchestrated by Richard Nixon and the U.S. national-security establishment, and a Chilean military man named Manuel Contreras, who was in charge of Pinochet’s top-secret paramilitary-intelligence agency called DINA, had ordered the hit on Letelier.

The transformation

While Pinochet died without facing justice, DINA chief Manuel Contreras was ultimately convicted in a Chilean court for the Letelier assassination and sentenced to seven years in a military jail, one that was more in the nature of a country club, given the fear that Chilean officials still had of the Chilean military establishment. Contreras was later given several life sentences for other murders committed in Chile during the Pinochet coup. He died in prison in 2015.

The issue that remains unresolved to this date is the exact nature and extent of the responsibility

that the U.S. national-security state had not only for the Letelier and Moffitt murders but also for the massive criminal conduct of the Pinochet regime.

Examining that issue requires us to place the assassination in a much larger context, one that involves the U.S. national-security establishment, its three-decade Cold War against the Soviet Union, its domestic and foreign crusade against communism, and its long-time policy of foreign interventionism.

We begin this story with the U.S. Constitution, the document that called the federal government into existence. The Constitution established a government of limited, enumerated powers. If a power was listed in the Constitution, U.S. officials were permitted to exercise it. If it wasn’t listed, they were prohibited from exercising it.

Jefferson said, “Peace, commerce, and honest friendship with all nations — entangling alliances with none.”

America’s first, third, and sixth presidents — George Washington, Thomas Jefferson, and John Quincy Adams — set forth America’s founding foreign policy, one that shunned alliances with foreign regimes and

opposed intervening in the affairs of other nations. Washington stated, “It is our true policy to steer clear of permanent alliances with any portion of the foreign world.” Jefferson said, “Peace, commerce, and honest friendship with all nations — entangling alliances with none.” Adams observed that the U.S. government “goes not abroad in search of monsters to destroy.”

U.S. officials maintained it would be necessary to adopt the same type of governmental structure as the Soviets.

The First Amendment to the Constitution, which was part of the Bill of Rights that the American people demanded as a condition for approving the Constitution, prohibited Congress from infringing on critical rights of the people, including freedom of speech. America would be a country in which people would be free to believe in anything they wanted — any religion, any philosophy, any creed — and free to promote their beliefs to others, no matter how odious or unpopular they might be.

The Sixth Amendment, among other things, prohibited the federal government from killing people without following well-established

procedural protections, such as due process of law, grand jury indictments, right to the effective assistance of counsel, and trial by jury.

Those founding principles came to an end in the aftermath of World War II, when the federal government was converted into a national-security state, the same type of governmental structure that characterized the Soviet Union, communist China, North Korea, North Vietnam, Nazi Germany, fascist Italy, and other totalitarian states of the 20th century.

For the first time in American history, the United States had a vast, permanent, and ever-growing military establishment, led by the Pentagon. It also had an intelligence agency — the CIA — that operated in secret and that wielded omnipotent powers, including the power of assassination. The FBI infiltrated, monitored, and investigated domestic organizations and persons suspected of harboring communist beliefs or being part of an international communist conspiracy based in Moscow. The NSA, which had powers of surveillance over the citizenry, rounded out the trio of agencies that composed the national-security establishment.

It is impossible to overstate the significance of the conversion of the

U.S. government to a national-security state. It brought a revolutionary transformation of the federal government and American society. It also had an enormous impact on people in foreign countries, especially those in Latin America. This transformation was accomplished without even the semblance of a constitutional amendment.

Prior to the Second World War, after every war U.S. policy had been to dismantle the enormous military establishment that war had brought into existence. This was in accordance with the long-held antipathy against standing armies that characterized the Founding Fathers and 17th- and 18th-century Americans. As soon as a war was ended, most of the soldiers would be discharged and returned to the private sector, leaving a relatively small army in place.

That policy was abandoned with the end of World War II. Having defeated Nazi Germany, U.S. officials maintained that America now faced another enemy, one, they said, that posed an even greater danger to the United States than the Nazis had. That enemy was the Soviet Union, which, interesting enough, had been America's partner and ally during World War II, as well as the political and economic

philosophy that the Soviet Union embraced — communism.

To combat this new enemy, U.S. officials maintained, it would be necessary for the United States to adopt the same type of governmental structure as the Soviets — a national-security establishment — in order to wage what became known as a “cold war” against the communist world. Once this new Cold War was ended, U.S. officials claimed, a constitutionally limited republic could be returned to the American people.

Most Americans didn't question the national-security-state transformation of the federal government.

Hardly anyone questioned that narrative. Perhaps Americans were still too shell-shocked over the massive death and destruction that had come with the Second World War, a war that the vast majority of Americans had opposed entering prior to the Japanese attack on Pearl Harbor. Perhaps it was just a mindset of deference to authority that had been inculcated into people during years of public schooling.

Whatever it was, most Americans didn't question the national-security-state transformation of the

federal government, the concept of a Cold War, or what became known as an anti-communist crusade.

As part of that process, U.S. officials convinced the American people that they were in grave danger from an international communist conspiracy based in Moscow, one that was determined to convert America into a communist country and to put the federal government under control of the communists.

Throughout the late 1940s, 1950s, and 1960s, the U.S. national-security establishment inculcated Americans with a deep distrust of communism, communists, the Soviet Union, and Red China. One result was U.S. intervention in the Korean War, which cost the lives of some 50,000 American men. Another result was the Vietnam War, where more than 58,000 American men lost their lives. Both wars were actually nothing more than civil wars, but Americans were told that if the United States didn't intervene and stop the communists from winning, America would be in grave danger of becoming a communist country.

It is significant that both wars were waged without the congressional declaration of war that the U.S. Constitution required, a violation of the higher law that the leg-

islative and judicial branches of the federal government chose to ignore, either out of fear of communism or of the national-security establishment, which became the most powerful and influential part of the federal government.

The anti-communist crusade was waged with little regard to constitutional provisions and principles of liberty.

Here in the United States, the anti-communist crusade was waged with little regard to constitutional provisions and long-established principles of liberty. The FBI assumed extraordinary powers to spy on, harass, and persecute people and organizations who were suspected of holding communist or socialist views. In fact, among the organizations targeted for surveillance, infiltration, and harassment was the Institute for Policy Studies, the place where Orlando Letelier and the Moffitts were working on the day of the assassination.

Socialism

Now, let's digress a moment to discuss communism and socialism as well as freedom of speech.

For all practical purposes, communism and socialism are inter-

changeable terms. In a pure sense, both terms involve an economic system in which the state owns everything and, consequently, a society in which everyone works for the government. If there is a difference, it is that communism is usually associated with socialist regimes that are unelected — i.e., unelected totalitarian socialist dictatorships.

Throughout the 20th century, there was a tremendous ideological battle between socialism and capitalism that was taking place all over the world, including here in the United States. In the course of that battle, people began proposing and adopting socialist measures that constituted violations of the principles of a free market but that did not call for 100 percent ownership of the means of production.

Among such measures were what became known as welfare-state programs, which involved government's forcibly taking money from people through taxation and giving it to other people in the form of welfare. Social Security, a welfare-state program that originated within the socialist movement in Germany in the late 1800s, was a prime example of this phenomenon. So was the progressive income tax. And public (i.e., government) schooling. And a state-

mandated minimum wage. And laws setting forth the maximum hours that employees were permitted to work. While clearly not 100 percent socialism, such welfare-state programs embodied the Marxian principle, "From each according to his ability, to each according to his needs."

In a free society, everyone also has the right to run for public office regardless of his economic and political philosophy.

