
FUTURE OF FREEDOM

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To have striven, to have made an effort, to have been true to certain ideals — this alone is worth the struggle.

— *Sir William Osler*

FUTURE OF FREEDOM

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<i>Achieving Freedom</i>	2
Jacob G. Hornberger	
<i>The Great College-Hunger Hoax</i>	8
James Bovard	
<i>Are Americans Undertaxed?</i>	14
Laurence M. Vance	
<i>Liberty versus Political Paternalism</i>	23
Richard M. Ebeling	
<i>Capitalism, Freedom, and Progress</i>	34
George Leef	

Achieving Freedom

by Jacob G. Hornberger



Achieving freedom necessarily depends on removing infringements on freedom. If all that we libertarians succeed in doing is modifying, reforming, or improving infringements on freedom, the most we will have achieved is an improvement in our condition as serfs living under America's welfare-warfare-state way. That would be good. But it would not be freedom.

Consider life in 1850 Alabama. Imagine that there are people who are fighting hard to reform slavery. Fewer lashings. Shorter work hours. Better food and health care.

All that would be good, and no doubt the slaves would have appreciated it. But there would have been one great big thing wrong with it: No matter how much better such reforms would have made life for

the slaves, it would not have been freedom, and the slaves would have known it.

It's no different with life today under America's welfare-warfare state. No matter how valiantly reformers strive to make life better for the American people, it still won't be freedom. To achieve freedom, it's necessary to dismantle, not reform, infringements on liberty.

Consider, for example, Social Security, which is the crown jewel of America's welfare-warfare state. Contrary to popular opinion, especially among seniors, Social Security is not a retirement program. No one "contributes" to an interest-bearing retirement account during his work life. Instead, everyone is simply taxed to fund the overall welfare-warfare-state system. Even welfare monies given to seniors are taxed.

Social Security is nothing more than a mandatory charity program, one that is based on using the government to forcibly take money from younger people through taxation and giving it to older people.

There is no way to reconcile mandatory charity with freedom. Freedom necessarily entails deciding what one wants to do with his own money. If a person is being forced to help another person, the

person being forced cannot be considered free.

Thus, a necessary prerequisite for achieving freedom is the immediate dismantling of Social Security.

Enter the reformers. They say that suddenly ending Social Security would be cruel and wrong. They say that younger people simply cannot be trusted to care for seniors and others on a voluntary basis. Thus, they come up with an array of reform measures designed to gradually get rid of Social Security over a period of 20-30 years.

There is one great big thing wrong with their proposals: They are not freedom. Instead, they delay freedom for at least the next 20-30 years and probably longer, given that the younger people who are being forced to fund current seniors will most likely say, when they reach retirement age, that they, too, have the right to “get their money back.”

Achieving freedom necessarily depends on trusting younger people with freedom. Achieving freedom now requires the immediate dismantling, not the reform, of Social Security.

Drugs, education, and health

Consider drug laws. In a genuinely free society, a person has the right to ingest whatever he wants to

ingest, no matter how harmful or destructive it might be. People also have the right to engage in consensual economic trades with other adults.

Drug laws violate those principles by criminalizing the possession or distribution of drugs. Thus, in order to achieve a genuinely free society, it is necessary to repeal all drug laws.

Achieving freedom now requires the immediate dismantling, not the reform, of Social Security.

Enter the reformers. Trying to be practical, they settle for calling for the repeal only of marijuana laws. The possession of other drugs, such as cocaine, meth, heroin, and opioids, shall continue to be illegal, but the reformers say they will work hard for reforms such as reducing or ending mandatory-minimum sentences, revising asset-forfeiture laws, and improving prison conditions.

All of those reforms, of course, would be an improvement. But there is one great big thing wrong with them: They are not freedom. Freedom necessarily depends on the repeal, not the reform, of all laws that criminalize the possession and distribution of drugs.

Consider education. In a genuinely free society, families have the right to have their children educated in any way they choose. The state has no more business in education than it does in religion.

Yet in the United States parents are forced to submit their children to state-approved education. People are also forced to fund the government school system through school and property taxes. In public schools, the state sets the curriculum, furnishes the textbooks, and hires the teachers.

There is no way to reconcile those coercive measures with the principles of a genuinely free society. A free society necessarily depends on dismantling such infringements on liberty.

Enter the reformers. Trying to save children from the bad consequences of public schooling, they propose school vouchers, a socialist program that takes money from one group of people in order to fund the private education of another group of people.

Do vouchers improve the situation? It's hard to say that they do. While they do enable some students to go from public schools to private schools, the receipt of the vouchers places the private schools under more direct government

control, which then moves the private schools in the direction of public schools.

But even if they did improve the education situation, there would still be one great big thing wrong with school vouchers: They would not be freedom. Even if they led to freedom, it would be at least another 20-30 years before freedom was achieved. Freedom now necessarily entails the immediate dismantling, not the reform, of infringements on liberty.

Freedom necessarily entails the immediate dismantling of infringements on liberty.

Consider health care. A genuinely free society is one in which the government plays no role in health care — that is, there is a totally free-market health-care system. Thus, achieving freedom necessarily entails the repeal of Medicare and Medicaid and the end of all other governmental interferences in health care.

Enter the reformers. They come up with all sorts of reform measures that assume the continued existence of Medicare and Medicaid and government control and regulation of health care. They might improve the situation, but it is more

likely that they will only make it worse. But even if it's the former, it won't be freedom. Freedom necessarily entails dismantling infringements on freedom, which means the repeal, not the reform, of Medicare and Medicaid and the separation of health care and the state.

Money, trade, and war

Consider the fiat (i.e., paper) money system and the Federal Reserve System under which Americans have lived for more than a hundred years. A genuinely free society would have a free-market monetary system, one in which the marketplace determined what item was going to be used as money. When government commands people to use its government-issued paper money as their official money, there is no way to reconcile that command with the principles of a free society. The fact that the government wields the power through the Federal Reserve to destroy its own official money by inflating the money supply only makes the situation worse.

Enter the reformers. They want to rein in the Fed by limiting its ability to inflate the money supply. That would certainly be an improvement, but it wouldn't be freedom. Freedom necessarily entails

the dismantling, not the reform, of infringements on freedom. That means not a reform of America's monetary system but rather a separation of money and the state.

Consider America's governmentally regulated and managed economy. There is no way that it can be reconciled with the principles of freedom. A free society is one in which people are free to manage their own economic activities, free of governmental interference.

In a free society, people have the right to trade with whomever they want anywhere in the world.

Enter the reformers. They want to reduce the number of regulations. They want to reduce the minimum wage. They want to install free-market-oriented people as heads of federal regulatory commissions so that they can bring "choice" to the regulatory process.

That might serve to improve the situation. But it's not freedom. Freedom necessarily entails a dismantling of infringements on freedom, including the power of government to manage, control, or regulate economic activity.

Consider trade restrictions. There is no way that anyone who lives under a government that is

regulating, controlling, or interfering with trade can be considered free. In a genuinely free society, people have the right to trade with whomever they want anywhere in the world. After all, it's their money, not the government's. Free people have the right to do whatever they want with their own money.

Enter the reformers. They strive to reduce restrictions on trade such as tariffs, import quotas, sanctions, and embargoes. That certainly would improve the situation, but it wouldn't be freedom. Freedom necessarily depends on dismantling, not reforming, all infringements on the freedom of people to trade. A genuinely free society is one in which there is a separation of trade and the government.

Consider immigration controls. There is no way that people in a society in which the government is controlling the movements of people across borders and restricting freedom of association can genuinely be considered free. That is particularly true as the government adopts more and more measures to enforce its immigration-control system.

Enter the reformers. They want the government to let in more immigrants. Or they want the government to let up on some of its enforcement measures, such as

separating immigrant children from their parents. Or they want the government to let adults who came to America as children remain here.

A free society is one in which people are free to cross borders to pursue happiness.

