
FUTURE OF FREEDOM

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Rebellion to tyrants is obedience to God.

— *Benjamin Franklin*

FUTURE OF FREEDOM

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

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The Roots of American Dysfunctionality, Part 2

by *Jacob G. Hornberger*



The United States once had the finest health-care system in history. When I was growing up in the 1950s — before Medicare and Medicaid came into existence — medical costs were low and stable. Hardly anyone had major-medical insurance. That’s because they didn’t need it. Going to the doctor was like going to the grocery store. People easily paid for their doctor’s visits out of pocket. There was no health-care crisis. Doctors loved what they did in life. Innovations in health care were soaring.

What about the poor? Doctors treated them for free. They felt it was their ethical duty to do so, especially given that they were making so much money from people

who could pay. In my hometown of Laredo, Texas, which we were told was the poorest city in the United States, doctors’ offices were filled every day. The patients included people from Nuevo Laredo, Mexico. Doctors knew that many, if not most, of their patients could not afford to pay. Nonetheless, doctors never turned away anyone. That was genuine charity, the type of charity that comes from the willing heart of the individual.

The roots of socialized medicine

And then came Medicare and Medicaid. Those two socialist programs ended up destroying that finest health-care system in history. And they are socialist programs, just like Social Security is. The concept arose within the socialist movement in Germany at the end of the 1800s and was later imported into the United States. When the Lyndon Johnson administration enacted these two socialist programs, it was following in the footsteps of what President Franklin Roosevelt had started with Social Security.

The idea behind Medicare and Medicaid was that the government needed to take care of the elderly and the poor by providing or paying for their health-care services.

Without Medicare and Medicaid, it was said, the elderly and the poor would be dying in the streets from illnesses, owing to their inability to pay their physicians and hospitals.

Modern-day Americans have rejected a faith-in-freedom mindset and embraced a faith-in-government mindset.

That caused health-care costs to begin soaring and brought on America's never-ending, perpetual health-care crisis. But rather than simply repeal these socialist programs, statisticians doubled down and began enacting reform after reform, all in a desperate attempt to make their socialist health-care system work. The reforms only made matters worse, which caused statisticians to adopt Obamacare. When that massive health-care reform predictably failed, statisticians began advocating for a full-fledged, government-owned and government-operated health-care system, like the one they have in Cuba. In fact, many American leftists hold up Cuba as a model for health care.

Meanwhile, many doctors began hating what they did in life. The joy of doing what they loved — providing health care to people— began evaporating. Many of them

began retiring early to avoid constantly having to deal with the ever-growing health-care crisis.

Medicare and Medicaid helped to solidify the overarching faith that modern-day Americans have in socialism and the coercive apparatus of the federal government. Oh, sure, Americans are loathe to acknowledge that they believe in socialism. Instead, they steadfastly maintain that Social Security, Medicare, Medicaid, and other welfare-state programs are part of America's "free enterprise" system, which enables them to avoid confronting what has happened to our country. In actuality, modern-day Americans have rejected a faith-in-freedom mindset and embraced a faith-in-government mindset. Social Security, Medicare, and Medicaid are perfect examples of this phenomenon.

But they are not the only examples.

The nature of government schooling

It would be difficult to find a better example of socialism than public schooling, which is more accurately called government schooling. The state owns and operates the educational system. Public schooling is based on central planning, which is a core principle of social-

ism. Compulsory school-attendance laws ensure that parents subject their children to this socialist system. Funding is through the coercive apparatus of taxation. Government-approved textbooks and government-approved schoolteachers ensure that students' minds are imbued with the "correct" information.

The welfare state destroys the concepts of self-reliance, independence, and can-do.

In fact, public schooling can be called army-lite because its system is very similar to that of the military. State indoctrination ensures that students are molded into becoming good little citizens of the state, ones who defer to authority, are grateful that the government takes care of them, and do not challenge the premises of the welfare-warfare-state way of life. In fact, they are made to believe that this way of life is "freedom and free enterprise." When Americans sing "Thank God I'm an American because at least I know I'm free," they really do mean it. They don't realize that they are exemplifying perfectly the words of Johann Goethe, "None are more hopelessly enslaved than those who falsely believe they are free."

The most important aspect, however, of America's welfare state is that it is actually a palliative that ensures passivity among the American people to what is known as the warfare state. The warfare state, which is run by the Pentagon, the CIA, and the NSA, is superior to the welfare state. By putting people on welfare, the Pentagon, the CIA, and the NSA can be assured that the citizenry will not challenge their power and superiority within the federal governmental system.

The bitter fruit of the welfare mindset

That's because the welfare state makes people weak. It destroys the concepts of self-reliance, independence, and can-do. It converts people into dependent wards of the state, fearful that the government might suddenly terminate their dole and leave them to die in the streets. The entire welfare-state system is akin to a gigantic opium den, one in which people are so psychologically and emotionally dependent on their welfare that they would never consider challenging or even acknowledging the fact that it is the national-security establishment that is running the country.

Longtime readers of my blog know that I have several times recommended a book entitled *Nation-*

al Security and Double Government by Michael J. Glennon. Glennon's credentials are impeccable. He is a professor of law at Tuft's University. He also has served as counsel to the Senate Foreign Relations Committee. Every American who cares about the future of our country owes it to himself to read Glennon's book.

Glennon's thesis is a simple one: It is the national-security establishment — that is, the Pentagon, the CIA, the NSA, and, to a certain extent, the FBI — that is in charge of the federal government. It permits the other three branches — the executive branch (i.e., the president), the legislative branch (i.e., Congress), and the judicial branch (i.e., the Supreme Court) to have the appearance that they are still in charge. The national-security branch doesn't care about appearances. What matters to it is that it is in charge of running the federal government, especially when it comes to foreign affairs.

There is something important to note about this phenomenon. It wasn't always this way. America's founding governmental structure was a limited-government republic, not a national-security state. That founding system lasted more than 150 years. It came to an end in

the late 1940s, when the federal government was converted to a national-security state, without even the semblance of a constitutional amendment authorizing the conversion.

The difference between a limited-government republic and a national-security state is day and night. Under a limited-government republic, the federal government's powers were limited to those enumerated in the Constitution. The powers were even more restricted by the Bill of Rights. The idea was that the fewer the powers, the freer the people.

America's founding governmental structure was a limited-government republic, not a national-security state.

Under a national-security state, the federal government's powers became omnipotent, just like in communist and totalitarian regimes. Such omnipotent powers included the power of assassinating people, kidnapping people, indefinitely detaining people, and engaging in mass secret surveillance. Moreover, such powers could be exercised against everyone, including American citizens and American political leaders.

From the very beginning of the national-security state, but especially after the Kennedy assassination, the other three branches of the federal government began deferring to the omnipotent power of the national-security branch of the federal government. The president, the Congress, and the Supreme Court all understood that they lacked the power to challenge the overwhelming totalitarian-like power of the national-security establishment.

One irony in this conversion was what it did to our nation. A limited-government republic brought into existence the strongest nation in history, one whose citizens were characterized by a fierce sense of independence. A national-security state bought into existence one of the weakest nations in history, one characterized by a frightened, dependent citizenry that looks to the federal government to be its provider and caretaker.

The moral depravity of the national-security state

The conversion to a national-security state also destroyed people's sense of conscience. They came to believe that the Pentagon, the CIA, and the NSA knew what was best for us. They were devoted to saving us from the communists

and, later, the terrorists and the drug dealers. To do that, it was accepted doctrine that they had to engage in unsavory, dark-side practices. We just needed to defer to its judgment, it was commonly believed. For its part, the national-security establishment would do its best to keep its dark-side activities secret so that Americans wouldn't have their consciences troubled.

