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# FUTURE OF FREEDOM

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*He who dares not offend cannot be honest.*

— *Thomas Paine*

# FUTURE OF FREEDOM

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# America's National-Security State

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by Jacob G. Hornberger



*The following is a nonverbatim transcript of a talk that I delivered on September 1, 2023, at the young scholar's segment of the annual conference on foreign policy sponsored by the Ron Paul Institute and held at the Dulles Hilton in Virginia.*

**T**he biggest mistake America has ever made was the conversion of the federal government to a national-security state. That conversion has served as the greatest destroyer of our rights and liberties, our democratic processes, and our economic and financial well-being.

What is a national-security state? It is a type of governmental structure in which the government wields totalitarian-like, dark-side powers. To employ the title of one of Ludwig von Mises's books, it is

omnipotent government.

America's national-security state is composed of separate but inter-related entities — the Pentagon, the vast military-industrial complex, including an enormous empire of domestic and foreign military bases, the CIA, the NSA, and, to a certain extent, the FBI. But it's important to recognize that this is actually just one great big military apparatus that is divided into parts, much like the military is divided into the Air Force, Army, and Navy.

America was not always a national-security state. Our nation began with a completely different type of governmental structure, a limited-government republic, which came with a relatively small, basic military force. When the Constitution proposed this type of government, proponents made clear that this government's powers would be strictly limited to those that were enumerated in the Constitution. If a particular power wasn't enumerated, it simply could not be legally exercised.

If the president or the Congress did exercise an unconstitutional power, it was the responsibility of the judicial branch of the government to declare the exercise of such power unconstitutional and, therefore, null and void.

Americans were still leery about the enumerated-powers concept. The last thing they wanted was a government whose officials were exercising omnipotent powers. In fact, one thing is beyond dispute: If the Constitution had proposed a national-security state rather than a limited-government republic, there is no possibility whatsoever that our American ancestors would have accepted the Constitution. In that case, America would have continued operating under the Articles of Confederation, a third type of governmental system in which the federal government's powers were so weak that federal officials did not even have the power to tax.

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**Under a limited-government republic, governmental operations are transparent rather than shrouded in secrecy.**

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### National security

Today, the two most important words in the American political lexicon are “national security.” Everything in society ultimately revolves around that term. Moreover, in a national-security state, secrecy is everything. Secret records, secret proceedings, and secret operations are an inherent part of any nation-

al-security state. Additionally, the national-security state's totalitarian-like powers are justified under the rubric of protecting “national security.”

In a limited-government republic, on the other hand, there is no concept of “national security.” That's because the government's powers are strictly limited to those enumerated in the Constitution, none of which refers to “national security.” Thus, under a limited-government republic, governmental operations are transparent rather than shrouded in secrecy. There are also, of course, no totalitarian-like, dark-side powers because such powers are not enumerated in the Constitution.

### Noninterventionism

It's worth pointing out that a limited-government republic was not the only difference between our nation's founding principles and those under which we live today. Our nation's founding foreign policy was one of noninterventionism. It was encapsulated in John Quincy Adams's Fourth of July speech to Congress in 1821, entitled “In Search of Monsters to Destroy.”

Adams pointed out that there are lots of horrific, monstrous things that take place in the world,

such as brutal dictatorships, wars, revolutions, invasions, coups, torture, civil wars, and famines. It was the policy of the United States, however, to not send troops abroad to save people from any of those monsters. Adams observed that should America ever abandon this foreign policy of noninterventionism, the federal government would inevitably acquire the characteristics of a dictatorship.

An interesting aspect of this noninterventionist foreign policy, however, was America's system of open immigration. It sent the following message to the people of the world: If you find yourself suffering under dictatorship, war, famine, or other monstrous conditions, and you are willing and able to escape, know that there will always be at least one nation to which you can flee that will not forcibly return you to those monstrous conditions in your country of origin.

### The Fifth Amendment

One of the things that the American people feared most was a government that wielded the power to kill them arbitrarily, either through assassination or extra-judicial execution. When the debate over whether to accept the Constitution was taking place, proponents

pointed out that such power was not among the enumerated powers in the Constitution and, therefore, the American people did not need to be concerned about that possibility.

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**The Fifth Amendment prohibited the federal government from killing anyone without due process of law.**

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That, however, wasn't good enough for our American ancestors. Immediately after the ratification of the Constitution, they demanded the enactment of the Bill of Rights, which expressly prohibited federal officials from assassinating or extra-judicially executing people they had taken into custody, including American citizens.

That's what the Fifth Amendment was partly all about. It prohibited the federal government from killing anyone without due process of law, which meant formal notice of charges (e.g., an indictment) and a formal trial that, owing to the Sixth Amendment, could be a jury trial rather than one in which a judge decided the guilt of the accused.