All that would serve to improve the situation, but there is one great big problem with it: It's not freedom. A free society is one in which people are free to cross borders to pursue happiness, especially by striving to improve their lives through labor with employers who choose to hire them. A genuinely free society necessitates the dismantling, not the reform, of all controls on the movement of people across borders.

Consider the national-security-state form of governmental structure under which we live. Composed of the Pentagon, the CIA, the NSA, and, to a certain extent, the FBI, it is a totalitarian form of governmental system. North Korea is a national-security state. So is Cuba. And Russia, China, Egypt, and Pakistan. And post-World War II United States.

There is no way that a people who live under a national-security

state can be considered free, especially given the omnipotent powers that such a government wields, such as the powers to assassinate, indefinitely detain, torture, and spy on the citizenry, and invade and occupy countries without the constitutionally required congressional declaration of war, initiate coups, and meddle in the affairs of other countries.

That's in fact why the Framers used the Constitution to bring into existence a limited-government republic, a totally different type of governmental system, one whose powers were strictly limited to those enumerated in the Constitution. The Framers knew that if the Constitution had proposed a national-security state form of government, the American people would never have accepted it and instead would have chosen to continue operating under the Articles of Confederation, a third type of governmental structure, one in which the federal government wasn't even given the power to tax people.

Enter the reformers. They want to limit foreign intervention to countries where "national security" is really at stake. They want to reduce the amount of money allocated to the Pentagon, the CIA, and

the NSA. They want to rein in the power of the Pentagon and the CIA to torture people. They want to limit the NSA's secret surveillance schemes.

All that would be good, but it would not be freedom. To achieve a genuinely free society would mean the restoration of a limited-government republic, the type of governmental system called for in the Constitution. That would necessarily mean dismantling, not reforming, America's post-World War II national-security-state form of government.

The American people are faced with a choice: reform the welfare-warfare-state way of life under which we live or choose freedom. If they settle for reform of our serfdom, it will not be freedom, just as reform of 19th-century American slavery would not have been freedom.

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

NEXT MONTH:
"Reform versus Liberty"
by Jacob G. Hornberger

The Great College-Hunger Hoax

by James Bovard



“Nearly half our college students are going hungry,” presidential candidate Bernie Sanders proclaimed in late November. Sanders’s tweet went viral, spurring more than 20,000 re-tweets and “likes.” Starving college students are a new rallying cry for social-justice warriors, spurring demands for new federal handouts and maybe even a college student-meal program modeled after school lunches.

Some colleges are hyping hungry students to spur donations:

- Johnson County Community College in Kansas publicized a “Giving Tuesday” logo announcing, “\$7 feed a hungry college student for one day. \$49 feed one for one week.” Was this pitch inspired by the famous 1987 television fund-

raising ad in which Sally Struthers explained that 70 cents a day could feed a hungry Ethiopian child? The college neglected to buttress its appeal with photos of emaciated Kansas students.

- The Giving Tuesday pitch for Manor College in suburban Philadelphia packs a double whammy, promising to help both hungry students and the campus Bird Feed program.

- Portland Community College is seeking to raise \$50,000 on Giving Tuesday for its food pantries, asserting that “two of three Portland Community College students have faced food insecurity.”

In reality, the College-Hunger Hoax is largely the result of a bait-and-switch by activists and social scientists. Rather than seeking to measure actual hunger, questionnaires ask about the vaporous topic “food security.” Surveys rely on sentiments and opinions, not actual food consumption. If someone fears missing a single meal, he can be categorized as “food insecure” regardless of how much he ate. And if someone desired to consume better quality or more expensive cuisine (“Attention Whole Foods shoppers”), he can join the ranks of the “food insecure.”

Food-security surveys are routinely contorted in media reports as gauges of college students' hunger, if not starvation. Typical misreporting shined in a *New York Times* headline this past May: "Tuition or Dinner? Nearly Half of College Students Surveyed in a New Report Are Going Hungry."

"Food insecurity"

But even with the skewed definition of the problem, the numbers of supposedly malnourished students defy common sense. On the basis of a thorough Census Bureau national survey, the Agriculture Department reported last September that 5.9 percent of American households had been "food insecure" within the past 30 days. But the USDA stresses that its survey is not a measure of actual hunger.

In contrast, the most widely quoted annual report on the plight of college students comes from the zealots at the Hope Center for College, Community and Justice. According to their most recent report this past April, 45 percent of college students had been food-insecure in the prior 30 days.

Why would college students be 762 percent more "food insecure" than the average American? Does receiving a letter of acceptance from

a college mysteriously obliterate a person's ability to feed himself, or what? The answer lies in part in ludicrously biased surveys. Last year, Hope Center researchers reported that 26 percent of students with a college meal plan were "food insecure." But how did students' oversleeping and missing breakfast become a national crisis?

The USDA stresses that its survey is not a measure of actual hunger.

The Hope Center survey uses a much broader definition of the problem than the USDA survey. According to the Hope Center, "Food insecurity is the limited or uncertain availability of nutritionally adequate and safe foods, or the ability to acquire such foods in a socially acceptable manner." If someone dreaded being seen food shopping at Walmart, would that mean he was food-insecure because he was too stressed to pay Whole Foods prices? If someone suffered from agoraphobia (fear of crowds) and could not bear going to the college mess hall even though he had paid for a meal plan, would that qualify as "food insecurity"? "Socially acceptable manner" is the equivalent of a statistical garbage can, easily filled by respondents' discontent.

The Hope Center report gravely notes that 40 percent of students “cut the size of meals” because of cash shortages. That is portrayed as an unmitigated evil, but obesity is a far greater problem for college enrollees than hunger. The percentage of students who were overweight or obese rose from 23 percent to 41 percent during their four years in college, according to a 2017 *Journal of Nutrition Education and Behavior* report. A study published in July in *Health Education Journal* reported that American “undergraduate students gain more weight in the first year in college than at any other point in their lives.” A 2016 study published in the *Journal of Nutrition Education and Behavior* found that the average student gained ten pounds during his four years in college. Besides, few students are svelte when they arrived on campus: high-school students were 30 times more likely to be overweight than underweight, according to a study published in *Obesity*. It was only eight years ago that *USA Today* heralded a new campaign: “Fighting the obesity epidemic on college campuses.”

The Hope Center said that 17 percent of respondents had been homeless in the past year — a neon light their data roundup is less reli-

able than a \$3 bill. Fewer than 6 percent of students who received their questionnaire bothered to respond.

Survey results were also skewed because women were far more likely to respond than men (71 percent versus 27 percent of respondents), and they are more “food insecure” than male students (47 percent versus 42 percent). Female college students spend an average of 10 hours a day on their cell phones, according to a 2014 study.

Fewer than 6 percent of students who received their questionnaire bothered to respond.

There have been numerous studies of college food-insecurity in recent years and the results vary so widely as to cast doubt on most reports. The College and University Food Bank Alliance asserted that 30 percent of college students are food-insecure. Portland Community College claimed that almost 70 percent of its students had been food-insecure. The Urban Institute, a respected Washington research organization, relied on credible federal data to estimate that “11 percent of households with a student in a four-year college experienced food insecurity.” A 2019 Govern-

ment Accountability Office report noted that estimates and standards for food-insecurity calculations were all over the map. For instance, a 2017 study published in the *American Journal of Health Promotion* found that “15 percent of student respondents at one four-year college experienced food insecurity, with an additional 16 percent of student respondents at that college estimated to be at-risk for food insecurity.” What is “at-risk for food insecurity”? Does it mean that someone would have second thoughts late at night about not having eaten another slice of pizza or what? Inside Higher Education reported one survey that concluded that “food insecurity” among college students was 9 percent.

The United Nations estimated in 2017 that fewer than 2.5 percent of Americans are undernourished.

A far more accurate gauge of Americans’ food deprivation is available from international data. The United Nations estimated in 2017 that fewer than 2.5 percent of Americans are undernourished and that 1.4 percent suffered from severe food-insecurity. That report tracks with a 2012 *Journal of the American Medical Association* anal-

ysis that noted that “seven times as many (low-income) children are obese as are underweight.”