The conversion to a national-security state also destroyed people's sense of conscience.

That's why it has gone after people like Julian Assange and Edward Snowden with a vengeance. Assange and Snowden violated the sacred rule that prohibits dark-side actions from being brought to the attention of the American people. Everyone needed to be taught that if they violate this rule, they would end up like Assange and Snowden.

Among the best examples of the national-security state's destruction of American conscience is the federal government's foreign-policy weapon of economic sanctions, a weapon that was never utilized when the federal government was a limited-government republic.

The mindset behind sanctions is the same as the mindset behind ter-

rorism. Terrorists target innocent people with death and suffering as a way to achieve a political goal. That's also what sanctions do. They target innocent people in a foreign country with death and suffering as a way to achieve regime change or some other political goal.

Yet, how many Americans, including Christians who go to church every Sunday, register any objection to the deaths and suffering that sanctions inflict on innocent people? Not very many. That's because the national-security establishment is considered by Americans to be another triune god, one that should never be challenged or questioned, not even when it is inflicting death and suffering on innocent people.

Recall the deadly and destructive sanctions that the U.S. government inflicted on the people of Iraq in the 1990s. The Pentagon had already intentionally destroyed Iraq's water-and-sewage treatment plants in its Persian Gulf intervention, with the specific aim of spreading infectious illnesses among the Iraqi people. After that, U.S. officials used their sanctions to prevent those plants from being repaired.

Hundreds of thousands of Iraqi children were dying. Who cared? Not very many Americans. The

massive indifference to those deaths was a perfect demonstration of what the welfare-warfare-state way of life has done to the consciences of the American people. The notion was that if the state deemed it necessary to kill innocent people to achieve regime change, then who were we to question it? And anyway, most everyone was imbued with the notion that Saddam Hussein, the dictator of Iraq, was a grave threat to "national security" and, therefore, needed to be removed from power. Never mind that Saddam had been a partner and ally of the U.S. government in the 1980s when he was waging his war of aggression against Iran.

How many Americans register any objection to the deaths and suffering that sanctions inflict on innocent people?

In 1996, Madeleine Albright publicly declared that the deaths of half-a-million Iraqi children from the sanctions were "worth it." As U.S. ambassador to the United States, she was the official spokesperson for the U.S. government to the world. She was expressing the position of the national-security establishment, which, as I pointed out above, was in charge of running the

federal government. Her boss, President Clinton, as well as Congress and the federal judiciary, passively deferred to her declaration. So did the mainstream press. One would be hard-pressed to find editorials and op-eds condemning or even mildly criticizing her morally malignant declaration.

One of the soundest founding principles of our nation was a foreign policy of noninterventionism.

There was one American who was stricken by a crisis of conscience. His name was Bert Sacks. He traveled to Iraq with medicines and other essential items in a desperate attempt to help the Iraqi people. The feds went after him with a vengeance. They fined him \$10,000 for violating their beloved sanctions against the Iraqi people. To his everlasting credit, Sacks fought them for years. Ultimately, they didn't collect one dime from him. He is truly one of the great heroes of our time.

One of the soundest founding principles of our nation was a foreign policy of noninterventionism. George Washington and Thomas Jefferson warned against entangling alliances, such as NATO. John

Quincy Adams pointed out that America does not go abroad in search of monsters to destroy.

That foreign policy was abandoned by modern-day Americans, especially with the rise of the national-security state. That's how we have ended up with deadly and destructive interventions in faraway places like Korea, Vietnam, Afghanistan, and Iraq, which have resulted in the deaths, injuries, and suffering of millions of innocent people, not to mention the massive destruction wreaked upon those countries.

Of course, there is also the out-of-control federal spending, debt, and monetary debauchery that has come with the welfare-warfare-state way of life. It is threatening to take our country down from within through financial bankruptcy.

America started out as the greatest nation in history. There were some grave flaws, such as slavery, but there were sound founding principles as well. Later generations of Americans abandoned those principles, choosing instead to follow the siren song of welfare and warfare. That's how we have ended up with one of the most dysfunctional societies in history. To get our nation back on the right track, all that we have to do is stop listen-

ing to that siren song and restore America's founding principles of liberty, voluntary charity, and a limited-government republic. That's how we get our nation back on the road to freedom, peace, prosperity, and harmony with the people of the world.

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

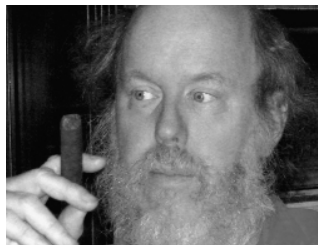
NEXT MONTH:
“The Origins of U.S. Monetary Debauchery”
by *Jacob G. Hornberger*

No man is allowed to be judge in his own cause, because his interest would certainly bias his judgment, and, not improbably, corrupt his integrity. With equal, nay with greater reason, a body of men are unfit to be both judges and parties at the same time; yet what are many of the most important acts of legislation but so many judicial determinations, not indeed concerning the rights of single persons, but concerning the rights of large bodies of citizens?

— James Madison

Biden's Atrocious Assange Prosecution

by James Bovard



“A confident government that is unafraid of the truth embraces a free press,” proclaimed Secretary of State Anthony Blinken. But he was referring only to the Chinese government crackdown on Hong Kong journalists early last year. Unfortunately, the Biden administration continues rushing to destroy one of the most important truth tellers of our times.

Julian Assange has been locked away for four years in a maximum-security prison in Britain. Assange was initially charged in 2019 with “conspiracy to commit computer intrusion” for allegedly giving advice to Army Corporal Bradley (later Chelsea) Manning on dealing with government files. But all the National Security Agency officials who have conspired to illegally in-

trude into Americans’ personal computers face no indictments, and likewise for the presidents who approved their crimes.

It began with WikiLeaks

Assange was targeted by the U.S. government after his organization, WikiLeaks, disclosed hundreds of thousands of U.S. documents, including exposés of crimes committed by the U.S. military against Afghan and Iraqi civilians. A 2010 *Christian Science Monitor* report on the leak noted that it was “unclear how Americans might react to revelations about apparent indiscriminate killing of Afghan civilians” by American forces. But the *Monitor* headline captured the verdict in Washington: “Congress’s response to WikiLeaks: shoot the messenger.” Vice President Joe Biden denounced Assange as a “high-tech terrorist.”

The Obama administration examined the case against Assange and concluded that he could not be prosecuted without setting precedents that imperiled freedom of the press. But that concern didn’t hobble the Trump administration. In 2019, as the Justice Department prepared to drop the hammer on Assange, several organizations protested. The ACLU warned that

prosecuting him for WikiLeaks' publishing operations would be "unconstitutional" and sets a "dangerous precedent for U.S. journalists, who routinely violate foreign secrecy laws to deliver information vital to the public's interest." Trevor Timm of the Freedom of the Press Foundation declared: "Any charges brought against WikiLeaks for their publishing activities pose a profound and incredibly dangerous threat to press freedom." After Assange was indicted, a *New York Times* editorial declared that the charges were "aimed straight at the heart of the First Amendment" and would have a "chilling effect on American journalism as it has been practiced for generations."

Trump and Clinton unite against Assange

After filing the initial charge, Trump's Justice Department added 17 charges against Assange for allegedly violating the Espionage Act for disclosing classified information. The Espionage Act is a World War One relic that presidents are increasingly using to suppress exposure of U.S. government crimes at home and abroad. Assange faces up to 175 years in prison if he is convicted, but his lawyers are fighting extradition from Britain. If the

Brits deliver Assange to the U.S. government, he has almost no chance of a fair trial because of how Espionage Act prosecutions are rigged in federal court.