Here in the United States, the battle between those who adhered to a free-market or economic-liberty way of life and those who embraced the new socialism was fierce, as manifested by such judicial decisions of the U.S. Supreme Court as *The Slaughterhouse Cases*, *Lochner v. New York*, *Munn v. Illinois*, *Adkins v. Children's Hospital*, *New State Ice Company v. Liebmann*, and the Gold Clause Cases.

In 1937, however, with the case of *West Coast Hotel v. Parrish*, the battle in the United States effectively came to an end, with victory going to the socialists. From that date forward, the U.S. government became a permanent welfare state, a system where the government is charged with taking care of people with

money that has been taken from the citizenry through taxation.

Thus, by the time the Cold War was initiated by U.S. officials, America itself was well on the road to welfare-state socialism, which may have magnified the fears of many officials in the national-security establishment.

Liberty and communism

Where does the principle of freedom of speech fit into all this? In a free society, people have the right to believe in anything they want, including philosophies that are unpopular and even destructive. Even though communism had resulted in the deaths of millions of innocent people and the destruction of liberty for people living under communist regimes, the fact remained that Americans had the right to believe in communism and socialism and, for that matter, fascism, Nazism, or any other “ism.” They also had the right to read and publish books about any of those systems. And they had the right to deliver or attend speeches advocating any of them.

In a free society, everyone also has the right to run for public office regardless of his economic and political philosophy. A free society necessarily entails the right of com-

munist and socialists to run for office, even if they are committed to a political and economic philosophy that is destructive of economic freedom and economic well-being.

Thus, freedom, in fact, can be dangerous because it can result in the election of people, including socialists and communists, who are committed to using political power to destroy freedom.

What is the freedom answer to that risk? To battle with better ideas — ideas on liberty, with the aim of influencing people to reject socialism and to embrace economic liberty instead.

Instead of protecting the rights of people who were advocating communism, U.S. officials targeted them.

But that wasn’t the attitude of the U.S. national-security establishment during the Cold War. They were so afraid of socialism and communism that they concluded that it was necessary to suspend freedom in order to save it.

Instead of protecting the rights of people who were advocating communism here in the United States, U.S. officials targeted them as dangerous enemies of the state. Throughout the Cold War, U.S. of-

officials made it their mission to infiltrate, harass, and destroy such organizations as the U.S. Communist Party, the Fair Play for Cuba Committee, the Institute for Policy Studies, and many other leftist organizations. Americans who had been associated with those types of organizations were exposed to ridicule, humiliation, and ruination of their lives. Nothing worse could befall anyone than to be called a communist. The Hollywood Blacklist scandal comes to mind. So do the accusations made by Sen. Joseph McCarthy.

Cuba bore the brunt of much of the U.S. national-security state's actions during the Cold War.

But even that wasn't the worst of it. Among the Cold War powers that the U.S. national-security state came to embrace was the power to assassinate people, including people who held communist or socialist beliefs. The U.S. government's repeated assassination attempts on Fidel Castro, who never attacked the United States or even threatened to do so, come to mind, as does the CIA's list of targets for assassination during the 1954 coup in Guatemala in which the CIA removed the democratically elected president, Jacobo

Arbenz, from power and replaced him with a brutal unelected military general.

Recall the Sixth Amendment, whereby our American ancestors prohibited the federal government from killing people without following certain well-defined procedural protections, such as due process of law and trial by jury. Notice that by its express terms, the protections of that amendment extend to all persons, not just American citizens.

In adopting the Cold War power to assassinate communists, the U.S. national-security state nullified the Sixth Amendment, a nullification that the Congress and federal judiciary ratified by silent acquiescence.

That brings us to Cuba, a Latin American country that bore the brunt of much of the U.S. national-security state's actions during the Cold War. Interesting enough, the five men who were accused of helping Michael Townley murder Orlando Letelier and Ronni Moffitt were Cuban exiles.

In fact, Cuba plays a central role in the Cold War events that ultimately led to the U.S. national-security state's responsibility for the assassinations of Letelier and Moffitt.

On January 8, 1959, Fidel Castro arrived in Havana, his revolu-

tionary forces having defeated the Cuban regime of Fulgencio Batista, a brutal and corrupt dictator who had been supported by the U.S. government. Like Pinochet 14 years later, Castro proceeded to execute people who had served under his predecessor. He also began nationalizing businesses and industries, some of which were owned by Americans. He began closing down the casinos that were owned and operated by the Mafia. He announced expansions of Cuba's welfare-state programs, such as public health care, public housing, and public schooling. Land-reform measures reduced the size of large land holdings and placed them under the control of co-operatives. Castro also made it clear that Cuba would be totally independent of U.S. political control. To cap it all off, he later reached out to the Soviet Union in friendship and a request for support.

All of that, needless to say, met with outrage, anger, frustration, and terror within the U.S. government, especially the Pentagon and the CIA. Their worst fears were materializing. The communists were coming and were almost here. Located only 90 miles away from American shores, Cuba was perceived to be a communist dagger pointed at America's throat.

With the hope that the Cuban people or the Cuban people would oust Castro from power, the U.S. government imposed one of the most brutal economic embargoes in history, one that remains standing today and that has brought untold suffering to the Cuban people, especially when combined with Castro's socialist economic policies. The idea was that given enough economic suffering, the Cuban people would rise up and revolt against Castro or that the Cuban military would remove him in a coup and reinstall a pro-U.S. ruler in his stead.

The secret training took place in Guatemala with the hope that the American people would not discover the truth.

Under the Eisenhower administration, the CIA, one of the principal components of the national-security establishment, planned a paramilitary invasion of the island, with the aim of effecting regime change. The CIA secretly trained Cuban exiles to conduct the invasion so that it would not appear that the CIA had played a role in the invasion. The secret training took place in Guatemala with the hope that the American people would not discover the

truth about U.S involvement in the invasion.

The Cuban exiles the CIA was training were among thousands of Cubans who had fled the island in the wake of Castro's victory. They had escaped their homeland and hated Castro, communism, and communists with every fiber of their being. Many of them committed their lives and fortunes to ousting him from power and bring an end to his communist system.

When the CIA presented its invasion plan to Kennedy, he approved it with some reluctance. His role would necessarily entail falsely denying to the American people and to the world that the U.S. government had played a role in the invasion.

When the invasion was finally undertaken at Cuba's Bay of Pigs in the spring of 1961, it turned out to be a disaster for the CIA, Kennedy, and the Cuban exiles who were doing the invading. Castro's forces were waiting for them and easily defeated them, killing some of them and capturing the rest.

The CIA's defeat at the hands of Cuba's communist forces only drove the agency to more desperate measures, including attempting

assassination. Secretly partnering with the Mafia, which had lost its casinos under Castro's revolution, the CIA undertook top-secret plans for assassinating Castro, plans of which even Kennedy was probably unaware.

Today, U.S. mainstream pundits love to make light of the various ways that the CIA planned to assassinate Castro, using exploding cigars or a contaminated wetsuit, but they inevitably ignore the most significant point: that the U.S. national-security establishment was illegally attempting to murder a foreign head of state, just as the Chilean national-security establishment under Augusto Pinochet would later illegally murder Orlando Letelier and Ronni Moffitt on the streets of Washington, D.C.