A leisure class

The hubbub over collegiate hunger fails to note that college nowadays is practically a part-time diversion even for full-time students. Students spend far less time studying than their predecessors — down from 24 hours a week in 1961 to 14 hours in 2010. The *Washington Post* noted in 2012 that “the typical student today spends 27 hours a week in study and class time, roughly the same time commitment expected of students in a modern full-day kindergarten.” Colleges are “marketing themselves as havens for fun and recreation, and students are taking them at their word.... It’s a vacation spa. It’s Club Med,” economists Philip Babcock and Mindy Marks noted in a 2012 study entitled “Leisure College USA.” But expecting students to use free time to get a job to feed themselves is beyond the pale.

Perhaps the biggest danger from the College-Hunger Hoax is that it will justify new political takeovers of another swath of American life. According to some advocates, the only viable solution is a new federal assistance program. A *Washington*

Post article noted that “advocates have called on the federal government to provide free or reduced-cost meals at colleges, as is already done in primary and secondary schools.” So politicians should treat adults like helpless children, no matter how old they become or how much aid they already receive? Should we presume that attending college classes inflicts the equivalent of Post-Traumatic Stress Disorder, making students unable to care for themselves? Besides, federal school-meal programs have been perpetual dietary disasters, deluging kids with excessive sugar and fat and spawning obesity across the land.

Bogus statistics and hysteria make poor public policy.

There are plenty of individual students who miss meals and struggle financially, but that has been the plight of some college students going back centuries. Many colleges would be compassionate to offer lower-price meal plans in lieu of the five-star buffets they increasingly serve. Many students are justifiably perturbed at soaring tuition costs for diplomas of shaky value. But they were not conscripted into higher education.

Demagoguery on hungry college students is often part of a push for universal free college tuition. The people who have enrolled in that crusade seem to be clueless of the danger of the vast increase in political power that would result from a government takeover of college costs. In 1942 in the case of *Wickard v. Filburn*, the Supreme Court declared, “It is hardly lack of due process for the government to regulate that which it subsidizes.” The promises of today’s politicians will do nothing to protect future students from the exactions and restrictions imposed on subsidy recipients by future administrations.

Many college students responded rapturously and righteously to the Bernie Sanders tweet late last year. Any student who misses a meal for any reason is supposedly an example of social injustice. But the sense of entitlement can be disabling — or at least deter some students from taking a job to cover their cost of living. But no one has explained why becoming a gender-studies major magically entitles a person to be fed by other Americans’ tax dollars.

Bogus statistics and hysteria make poor public policy. Viewing college students as a group that should be wards of the state, by

definition unable to take care of themselves, would beget a vast expansion in government power. In the long run, obliterating individuals' responsibility for feeding themselves is the worst possible direction, both for freedom and healthy diets.

James Bovard is a policy advisor to The Future of Freedom Foundation and is the author of the ebook Free-

dom Frauds: Hard Lessons in American Liberty, published by FFF, Public Policy Hooligan, Attention Deficit Democracy, and eight other books.

NEXT MONTH:
**“Impeachment Reminder of
Our Toxic Foreign Aid”**
by James Bovard

The facts are that every form of wealth is dedicated to the improvement and advancement of the so-called common man. Capital, with negligible exceptions, is used for the orderly production and distribution of goods, 95 percent of which are consumed by those who claim to be disinherited.

— *William Feather*

Are Americans Undertaxed?

by Laurence M. Vance



According to the Tax Foundation, Tax Freedom Day “is the day when the nation as a whole has earned enough money to pay its total tax bill for the year.” Tax Freedom Day “takes all federal, state, and local taxes and divides them by the nation’s income”; that is, “every dollar that is officially part of net national income according to the Department of Commerce’s Bureau of Economic Analysis.” For the last two years, Tax Freedom Day has fallen on April 16, 105 days into the year. Tax Freedom Day for those living in high-tax states such as New York, New Jersey, and Connecticut actually came later, just as Tax Freedom Day arrived sooner for those living in states with lower taxes such as Alaska, Oklahoma, and Florida. During

2019, Americans paid “\$3.4 trillion in federal taxes and \$1.8 trillion in state and local taxes, for a total bill of over \$5.2 trillion, or 29 percent of the nation’s income.” Americans collectively spent “more on taxes in 2019” than “on food, clothing, and housing combined.”

Yet, late last year, the *Wall Street Journal* (WSJ) was practically declaring that Americans are undertaxed. “Trump’s Tax Cuts Push U.S. Burden Lower in World,” was the headline of one article. “The U.S. Now Has One of the Lowest Tax Burdens in the World,” said the headline in the WSJ’s newsletter on the economy. Both articles refer to a report by the Organisation for Economic Co-operation and Development (OECD), and both articles reference The Tax Cuts and Jobs Act (the TCJA, or Trump tax cut).

The OECD report

Founded in 1961, and now consisting of thirty-six member countries, most of which are in Western Europe, the OECD “is an international organisation that works to build better policies for better lives.” Its goal “is to shape policies that foster prosperity, equality, opportunity and well-being for all.” The OECD draws on “almost 60 years of experience and insights to better pre-

pare the world of tomorrow.” It works with “governments, policy makers and citizens” to establish “international norms” and find “evidence-based solutions to a range of social, economic and environmental challenges.” This ranges from “improving economic performance and creating jobs to fostering strong education and fighting international tax evasion.” The OECD member countries “regularly turn to one another to identify problems, discuss and analyse them, and promote policies to solve them.”

Late last year, the OECD issued “Revenue Statistics 2019: Tax Revenue Trends in the OECD.” This is an annual publication that “gives a conceptual framework to define which government receipts should be regarded as taxes.” It presents “a unique set of detailed and internationally comparable tax data in a common format for all OECD countries from 1965 onwards.”

According to the report’s executive summary,

In 2018, the average OECD tax-to-GDP ratio remained virtually unchanged compared to 2017, with almost no increase (a change of 0.02 percentage points). This ends the trend of annual increases in

the OECD average tax-to-GDP ratio observed since 2009, following the financial crisis. The slowing in the growth of the OECD average was predominantly driven by the impact of the significant fall in the tax-to-GDP ratio of the United States as a result of their tax reforms.

Fifteen countries experienced a decrease in tax-to-GDP ratios in 2018 relative to 2017. The largest fall was seen in the United States (2.5 percentage points), following the reforms to corporate and personal income taxes and the one-off repatriation tax on foreign earnings implemented in the Tax Cuts and Jobs Act.

And, as pointed out by the WSJ analysis of the report,

In 2018, U.S. governments collected 17.6 percent of their revenue from taxes on goods and services, the lowest in the OECD.

U.S. tax burdens dropped by the largest amount among those countries in 2018, and the U.S. now has lower taxes than all but three countries in the Organization for Econom-

ic Cooperation and Development.

U.S. taxes at all levels of government fell to 24.3 percent of gross domestic product in 2018, down from 26.8 percent a year earlier and 25.9 percent in 2016.

Measured as a share of the U.S. economy, taxes are now 10 percentage points below the 2018 OECD average of 34.3 percent.

That the U.S. tax burden, *measured as the tax-to-GDP ratio*, is now lower than every OECD country except Chile, Ireland, and Mexico is said to be “driven by the federal tax cut that Congress and Mr. Trump enacted at the end of 2017.” It “reduced the U.S. tax burden to one of the lowest among major world economies.” The TCJA “brought the U.S. tax code from one of the least competitive to one of the most competitive in the world,” said Rep. Kevin Brady (R-Tex.). “We have to continue this work to improve our tax code to remain the world’s most competitive economy.”

The Trump tax cut

According to the WSJ, “The 2018 data mark the culmination of nearly two decades of tax-cutting in

the U.S., starting with President George W. Bush’s tax cuts in 2001 and 2003.” Before the Bush tax cuts (the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003), governments in the United States collected 28.3 percent of GDP in taxes, “5.5 percentage points below the OECD average.” At 24.3 percent of GDP, “taxes are now 10 percentage points below the 2018 OECD average.” The main reason for this is the massive cut in the bloated corporate income tax rate by the TCJA. At a maximum of 35 percent, the U.S. corporate tax rate was for years one of the highest in the world. The top rate is now down to 21 percent.