The Assange indictment only proved that no government critic "is above the law."

After Britain acceded to U.S. government demands to arrest Assange, British Foreign Secretary Jeremy Hunt boasted that the arrest showed "no one is above the law." Except for the governments whose crimes WikiLeaks and Assange exposed. Former secretary of state and Democratic presidential candidate Hillary Clinton declared that the charges prove that Assange "must answer for what he has done." But Assange's arrest did nothing to prevent legions of conniving politicians and bureaucrats from continuing to deceive the American public. In reality, the Assange indictment only proved that no government critic "is above the law."

The Washington establishment pilloried Assange for leaking classified information. Inside the Beltway, classified information is viewed as a holy relic that cannot be exposed without damning the nation. How much classified informa-

tion are the feds certifying nowadays? Trillions of pages per year. Yet, any information which is classified becomes sacrosanct – at least to the bureaucrats hiding their actions from citizens. The status quo amounts to trillions of asterisk exemptions to Americans' self-government.

Washington policymakers ignored WikiLeaks' revelations and expanded the role of the U.S. military in the Afghan conflict. Atrocities continued, helping turn the Afghan people against the U.S. military and a Kabul government that was seen as a Washington puppet. When the Afghan military collapsed like a house of cards in 2021, Washington policymakers were stunned at the Taliban's lightning triumph. But they were shocked only because they had ignored the truths that WikiLeaks revealed.

Even Biden admitted in 2010 that "I don't think there's any substantive damage" from the WikiLeaks revelations.

Federal agencies have not proven that any of the information that WikiLeaks released was false. At the court martial of Corporal Manning, who leaked the documents, prosecutors failed to show that any

information WikiLeaks disclosed had led to the death of a single person in Afghanistan or Iraq. That conclusion was reconfirmed by a 2017 investigation by PolitiFact. Even Biden admitted in 2010 that "I don't think there's any substantive damage" from the WikiLeaks revelations. But Assange was guilty of violating the U.S. government's divine right to blindfold the American people.

After Britain arrested Assange, Sen. Joe Manchin whooped that Assange "is our property and we can get the facts and the truth from him." But Manchin had no recommendations on how Americans can "get the facts and the truth" from the federal government.

Biden has ramped up U.S. bombings in Somalia. Who exactly is being killed there? It is a secret (and maybe nobody in Washington cares).

Why is the United States continuing to assist Saudi atrocities against Yemen civilians?

It's a secret.

The long history of government secrecy

Few Americans are aware of the Iron Curtain shrouding U.S. foreign policy. Consider the U.S. military intervention in Syria. Beginning in

2013, the Obama administration began covertly providing money and weapons to Syrian rebels fighting the government of Bashar Assad. Much of the U.S. aid ended up in the hands of terrorist groups, some of whom were allied with al-Qaeda. After Trump tweeted derisively about the program in 2018, a journalist filed a Freedom of Information Act request for documents on CIA payments to rebel groups. A 2020 federal appeals court declared that the records must be kept secret because the court owed “appropriate deference” to the CIA. The judges neglected to cite the provision in the Constitution that obliged them to kowtow.

The selective censorship is reminiscent of the perpetual falsehoods about the Vietnam War.

Syrians know that CIA-backed rebels have wreaked havoc, killing women and children. But federal judges insist on blindfolding Americans to the crimes they are helping finance. The selective censorship is reminiscent of the perpetual falsehoods about the Vietnam War that were exposed in the Pentagon Papers. As philosopher Hannah Arendt wrote, “The policy of lying was

hardly ever aimed at the enemy but chiefly if not exclusively destined for domestic consumption, for propaganda at home and especially for the purpose of deceiving Congress.”

And then there’s the biggest and most dangerous secret operation on the horizon right now — the U.S. intervention in the war between Russia and Ukraine. Do Washington policymakers deserve a blank check to potentially drag America into a nuclear war? Are CIA analysts or Pentagon officials issuing warnings about how U.S. government actions in this conflict could lead to a spiral that ends in catastrophe? Unfortunately, Americans won’t learn of any such memos until the damage has been done. Biden promised last February that if Russia invaded Ukraine, “we will bring an end to” the Nord Stream pipeline delivering natural gas from Russia to Europe. That pipeline was blown up last September. Short afterwards, Secretary of State Blinken declared that the explosion “offers tremendous strategic opportunity for the years to come” to reduce European reliance on Russian energy. Unfortunately, Team Biden and their allies in Congress believe that American citizens have no right to know whether their government blew up the Russian pipeline.

Democrats in Congress blocked proposals to appoint an Inspector General to audit the tens of billions of dollars of aid the United States has already delivered to Ukraine (one of the most corrupt nations in the world). If U.S. intervention ends again in disaster, then we'll see the same sham that occurred after the Iraq War. Some Senate committee blathering that no one is to blame because everyone in Washington was a victim of "group think."

According to *Politico*, the Biden White House is launching a "new war on secrecy" and is especially concerned about "potentially illegal [government] activities that have been shielded from the public for decades." A Biden administration official, speaking anonymously, declared that it is in the "nation's best interest to be as transparent as possible with the American public." (Explicitly attaching one's name to such a dangerous notion could ruin one's D.C. career.) Sen. Elizabeth Warren (D-MA) recently commented, "We spend \$18 billion protecting the classification system and only about \$102 million ... on declassification efforts.... That ratio feels off in a democracy." But inside the Beltway, rigging the game 176-to-1 is "close enough for government work" for transparency.

Growing support for Assange's release

Assange's cause may not be hopeless, as more people in America and abroad are speaking up on his behalf. Protests supporting Assange erupted around the world in October. In London, 7,000 protesters linked hands to surround the Parliament building, demanding that the United Kingdom not extradite Assange. Protests occurred in several U.S. cities, including Washington, D.C., where Assange supporters ceremonially circled the Justice Department headquarters. That protest drew support from both libertarians and leftists and featured prominent former military and CIA officers championing Assange's cause.

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Media outlets are also belatedly taking a firm stand against the suppression of truth. On November 28, the *New York Times* — along with its British, French, Spanish, and German partners who published WikiLeaks revelations — published a joint open letter on the danger of the Assange prosecution: "Holding

governments accountable is part of the core mission of a free press in a democracy.” The publications also declared: “Obtaining and disclosing sensitive information when necessary in the public interest is a core part of the daily work of journalists. If that work is criminalised, our public discourse and our democracies are made significantly weaker.” (The *Washington Post*, which used many of Assange’s leaks in its articles, did not associate itself with the open letter.)

Dropping the charges against Assange is the best way for the Biden administration to prove it is serious about ending excessive secrecy. Assange declared years ago, “If wars can be started by lies, they can be stopped by truth.” Organizations like WikiLeaks are among the best hopes for rescuing democracy from Leviathan.

Pervasive secrecy helps explain the collapse of trust in Washington. Americans today are more likely to believe in witches, ghosts, and astrology than to trust the federal government. There’s an old saying: If exposing a crime is a crime, then

you’re being ruled by criminals. Attorney General Ramsey Clark warned in 1967, “Nothing so diminishes democracy as secrecy.” At this point, America is an Impunity Democracy in which government officials pay no price for their abuses. Adding Assange’s scalp to the Justice Department’s trophy wall will do nothing to end the mistrust of the political ruling class that has dragged America into so many debacles.

James Bovard is a policy advisor to The Future of Freedom Foundation and the author of the ebook Freedom Frauds: Hard Lessons in American Liberty, published by FFF, Public Policy Hooligan, Attention Deficit Democracy, and eight other books.