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

NEXT MONTH:
"The Assassination of Orlando Letelier and Ronni Moffitt, Part 2"
by Jacob G. Hornberger

How Food Stamps Subverted Democracy, Part 2

by James Bovard



Last month we saw how political demagoguery helped make hunger a major issue in American politics beginning in the late 1960s. After Jimmy Carter was elected president in 1976, liberals and their media allies largely declared victory over hunger. Carter was a humane progressive and there was no reason to beat that drum — especially since food-aid programs continued gradually expanding.

But in November 1980, Ronald Reagan defeated Carter, and the nation had the most conservative-sounding president since the New Deal. The liberal media vilified Reagan's efforts to curb social spending; he was sometimes tagged as a fas-

cist for his budget-cutting efforts. Thanks in part to a severe recession, food-stamp spending soared 44 percent between 1980 and 1983 and the number of recipients increased by several million. But the media fanned a hunger crisis by using the same shaky claims that they had trumpeted in the prior decade.

The fact that Reagan proposed budget cuts was sufficient proof of mass hunger, notwithstanding that federal food-program spending actually increased. Facts rarely interrupted the morality play. As long as handout advocates flourished a handful of punchy phrases and horror stories, nothing else mattered. And every anecdote had to be accepted as a Revealed Truth, or else the doubter was automatically damned.

Liberal “activists” also claimed that Reagan's policies amounted to a tragic roll-back of a great success. A former top Carter administration official declared that, during Carter's presidency, food stamps “had virtually ended hunger and malnutrition in the U.S.” Dr. Jean Mayer, president of Tufts University and a long-time hunger “activist,” claimed that hunger was “the one social problem that we had eliminated.”

By early 1983, opponents were using allegations of mass hunger to

seek to de-legitimize the Reagan administration. But the number of food-stamp recipients had increased sevenfold since the 1960s. By the early 1980s, low-income people could get eight federally paid meals a day. I was mystified by the hubbub and proposed an article on “the Great Hunger Hoax” to *Policy Review*, and editor John O’Sullivan leaped at the idea.

“Feeding Everybody”

I wanted to learn whether the expansion of food programs had fundamentally improved low-income diets. I had learned how to analyze and interpret the raw data from national nutrient-intake surveys while running a typing business near Virginia Tech in the late 1970s. Some of my favorite customers were graduate students in human nutrition and, while typing their term papers and theses, I became familiar with the methodologies and controversies in evaluating food-aid programs. I visited the USDA to garner the latest unpublished nutritional data. I went to the Library of Congress and carted armloads of dusty old studies from the stacks to peruse in the main reading room. I found that government feeding programs had an abysmal nutritional record. Nor

was there any evidence of a dietary golden era during the Carter administration thanks to government handouts. The reports on the programs’ failures had vanished in the Memory Hole. Instead, the government relied on “body counts” — looking solely at the number of people fed or meals shoveled out. As long as politicians appeared benevolent, food programs were a roaring success.

By the early 1980s, low-income people could get eight federally paid meals a day.

The *Policy Review* piece caused a firestorm when it came out in September 1983. On a local television talk show, I sparred with future CIA chief Leon Panetta, who was then chairman of the House subcommittee with jurisdiction over food stamps. I relished the two-hour slug fest with one of the Carter administration’s top food-stamp officials on a Washington public-radio station. NPR fans flooded the station’s call-in lines and repeatedly implied that my parents had never been married. On another Washington radio show, Pat Buchanan’s liberal co-host, Tom Braden, was so dumbfounded by me that he kept repeating that a Texas Democratic

congressman I quoted had used bigoted rhetoric in the 1960s. Braden later condemned me for “disturbing the public debate by raising questions that were settled long ago.” Pat Buchanan wrote a column about the piece that helped put it on the conservative — and White House — radar screen.

“Feeding Everybody” also spurred a *Washington Post* editorial that denounced me for asserting that “hungry people in America have only themselves to blame.” My article said no such thing, but that technicality did not impede the *Post*’s wrath. The *Post*’s biggest revelation was that I favored turning back the clock to the Middle Ages: “Mr. Bovard blames agricultural mechanization ... for much of the poverty problem.” But, the *Post* tut-tutted, “a return to subsistence farming” will not “commend itself to many as a desirable course for this country’s economic and social development.” My article had noted that the 1967 Mississippi Delta unemployment surge (which helped spark the national hunger alarm at that time) was caused in part by the extension of minimum-wage laws to agriculture work, which swayed farmers to rely on machinery to harvest cotton. To accuse someone who abhorred unnecessary hard labor of

favoring “subsistence farming” was the ultimate cheap shot. (A dozen years later, the *Washington Post* magazine cited my work in an article refuting wildly exaggerated claims of a national hunger epidemic.)

The 1967 Mississippi Delta unemployment surge was caused in part by the extension of minimum-wage laws.

Reagan responded to the hunger hubbub by appointing a Task Force on Food Assistance in late 1983. They paid coach fare for me to fly to Los Angeles to offer my two cents at their first public hearing. I didn’t see much point in testifying, since I had nothing to offer except what I had just written. (Task Force members could read, right?) But since the other witnesses were from groups such as L.I.F.E. (Love Is Feeding Everyone), maybe the task force simply wanted to hear a different tune. I rattled on and answered questions for perhaps 20 minutes, but don’t recall the exchanges with panel members. A few months later, I testified at a Senate Agriculture Committee hearing chaired by Jesse Helms. Helms was one of the few members of Congress willing to stoutly oppose the expansion of food stamps. (His zeal

against wasteful government spending did not extend to the tobacco program beloved by his North Carolina constituents.)

As the 1980s progressed, the hunger issue became increasingly sensationalized. The high point came in 1986 when millions of people bonded for the Hands Across America (HAAC) extravaganza to publicize the plight of the hungry. HAAC presumed that if five million people could link up and simultaneously sing “America the Beautiful,” the nation’s social problems would practically be solved. An HAAC flyer promised that it would be “the largest interactive event in the history of mankind” and the “greatest moment of shared concern and hope ever.”

HAAC’s goal was to raise \$50 million — the equivalent of three days’ worth of the national food-stamp budget. HAAC focused its effort on whipping up public guilt and anxiety over hunger. Much of the \$10 each person was asked to pay to stand in line would be used to bankroll the hunger lobby for a massive campaign to persuade Congress to spend more for food stamps and other federal food programs.

HAAC’s core message was that “the problems of hunger and home-

lessness in the U.S. are growing at a frightening pace.” One of the organizers even claimed on television that “there is widespread hunger and famine in America.” And the only way to absolve the mass guilt was through increased federal spending. Coca Cola was the largest donor, providing \$10 million to get the HAAC show on the road. (Food-stamp recipients are heavy purchasers of soft drinks.)

Much of the \$10 each person was asked to pay to stand in line for HAAC would be used to bankroll the hunger lobby.

A 25-year retrospective on HAAC published by *Mental Floss* observed, “The participants couldn’t fully stretch from sea to shining sea given Hands’ circuitous route, so long ribbons or lengths of rope had to stand in for actual people for up to a hundred miles in areas like deserts. The *Los Angeles Times* reported that there were huge gaps in the line in some of the dodgier sections of East LA, and volunteers’ efforts to recruit people from their front porches to join the chain didn’t generate any interest.” A National Coalition for the Homeless spokesman complained to the *New York Times* that HAAC organizers “spent too

much to raise too little and promoted a national extravaganza empty of content.”

The following month, a House Select Committee on Hunger held a hearing to follow up on the ruckus HAAC raised. Aging folk singer Judy Collins was HAAC’s official rep, and she lamented, “In this nation, where the lives of so many are blessed with abundance, I feel shame when I see the hungry and homeless.” But the issue failed to catch fire — in part because the nation was in the middle of the Reagan economic boom.