For those earning more than \$400,000 a year (\$450,000 for married couples), the top rate increased to 39.6 percent.

Individual income tax rates are down as well. During the Bush years, there were six temporary tax brackets of 10, 15, 25, 28, 33, and 35 percent. In 2013, those rates were made permanent because of the passage of the American Taxpayer Relief Act. However, for those earning more than \$400,000 a year (\$450,000 for married couples), the

top rate increased to 39.6 percent. Moreover, the estate tax rate increased, the tax rates on long-term capital gains and dividends were raised on higher-income taxpayers, and the personal exemption and itemized deduction reductions were reinstated.

Under the TCJA, there are still seven tax brackets, but the rates are 10, 12, 22, 24, 32, 35, and 37 percent. The corresponding income brackets in 2020 for single individuals (and married filing jointly) are:

- 10 percent: \$0–\$9,875
(\$0–\$19,750)
- 12 percent: \$9,876–\$40,125
(\$19,751–\$80,250)
- 22 percent: \$40,126–\$85,525
(\$80,251–\$171,050)
- 24 percent: \$85,526–\$163,300
(\$171,051–\$326,600)
- 32 percent: \$163,301–\$207,350
(\$326,601–\$414,700)
- 35 percent: \$207,351–\$518,400
(\$414,701–\$622,050)
- 37 percent: \$518,400+
(\$622,050+)

The standard deduction is \$12,400 (single) and \$24,800 (married filing jointly). The TCJA eliminated personal exemptions, although there is now a \$500 credit for each non-child dependent such

as a child 17 or older, an elderly parent, or an older child with a disability. The Child Tax Credit is worth up to \$2,000 per qualifying child. The tax rates on long-term capital gains are 15 percent on income exceeding \$40,000 (\$80,000) and 20 percent on income exceeding \$441,450 (\$496,600). The estate tax rate is 40 percent, but only on estates valued at more than \$11.58 million (\$23.16 million). And then there is the Net Investment Income Tax (NIIT), which taxes investment income — including interest, dividends, capital gains, rental and royalty income, and non-qualified annuities — at a rate of 3.8 percent on investment income exceeding \$200,000 (\$250,000 married filing jointly).

According to an analysis of the TCJA by David Stockman, Ronald Reagan’s director of the Office of Management and Budget (OMB), “Aside from dead people and rich people, what you have left is a tiny \$352 billion tax cut for the balance of 145 million tax filers over the entire next decade.” The TCJA “is also undoubtedly the smallest, not the biggest, individual tax cut in history.” Nevertheless, the Tax Foundation has estimated that, “on average, taxpayers in every income group in every congressional district in

America saw a net tax cut.” Although the TCJA’s corporate tax-rate reductions are permanent, because of the way the legislation was passed, the individual income rates reduced by the TCJA will expire in 2025. Even so, the Treasury Department has released 1,025 pages of regulations related to the TCJA, and is still in the process of finalizing some regulations related to enforcement and administration of the TCJA’s reforms. So much for the TCJA’s simplifying the tax code.

Undertaxed Americans?

Are Americans undertaxed? Those who tout the recent OECD report are certainly implying that Americans are. But three things should be noted about the report. One, it doesn’t actually measure individual Americans’ tax burden. It merely presents tax revenues in the United States as a percentage of GDP (the tax-to-GDP ratio). If taxes increase by some percentage, but GDP increases by a greater percentage, then it can be said or implied that taxes have decreased. Two, even if taxes in the United States are *lower* (according to the tax-to-GDP ratio) than every OECD country except Chile, Ireland, and Mexico, it does not necessarily follow that taxes in the United States are *low* in

an absolute sense. And three, what about all of the other countries in the world that are not in the OECD? If taxes in the United States are compared with taxes in them, perhaps it will be seen that the tax burden in a majority of countries is actually lower than that in the United States.

**The rich are the ones
who already pay the bulk of
the income taxes.**

But regardless of the OECD report, all of the 2020 Democratic presidential candidates think that Americans are undertaxed. They all favor a partial or total repeal of the Trump tax cuts and increased taxes on “the rich.” Some of them not only want to raise income taxes, but also to levy new taxes on accrued wealth. Sen. Elizabeth Warren of Massachusetts has proposed “a 2 percent annual wealth tax on individuals with more than \$50 million in net worth, increasing to 3 percent on those with more than \$1 billion in wealth.” But do “the rich” need to be taxed more? After all, they are the ones who already pay the bulk of the income taxes.

According to the latest figures released by the Internal Revenue Service (IRS),

- In 2016, the top 50 percent of all taxpayers paid 97 percent of all individual income taxes, while the bottom 50 percent paid the remaining 3 percent.

- The top 1 percent paid a greater share of individual income taxes (37.3 percent) than the bottom 90 percent combined (30.5 percent).

- The top 1 percent of taxpayers paid a 26.9 percent individual income tax rate, which is more than seven times as high as what taxpayers in the bottom 50 percent (3.7 percent) paid.

“The rich” are also punished through the phase-out of tax exemptions, deductions, and credits as their income rises. And not only do “the poor” pay little or no income taxes, they receive tax refunds of money they never paid in, in the form of refundable tax credits. Even if the federal government just confiscated all of the earnings of every American who makes more than \$1 million a year, that would run the government for only a little longer than four months.

The American tax burden

Americans are not undertaxed. They are taxed to death, and some are even taxed after their death.

Americans as a whole are not only not undertaxed, some of them are quadruple-taxed on their income in addition to all the other taxes they pay. Aside from the personal income tax described above, there are two other significant federal taxes that all Americans must pay.

First is the Social Security tax. This is 12.4 percent (split equally between employer and employee) on the first \$137,700 of employee income. The same income is taxed upon which is assessed federal income tax. And according to the Social Security Administration,

Some people who get Social Security must pay federal income taxes on their benefits. But, no one pays taxes on more than 85 percent of their Social Security benefits.

You must pay taxes on your benefits if you file a federal tax return as an “individual” and your “combined income” exceeds \$25,000. If you file a joint return, you must pay taxes if you and your spouse have “combined income” of more than \$32,000. If you are married and file a separate return, you probably will have to pay taxes on your benefits.

The Social Security Administration (SSA) defines “combined income” as adjusted gross income, tax-exempt interest income, and half of Social Security benefits.

Then there is the Medicare tax. This is 2.9 percent (split equally between employer and employee) on every dollar of employee income. The same income is taxed upon which is assessed federal income tax and Social Security tax. There is also an additional Medicare tax of 0.9 percent that applies to income (including non-cash fringe benefits and tips) exceeding \$200,000 (\$250,000 for married filing jointly).

There is a federal tax per gallon of 18.4 cents for gasoline and 24.4 cents for diesel fuel.

A federal unemployment tax of 6 percent is imposed on employers on the first \$7,000 of each employee’s taxable wages during a calendar year. Each state likewise assesses employers an unemployment tax (less a credit against their federal tax liability). State unemployment taxes and wage bases are generally higher than the federal rate and base. Some states also require employees to pay state unemployment tax.

Other federal taxes include excise taxes on fuel, airline tickets, tobacco, alcohol, firearms, ammunition, and indoor tanning services. There is a federal tax per gallon of 18.4 cents for gasoline and 24.4 cents for diesel fuel. Domestic air travel is subject to a 7.5 percent tax on the ticket price, a \$4.10 tax for each flight segment (one takeoff and one landing), and a “security fee” of \$5.60 per one-way trip. There is a federal tax of \$1.01 on each pack of cigarettes and small cigars, plus taxes on other tobacco products. The federal taxes on beer, wine, hard cider, and distilled spirits vary depending on the amount produced and the alcohol content by volume. Pistols and revolvers are subject to a federal tax of 10 percent of the sale price. Other firearms and ammunition are subject to an 11 percent tax. In addition to the medical-related taxes it imposed, the Affordable Care Act (Obamacare) also instituted a 10 percent tax on indoor tanning services.