With the conversion of the federal government to a national-security state, that Fifth Amendment safeguard went out the window — and without even the semblance of

a constitutional amendment. The federal judiciary, including the Supreme Court, recognized that as a practical matter, it could never enforce its orders against the Pentagon, the CIA, and the NSA because a team of deputy U.S. marshals would never be a match for an army brigade or a well-armed team of expert CIA assassins. Thus, from the time the conversion took place, the federal judiciary chose to abrogate its responsibility to enforce the Constitution against the national-security branch of the government — that is, the Pentagon, the CIA, and the NSA.

For example, let's assume that the president and the DEA, faced with their decades-long failed war on drugs, decided to adopt a policy of shoot-on-sight for any person suspected of violating federal drug laws. There is virtually no doubt that the federal judiciary would immediately issue an injunction against such a policy, based on the restriction set forth in the Fifth Amendment.

However, let's assume that the Pentagon and the CIA decided to adopt a policy of shoot-on-sight for any person suspected of violating federal terrorism statutes. There is no doubt that the federal judiciary would choose not to enforce the

Fifth Amendment against them, choosing instead to defer to their power.

### A veneer of power

Longtime readers of my work know that I have long recommended a book entitled *National Security and Double Government* by Michael J. Glennon. I wish every American would read this book. Glennon is a professor of law at Tufts University and a former counsel to the Senate Foreign Relations Committee.

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**The federal judiciary chose to abrogate its responsibility to enforce the Constitution against the national-security branch of the government.**

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Glennon's thesis, to which I subscribe, is that it is the national-security branch of the government that is in charge of running the federal government. All the other three branches defer to its orders, commands, and preferences, especially with respect to foreign policy. The national-security branch permits the other three branches — executive, legislative, and judicial — to maintain the appearance of power so that Americans do not realize what is going on. The national-security branch doesn't care about ap-

pearances. What it cares about is power itself.

Recall the Chilean coup of 1973, one that was fully supported by the U.S. national-security establishment. In that coup, the Chilean national-security establishment took full control of the government. The executive branch and the national-security branch were merged into one branch, with a military general — Gen. Augusto Pinochet — becoming president and head of the Chilean national-security establishment.

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**It is the unelected military-intelligence establishment that is in charge of running the federal government.**

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The other two branches — the legislative branch and the judicial branch — were permitted to continue operating but simply deferred to the overarching power of the combined executive and national-security branch. Everyone knew that if the legislative or judicial branches were to challenge the constitutionality or the authority of the combined executive/national-security branch, those two branches would quickly be put down.

That's essentially how the U.S. government operates. It is the unelected military-intelligence estab-

lishment that is in charge of running the federal government. The other three branches, while maintaining the veneer of power, are actually operating in deferential support of the national-security branch.

### America's forever wars

Let's now turn to America's history of forever wars under our national-security-state governmental structure.

America's conversion to a national-security state took place after World War II, although arguably the foundation for the conversion was already taking place during the war. After all, when the Pentagon was being built from 1941–1943, it would not have been difficult to assume that it was not intended to be a temporary wartime facility.

At the time that the conversion was being contemplated, President Truman was told that if he was to garner the support of the American people, he would have to scare the “hell out of them.”

That's what the Cold War was all about. The American people were told that there was an international communist conspiracy based in Moscow that was designed to put the entire world, including the United States, under communist rule. The Russians are coming! The



Russians are coming! There was even a movie with that title. The Reds, Americans were told, were everywhere. That's what the infamous McCarthy hearings were all about — to ferret out the Reds, directed by the U.S. Communist Party, in the State Department, the military, Hollywood, and everywhere else. It is impossible to overstate the hysteria that came with the anticommunist crusade. One right-wing group even accused President Eisenhower of being an agent of the Reds.

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**The Cold War became the justification for the conversion of the federal government to a national-security state.**

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Thus, the Cold War — and the deep, hysterical fear that came with it — became the justification for the conversion of the federal government to a national-security state. The premise was that since the communist regimes did not have to concern themselves with constitutional restrictions, they would have an advantage over the United States, where federal officials had their hands tied by the Constitution and the Bill of Rights. As soon as the Cold War was over and won, however, Americans would be able to

have their limited-government republic back.

Thus, America's first Cold War official enemy became the Soviet Union, which, ironically, had just recently been a partner and ally of the United States in the successful quest to defeat Nazi Germany in World War II.

### **Korea and Vietnam**

And then came a hot war — the Korean War, which was actually nothing more than a civil war. But since North Korea was a communist regime, Americans were told, it was necessary for the United States to intervene militarily to prevent the Reds from prevailing. If that were to happen, Americans were told, the chances of a communist takeover of the United States would soar. Interestingly, many American men had to be forced through conscription to fight (and die) in this war, which, they were told, was for “freedom.”