Food-stamp enrollment surged during the recession of the early 1990s and then trended downward for the rest of the decade. The Clinton administration launched some food-stamp recruiting efforts, especially by using AmeriCorps. When I was investigating that program in the late 1990s, I traveled to Mississippi to see first-hand an AmeriCorps program that claimed to be conducting “door-to-door canvassing to identify potential food-stamp recipients” and also providing “assistance ... in completing necessary applications for food stamps.” The stated goal of the program was to enroll “75% of surveyed rural Mississippi residents who are eligible for food stamps, but are not receiv-

ing them.” When I interviewed the program director in Greenville, Mississippi, she initially denied that the program had much to do with food stamps. I was surprised that she was so evasive after the program’s annual reports to AmeriCorps had offered ample details of its recruiting campaign. When I returned to Washington, I spoke to the AmeriCorps inspector general about the peculiar reaction. The IG did a little digging, the FBI joined in, and the chief of that program was convicted and sent to prison. It turned out that the organization had a bunch of ghost employees on the payroll.

Food-stamp enrollment surged during the recession of the early 1990s then trended downward for the rest of the decade.

The Mississippi program was part of four AmeriCorps “Beyond Food” programs devoted to boosting food assistance. The Congressional Hunger Center (CHC), the lead grantee for the “Beyond Food” programs, exemplified AmeriCorps’s humility. In its 1999 grant application, it stated, “Beyond Food/DC exists to fight hunger by developing leaders.... Our members ... learn in a ‘Capital’ environment

where some of our nation's greatest humanitarian experts work."

When I interviewed AmeriCorps chief Harris Wofford, I asked how food-stamp recruiting meshed with his statements that AmeriCorps promoted self-reliance. Wofford replied, "A self-reliant citizen knows what their [sic] opportunities are and figures out how to make use of those opportunities." Apparently, the new, improved key to self-reliance is knowing the address of the welfare office.

A strong economy and congressional welfare-reform legislation combined to trim food-stamp rolls. By 2000, there were 17 million food-stamp recipients — lower than at most times during the 1980s. But with the victory of George W. Bush in the 2000 presi-

dential election, food stamps would soon be expanded to burnish his "compassionate conservative" bona fides.

In part 3, we shall see how "hunger" was used to purchase votes and affect election outcomes.

James Bovard serves as policy advisor to The Future of Freedom Foundation and is the author of an ebook memoir, Public Policy Hooligan, as well as Attention Deficit Democracy and eight other books.

NEXT MONTH:
"How Food Stamps Subverted Democracy, Part 3"
by James Bovard

For one that big misfortunes slay, ten die of little worries.

— George Robert Sims

It Is Congress That Needs to Be Limited

by *Laurence M. Vance*



Standing near the Long Island Expressway (LIE) — with tractor-trailers zooming by — U.S. Sen. Charles E. Schumer (D-N.Y.) called on the U.S. Department of Transportation (DOT) to swiftly finalize a proposed rule that would require electronic speed-limiting devices in large trucks, buses, and school buses that weigh more than 26,000 pounds. Said the senator in a press release,

For every Long Island driver who has been next to or in the crosshairs of a speeding big rig, a technology like this can't come fast enough. Trucks and large buses that barrel down our roads unsafely put everyone in danger, but now that we have a sensible technology

that can make extreme truck and bus speeds a thing of the past, we must push the feds to accelerate its swift adoption. The LIE is just one of New York's big-rig attractions, and so, capping speed in a safe and reasonable way will make this expressway and everyday drivers safer.

Although acknowledging that “the federal rule-making process can sometimes take years,” Schumer wants this proposed rule “finalized as quickly as possible so that installation of the systems can begin quickly and drivers can be properly trained.”

Schumer maintains that adopting the proposed rule “could help reduce the more than 1,000 fatalities involving heavy vehicles and speed every year.” Although “many trucks and large vehicles are operated safely, technology like speed-limiters, when used correctly, can help crack down on the few bad actors who are putting lives in danger.” But it is not just safety that Schumer is concerned about. Requiring speed-limiting devices in heavy trucks would not only “help save lives and prevent injuries,” it would “also positively impact the environment” by saving fuel and reducing greenhouse-gas emissions.

The speed-limiting rule

The rule Schumer was referring to was proposed by the National Highway Traffic Safety Administration (NHTSA) and Federal Motor Carrier Safety Administration (FMCSA). It would

require vehicles with a gross vehicle weight rating of more than 11,793.4 kilograms (26,000 pounds) to be equipped with a speed limiting device initially set to a speed no greater than a speed to be specified in a final rule and would require motor carriers operating such vehicles in interstate commerce to maintain functional speed limiting devices set to a speed no greater than a speed to be specified in the final rule for the service life of the vehicle.

Specifically, the NHTSA is proposing to establish a new federal motor-vehicle safety standard (FMVSS) requiring that each new vehicle weighing more than 26,000 pounds be equipped with a speed-limiting device. The FMCSA is proposing a complementary federal motor-carrier safety regulation (FMCSR) requiring that each commercial motor vehicle (CMV)

weighing more than 26,000 pounds be equipped with a speed-limiting device meeting the requirements of the proposed FMVSS applicable to the vehicle at the time of manufacture. Such vehicles used in interstate commerce would be required to maintain the speed-limiting devices for the service-life of the vehicle. The idea behind the new standard is that “limiting the speed of these heavy vehicles would reduce the severity of crashes involving these vehicles and reduce the resulting fatalities and injuries.”

Each commercial motor vehicle (CMV) weighing more than 26,000 pounds would be equipped with a speed-limiting device.

NHTSA’s authority for this latest notice of proposed rule-making (NPRM) is said to be the National Traffic and Motor Vehicle Safety Act of 1966. The FMCSA’s portion of the NPRM is said to be based on the authority of the Motor Carrier Act of 1935 and the Motor Carrier Safety Act of 1984, both as amended.

Schumer wrote a letter to the NHTSA and FMCSA applauding their “efforts to commence a rule-making on truck speed limiters” and urging them “to finalize this rule as quickly as possible.” He con-

cluded by bringing up New York State’s “long history with high-speed truck related crashes” and citing some statistics: “In 2014 alone, there were 10,742 police-reported large truck crashes, 74 of which were fatal and 990 of which were related to unsafe speed.” And while the senator acknowledged that “truck speed limiters will not prevent all crashes,” he believed that “they will certainly significantly reduce both the number and severity of these accidents.”

Another senator has taken up this cause as well. Sen. Johnny Isakson (R-Ga.) has issued his own press release about the matter. He states that “for the last several years” he has “urged the Department of Transportation to improve road safety by requiring heavy trucks to use speed-limiting technology to reduce the violence of crashes and save lives.” Like Schumer, Isakson has “called on the administration to act expeditiously” to adopt the speed-limiting device rule. The senator also offered an amendment (SA 4024) to the Military Construction, Veterans Affairs, and Related Agencies Appropriations Act, 2017 (S.2577) “to direct the Secretary of Transportation to issue a final rule requiring the use of speed limiting devices on heavy trucks not later

than 6 months after the date of the enactment of this Act.” The Senate agreed to Isakson’s amendment by voice vote.

Some trucking organizations are opposed to the federal speed-limiter requirements.

“Such a mandate would have serious consequences, such as creating ‘rolling roadblocks’ of trucks on highways.”