And then, to add insult to injury, most of the tax money taken from Americans by the federal government is wasted on boondoggles and the welfare-warfare state. States and localities burden Americans with many taxes as well.

State taxes

Only nine states (Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming) do not have a state income tax. Tennessee and New Hampshire tax dividend and interest income, but not earned income. In states with an income tax, the same income is taxed upon which is assessed federal income tax, Social Security tax, and Medicare tax. Nine states tax income at a flat rate, but most of them have a series of progressive tax brackets like the federal income tax. New York has eight tax brackets ranging from 4.0 to 8.82 percent. Hawaii has nine tax brackets ranging from 1.4 to 11 percent. California has ten tax brackets ranging from 1.0 to 13.3 percent, the highest in the nation. States without an income tax may simply shift revenue generation to other areas. Many of those states have high property taxes, sales taxes, gas taxes, or sin taxes, and some have steep vehicle registration fees. Nevada collects more than a billion dollars a year in taxes on gambling in Las Vegas and other areas in the state where gambling is legal.

Thirteen states (Colorado, Connecticut, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Rhode Is-

land, Utah, Vermont, and West Virginia) tax Social Security benefits. Seventeen states and the District of Columbia levy an estate tax or an inheritance tax. Maryland has both. Only five states (Alaska, Delaware, Montana, New Hampshire, and Oregon) do not have a sales tax. State sales taxes range from a high of 7.5 percent in California to a low of 2.9 percent in Colorado. Thirty-eight states collect sales tax at both the state and local levels. Only twelve states (Connecticut, Delaware, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, Montana, New Hampshire, Oregon, and Rhode Island) prohibit local sales taxes. Only six states (Nevada, Ohio, South Dakota, Texas, Washington, and Wyoming) have no corporate income tax. Property taxes are found throughout the country.

Only five states (Alaska, Delaware, Montana, New Hampshire, and Oregon) do not have a sales tax.

Every state has taxes on fuel, tobacco, and alcohol in addition to federal taxes on them. Taxes on gasoline range from a high of 61.2 cents in California to a low of 14.66 cents in Alaska. Although most states exempt gasoline from sales

taxes, some states collect both excise taxes and sales taxes on gasoline. State taxes on a pack of cigarettes range from a high of 44.35 cents in Connecticut and New York to a low of 30 cents in Virginia. Some cities, including Chicago and New York, also levy their own taxes on cigarettes.

Some of the more onerous state and local taxes are those imposed on hotel rooms and rental cars. Depending on the state and county or city, there might be state occupancy tax, local occupancy tax, tourism taxes, and convention taxes. Car rental fees might increase 20 to 30 percent after the addition of airport concession recovery fees, county rental taxes, state government surcharges, and consumer facility fees. And all of those taxes are in addition to the state and local sales tax that may also be imposed on hotel rooms and rental cars.

No, Americans are not undertaxed. The OECD Revenue Statistics report is highly misleading.

Effective tax rates in the United States could be 50 percent, but as long as GDP is above a certain point, then it could still be said that Americans have a low tax burden if the United States is compared with selected other countries. That is ludicrous. Americans need tax relief, not tax reform.

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NEXT MONTH:
“Religion and Education in a Free Society”
by Laurence M. Vance

Liberty versus Political Paternalism

by Richard M. Ebeling



In 1951, German free-market economist Wilhelm Röpke (1899–1966), delivered a series of lectures in Cairo, Egypt, titled “The Problems of Economic Order.” Looking over the terrain of modern politics and policy thinking in the world at that time, he told his audience,

If I were asked to say what appeared to me as one of the gravest features of our time I would answer: One of the worst things is that people do not seem to stop and think and ask themselves quietly what exactly they are doing.... More and more people no longer know what it means to put first things first and to think in terms of the principles involved. Consequently, only a

few still have a real philosophy which separates the essential from the accidental and which puts everything in its place....

Confusion, loss of orientation and lack of philosophical insight are worse than ever, and so we are drifting on an uncharted sea. We are running after current events, instead of stopping to reach the solid grounds of principles and to ask ourselves seriously what have been the reasons why so much goodwill, energy, intelligence, time, and money have been wasted or not given the result we had the right to expect.

Röpke’s words need to be heeded today as much as when he spoke them nearly 70 years ago. And this is never truer than in the midst of an election cycle such as the one we are currently in. A good deal of the focus in the news and social media is on the seemingly unending promises of those offering themselves as candidates for the presidency of the United States.

The politics of paternalist government

In the process, certain fundamental questions and concerns get implicitly shunted aside as attention

is almost completely on what each of the prospective candidates says he will do for the people of America, if only he is the one who wins the keys to the White House, come the November 2020 election.

For Uncle Sam's 2020 fiscal year, it is estimated that the federal government will spend around \$4.4 trillion.

The contentious issues become, By how much will the minimum wage be increased? How soon and in what form will “free” health care be provided to all the citizens of the country, and by how much will the taxes of the “1 percent” need to be increased to pay for it? How shall the government shore up Social Security, so that it remains economically viable for the next generation of retirees? With what technologies and government subsidies will alternative energy sources be funded to battle “global warming,” along with government-mandated transformation of everything we do to prevent “climate change”?

How large and with what procurements should the Defense Department budget be increased to continue America's political and military presence potentially anywhere around the globe? What

types of additional surveillance intrusiveness into people's privacy is needed in the name of “national security” to keep America “safe”?

Massive spending

The list of things the would-be White House occupants present as their respective lists of promises for enlarged or new government programs appears to be endless. Not that what the U.S. government is already doing is not an expensive list of activities.

In Uncle Sam's 2020 fiscal year that began on October 1, 2019, it is estimated that the federal government will spend around \$4.4 trillion, of which about \$1 trillion will be with borrowed money to cover the budget deficit of that amount. If projected spending by state and local governments is added to that amount, the total government take in the United States practically doubles to \$8 trillion.

Compare that with the Gross Domestic Product (GDP) of some of the larger economies around the world. China's GDP is estimated to be \$15.4 trillion; the GDP of Japan is \$5.3 trillion, followed by Germany with a GDP of \$4.4 trillion; India's GDP is \$3.1 trillion, while the GDP of France and the United Kingdom are, respectively, slightly more than

\$3 trillion, with Italy's below that with a GDP of \$2.3 trillion.

The three levels of government in the United States together absorb an amount that makes them a combined entity with the third-largest GDP in the world!

**All levels of government
absorb almost 40 percent of all
the productive output and
income produced.**

One response might be that the United States economy stands far above the rest of the world with an estimated Gross Domestic Product of \$21 trillion. But that does not change the fact all levels of government, together, absorb almost 40 percent of all the productive output and income produced within the United States. If governments in the United States were not siphoning this output and income out of the private sector, on a per capita basis, each of us could be 40 percent richer than we currently are.

It may be responded that even a limited government has to tax away part of the income and output in society to do its far more narrow, legitimate functions; but suppose that half of what government currently consumes would still have to be used by federal, state, and local

authorities; that would still increase people's per capita financial position by 20 percent.

In other words, for every \$1,000 you now have, you would have an extra \$200 added to that. For someone making, say, \$50,000 a year, his income would increase to \$60,000 annually. Most people in that income category would find desired uses for \$10,000 more that came their way through a reduction in the cost of government.

While it is crucial never to lose sight of the dollars and cents, since after all knowing it reminds us of the burden of government in our society, it still partly deflects our attention from the underlying and more fundamental principles that Wilhelm Röpke was referring to in the earlier quotation from him.

If Uncle Sam spends and intervenes so massively in American society — and if a field of presidential hopefuls can make the core of their respective pitches to the voting public about how much more they are proposing and promising to implement, if only one of them is the one elected to the office of chief executive — this is implicitly telling us that the underlying premise in 2020 politics is that doing all these things is considered part of the legitimate and desirable functions of government.