NEXT MONTH:
**“World Economic Forum
Wants to Make You a Serf”**
by James Bovard

“Law and Order” and Libertarianism

by *Laurence M. Vance*



The election year of 1968 was a tumultuous one marked by the assassinations of Sen. Robert Kennedy and civil rights leader Martin Luther King, urban race riots, college antiwar demonstrations, and a Democratic National Convention that saw the Chicago police and the National Guard have violent clashes with protestors.

The 1968 election

Republican presidential candidate Richard Nixon (1913–1994) campaigned on a platform of “law and order” in the 1968 election. In his acceptance speech for the Republican nomination at the Republican National Convention in Miami Beach, he said:

The first civil right of every American is to be free from domestic violence, and that right must be guaranteed in this country.

Time is running out for the merchants of crime and corruption in American society. The wave of crime is not going to be the wave of the future in the United States of America. We shall reestablish freedom in America so that America can take the lead in reestablishing freedom from fear and the world. And to those who say that law and order is a code word for racism, here is the reply. Our goal is justice. Justice for every American. If we are to have respect for law in America, we must have laws that deserve respect.

Nixon went on to win 32 states and 301 electoral votes that year, and then in the 1972 election, he won 49 states and 520 electoral votes before resigning in disgrace on August 9, 1974, because of the Watergate scandal.

Unfortunately, Nixon’s emphasis on “law and order” led to his declaration of the war on drugs on June 17, 1971. Speaking at a press

conference at the White House, Nixon said:

America's public enemy number one in the United States is drug abuse. In order to fight and defeat this enemy, it is necessary to wage a new, all-out offensive.

This will be a worldwide offensive dealing with the problems of sources of supply, as well as Americans who may be stationed abroad, wherever they are in the world. It will be government wide, pulling together the nine different fragmented areas within the government in which this problem is now being handled, and it will be nationwide in terms of a new educational program that we trust will result from the discussions that we have had.

Unfortunately, Nixon's emphasis on "law and order" led to his declaration of the war on drugs on June 17, 1971.

Nixon then appointed the first drug czar and in 1973 signed legislation to create the Drug Enforcement Administration (DEA). The Constitution, limited government,

federalism, personal freedom, property rights, and financial privacy have suffered ever since.

The 2022 election

There is no question that crime in America is on the increase, especially since the beginning of "the pandemic." Conservatives generally blame this on Democratic "soft on crime" policies like not prosecuting certain categories of misdemeanors, early release of violent offenders, low or no bail, and defunding the police. About six months before the election, the House Republican Study Committee (RSC) catalogued every GOP argument about crime in the previous two years and distilled it into a single memorandum. The memo states in part:

From the White House to liberal state and local governments, there has been a systemic failure to contain crime in America. It stems from the dangerous belief that enforcing the law is somehow morally wrong or even racist. It has paralyzed law enforcement agencies at all levels and created prosecutors who would rather let a dangerous criminal walk out of jail than enforce the law.

Crime is at an unacceptable level and Americans are desperate for solutions. They need to know that Conservatives have a plan to make them safe.

Republicans last year issued their Commitment to America that outlined what they intended to do if they regained control of the Congress. One of its planks is entitled “A Nation that’s Safe.”

“Democrats are the party of crime,” said the Republicans. “As a direct result of their ‘defund the police’ and soft-on-crime policies, cities across America have suffered a stark increase in crime.” Republicans maintained that they had “a plan to uphold law and order across America.”

**Conservative Republicans
are now openly calling for the
government to execute
drug dealers.**

The Heritage Foundation, a conservative think tank, released a report just before the election titled “The Blue City Murder Problem” that “highlighted that 27 of the top 30 cities with the highest murder rates as of June 2022 were run by Democratic mayors.” In another

election-related article, the National Rifle Association (NRA), after recounting the rising crime rates in Democratic-controlled large cities and how gun-control advocates “continue to blame law-abiding American gun owners for the rise in violent crime,” insisted that “if we want to put an end to this madness, this midterm election must be about supporting the Second Amendment and law and order.”

But once again, when conservatives talk about the increase in the crime rate and the need for “law and order,” the Constitution, limited government, federalism, personal freedom, property rights, and financial privacy go by the wayside. Conservative Republicans are now openly calling for the government to execute drug dealers. About six weeks before the 2022 midterm election, Florida senator Marco Rubio, along with 12 other Republican senators, introduced the “Felony Murder for Deadly Fentanyl Distribution Act” (S.4876). It is a short bill that simply amends federal law to make fentanyl distribution resulting in death punishable as felony murder, for which the sentence is life in prison or the death penalty.

Former President Trump — still the darling of many conservatives — is one of the most vocal cheer-

leaders for the execution of drug dealers. Early in 2022, he declared that the penalties for drug dealers “should be very, very severe.” How severe? According to Trump: “If you look at countries throughout the world, the ones that don’t have a drug problem are ones that institute a very quick trial death penalty sentence for drug dealers.” He even dubiously maintained: “You execute a drug dealer, and you’ll save 500 lives.” At a rally in Ohio on the day before the midterm election, he reiterated that drug dealers during the course of their lives “will kill an average of 500 Americans.” And then Trump bluntly said: “I am calling for the death penalty for drug dealers and human traffickers, which will, upon its passage, reduce drug distribution and reduce crime in our country by a minimum of 75 percent.”

Libertarianism

Can libertarians be for “law and order?” Should libertarians be for “law and order?” Is it libertarian to say: “Do the crime, do the time?” Should the government be able to lock people up for years for breaking its laws? Is the government ever justified in keeping law violators in prison for life without the possibility of parole? Is it ever acceptable for

the government to execute someone for violating a law? Is there such a thing as an unjust law? Is it ever okay to break the law? Can a libertarian be “soft on crime?” Is being for “law and order” racist? Can a libertarian be a law enforcement officer? Is it virtuous to be a law-abiding citizen? Is it a sin or immoral to violate a government law? Should nonviolent criminals ever be incarcerated? Is there any shame in being “a lawbreaker?”

Libertarianism is the philosophy that says that people should be free from individual, societal, or government interference.

The libertarian answer is: It depends on the law. To see why this is so, let us first briefly revisit what libertarianism is and what it isn’t. Libertarianism is the philosophy that says that people should be free from individual, societal, or government interference to live their lives any way they desire, pursue their own happiness, engage in voluntary associations, accumulate wealth, assess their own risks, make their own choices, participate in any economic activity for their profit, engage in commerce with anyone who is willing to reciprocate, and spend the fruits of their labor as they see

fit. Nonaggression is the libertarian creed. Aggression is theft, fraud, and the initiation or threat of non-consensual violence. Violence is justified only in defense of one’s person or property or in retaliation in response to aggression against them. No violence may be used against a nonaggressor. Force is justified only in defense or retaliation. Force must be proportional but is neither essential nor required. As long as people don’t violate the personal or property rights of others, and as long as their actions are peaceful, their associations are voluntary, and their interactions are consensual, they should be free to live their lives without license, regulation, interference, or molestation by the government.

“There has been no greater threat to life, liberty, and property throughout the ages than government.”

Here is the short version: Libertarianism holds that people should be free to live their lives any way they choose as long as their conduct is peaceful, their interactions are consensual, and their actions don’t violate the personal or property rights of others.

One’s lifestyle, tastes, preferenc-

es, vices, sexual practices, traditions, habits, employment, religion, aesthetics, sensibilities, outlook, cultural norms, or view of pornography, social media, or technology have nothing to do with it.