The Owner-Operator Independent Drivers Association (OOIDA) issued a press release critical of the proposal: “Such a mandate would have serious consequences, such as promoting road rage among other motorists and creating ‘rolling roadblocks’ of trucks on highways.” As explained by Todd Spencer, executive vice president of the OOIDA, “Many states that used to have lower, separate speed limits for trucks have realized this was not the best idea and changed their policies to the same speed limit for all vehicles. Highways are safest when all vehicles travel at the same relative speed. This wisdom is backed by science.” The OOIDA also criticized the actions of Congress related to the proposed rule: “The Association says that Congress should take time to understand the true impact

this policy would have on highway safety and allow the rule-making process to continue, rather than imposing a mandate through the appropriations process.” By amending the Senate bill, the Senate is ignoring the sacrosanct ability of industry stakeholders to help shape the regulations affecting them through the traditional federal rule-making process.” Remarked Spencer, “Congress has never analyzed the effect of mandating lower speeds for heavy vehicles through any public hearing or forum. We believe the Senate’s first significant action on the issue should not be in the form of mandating something that decades of research has proven increases the likelihood of crashes between trucks and other vehicles.”

“Driving too fast ... was the primary reason for 18 percent of all fatal crashes where a large truck was deemed at fault.”

Likewise, as reported by the trucking and freight transportation industry trade paper *Transport Topics*, American Trucking Associations (ATA) President Chris Spear criticized the proposal, calling it “flawed” because it would create differential speeds along highways. “Proposing a rule that does not take

into account the various differentials in speed between what this rule proposes and what state speed limits are is dangerous,” said Spear at ATA’s Management Conference & Exhibition in Las Vegas.

The regulatory state

It is not just trucking organizations that should be opposed to NHTSA and FMCSA rules. Anyone who prefers the limited government of the Founders over a regulatory state should be opposed as well.

That, of course, does not mean that we should be indifferent to fatal crashes involving tractor-trailers or be in denial about excessive speed’s being a factor in many traffic accidents. According to the NHTSA, in 2014 there were, nationwide, 3,903 people killed and 111,000 people injured in crashes involving large trucks. Of those killed in those crashes, 83 percent were occupants of other vehicles or pedestrians. And according to the ATA, “Speed is a contributor to roughly 29 percent of all fatal crashes” and “driving too fast for conditions or over the posted speed limit was the primary reason for 18 percent of all fatal crashes where a large truck was deemed at fault.”

In arguing for their proposed rule, the NHTSA and FMCSA

maintain that “even a small increase in speed among large trucks will have large effects on the force impact in a crash.” The administrations estimate that “limiting the speed of heavy vehicles to 60 miles per hour would save an estimated 162 to 498 lives annually; limiting the speed of heavy vehicles to 65 miles per hour would save 63 to 214 lives annually; and limiting the speed of heavy vehicles to 68 miles per hour would save 27 to 96 lives annually.”

Government regulation of truck and bus engines tramples property rights and needlessly interferes in the free market.

But why stop there? Just imagine how many lives could be saved annually if the speed of heavy vehicles were limited to just 50, or 40, or 30 miles per hour? And why limit the installation of speed-limiting devices to just heavy trucks and buses? Why not put the devices on cars as well? Nationwide, there are thousands more accidents involving only cars resulting in thousands more deaths. Since the posted speed limit on most major American highways does not exceed 70 miles per hour, why should car companies be allowed to manufacture cars that

can achieve speeds of more than 100 miles per hour? And wouldn't a return to a maximum national speed limit of 55 miles per hour — to promote safety this time instead of saving fuel — further cut the number of annual highway deaths in the United States? Indeed, if increased safety and fewer highway fatalities is the goal, then why not a combination of speed-limiters and lower speed limits?

Government regulation of truck and bus engines is just one small part of the regulatory state that repeatedly tramples property rights, stifles businesses, and needlessly interferes in the free market. The federal government currently regulates every facet of American life — from the amount of water toilets flush to the size of the holes in Swiss cheese. In a free society, the government would not regulate any of those things and the NHTSA and FMCSA would not exist. In the trucking industry, it is private organizations such as the OOIDA and ATA that should undertake studies and propose regulations. Every further attempt at government regulation — even in the name of safety — should be opposed root and branch. It is simply not the proper role of government to be a regulator. Once the government begins regu-

lating, there is never an end to it. And once one regulation is justified in the name of safety, no logical argument can then be made against the government's imposing countless others.

It is simply not the proper role of government to be a regulator.

It is in the interest of trucking companies to minimize or prevent accidents involving their trucks. That is why, as acknowledged by Schumer in his press release, according to the ATA, "approximately 70 percent of trucking companies already use electronic limiters."

Our spendthrift Congress

If the federal government really wants to limit something, it should start with the spendthrift Congress. At the end of fiscal year 2016, the U.S. national debt stood at \$19,573,444,713,936.79. That is more than \$19 trillion. Like his predecessor George W. Bush, Barack Obama presided over almost a doubling of the national debt. Because Congress spends more every year than it collects in revenue, the federal government runs a deficit. The sum total of all the federal deficits since the beginning of the United States is the national debt.

The federal budget is now about \$4 trillion a year. The U.S. treasury divides all federal spending into three groups: mandatory, discretionary, and interest spending.

Mandatory spending, which makes up nearly two-thirds of the total federal budget, is spending that Congress legislates outside of the annual appropriations process. It is dominated by the big three: Social Security, Medicare, and Medicaid. Mandatory spending also includes spending on food stamps, transportation, veterans' benefits, refundable tax credits, unemployment benefits, Supplemental Security Income (SSI), student loans, housing assistance, and the Temporary Assistance to Needy Families (TANF) program.

Discretionary spending refers to the portion of the budget that is decided by Congress through the annual appropriations process each year. It accounts for about one-third of the federal budget. More than half of that is spending on the Pentagon and military operations. The rest includes spending for Head Start; education; Pell grants; NASA; veterans' benefits; international affairs; transportation; job training; scientific research grants; the departments of Energy, Health and Human Services, Homeland Secu-

erty, Justice, and State; and the Women, Infants, and Children (WIC) program.

Interest spending is the interest the government pays on its accumulated debt, minus interest income received by the government for the assets it owns. The government's interest expense for fiscal year 2016 was \$432.6 billion.

Is all of that spending necessary? Of course not. Most of it is not spent on a legitimate purpose of government. Much of it is spent on boondoggles. Much of it is transferred from one American to another after being filtered through a bloated and expensive government bureaucracy. Much of it is wasted on military offense instead of defense. Is it possible to limit any of the spending? Of course it is. It is entirely possible to limit all of it. And we don't need a balanced-budget amendment, policy recommendations from D.C. think tanks, congressional hearings, or a special commission on how to eliminate government waste and fraud to do it. And we certainly don't need to elect more Republicans or fiscal conservatives to Congress, since they are just part of the problem.

The Constitution

It is possible to limit congressional spending by simply demanding

that members of Congress follow the Constitution they have sworn to uphold. The Constitution (article VI, clause 3) requires that senators and representatives "be bound by oath or affirmation, to support this Constitution." U.S. law requires that members of Congress be sworn in before they can take their seats. The language of the congressional oath has changed (it is set by statute) several times since it was first administered in 1789. It now reads,

I do solemnly swear that I will support and defend the Constitution of the United States against all enemies, foreign and domestic; that I will bear true faith and allegiance to the same; that I take this obligation freely, without any mental reservation or purpose of evasion; and that I will well and faithfully discharge the duties of the office on which I am about to enter. So help me God.