The importance of principles

We need to step back from the everyday electioneering promises of continued and increased political plunder — away from the existing terms of the debates about how to “save Social Security”; away from the proposals for centrally planned health care “for all”; away from the disputes over whether the minimum-wage law should be set at \$15 per hour or higher; and away from whether the United States should maintain its existing military presence in the Middle East, or whether American foreign policy strategy should “pivot” toward Asia and a “China threat.”

If not those policy issues, then what? The answer requires us to go back to those “first principles” to which Röpke was alluding. What is it that a government in a free society should be doing? That requires a “stepping back,” as Röpke was saying, to think about the nature of man, society, and government in human affairs. If an election year is not the time to do so, then when?

Too many police and soldiers threaten liberty, justice, and peace.

Perhaps somewhat colloquially, we might think about this in the context of the following observations by the 20th-century Chinese

social philosopher, novelist, and essayist Lin Yutang (1895–1976), from his book *Between Tears and Laughter* (1943, pp. 71-72):

The Chinese believe that when there are too many policemen, there is no individual liberty; when there are too many lawyers, there can be no justice; and when there are too many soldiers, there can be no peace. Peace can be obtained only by putting government in reverse. Since this is a mixed world of mixed characters [some good people and some bad people], let there be a government to put a few fellows in jail. That is all government exists for....

Americans, who are intensely practical, may agree that government by police, particularly secret police, is highly repellent. They may agree that government by law, though workable, may be slightly inadequate and fall short of the highest ideal [of self-controlling and mutually respecting individuals]. They know that a government by a series of *verbotens* in the Prussian style is not good enough for the democratic in-

dividual and that the good life is something more than obeying a series of “Thou shalt not’s.” They know that in a mature, full-grown democracy, peace and order ultimately depend on the decency and self-respect of the individual.

Subordination of the individual to the state

I will add one more quotation from Lin Yutang, this one taken from another of his books, *With Love and Irony* (1941, pp. 248-49). In the midst of the Second World War, when Europe was engulfed in destruction, death, and Nazi barbarism, and when in Asia the invading Japanese were brutalizing the innocent civilians of China, Lin Yutang made the following observations:

What threatens civilization today is not war itself or the destruction of war, but the changing conceptions of life values entailed by certain types of political doctrines. These doctrines directly impinge upon man’s ordinary, natural privileges of living and subordinates them to the needs of national killing. The importance of killing super-

cedes the importance of living, from the totalitarian standpoint.

It cannot be denied that from the point of view of the State, organized for war and conquest, totalitarianism has everything to be said for it, but from the standpoint of the individual as the ultimate aim served by civilization, and for the purpose of enjoying the ordinary blessings of living, it has nothing to be said on its side. It is neither the machine nor the war that is destroying modern civilization but the tendency to surrender the rights of the individual to the State which is such a powerful factor in contemporary thinking....

Only by recapturing the dream of human freedom and restoring the value and importance of the common man’s rights and liberties of living can the undermining threat to modern civilization be averted.

Now, of course, Lin Yutang was writing during a world-encompassing war in which the collectivist conception of man and society was in its starkest reality in Nazi Ger-

many and Soviet Russia. Both totalitarian regimes insisted on the absolute subordination of the individual to the guiding commands of those in control of the State.

At that time, references to “democracy” were often meant to refer not only to the political mechanism of electing people to political office through the peaceful means of the ballot box. They also still implied, for many, the liberal ideas and ideals of individual freedom, civil liberties, rule of law, constitutionally restrained government, and freedom of enterprise.

Democracy and paternalism

As the Swiss economist and political scientist William E. Rappard (1883–1958), expressed it in a lecture delivered in Philadelphia in 1936 entitled “The Relation of the Individual to the State,”

The revolutions at the end of the eighteenth century ... were essentially revolts of the individual against the state — expressions of his desire to emancipate himself from the ties and inhibitions which the traditional state had imposed on him.... After the rise of individualism, which one may define as the emancipation of the

individual from the state, we had the rise of democracy, which one may define as the subjection of the state to the will of the individual.

But as Rappard goes on to say,

In the latter half of the nineteenth century and up to the present, the individual, having emancipated himself from the state and having subjugated the state to his will, has furthermore demanded of the state that it serve his material needs. Thereby he has complicated the machinery of the state to such a degree that he has again fallen under the subjection to it and he has been threatened with losing control over it.... The individual has increasingly demanded of the state services which the state is willing to render. Thereby, however, he has been led to return to the state an authority over himself which it was the main purpose of the revolutions in the beginning of the nineteenth century to shake and to break.

What thinkers from the middle decades of the 20th century were asking us to focus on was that the

fundamental issue of our society is not whether the minimum wage should be \$13 or \$15 an hour; whether Social Security benefits can be maintained by raising the retirement age and increasing that program's withholding tax; or whether it is possible by taxing "the rich" enough that government spending can cover health care for everyone in society.

Liberty is not the same as the will of a majority.

That already assumes the premise that government has the responsibility and duty to impose a series of plans and programs on all the members of the society by means of political coercion. Having accepted that premise, all the debates are and should be over the extent and forms of paternalistic agendas.

What Rappard was lamenting was that after revolutions in ideas and policies in the 18th and early 19th centuries to free the individual from the all-controlling state, an increasing number of people had been buying into the idea that the purpose of the democratic vote was to have government once more institute a form of welfare statist paternalism, but this time as an expression of "the people's will."

In Rappard's eyes, clearly, political paternalism and coerced compassion were just that, the use of force to make people conform to what those in political power concluded was good for them, and in our own times by those who were placed in positions of governmental authority through democratic rather than dictatorial means. Liberty, in other words, could be and was being lost under a system of democracy, no less than under an authoritarian regime.

Democracy was confused with liberty, because of the process by which the elected were voted into office. But liberty is not the same as the will of a majority, no matter how rhetorically expressed. The purpose of constitutions is to restrain even democratically elected governments from abridging or abolishing the rights of the individual to peacefully live his own life as he chooses, whether that individual is a member of the majority or the minority.

Leave people free to live their lives.

As Lin Yutang was conveying it, the presence of too many police and too many soldiers suggests that the state is far too intrusive and pervasively controlling the everyday affairs of the citizenry. It indicates a government that is watching, re-

stricting, and threatening people's liberty, both at home and aboard. The death of the young in wars entered into by their governments is a blood tax that is the price of foreign political and military interventionism. "Reasons of state" take precedence over the lives of those placed in harm's way by the designing pretensions of the political paternalists.

A free society is one in which each allows others to live their own lives their own ways.

In another of Lin Yutang's works, *On the Wisdom of America* (1950), he quotes from the 19th-century journalist and historian David Grayson (1870–1946), and then comments on the most important lesson to be learned for the preservation of a free society (p. 227):

One of the best lines from Grayson is the following: "One thing I am coming to learn in this world, and that is to let people hagggle along with their lives as I hagggle along with mine." That, I believe, embodies a whole philosophy of life, not easily arrived at except by one who has pondered and thought a great deal about the human drama....

And once [Grayson] reflected, "I remember how, once in my life, I wasted untold energy trying to make over my dearest friends.... Because we are so fond of them we try to make them over to suit some curious ideal of perfection of our own — until one day we suddenly laugh aloud at our own absurdity (knowing that they are probably trying as hard to reconstruct us as we are to reconstruct them!) and therefore we try no more to change them, we just love 'em and enjoy 'em!"

What has been lost is what David Grayson came to understand: That a free society is one in which each allows others to live their own lives their own ways, just as we would want others to do the same in reference to ourselves. That is the only just and livable society.

Why? Because when we try any opposite of this, we get the society we are currently living in. What is the underlying premise in the politics of our times? It is that people, as individuals, cannot be trusted and must not be allowed to make their own decisions about the ends to pursue, and the means to apply to attempt to achieve those ends; and

that human interactions of any type must be planned, programmed, and policed by those in political power for purposes of remaking human beings into a form that those in government authority know is better and more just than the undesigned and uncontrolled actions of people left free to make their own choices.