But contrary to liberals and conservatives who may give lip service to some of the tenets of libertarianism, “libertarians,” in the words of the great libertarian theorist Murray Rothbard (1926–1995), “apply a universal human ethic to government in the same way as almost everyone would apply such an ethic to every other person or institution in society” and “apply it fearlessly.” Libertarians “make no exceptions to the golden rule and provide no moral loophole, no double standard, for government.” This is because, as former Foundation for Economic Education president Richard Ebeling has well said, “There has been no greater threat to life, liberty, and property throughout the ages than government. Even the most violent and brutal private individuals have been able to inflict only a mere fraction of the harm and destruction that have been caused by the use of power by political authorities.”

Government

In a libertarian society, that is, a free society, government — in

whatever form it would take — would be limited to the protection of natural rights, not the bestowing of rights. All government actions — at any level of government — beyond actual defensive actions, open judicial proceedings, and reasonable policing activities would be illegitimate. Government would be prohibited from interfering with peaceful, voluntary, and consensual activity that does not aggress against the person or property of others. As long as people didn't infringe on the liberty of others by committing, or threatening to commit, acts of fraud, theft, aggression, or violence against their person or property, the government would just leave them alone.

Government would be prohibited from interfering with activity that does not aggress against the person or property of others.

The best explanation of the proper role of government is not anything written by a modern libertarian. It is found in a pamphlet written in 1850 by the French economist Frédéric Bastiat (1801–1850) called simply *The Law*:

Can the law — which necessarily requires the use of force

— rationally be used for anything except protecting the rights of everyone? I defy anyone to extend it beyond this purpose without perverting it and, consequently, turning might against right.

It is not true that the function of law is to regulate our consciences, our ideas, our wills, our education, our opinions, our work, our trade, our talents, or our pleasures. The function of law is to protect the free exercise of these rights, and to prevent any person from interfering with the free exercise of these same rights by any other person.

Every individual has the right to use force for lawful self-defense. It is for this reason that the collective force — which is only the organized combination of the individual forces — may lawfully be used for the same purpose; and it cannot be used legitimately for any other purpose.

Thus, since an individual cannot lawfully use force against the person, liberty, or property of another individual, then the common force — for the same reason — cannot lawfully be used to destroy the

person, liberty, or property of individuals or groups.

Since no individual acting separately can lawfully use force to destroy the rights of others, does it not logically follow that the same principle also applies to the common force that is nothing more than the organized combination of the individual forces?

If this is true, then nothing can be more evident than this: The law is the organization of the natural right of lawful defense. It is the substitution of a common force for individual forces. And this common force is to do only what the individual forces have a natural and lawful right to do: to protect persons, liberties, and properties; to maintain the right of each, and to cause justice to reign over us all.

If a nation were founded on this basis, it seems to me that order would prevail among the people, in thought as well as in deed. It seems to me that such a nation would have the most simple, easy to accept, economical, limited, nonoppressive, just, and enduring government imaginable — whatever its political form might be.

Under such an administration, everyone would understand that he possessed all the privileges as well as all the responsibilities of his existence. No one would have any argument with government, provided that his person was respected, his labor was free, and the fruits of his labor were protected against all unjust attack.

Now, that is “law and order” that any freedom-loving American should wholeheartedly support.

Crime

Because of their view of what the law should and should not do, libertarians believe that every crime needs a tangible and identifiable victim who has suffered measurable harm to his person or measurable damages to his property. Libertarians hold that potential, probable, or possible victims are not real victims, and that crimes against religion, decency, custom, tradition, humanity, nature, society, the greater good, the public interest, or the state are not real crimes at all. Committing mortal sin, having bad habits, exercising poor judgment, engaging in risky behavior, practicing self harm, participating in danger-

ous activities, adopting unhealthy living, pursuing addictive conduct, undertaking immoral actions, and committing vices are not necessarily crimes. It is on this latter point that nineteenth-century classical-liberal political philosopher Ly-sander Spooner (1808–1887) so eloquently expounded:

Vices are those acts by which a man harms himself or his property. Crimes are those acts by which one man harms the person or property of another. Vices are simply the errors which a man makes in his search after his own happiness. Unlike crimes, they imply no malice toward others, and no interference with their persons or property.

Unless this clear distinction between vices and crimes be made and recognized by the laws, there can be on earth no such thing as individual right, liberty, or property — no such things as the right of one man to the control of his own person and property, and the corresponding and co-equal rights of another man to the control of his own person and property.

It should be evident that no one should ever be arrested or fined for committing a victimless crime. Similarly, only criminals who initiate violence or aggression against someone should ever be incarcerated.

Only criminals who initiate violence or aggression against someone should ever be incarcerated.

Since the subject of drugs and drug dealers has already been mentioned in connection with “law and order,” we can use drug laws as examples of unjust laws that should have never been passed and should never be enforced. Because using, buying, selling, processing, manufacturing, or possessing drugs — any drug, from marijuana to fentanyl — on one’s own property (or another’s property with permission) in a peaceful manner does not violate the personal or property rights of others, there should be no laws at any level of government for any reason regarding the doing of these things. Therefore, all drug laws should be repealed, all government agencies devoted to fighting the war on drugs should be abolished, all prisoners incarcerated solely for violating drug laws should

be released, and the war on drugs should be ended completely and immediately. There should be a free market in drugs without any government regulation, rules, or restrictions. Although these things should apply to government at any level, drug laws at the federal level are particularly evil since the Constitution nowhere authorizes the federal government to have anything to do with criminalizing, prohibiting, or regulating any drug in any manner. None of this means that using drugs is not risky, dangerous, unhealthy, immoral, or addictive. And none of this means that people aren't responsible for any negative consequences or externalities resulting from their drug use.

“Law and order” is a desirable thing, but only when the laws are just, and private, peaceful activities are not criminalized.

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NEXT MONTH:
“America’s Comeback”
by Laurence M. Vance

Every vice was once a virtue, and may become respectable again, just as hatred becomes respectable in wartime.

— Will Durant

The Great German and Austrian Inflations, 100 Years Ago

by Richard M. Ebeling



This year marks the 100th anniversaries of the great German and Austrian inflations that began with the coming of the First World War in 1914 and reached hyperinflationary severity following the war's end in November 1918. While the German and Austrian inflations were particularly pronounced, all the belligerent countries in the conflict resorted to the monetary printing press to finance their war-related expenditures.

The first step was these governments going off the gold standard, either *de facto* or *de jure*. The citizens in these warring counties were often pressured or compelled to hand over their gold to their respective governments in exchange for

paper money. Almost immediately, the monetary printing presses were turned on, creating the vast financial means needed to fight an increasingly expensive war.

Wartime inflation in Britain, France, Italy, and America

In 1913, the British money supply amounted to 28.7 billion pounds sterling. But soon, as British economist Edwin Cannan expressed it, the country was suffering from a “diarrhea of pounds.” When the war ended in 1918, Great Britain’s money supply had almost doubled to 54.8 billion pounds, and it continued to increase for three more years of peacetime until it reached 127.3 billion pounds in 1921, a fivefold increase from its level eight years earlier.

The French money supply had been 5.7 billion francs in 1913. By war’s end in 1918, it had increased to 27.5 billion francs, in this case a fivefold increase in a mere five years. By 1920, the French money supply stood at 38.2 billion francs. The Italian money supply had been 1.6 billion lire in 1913 and increased to 7.7 billion lire, for more than a fourfold increase, and stood at 14.2 billion lire in 1921.