**The government's interest
expense for fiscal year 2016 was
\$432.6 billion.**

Regardless of any flaws or problems that anyone thinks the Constitution has, it is the supreme law of

the land. America could be “made great again” if the legislators Americans elected simply followed the Constitution when it came to spending the taxpayers’ money.

The United States was set up as a federal system of government where the states, through the Constitution, granted a limited number of powers to the national government. As future president James Madison explained in Federalist No. 45,

The powers delegated by the proposed Constitution to the Federal Government, are few and defined. Those which are to remain in the State Governments are numerous and indefinite. The former will be exercised principally on external objects, as war, peace, negotiation, and foreign commerce; with which last the power of taxation will, for the most part, be connected. The powers reserved to the several States will extend to all the objects, which, in the ordinary course of affairs, concern the lives, liberties and properties of the people; and the internal order, improvement, and prosperity of the State.

Congress has been granted the power to do about thirty things — not the hundreds of things it currently does.

A statement by our third president, Thomas Jefferson, is apropos here: “In questions of power then let no more be heard of confidence in man, but bind him down from mischief by the chains of the Constitution.” It is the Constitution that can limit congressional spending. The chains of the Constitution can bind Congress. What Congress lacks is will power, not some plan or procedure. I will limit my list of items the Constitution can limit congressional spending on, to just ten major things. There are hundreds more minor things.

“The powers delegated by the proposed Constitution to the Federal Government, are few and defined.”

The Constitution can limit congressional spending on education. Although the federal government doesn’t operate any schools, it funds education through the Elementary and Secondary Education Act, Pell Grants, and student loans. It also funds a huge educational bureaucracy in the Department of Education. But since the Constitution

doesn't authorize the federal government to spend one penny on education, and doesn't even mention education, all federal spending on education should be ended and the Department of Education should be shuttered.

The Constitution can limit congressional spending on the drug war. The federal government spends billions of dollars every year enforcing its drug laws, incarcerating Americans for drug possession or "trafficking," seizing drug shipments, eradicating marijuana fields, and maintaining an army of armed bureaucrats in the Drug Enforcement Administration (DEA). But since the Constitution doesn't authorize the federal government to classify drugs on a schedule, wage war on drugs, or ban any substance, the war on drugs should be ended and the DEA should be abolished.

The Constitution can limit congressional spending on space exploration. Although space exploration was not envisioned at the time of the writing of the Constitution, the Constitution nowhere authorizes the federal government to explore anything. All space exploration and travel to the International Space Station should be conducted and funded by private entities and the National Aeronautics and Space

Administration (NASA) should be abolished.

The Constitution doesn't authorize the federal government to spend one penny on education.

The Constitution can limit congressional spending on Social Security. This is the greatest expense the federal government has. And although it is a popular program that enjoys wide bipartisan support, that doesn't make it constitutional. So, since the Constitution doesn't authorize the federal government to institute or operate a retirement program, a safety net, an investment account, or a disability plan, the Social Security Administration should be closed down, the program should be abolished, and the payroll taxes that partially fund it should be eliminated.

The Constitution can limit congressional spending on Medicare and Medicaid. After Social Security and defense, Medicare and Medicaid account for two of the largest expenditures of the federal government. But since the federal government is nowhere authorized by the Constitution to have health-care programs, subsidize health insurance or health care, pay for prescription drugs, or have anything to

do with insurance or medicine, Medicare and Medicaid should be ended along with the Department of Health and Human Services.

Constitution doesn't authorize the federal government to subsidize agriculture or any other sector of the economy.

The Constitution can limit congressional spending on agriculture. The federal government treats agriculture different from other sectors of the economy and subsidizes certain segments of it. But since the Constitution doesn't authorize the federal government to subsidize agriculture or any other sector of the economy, farming should be treated just like any other business. The Department of Agriculture should be abolished, and all farm subsidies should be eliminated.

The Constitution can limit congressional spending on welfare. Every year, the federal government takes billions of dollars from those who work and transfers it to those who don't. Its welfare system includes roughly 80 means-tested programs such as SNAP, NSLP, LIEAP, EITC, WIC, SSI, and TANF that provide cash, food, housing, medical care, and social services to poor and lower-income Americans.

But since the Constitution doesn't authorize the federal government to operate or fund any welfare programs, provide charity, or fight poverty, they should all be abolished.

The Constitution can limit congressional spending on foreign aid. The federal government gives away to foreign governments and agencies billions of dollars in foreign aid it first takes out of the pockets of American taxpayers. But since the Constitution nowhere authorizes the federal government to give aid even to Americans, all foreign aid supplied by the U.S. government should be ended.

The Constitution can limit congressional spending on scientific, medical, and cultural grants. Since the Constitution nowhere authorizes the federal government to subsidize scientific or medical research or the cultural activities of individuals or organizations, all federal grants for those things should be canceled, all future grants ended, and all of the agencies responsible for making grants disbanded.

The Constitution can limit congressional spending on the Transportation Security Administration (TSA). Although air travel was not envisioned at the time of the writing of the Constitution, the Constitution nowhere authorizes the fed-

eral government to provide security for private businesses. Airports and airlines should handle their own security just like any other business and the TSA should be abolished.

Whether or not the states can or should spend money on any of those things is something important that can and should be debated, but is irrelevant to the subject at hand. It is the federal government that needs to be limited. It is vastly more important that congressional spending be limited than the speed of large trucks.

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dom Foundation, an associated scholar of the Ludwig von Mises Institute, and a columnist, blogger, and book reviewer at LewRockwell.com. Visit his website: www.vancepublications.com. Send him email: lmvance@laurencemvance.com.

NEXT MONTH:

**“The Marijuana Juggernaut
Rolls On”**

by Laurence M. Vance

*F*anaticism consists in redoubling your effort
when you have forgotten your aim.

— George Santayana

Money on the Table

by *Richard W. Fulmer*



There's an old economists' joke about two university professors who are walking through the school's cafeteria. The first professor, an engineer, points to an empty table and says, "Look, someone left a twenty-dollar bill." The second professor, an economist, replies, "Nonsense. Someone would have already picked it up."

The point of the joke is that, in a free market, explanations of economic activity that assume that obvious profit-making opportunities are being ignored — that is, that money has been "left on the table" — are rarely correct. That is because entrepreneurs tend to react quickly to such opportunities.

For example, a common complaint is that women in the United States are paid only 75 percent of what men are paid for doing the same work. The "money left on the

table" in this case is cheap labor. An alert businessman could undersell the competition by hiring only women and paying them, say, 80 cents on the dollar. With labor costs 20 percent below those of the rest of the market, his profits would be substantial. Of course, his high profits would attract other investors, and women's wages would quickly be bid up.

Why hasn't that occurred? According to social critics, the reason is sexism. However, given the fact that money is rarely left on the table, a more likely possibility is that the initial premise — women are paid less for doing exactly the same work — is incorrect. And, indeed, when we look more closely at the data, a very different picture appears. First, we find that the 75 percent number comes from comparing all women to all men. Next, we learn that the "average" man:

- Works more hours than the "average" woman.
- Stays with the same company longer.
- Takes fewer leaves of absence for child rearing.
- Is more likely to take dangerous or unpleasant work.
- Is more likely to be in a high-paid technical field such as engineering.

Once the data are corrected for those and other differences, the disparity in pay virtually disappears. No money is being left on the table.

After Oregon passed a law limiting annual interest rates to 36 percent, “three-quarters of the hundreds of payday lenders in the state closed down.”