When David Grayson tried to remake his friends into a shape that he, no doubt, sincerely thought would make them happier and better people, he was probably politely or angrily reminded by them to mind his own business. He finally came to the insight that letting them go their own way was a far better way for everyone to live, human mistakes and all. Moreover, by following a personal policy of *laissez-faire* towards others, he did not run the risk of losing the friendship and associated benefits of his relationships with them, which he might have lost if he irritated them beyond a certain point of endurance.

When governments practice such “making over” business, they have the use of legitimized force to bring to bear. That soon divides society into factions, interests, and groups who try to gain political power into their own hands, so they can use the state for their visions of

“the good” before some other coalition gains control, instead, and tries to remake society at their expense.

For the sake of personal liberty, social harmony, and human betterment in general, we need to turn our backs on the politics of today, and say, “No!” We need, as Lin Yutang said, to put the government into reverse, and radically move it back in the direction of leaving people alone. That is the opposing principle, the principle of human freedom, that must be taken up to challenge the pontificating paternalists in the world in which we live, and especially in an election year.

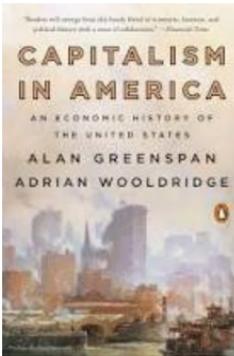
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NEXT MONTH:
**“Fifty Years of Statist Policies
and Economic Fallacies”**
by Richard M. Ebeling

Capitalism, Freedom, and Progress

by George Leef

Capitalism in America: An Economic History of the United States by Alan Greenspan and Adrian Wooldridge (Penguin Press, 2018); 496 pages.



Almost everyone knows Alan Greenspan as the long-serving chairman of the Federal Reserve System. What far fewer know is that in his younger days, Greenspan was a devotee of Ayn Rand and her anti-collectivist philosophy. The Alan Greenspan of the 1960s was a thorough-going advocate of pure capitalism, undiluted by government interference. All these years later, is he still?

I was eager to read his new book *Capitalism in America* to find out.

All in all, the book, which is co-authored by Adrian Wooldridge, the political editor of *The Economist*, gives an accurate historical account of the roots of capitalism in America, its success in enabling people to raise their standards of living, and the reasons it has been so vilified by statists. In baseball terms, I would call the book a triple, but not a home run. I don't regard it as a homer because of a number of mistaken bows to leftist notions about the benefits of big government. *Capitalism in America* is an excellent survey of our economic history marred by occasional lapses.

What Greenspan and Wooldridge get absolutely right is the fact that the original American system — secure property rights, the rule of law (particularly the sanctity of contract), and the freedom of individuals to try or fail at anything without government interference — made it possible for virtually everyone to succeed. Unlike most of Europe, where traditional privileges restricted prosperity to a few, in America, they write, “it was possible for people born in obscurity to rise to the top of society and for ordinary people to enjoy goods and services that were once confined to the elites.” Fortunately, the Founders understood that the people

would thrive if the government refrained from undermining their natural urge to produce and invent. They knew it was crucial that people not be deprived of the fruits of their labor; not until 1914 did that change with the imposition of the income tax.

One of the key concepts of capitalism is called “creative destruction.”

Under capitalism, Americans produced goods and services at a pace unknown in history. America’s economic expansion in the late 18th and 19th centuries was stupendous. Within a century of the founding of the United States, its people enjoyed a higher income than did people in the wealthier countries of Europe: Britain, Germany, France, and Italy. Alexis de Tocqueville saw why prosperity was rising in America. The authors quote him as writing, “the entire society is a factory.” He and many others noticed how extraordinarily busy Americans were — the energy that they put into their farms and trades. Under capitalism, free Americans used their brains and brawn much more effectively than did the taxed and regulated peasants of the Old World.

But in what I think is the book’s first error, Greenspan and Wooldridge attribute some of America’s success to the nation’s lack of “resource constraints.” That makes it sound as though prosperity depends on a nation’s natural-resource endowments. But nations do not own resources — people do, and nearly everyone has to trade with others (inside the country or outside of it) for the resources he needs. It isn’t “national resources” that matter, but the freedom to trade for resources, wherever they may be. Capitalism gave Americans that freedom. This is a minor quibble, though. The authors are free-trade advocates and later excoriate the businessmen and politicians who clamor for tariffs and trade restrictions.

Creative destruction

One of the key concepts of capitalism is what the Austrian economist Joseph Schumpeter called “creative destruction” — i.e., the inevitability that free people will come up with new methods and products that displace older, inferior ones. Progress necessarily wipes out some investments and jobs. The crucial thing about American capitalism was that (at least until fairly recently), we let creative destruction run its course. The authors

write, “America has been much better than almost every other country at resisting the temptation to interfere with the logic of creative destruction. In most of the world, politicians have made a successful business out of promising the benefits of creative destruction without the costs.”

To say, however, that the United States experienced rapid economic growth due to capitalism in its early years is to overlook the vast difference between the North, with its free market for labor, and the South, where much of the labor force consisted of slaves. Greenspan and Wooldridge devote a chapter to the gap between the two regions. Slavery acted as a drag on innovation and the development of industry. One telling point the authors mention is the fact that 93 percent of all patents issued up until 1860 went to inventors in the North. The economic gap between the regions kept widening as, they write, “the North invested in more machinery and the South invested in more slaves.” Millions of industrious immigrants went to the free northern states, but relatively few to the hidebound South. Given the huge disparity in resources, the outcome of the Civil War was almost inevitable.

I only wish that Greenspan and

Wooldridge had clearly stated that the slave system was simply incompatible with capitalism, which calls for mutual consent on all contracts. Stealing your workers is just as uncaptialistic as stealing your raw materials or threatening customers to compel them to buy. The South was economically backward because it relied so heavily on a coercive, pre-capitalist mode of production.

Stealing your workers is just as uncaptialistic as stealing your raw materials.

After the prodigious human and material costs of the Civil War, America began to grow and build again. The postwar decades were marked by decades of strong economic development. Business leaders kept finding ways to produce more with less. Bessemer steel plants, for example, could turn out more steel of better quality with substantially less use of coke than older hearths could. As a result, the authors write, “Steel put cheap tools in everybody’s hands and cheap utensils on everybody’s tables.” The price of kerosene fell sharply over many years, as oil refiners such as John D. Rockefeller improved their efficiency. (Cheap, universally available kerosene for lighting, by the

way, destroyed the whaling industry — that’s another point I wish Greenspan and Wooldridge had made.) Capitalism’s creative destruction was working wonders.

Standards of living for ordinary people increased steadily. Owing to improvements in farming, food processing, and transportation, Americans could enjoy far better, varied diets than ever before. New kinds of merchandizing, such as the Sears mail-order catalogue, made it possible for people to obtain goods they could have barely imagined in the past. Massive waves of immigrants poured into a country where they had boundless opportunity to succeed, unlike the case in their homelands.

**“State capitalism” has
become a grave and debilitating
problem today.**

During this period, the economy also benefited from an “invention” in the legal sphere, namely the limited-liability corporation. Most states adopted laws making it quite easy to form business corporations that could raise capital from dispersed investors. Enterprise was no longer restricted by the inconveniences of partnership or state charters. Laissez-faire had come to

a form of business without which our economic expansion would have been much slower.

Dark clouds

However, some dark clouds were forming. One of them was the way a few capitalists — railroad magnates initially — began turning to the government to enhance and protect their profits. Thus did “state capitalism” gain a foothold. This has become, as the authors recognize, a grave and debilitating problem today, with business success depending more and more on good lobbying than on good products.

The other dark cloud was the movement called “Progressivism.” Progressives — a nice-sounding but misleading name they chose for themselves — were mostly university-educated intellectuals who were certain that society could be greatly improved by abandoning “chaotic” capitalism in favor of a scientifically managed economy. In their vision, enlightened government officials would set “fair” wages and prices, break up businesses that got “too big,” and have government provide for the needy. A leading Progressive economics professor, Richard Ely, declared in 1885 that laissez-faire was “unsafe in politics and unsound in morals.”