In addition, these countries took on huge amounts of debt to fi-

nance their war efforts. Great Britain had a national debt of 717 million pounds in 1913. At the end of the war, that debt had increased to 5.9 billion pounds and rose to 7.8 billion pounds by 1920. French national debt increased from 32.9 billion francs before the war to 124 billion francs in 1918 and 240 billion francs in 1920. Italy was no better, with a national debt of 15.1 billion lire in 1913 that rose to 60.2 billion lire in 1918 and climbed to 92.8 billion in 1921.

Though the United States had participated in only the last year and a half of the war, from April 1917 to November 1918, it too created a large increase in its money supply to fund government expenditures, which rose from \$1.3 billion in 1916 to \$15.6 billion in 1918. The U.S. money supply grew 70 percent during this period, from \$20.7 billion in 1916 to \$35.1 billion in 1918. Twenty-two percent of America's war costs were covered by taxation, about 25 percent from printing money, and the remainder, 53 percent, by borrowing.

War and the great German inflation

For decades before the start of the war, German nationalist and imperialist ambitions were directed to military and territorial expan-

sion. A large number of German social scientists known as members of the Historical School had been preaching the heroism of war and the superiority of the German people who deserved to rule over other nationalities in Europe.

The United States created a large increase in its money supply to fund government expenditures.

Hans Kohn, one of the twentieth century's leading scholars on the history and meaning of nationalism, explained the thinking of leading figures of the Historical School, who were also known as "the socialists of the chair" in reference to their prominent positions at leading German universities. In *Prophets and Peoples: Studies in Nineteenth Century Nationalism* (1946), Kohn wrote:

The "socialists of the chair" desired a benevolent paternal socialism to strengthen Germany's national unity. Their leaders, Adolf Wagner and Gustav von Schmoller, [who were Heinrich von] Treitschke's colleagues at the University of Berlin and equally influential in molding public opinion, shared Treitschke's

faith in the German power state and its foundations. They regarded the struggle against English and French political and economic liberalism as the German mission, and wished to substitute the superior and more ethical German way for the individualistic economics of the West.... In view of the apparent decay of the Western world through liberalism and individualism, only the German mind with its deeper insight and its higher morality could regenerate the world.

These German advocates of war and conquest also believed that Germany's monetary system had to be subservient to the wider national interests of the state and its imperial ambitions. Austrian economist Ludwig von Mises met frequently with members of the Historical School at German academic gatherings in the years before World War I. In his essay, "Remarks on the Ideological Roots of the Monetary Catastrophe of 1923" (1959), Mises recalled:

The monetary system, they said, is not an end in itself. Its purpose is to serve the state

and the people. Financial preparations for war must continue to be the ultimate and highest goal of monetary policy, as of all policy. How could the state conduct war, after all, if every self-interested citizen retained the right to demand redemption of bank notes in gold? It would be blindness not to recognize that only full preparedness for war [could further the higher ends of the state].... The gold standard, they alleged, made Germany permanently depend on the gold-producing countries.... It was a vital necessity for the German nation to have a monetary system independent of foreign powers, they claimed.

Germany's Great Inflation began with the government's turning to the printing press to finance its war expenditures.

Germany's Great Inflation began with the government's turning to the printing press to finance its war expenditures. Almost immediately after the start of World War I, on July 29, 1914, the German government suspended all gold redemption for the mark. Less than a

week later, on August 4, the German Parliament passed a series of laws establishing the government's ability to issue a variety of war bonds that the Reichsbank — the German central bank — would be obliged to finance by printing new money. The government created a new set of Loan Banks to fund private-sector borrowing, as well as state and municipal government borrowing, with the money for the loans simply being created by the Reichsbank.

During the four years of war, from 1914 to 1918, the total quantity of paper money created for government and private spending went from 2.37 billion to 33.11 billion marks. By an index of wholesale prices (with 1913 equal to 100), prices had increased more than 245 percent (prices failed to increase far more because of wartime controls). In 1914, 4.21 marks traded for \$1 on the foreign-exchange market. By the end of 1918, the mark had fallen to 8.28 to the dollar.

The results of Germany's hyperinflation

But the worst came in the five years following the war. Between 1919 and the end of 1922, the supply of paper money in Germany increased from 50.15 billion to

1,310.69 billion marks. Then in 1923 alone, the money supply increased to a total of 518,538,326,350 billion marks.

By the end of 1922, the wholesale price index had increased to 10,100 (still using 1913 as a base of 100). When the inflation ended in November 1923, this index had increased to 750,000,000,000,000. The foreign-exchange rate of the mark decreased to 191.93 to the dollar at the end of 1919, to 7,589.27 to the dollar in 1922, and then finally on November 15, 1923, to 4,200,000,000,000 marks to the dollar.

Between 1919 and the end of 1922, the supply of paper money in Germany increased from 50.15 billion to 1,310.69 billion marks.

During the last months of the Great Inflation, according to Gustav Stolper in *The German Economy, 1870–1940* (1940), “more than 30 paper mills worked at top speed and capacity to deliver notepaper to the Reichsbank, and 150 printing firms had 2,000 presses running day and night to print the Reichsbank notes.” In the last year of the hyperinflation, the government was printing money so fast and in such frequently larger and larger denominations

that to save time, money, and ink, the bank notes were being produced with printing on only one side.

Even with banknotes issued in September 1923 with a face value of 500 million marks, cash for transactions increased in scarcity due to the rapid and erratic huge rise in prices on a more than daily basis as Germany entered the autumn of 1923. As Ludwig von Mises explained more than a year before the hyperinflation climaxed, in his essay, “Inflation and the Shortage of Money: Stop the Printing Presses” (March 1922), once people come to believe that the depreciation of the currency will have no end, every issuance of more paper money only intensifies people’s desire to spend it as fast as they can, before it becomes even more worthless:

If it is assumed that the monetary depreciation will continue, because the government is unwilling to observe moderation in the demands it makes on the printing press, then the value of the monetary unit will be lower than if no further inflation were expected. Because monetary depreciation is expected to continue, the people try, by the purchase of commodities, bills of exchange, or

foreign money to rid themselves as quickly as possible of their domestic money that is daily losing its purchasing power. The panic buying in the shops, where the buyers go in droves in the attempt to acquire anything tangible, anything at all, and the panic buying on the exchange, where the prices of securities and foreign exchange go up leaps and bounds, race ahead of the actual situation. The future is anticipated and discounted in these prices.

Schacht declared a new non-inflationary currency backed by gold would be issued.

Finally, facing a total economic collapse and mounting social disorder, the German government in Berlin appointed the prominent German banker Halmar Schacht as head of the Reichsbank. He publicly declared in November 1923 that the inflation would be ended and a new noninflationary currency backed by gold would be issued. The printing presses were brought to a halt, and the hyperinflation was stopped just as the country stood at the monetary and social precipice of total disaster.

But the statistical figures do not tell the human impact of such a catastrophic collapse of a country's monetary system. In his book, *Before the Deluge: A Portrait of Berlin in the 1920s* (1972), Otto Friedrich wrote:

By the middle of 1923, the whole of Germany had become delirious. Whoever had a job got paid every day, usually at noon, and then ran to the nearest store, with a sack full of banknotes, to buy anything that he could get, at any price. In their frenzy, people paid millions and even billions of marks for cuckoo clocks, shoes that didn't fit, anything that could be traded for anything else.

A story was told of a man going shopping with a wheelbarrow filled with German marks, who took an armful of them into a bakery to buy a loaf of bread. When he came out of the shop, on the sidewalk was a large pile of his billions of German marks; the thief had taken the far more valuable item, the wheelbarrow they had been in. Another story heard was of a successful German novelist, who before the war had saved enough money for a

fairly comfortable old age. But in the second half of 1923, he withdrew his entire lifesavings from a bank and found that it was just sufficient to buy one token for a trolley ride in his native Berlin. He bought the token, took a ride around his beloved city, went home and committed suicide by putting his head in the oven with the gas on.