Another common example is stores in poor neighborhoods that charge higher prices than do stores in wealthier areas. “Activists” often attribute such differences to racism or greed. Again, however, such explanations assume that money has been left on the table — in this case, profit opportunities in the poorer neighborhoods. If stores in those areas are making obscene profits thanks to their high prices, then opportunities exist for other entrepreneurs to enter the market and undersell the profiteers. Why doesn’t that happen?

Because obscene profits are not being made. Yes, stores charge higher prices in ghettos and barrios, but only because their costs are higher. Losses due to shoplifting, holdups, and arson are much greater in poorer neighborhoods. Insurance premiums are higher as well. When “activists” succeed in passing

laws that require stores in those areas to cut their prices, the stores often go out of business. People in the affected neighborhoods must then either travel across town to purchase nutritious food or buy whatever (less nutritious) food is available at whatever businesses remain.

A similar case can be made for the universally despised payday-loan companies that cater mostly to poor customers. Critics point out that such “predatory lenders” may charge annualized interest rates of 300 percent or more for the small loans — usually between \$300 and \$400 — they make to their customers. Here, at least, money must be on the table. Surely, an enterprising person with a little start-up money could charge a “mere” 100 percent a year and clean up.

But, as Thomas Sowell, explains in his book, *Basic Economics*, payday loans aren’t made for a year. Rather they’re usually made for no more than a few weeks. According to Sowell, “For a two-week loan, payday lenders typically charge \$15 in interest for every \$100 lent.” That \$15 must cover the cost of processing the loan and the higher risks inherent in lending to people who have little or no collateral.

After Oregon passed a law limiting annual interest rates to 36 per-

cent, “three-quarters of the hundreds of payday lenders in the state closed down.” To so-called consumer advocates, that was little more than good riddance. But it was a big financial headache for people who could no longer obtain \$100 to keep the electricity running or a car from being repossessed, or who might have to pay more than \$15 in late fees to a credit card company.

The observation that the market rarely leaves profit opportunities untapped is a useful tool for evaluating claims of market failure. If a proposed explanation of a given free-market activity implies that people have been ignoring the

chance to make large profits for years, then the explanation should be questioned and other possibilities considered.

Fortunately for entrepreneurs, however, sometimes people really do “leave money on the table.” Successful entrepreneurs help improve our lives by seeing what others miss: unmet needs, new products, efficiency gains, and better solutions. They’re the first to spot that twenty-dollar bill on the cafeteria table, and it’s a safe bet that they’re not economics professors.

Richard W. Fulmer is a free-lance writer in Humble, Texas.

For we know that when a nation goes down and never comes back, when a society or a civilization perishes, one condition may always be found — they forgot where they came from. They lost sight of what brought them along.

— Carl Sandburg
Speech at Wade House Historic Site [1953]

Freedom in Transactions

by *Frédéric Bastiat*



On entering Paris, which I had come to visit, I said to myself — here are a million human beings who would all die in a short time if provisions of every kind ceased to flow towards this great metropolis. Imagination is baffled when it tries to appreciate the vast multiplicity of commodities that must enter tomorrow through the barriers in order to preserve the inhabitants from falling a prey to the convulsions of famine, rebellion, and pillage. And yet all sleep at this moment, and their peaceful slumbers are not disturbed for a single instant by the prospect of such a frightful catastrophe. On the other hand, eighty departments have been laboring today, without concert, without any mutual understanding, for the pro-

visioning of Paris. How does each succeeding day bring what is wanted, nothing more, nothing less, to so gigantic a market? What, then, is the ingenious and secret power that governs the astonishing regularity of movements so complicated a regularity in which everybody has implicit faith, although happiness and life itself are at stake? That power is an absolute principle, the principle of freedom in transactions. We have faith in that inward light which Providence has placed in the heart of all men, and to which he has confided the preservation and indefinite amelioration of our species, namely, a regard to personal interest — since we must give it its right name — a principle so active, so vigilant, so foreseeing, when it is free in its action. In what situation, I would ask, would the inhabitants of Paris be if a minister should take it into his head to substitute for this power the combinations of his own genius, however superior we might suppose them to be — if he thought to subject to his supreme direction this prodigious mechanism, to hold the springs of it in his hands, to decide by whom, or in what manner, or on what conditions, everything needed should be produced, transported, exchanged, and consumed? Truly, there may be much suffering

within the walls of Paris — poverty, despair, perhaps starvation, causing more tears to flow than ardent charity is able to dry up; but I affirm that it is probable, nay, that it is certain, that the arbitrary intervention of government would multiply infinitely those sufferings, and spread over all our fellow-citizens those

evils which at present affect only a small number of them.

Frédéric Bastiat was a 19th-century French economist. This article appeared in volume 3 of Essays on Liberty, published by FEE in 1958. Reprinted by permission.

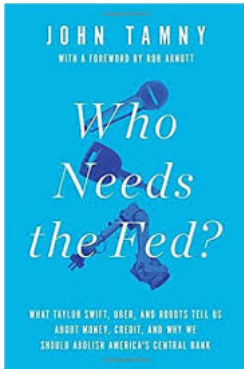
A compact that is false between two men, is equally so between an hundred, or an hundred thousand; for as ten millions of circles can never make a square, so the united voice of myriads cannot lend the smallest foundation to falsehood.

— Oliver Goldsmith
The Vicar of Wakefield

End the Fed

by George C. Leef

Who Needs the Fed? by John Tamny
(Encounter Books, 2016); 224 pages.



I really don't like to start a review with a quibble, but in this instance, I must. My quibble is with the title of the book, which makes it seem as though it is aimed only at knocking out support for the Federal Reserve System. That certainly is a worthy goal and Tamny accomplishes it, but the Fed is far from the sole or even the most important of his book's targets.

A better, more revealing title would have been: "Who Needs Government Economic Meddling?" *That* is what this book is really about, and Tamny does an exemplary job of explaining why

nothing government does beyond its limited "night watchman" functions can help us achieve prosperity. Greatly influenced by the Austrian School and especially Ludwig von Mises, Tamny argues that when we depart from *laissez faire*, the result *must* be the squandering of resources, the perversion of incentives, and a slowing of progress.

Central to Tamny's analysis is his understanding of the term "credit." Most people think that credit just means the borrowing of money and therefore believe that government policy can (and usually should) make credit "easier" for individuals and businesses by keeping interest rates low. Economic output and employment supposedly expand when government does that.

Tamny shows that those widely believed ideas are utterly mistaken. He writes, "Stated simply, credit is not money. If it were, 'easy credit' would be as simple as printing lots of money. In fact, credit is always and everywhere the actual resources — tractors, cars, computers, buildings, labor, and individual credibility — created in the real economy. Credit equals resource access."

Given the facts that resources are scarce and that government can never have resources it hasn't first

taken from the productive sector, it is impossible for the government to make access to resources more available in general. All it can do is to cause them to be employed differently than they otherwise would be. Some resources can be directed into politically favored uses, but far from “stimulating the economy,” that puts them to low-benefit uses that make us poorer on the whole.

The only economically wise policy, Tamny shows, is for government “to free individuals to pursue their talents.” That alone can make credit truly more abundant.

Furthermore, Tamny points out, credit involves a transaction where there is a buyer and a seller. In the real world — unlike the fantasy world of politics and leftist economic theory — the way to make resources more readily available is not to lower their price, but to raise them so as to call forth more willing sellers. He illustrates that point with a well-chosen anecdote (a hallmark of his writing, by the way) involving a Taylor Swift concert on a summer night in Nationals Park in Washington, D.C.