Then came the Vietnam War, in which more than 58,000 of my generation were sacrificed in the name of keeping America “free.” Many of them also had to be forced through conscription to fight and die for what they were told was “freedom.” Once again, the premise was that if the United States didn't stop the

Reds in Vietnam, they would soon be in San Francisco, Dallas, New York, and Bangor. Interestingly enough, after the United States lost the war, the Reds never made it to the United States to conquer even just one city or town.

### The war on Iraq and the war on terrorism

The Cold War continued, and then in 1989, it suddenly and unexpectedly came to an end, ostensibly. No problem. The Persian Gulf War soon followed, along with 11 years of deadly sanctions against Iraqi dictator Saddam Hussein, who, ironically, had been a partner and ally of U.S. officials during the 1980s.

A decade of sanctions that killed hundreds of thousands of Iraqi children led inevitably to retaliation with terrorist attacks such as the 1993 attack on the World Trade Center, the attack on the *USS Cole* warship, the attacks on the U.S. embassies in East Africa, and then the 9/11 attacks, which brought America the much-vaunted “war on terrorism,” which arguably was an even better racket than the Cold War racket.

### The invasions of Afghanistan and Iraq

Then came the deadly and destructive invasions and long-term

occupations of Afghanistan and Iraq, which produced the perpetual threat of terrorist retaliation. When that massive death toll came to an end with the Taliban defeat of U.S. forces, the American people were not even given time to ponder and reflect on what had happened. That's because the Ukraine crisis immediately followed.

### NATO, Ukraine, and the new Cold War

When I stated that the Cold War had “ostensibly” ended in 1989, I meant that the U.S. national-security establishment was not ready to let go of that racket so easily. Knowing that there was always the possibility that its “war-on-terrorism” racket could fizzle out, the Pentagon and the CIA hedged their bets by using NATO to begin absorbing former members of the Warsaw Pact, enabling the United States to install its missiles, tanks, bases, and troops ever closer to Russia's border.

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**Never mind that U.S. officials had promised Russia that NATO would not move one inch to the east.**

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Never mind that U.S. officials had promised Russia that NATO would not move one inch to the east. Since the Pentagon and the

CIA had not signed on to those promises, they were considered null and void under our national-security-state form of governmental structure.

Everyone knew what the result was going to be, especially since Russia warned them what the result was going to be. For decades, Russia objected to NATO's move eastward and always made it clear that Ukraine was their "red line," much as Cuba is the U.S. national-security establishment's "red line." When U.S. officials made waves about making Ukraine a member of NATO, they knew as an absolute fact that Russia would invade Ukraine, just as the Pentagon would invade Cuba if Russia or China were to install missiles, troops, bases, and tanks there.

The U.S. national-security establishment now had its old Cold War racket back, along with the same old anti-Russia hysteria that had been inculcated in the American people during the Cold War.

But there is something important to note about the war in Ukraine: Even if antiwar advocates succeed in bringing an end to that war, it won't make any difference whatsoever. That's because another forever war is always waiting in the wings. It could be China over Tai-

wan. Iran is always a good option. So is North Korea.

### Sen. Frank Church

I would like to recommend another great book, entitled *The Last Honest Man* by James Risen. It is a biography of former U.S. senator Frank Church from Idaho. Church was the head of what became known as the Church Committee, which succeeded in disclosing many of the secret, totalitarian-like, dark-side activities of the CIA, including MKULTRA, its support of the Chilean coup, and some of its secret state-sponsored assassinations and assassination attempts under the rubric of protecting "national security."

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**When U.S. officials made waves about making Ukraine a member of NATO, they knew as an absolute fact that Russia would invade Ukraine.**

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Church was also one of the principal opponents of U.S. involvement in the Vietnam War. Naturally, he was called every name in the book — traitor, coward, appeaser, weakling, and all the other epithets that are directed toward those who oppose America's forever wars.

One of the things that stunned

me as I was reading that book was that Church figured out what all too many antiwar advocates cannot bring themselves to acknowledge: that the forever wars are a direct consequence of America being a national-security state. In other words, so long as America is a national-security state, America will continue to be besieged by an endless series of forever wars, which means a continuous, permanent destruction of the rights and liberties of the American people, continuous out-of-control federal spending and debt, and ever-growing monetary debauchery at the hands of the Federal Reserve.