People paid millions and even billions of marks for anything that could be traded for anything else.

I knew someone who had lived through the hyperinflation during this period. He told me that the price of a cup of coffee could double in the time that a customer took to drink it in a Berlin café in the autumn of 1923. With bemusement, he said that the moral of the story was to “drink fast.”

Food supplies became both an obsession and a currency. The breakdown of the medium of exchange meant that the rural farmers became increasingly reluctant to sell their agricultural goods for worthless paper money in the cities. Urban dwellers streamed back to the countryside to live with relatives in order to have something to eat. Anything and everything were

offered and traded directly for food to stave off the pangs of hunger.

Capital consumption and misdirection of resources

The inflation generated a vast and illusionary economic boom. In his classic study, *The Economics of Inflation* (1931), Constantino Bresciani-Turroni detailed how inflation distorted the structure of prices and wages, generating paper profits that created a false conception of wealth and prosperity. As the inflation pushed the selling price of a manufactured good far above the original costs of production, profits appeared huge. But when the manufacturer went back into the market to begin his production process again, he found that the costs of resources and labor had also dramatically increased. What had looked like a profit was not enough to replace the capital used up earlier. Inflationary profits hid from view what was actually a process of capital consumption.

The distorted relative-price signals during the inflation resulted in misallocations of capital and labor in various investment projects that were found to be unsustainable and unprofitable when the monetary debauchery finally came to an end. Thus, a “stabilization crisis” followed

the German inflation. Capital and investment projects were left uncompleted because of a lack of available real resources, and workers faced a period of unemployment as they discovered that the jobs the inflation had drawn them into had now disappeared. The consumption of capital and the misuse of resources and labor during the years of inflation left the German people with a far lower real standard of living, which only years of work, savings, and sound new investment could improve.

Capital and investment projects were left uncompleted because of a lack of available real resources.

Germany’s economic recovery in the middle and late 1920s turned out to be an illusion as well. A game of financial musical chairs was played out in which Germany borrowed money from the United States to pay off reparations to the victorious Allied powers, as well as to finance a vast array of municipal public works projects and business investment activities sponsored by the government. These all came crashing down when the boom of the 1920s turned into the Great Depression of the 1930s. The hyperinflation of the 1920s and subsequent

financial and economic crash in the early 1930s also set the political stage for Adolf Hitler's rise to power in 1933.

The Hapsburg Empire and the great Austrian inflation

As clouds of war were forming in the summer of 1914, Franz Joseph (1830–1916) was completing the 66th year of his reign on the Hapsburg throne. During most of his rule, Austria-Hungary had basked in the nineteenth-century glow of the classical-liberal epoch. The constitution of 1867, which formally created the Austro-Hungarian empire, ensured every subject in Franz Joseph's domain all the essential personal, political, and economic liberties of a free society.

The rising ideologies of socialism and nationalism superseded the declining liberal ideal.

The empire encompassed a territory of 415,000 square miles and a total population of more than 50 million. The largest linguistic groups in the empire were the German-speaking and Hungarian populations, each numbering about 10 million. The remaining 30 million were Czechs, Slovaks, Poles, Romanians, Ruthenians, Croats, Serbs,

Slovenes, Italians, Jews, and a variety of smaller groups of the Balkan region.

In the closing decades of the nineteenth century, the rising ideologies of socialism and nationalism superseded the declining liberal ideal. Most linguistic and ethnic groups clamored for national autonomy or independence and longed for economic privileges at the expense of the other members of the empire. Even if the war had not brought about the disintegration of Austria-Hungary, centrifugal forces were slowly pulling the empire apart because of the rising tide of political and economic collectivism.

As with all the other European belligerent nations, the Austro-Hungarian government immediately turned to the printing press to cover the rising costs of its military expenditures. At the end of July 1914, just after the war had formally broken out, currency in circulation totaled 3.4 billion crowns. By the end of 1916, it had increased to more than 11 billion crowns. At the end of October 1918, shortly before the end of the war, the currency had expanded to a total of 33.5 billion crowns. From the beginning to the close of the war, the Austro-Hungarian money supply in circulation

had expanded by 977 percent, or more than ninefold. A cost-of-living index that had stood at 100 in July 1914 had risen to 1,640 by November 1918.

The primary reason for the regional protectionism and economic hardship was the policies of the new government.

But the worst of the inflationary and economic disaster was about to begin. Various national groups began breaking away from the empire, with declarations of independence by Czechoslovakia and Hungary, and the Balkan territories of Slovenia, Croatia, and Bosnia being absorbed into a new Serb-dominated Yugoslavia. The Romanians annexed Transylvania. The region of Galicia became part of a newly independent Poland. And the Italians laid claim to the southern Tyrol.

The last of the Hapsburg emperors, Karl, abdicated November 11, 1918. A provisional government of the Social Democrats and the Christian Socials declared German-Austria a republic on November 12. Reduced to 32,370 square miles and 6.5 million people — one third of whom resided in Vienna — the new, smaller Republic of Austria now found itself cut off from the

other regions of the former empire as the surrounding successor states (as they were called) imposed high tariff barriers and other trade restrictions. In addition, border wars broke out between the Austrians and the neighboring Czech and Yugoslavian armies.

The new Austria and paper-money inflation

Within Austria, the various regions imposed internal trade and tariff barriers on other parts of the country, including Vienna. People in the regions hoarded food and fuel supplies, with black marketeers the primary providers of many of the essentials for the citizens of Vienna. Thousands of Viennese would regularly trudge out to the Vienna Woods, chop down the trees, and carry cords of firewood back into the city to keep their homes and apartments warm in the winters of 1919, 1920, and 1921. Hundreds of starving children begged for food at the entrances of Vienna's hotels and restaurants.

The primary reason for the regional protectionism and economic hardship was the policies of the new Austrian government. The Social Democrats imposed artificially low price controls on agricultural products and tried to forcibly requisition

food for the cities. By 1921, more than half the Austrian government's budget deficit was attributable to food subsidies for city residents and the salaries of a bloated bureaucracy. The Social Democrats also regulated industry and commerce and imposed higher and higher taxes on the business sector and the shrinking middle class. One newspaper in the early 1920s called Social Democratic fiscal policy in Vienna the "success of the tax vampires."

The Austrian government paid for its expenditures through the printing press.

The Austrian government paid for its expenditures through the printing press. Between March and December 1919, the supply of new Austrian crowns increased from 831.6 million to 12.1 billion. By December 1920, it increased to 30.6 billion; by December 1921, 174.1 billion; by December 1922, 4 trillion; and by the end of 1923, 7.1 trillion.

Between 1919 and 1923, Austria's money supply had increased by 14,250 percent. Prices rose dramatically during this period. The cost-of-living index, which had risen to 1,640 by November 1918, had

gone up to 4,922 by January 1920. By January 1921, it had increased to 9,956; in January 1922, it stood at 83,000, and by January 1923, it had shot up to 1,183,600.