Tamny’s wife attended the sell-out concert and when it was over, more than 41,000 people all wanted transportation home at once. The (increasingly decrepit, govern-

ment-run) subway system was jammed and while some taxis were waiting, the city limits how much they can charge and few drivers felt like going out on a hot night for one fare.

The only economically wise policy, Tamny shows, is for government “to free individuals to pursue their talents.”

Fortunately, she had an alternative — Uber, which has the freedom to set its own prices. Its “surge” pricing brings out drivers who want to earn more by providing transportation services at peak demand times. Tamny makes the connection between Uber’s pricing and credit, writing, “Uber achieves an ‘easy’ supply of drivers for its customers not by making their services cheap but by doing the exact opposite. Pricing is the free market’s way of regulating the supply of the resources we deem credit.”

Credit-worthiness

Tamny also takes dead aim at the macroeconomic notion that credit can be either easy or tight in general. He observes that no matter how the government manipulates interest rates, whether a credit transaction will occur or not

crucially depends on the credit-worthiness of the borrower — the person or firm that seeks resources.

Here, Tamny demonstrates his point by looking at the movie industry. No matter how low the government drives interest rates, he notes, credit is almost always “tight” in Hollywood. Huge numbers of movies are conceived and pitched to backers, but most never attract the essential financing. That is true even for directors with a record of success. At one time in Hollywood, Warren Beatty was able to attract credit on the basis of hits such as *Shampoo* and *Heaven Can Wait*. Then he directed the disasters *Ishtar* and *Town & Country*. Beatty quickly became “box-office poison.” The lesson, Tamny writes, is that “what the Fed presumes to do in fiddling with interest rates is, on the surface, of little consequence. No matter the Fed’s obnoxious conceit about how easy or hard it should be to access credit, financing a movie is difficult.”

Instead of praising politicians and Fed officials for helping the economy, we ought to praise those rare individuals who figure out how to enable people and firms to access credit who probably would not have otherwise been able to. Financial markets are not perfect, after all. One person who made them

work better was Michael Milken. If there were a “Mount Rushmore for the greatest capitalists,” Tamny says that Milken would have to be on it.

Milken made a fortune precisely because he put resources to better use.

Back in the 1980s, Milken figured out that there was a lot of money to be made in “high-yield finance,” later smeared with the term “junk bonds.” Going around the American financial establishment, Milken was able to finance a host of upstart firms including CNN, Turner Broadcasting, and Occidental Petroleum, i.e., he provided them with needed resources. He saw credit-worthiness where the traditional lions of finance didn’t — and thus made a fortune precisely because he put resources to better use. But the financial establishment, in cahoots with zealous “law enforcement” types (most notably, Rudy Giuliani) took Milken down with a prosecution charging that he was guilty of conduct that had never before been considered illegal. With the use of unscrupulous tactics, the government got Milken to plead guilty and his name is now tarnished. It shouldn’t be.

Regulating the banks

Tamny then turns to the banking system and the Fed. If the book was iconoclastic before, it becomes even more so.

One of the central beliefs of Keynesian economic theory is that when government (through central banks such as the Fed) increases bank reserves by purchasing government bonds, the “new money” will be lent out to businesses. As the business borrowers then spend that money, its economic impact is “multiplied” as the dollars are spent by other parties in the chain of production. The multiplier theory is used over and over to justify not only “easy” money, but also governmental spending projects of all kinds.

Tamny reels the reader back to reality, again by pointing out that resources are scarce and therefore the “multiplier” is fiction. Bank lending cannot miraculously bring about rising prosperity because prosperity depends on making good use of resources, which cannot be “multiplied.”

Nor are banks necessary for credit transactions. The economy has evolved many ways of bringing together prospective borrowers and lenders that don’t involve banks. Yet Americans tend to focus inordi-

nately on the supposed need for government to regulate banking. One of the fetishes among Democratic and Republican politicians alike has been on bank reserve requirements and safety. Seizing upon fears lingering after the 2008 financial debacle, politicians claimed that to avoid a replay, the government needs to make banks operate more “responsibly.”

Tamny points out that resources are scarce and therefore the “multiplier” is fiction.

To that, Tamny replies, “Banks shouldn’t face any reserve requirements because well-run banks don’t need them.” Like any business, talented banking professionals will find the best way to run — the optimal level of reserves to hold and the optimal level of risk to take in lending. Instead of government regulation, all we need, Tamny argues, is a free market in banking and an end to the “too big to fail” concept that protects poorly run but politically connected banks, Citibank being a prime example.

One aspect of government policy toward banking that should be done away with is deposit insurance — at least deposit insurance that is governmentally mandated

through the Federal Deposit Insurance Corporation. The FDIC creates moral hazard that makes both depositors and bankers careless.

Tamny's discussion of federal bank regulation is particularly timely, since both the Republicans and Democrats made a big point in their 2016 campaign platforms of calling for the reintroduction of the Glass-Steagall Act. That law, enacted during the Depression, mandated a separation between regular banking and investment banking, and the repeal of the law under Bill Clinton has been fingered as the cause of the financial meltdown in 2008. Tamny shows that idea to be sheer folly, since the line between lending and investing has become increasingly indistinct and the financial debacle was caused by government mandates that forced high-risk housing loans. "It was the hybrid bank/investment banks operating post Glass-Steagall fashion (think of J.P. Morgan and Bank of America) that were best positioned to weather the 2008 crisis," he writes.

Finally, the market has created so many new kinds of financial services and institutions that today, about 80 percent of business borrowing takes place outside of the banking system. Credit transac-

tions occur all the time without government regulation. We are moving into the era of, as Tamny puts it, "Uber for lending."

The last resort

And now, what about the Fed?

The big argument that props up its existence is that there supposedly must be a "lender of last resort" for banks that are desperate for funds. Wouldn't it be terrible if we didn't have the Fed to "save" troubled banks?

**Banks, like all other businesses,
need the discipline of profit
and loss.**

Actually, we would be far better off without it, Tamny argues. Banks, like all other businesses, need the discipline of profit and loss; when they lose money, they ought to go out of business to release the resources they are using badly so that other enterprises can put them to better use. "For the government to prop up what the markets don't want, it must punish the companies that markets do want," he writes.

Besides that, banks that find themselves short of cash have options besides borrowing from the Fed. If that was ever a justification for the Fed, it certainly isn't any longer.

What the Fed “accomplishes” is to keep down the cost of government borrowing so that politicians can continue their innumerable plans for buying votes and transforming the nation according to their visions. It has done that, Tamny writes, by extracting trillions from the banking system so it could buy federal debt and mortgage-backed securities. That is to say, it enables the political class to transfer scarce resources away from the competitive, productive sector of the economy and into their favored uses. That makes the nation poorer.

Americans would be far better off if they could get rid of the Fed, completely deregulate the financial industry, and return to sound money that can't be manipulated for short-run political gains. That means restoring the constitutional money, which is gold.

Who Needs the Fed? is a wonderfully, endlessly iconoclastic book. Each and every page challenges the conventional economic

thinking, including some conventional Austrian thinking. While Austrian economists have largely pinned the blame for the recent housing bubble on the Fed's “easy credit” policies, Tamny points out that there were housing bubbles in the past when the Fed was not pushing interest rates as low as possible. His explanation is that when the Fed drives down the value of the dollar, it attracts capital into seemingly safe but not very productive sectors such as housing. (Among Tamny's insights is that housing really is not an investment, but a consumption item.)

If you want to be prepared to make the strongest, most radical arguments against government economic meddling of all kinds, this is a book you must read.

George C. Leef is the research director of the John W. Pope Center for Higher Education Policy in Raleigh, North Carolina.

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