Progressive tracts and speeches had a big impact. Greenspan and Wooldridge put it this way: “The Progressives’ greatest achievement was to encourage a change in the American attitude to government. Before they got to work, Americans were optimistic about business and cynical about government. A couple of decades later, Progressives had persuaded a significant number of people that the opposite was the case.” And with that change in attitude came a clamor for all sorts of government controls: minimum-wage laws, maximum-hour laws, price controls for businesses “affected with a public interest,” anti-trust laws, and more. Progressivism ushered in the pernicious notion that the people secure prosperity and safety through government power rather than through freedom under the rule of law.

At first, Progressivism did little damage. Most Progressive legislation was defeated and that which passed was frequently declared unconstitutional in the courts. Nevertheless, the seeds of a toxic plant that would eventually do great damage to capitalism were starting to sprout.

One of Greenspan’s favorite topics in his Rand days was gold and he still gives a strong defense for the

gold standard as the foundation for capitalism. He and Wooldridge write, “The fact that the supply of gold was limited meant that gold was one of the most solid defenses of liberal society against the temptation to debauch the currency, the monetary equivalent of property rights. The universal acceptance of gold as a means of exchange made it easier to trade goods across borders.”

People secure prosperity and safety through freedom under the rule of law.

Unfortunately, governments could not resist the urge to meddle with the gold standard when it suited their supposed needs. In 1890, for instance, the government enacted the Sherman Silver Purchase Act, a blatant piece of special-interest legislation. Owing to a huge silver find in Nevada, the price of silver had fallen dramatically. Politicians who wanted to raise the price of silver and spark inflation that would benefit debtors passed a bill requiring the federal government to purchase nearly all the silver the mines were producing and turn it into coins.

This law undermined confidence that the U.S. would continue

to adhere to the gold standard, eventually provoking the severe economic contraction known as the Panic of 1893. (For an excellent summation, I recommend this essay on the Mises website: wiki.mises.org/wiki/Panic_of_1893) The Silver Purchase Act was later repealed and the nation returned unequivocally to gold after the election of 1896, when the anti-gold Democratic candidate William Jennings Bryan delivered his famous “Cross of Gold” speech. The book’s point is clear: capitalism works best when government protects sound money, something it has not done for more than a century.

Progressivism and war

Progressive efforts at undermining capitalism were given a tremendous boost by World War I. Woodrow Wilson, an outspoken opponent of laissez faire and limited government, dragged the nation into the war in Europe on a pretext, even though he had campaigned for reelection on a peace platform. War gave the government the excuse to vastly increase its powers over the economy and even to trample upon the First Amendment. Greenspan and Wooldridge sum up the unhappy situation thus: “The America of 1918 was a very

different country from the America of the late nineteenth century. It had most of the accoutrements of a modern state-dominated society: an income tax, a central bank, and a swelling bureaucracy. And it had a significant group of people who thought that the major problem was that this hadn’t gone far enough.”

Progressive efforts at undermining capitalism were given a tremendous boost by World War I.

The 1920 election brought to Washington a traditional pro-business administration in Republicans Warren Harding and Calvin Coolidge, who would assume the presidency upon Harding’s death in 1923. They cut taxes, did away with much of Wilson’s bureaucracy, and made the right move of doing nothing when the economy went into a sharp recession in 1921. (The economy recovered and resumed growth in 1922.) But, the authors note, not all was well, as the Republicans returned to their traditional stance of high tariffs and instituted a national law to restrict immigration. Even its putative defenders couldn’t resist throwing sand into the gears of capitalism.

When the stock market crashed in late 1929, the White House was occupied by Herbert Hoover, a Republican with strong interventionist instincts. Instead of allowing the economy to cure itself through price reductions and the liquidation of unsound investments, Hoover wanted the federal government to play an active role in restoring prosperity. Over the objections of most leading economists, he signed the infamous Smoot-Hawley Tariff of 1930. He thought that keeping out imports would raise domestic prices and revive the economy. Instead, the result was an international trade war that saw American trade fall by two-thirds from 1929 to 1933. Hoover also pushed for a huge tax increase to cover the rising cost of federal programs. That increase was like the old medical practice of bleeding a sick patient — it further weakened a floundering economy.

Hoover thought that keeping out imports would raise domestic prices and revive the economy.

Hoover was crushed in the 1932 election by Franklin D. Roosevelt. With unemployment at unprecedented levels, most of the people were willing to hand power over to

a jaunty, upbeat politician who promised to revive the economy. But Roosevelt was far more of an interventionist than Hoover and surrounded himself with a “Brain Trust” consisting of intellectuals who admired the fascistic and communist regimes in Europe. Congress rubber-stamped his hastily drafted New Deal legislation, which was geared to solve the Depression through federal edicts and plans. Greenspan and Wooldridge point to many of those, and perhaps the most idiotic was the plan to raise the price of pork by ordering the slaughter of millions of baby pigs at a time when many people were going hungry. Again and again, Roosevelt’s manic interventionism made things worse.

Although the Depression dragged on and on, including the “Recession within a Depression” of 1937-38, Progressives were delighted that Roosevelt’s New Deal had, the authors write, “put the federal government at the heart of American society.” Capitalism was not gone, but the economic liberty it needs had been permanently reduced.

The New Deal failed, but the authors write, World War II “finally pulled the United States out of the slough of despond.” That’s another

of the book's errors. It's a matter of conventional wisdom that war "stimulates" a nation's economy, but that's not the case and it is disappointing to hear Greenspan and Wooldridge say it. Of course, unemployment disappeared as millions of men were drafted and huge factories opened to produce guns, tanks, warships and so on, but prosperity was not restored. Yes, by 1944 the nation's GDP was twice what it had been in 1939, but it consisted mostly of military hardware, not consumable goods and services. War merely hid people's deprivation.

The G.I. Bill began the enormous folly of federal subsidies for higher education.

Furthermore, the authors declare that the war "forced companies to devise new techniques to boost output." But under capitalism, as they'd shown throughout the book, people are constantly trying their best to improve efficiency. War provides no added stimulus.

Let me add one more complaint to the book's treatment of the war and its aftermath. The Servicemen's Readjustment Act of 1944 (known as the G.I. Bill) included a provision that guaranteed returning soldiers money for college. Again, the con-

ventional wisdom is that this was a fabulous move by, the authors write, "turning America into the world leader in the proportion of young people who went to college." They point to the large numbers of new engineers, teachers, accountants, and so on who entered the labor force after using their G.I. Bill college benefits.

The trouble with that reasoning is that America had never faced a shortage in any labor category prior to this federal intervention. All that had changed is that such professionals, who had usually in the past learned how to do jobs without college degrees, now spent four years learning many other things before entering the labor force and beginning to master their lines of work. The G.I. Bill, far from being a beneficial change, began the enormous folly of federal subsidies for higher education. Those subsidies have not made Americans any better educated but instead have merely wasted resources on needless credentials.

The last chapters of the book cover the economic slowdown over the last several decades — historically sluggish growth and falling numbers of new business startups. Has capitalism run out of steam, as some commentators (who favor

still more government control and redistribution) maintain?

Greenspan and Wooldridge don't think so. Capitalism, they argue, remains the optimal economic system. Unfortunately, we have terribly hampered it with bad government policies. As the authors say, America "is trapped in an iron cage of its own making: out of control entitlements and ill-considered regulations are forcing it to perform well below its potential..." I would add to that the vast number of subsidies government dishes out, gigantic federal borrowing that crowds out private investment, and the smog of crony capitalism that

chokes Washington and our state capitals more every year. Government is the problem.

What's the solution? The authors want to open the cage so that capitalism can again work. They're right. Our future will be much brighter if we can return to the days when people were free and Washington, D.C., was not the nation's heart.

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Not because Socrates said so, but because it is in truth my own disposition — and perchance to some excess — I look upon all men as my compatriots, and embrace a Pole as a Frenchman, making less account of the national than of the universal and common bond.

— Michel Eyquem de Montaigne

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