The foreign-exchange value of the Austrian crown also reflected the catastrophic depreciation. In January 1919, \$1 could buy 16.1 crowns on the Vienna foreign-exchange market. By May 1923, a dollar traded for 70,800 crowns

During this period, the printing presses worked night and day churning out the currency. At the meeting of the German *Verein für Sozialpolitik* (Society for Social Policy) in 1925, Austrian economist Ludwig von Mises told the audience:

Three years ago, a colleague from the German Reich, who is in this hall today, visited Vienna and participated in a discussion with some Viennese economists.... Later, as we went home through the still of the night, we heard in the Herrengasse [a main street in the center of Vienna] the heavy drone of the Austro-Hungarian Bank's printing presses that were running incessantly, day and night, to produce new bank notes.

Throughout the land, a large number of industrial enterprises were idle; others were working part-time; only the printing presses stamping out notes were operating at full speed.

Continuing government monetary, fiscal, and regulatory mismanagement prevented real economic recovery.

Finally, in late 1922 and early 1923, the Great Austrian Inflation was brought to a halt. The Austrian government appealed for help to the League of Nations, which arranged a loan to cover a part of the state's expenditures. But the strings attached to the loan required an end to food subsidies and a 70,000-man cut in the Austrian bureaucracy to reduce government spending. At the same time, the Austrian National Bank was reorganized, with the bylaws partly written by Ludwig von Mises. A gold standard was re-established in 1925, a new Austrian shilling was issued in place of the depreciated crown, and restrictions were placed on the government's ability to resort to the printing press again.

But continuing government monetary, fiscal, and regulatory

mismanagement prevented real economic recovery before 1938. Then Austria fell into the abyss of Nazi totalitarianism, followed by the destruction of World War II.

The 100-year age of inflation

Since World War I, there have been unending experiments with managed paper monies by governments everywhere. No leading countries in the West have collapsed into a German- or Austrian-type hyperinflation, but the post-World-War-II period has seen a continuing pattern of inflationary booms followed by post-bubble recessionary busts.

Expanding money supplies and artificially reduced interest rates have fed misallocations of resources and labor, misdirection of capital investment, and excessive consumer spending. These have necessitated the painful corrections of temporary falling output and rising unemployment that are part of the inescapable adjustments to restore balance in the market and a renewed path for sustainable growth and rising standards of living.

What is needed is to relearn what the older liberals of the nineteenth century had learned from their experiences with inflationary paper money — that only removing

the hand of the government from the monetary printing press can permanently end cycles of booms and busts. This requires a return to a commodity-backed currency such as gold and a system of private, competitive free banking.

We can only hope that this earlier wisdom will eventually supersede the legacies of big government and monetary mismanagement that continue to linger 100 years after the end of the great German and Austrian inflations.

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NEXT MONTH:
**“Philip Wicksteed on the
Common Sense of Choice and
the Market Process”**
by Richard M. Ebeling

Government regulation restricts, confines, diverts, focuses, makes inflexible, and alters the course of men’s actions in hundreds of ways.

— Clarence B. Carson

Fed Up with the Fed

by Robert E. Wright



The Federal Reserve (“the Fed”) began operations in 1914. Thus, many find it difficult to fathom an America without it. Yet as it conducts its own major framework review, everyone, including the Federal Reserve itself, knows that the Fed is unnecessary. Congress could abolish the institution and restore monetary matters to the free market.

But should we end the Fed? In a word, yes. What would replace it? You, me, and every other person negotiating through markets, just like the Founders wanted.

The history of central banks and how they worked

The United States got along quite well without a central bank from 1837 until 1914. Before that, two old-style central banks, both called the Bank of the United States

(BUS, often differentiated by calling them the First BUS [1791–1811] and Second BUS [1816–1836]), primarily served as the federal government’s bank. Both were privately owned in the sense that they were joint-stock corporations with shares that traded in securities markets, much like Switzerland’s central bank, the Swiss National Bank, does today.

Strictly speaking, no central bank at all was needed until 1933, because before then, the United States operated under a retail specie standard. In other words, the government defined the value of a U.S. dollar in terms of gold and/or silver. Americans held and traded specie freely, domestically and internationally. Legal entities (individuals, partnerships, corporations, governments) could hold physical silver and/or gold and/or nonlegal tender claims (notes and deposits) issued by banks. Gold and silver held by the public could take the form of bullion or coins produced by the U.S. Mint, or full-bodied coins produced by foreign mints, many of which were also legal tender until late in the antebellum period.

When in operation, the BUS could, and at times did, exert some minimal influence on the money supply through the speed by which

it redeemed the nonlegal tender notes of commercial banks for specie or for its own non-legal tender notes. For the most part, however, market forces — that is, people negotiating with each other through markets rather than central bankers — determined America’s domestic money supply and the level of interest rates. When increases in the domestic money supply increased domestic prices and lowered interest rates, gold and silver could “fetch” more abroad, leading to its export and hence a reduction in the domestic money supply. That decreased domestic prices and raised domestic interest rates, which eventually automatically reversed the money outflow. As foreign goods became more expensive relative to domestic ones, and as foreign interest rates became relatively less attractive, imports dropped while exports increased, leading to gold and silver inflows.

The Hamilton-Bagehot rule was superior because it allowed insolvent firms to go bankrupt.

During wars and other periods of financial stress when banks stopped redeeming notes and deposits for specie, domestic prices could unmoor a bit more, but wide-

spread expectations about returning to specie convertibility, combined with the freedom to quote prices based on the precise medium of exchange offered, tethered prices to specie. Despite several major wars and financial panics, the domestic price level reverted to the mean several times over the nineteenth century, leading to no net change in the price level over the century.

Private banking had few downsides

That is not to say that the pre-Fed system was perfect. There were booms and busts and some seasonal disturbances. The latter were more due to Civil War banking regulations than to market mechanisms, however, and private lenders of last resort minimized the costs of the former.

Before the Fed, the BUS, a sort of regional private central bank called the Suffolk system, bank clearinghouses, the Treasury, and even individual investors served as lenders of last resort during America’s financial panics. Generally, emergency lenders followed a rule established by Alexander Hamilton now called Bagehot’s Rule. They lent freely, at a penalty rate, to all who could provide sufficient collateral.

The Hamilton-Bagehot rule was superior to the modern Fed practice of flooding the markets with cheap money because it allowed insolvent firms to go bankrupt while supplying emergency loans to troubled but solvent companies. It thus stopped financial panic and also limited the reward-seeking, moral hazard behavior that occurs when individuals and organizations know that someone else will bear the downside risk of their gambles. The inducement for private parties is to earn a penalty rate on a loan likely to go bad only in a state of the world so ugly the loss will not matter, as Warren Buffett did during the 2008–2009 crisis.

A specie standard works best when all or most major economies adopt it, which they may do once they realize that lenders of last resort can be private entities and that giving central bankers monetary policy discretion is too close to central planning to be relied upon for

long-term price stability. The United States was essentially the last country to abandon the last vestige of the gold standard when President Nixon stopped converting dollars into gold for foreign central banks in the early 1970s, a move vociferously opposed by a financial journalist named Wilma Soss but by too few other Americans at the time. Due to its still-dominant economic position, though, America remains the nation best positioned to lead the world back to a saner and safer monetary system.

In short, America could and should end the Fed: It would be a lot better off.

Robert E. Wright is a Senior Faculty Fellow at the American Institute for Economic Research and the (co)author of 24 books, including Fearless: Wilma Soss and America's Forgotten Investor Movement (All Seasons Press, 2022).

Progress, far from consisting in change, depends on retentiveness. When change is absolute there remains no being to improve and no direction is set for possible improvement: and when experience is not retained, as among savages, infancy is perpetual. Those who cannot remember the past are condemned to repeat it. In the first stage of life the mind is frivolous and easily distracted, it misses progress by failing in consecutiveness and persistence. This is the condition of children and barbarians, in which instinct has learned nothing from experience.

— George Santayana

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