### Warnings

It's not as though we haven't been warned. The Founding Fathers fiercely opposed "standing armies," which was their term for a national-security state. In his Farewell Address, President Eisenhower, a West Point graduate and the commander of Allied forces in World War II, warned that the "military-industrial complex" posed a grave risk to the rights and liberties and democratic processes of the American people. President Ken-

edy prevailed on friends in Hollywood to make the novel *Seven Days in May*, which posited the threat of a military takeover here in the United State, into a movie to serve as a warning to the American people. Thirty days after Kennedy was assassinated, President Truman had an op-ed published in the *Washington Post* stating that the CIA had become a sinister force in American life.

Yes, the conversion of the federal government to a national-security state was the biggest mistake America has ever made. But mistakes can be corrected. The best thing Americans could do today is restore their founding governmental system of a limited-government republic — and do so before it is too late.

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

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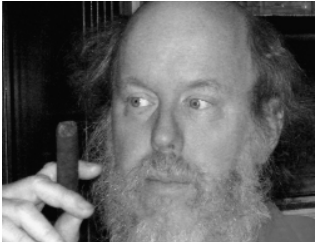
**NEXT MONTH:**  
**"America's Forever  
Immigration Morass"**  
*by Jacob G. Hornberger*

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# Our Potemkin Presidency

by James Bovard



The Founding Fathers sought to create a government that would be under the law and under the Constitution. Since World War One, presidents have amassed far more arbitrary power to rule by decree. Every recent American commander-in-chief has expanded and exploited the dictatorial potential of the presidency. Yet, because elections continue to be regularly held, most Americans do not think of the nation's chief executive as a despot.

For generations, American politicians spoke reverently of the Constitution as America's highest law. In the 1800s, presidential candidates would compete by attesting their fidelity to the nation's founding document. But in recent years, the Constitution has fallen into dis-

respect. The rule of law now means little more than the enforcement of the secret memos of the commander-in-chief.

Power has been concentrated in the White House in part because the friends of Leviathan favor policies that cannot survive the light of day or open debate in the halls of Congress. Pundits pretend the system remains on automatic pilot to serve the citizenry just like in the early days of the American republic. Advocates for centralized power have talked as if they were deluded by some political perversion of the mystic advice in the movie *Field of Dreams*: "Gather all the power, and the noble leader will come."

Wild-eyed optimism about the character and competence of American presidents should have received far more ridicule, but what happens when the absurdities become too great to hide?

This has been a problem in the United States for most recent presidents, but the issue is most intense with the current chief executive.

## Sleepy Joe's rapid decline

President Biden seems increasingly distanced from the day-to-day duties of his office. In June at the Air Force Academy graduation in Colorado, Biden stumbled leaving the

podium and hit the platform as hard as if he'd been dropped from a low-flying helicopter. It took multiple Secret Service agents to eventually get the president back on his feet.

Visiting Japan for a summit in May, Biden uncorked a 40-second utterly incoherent answer to a question that mystified even his biggest devotees. Some commentators speculated that the jet lag and time difference undermined the drugs that Biden routinely takes to spur apparent mental sharpness.

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**“With President Biden, it’s not only that he’s absent in mind, he’s increasingly absent in body.”**

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In a bizarre finish for a recent MSNBC puff piece appearance, Biden practically jumped out of his chair and shuffled off stage like a hungry geezer responding to the dinner bell at the nursing home.

Biden took off almost the entire month of August for vacation. His repose was interrupted by a brief visit to Maui, the scene of a horrific fire that had left hundreds dead and thousands homeless. Biden pirouetted in front of the audience and claimed a minor kitchen fire that occurred in his Delaware home a few decades earlier — in which he almost lost his cat, his 1967 Cor-

vette, and his wife — was on par with the devastation suffered by Maui residents. Political leaders in Hawaii were covering up a vastly higher death toll than they admitted — and many if not most of the fatalities were due to profound government failures.

By the end of August, Biden “spent all or part of 382 of his presidency’s 957 days — or 40 percent — on personal overnight trips away from the White House, putting him on pace to become America’s most idle commander-in-chief,” the *New York Post* reported. Rep. Elise Stefanik complained, “Violent crime is surging. Inflation is crushing hard-working Americans.... Meanwhile, Joe Biden is filmed on the beach with his handlers preventing him from speaking to the media to answer basic questions Americans deserve answers to.” Heritage Foundation’s Joel Griffith observed, “With President Biden, it’s not only that he’s absent in mind, he’s increasingly absent in body.”

Will Biden’s handlers be able to convince enough Americans that Biden is up to the task for four more years for a second term?

### America’s own Potemkin village

In eighteenth-century czarist Russia, a fake village was built by a

Russian governor named Grigory Aleksandrovich Potemkin to deceive Catherine the Great about the condition of the peasants she ruled. “Potemkin Village,” according to *Time* magazine, “signifies any deceptive or false construct, conjured often by cruel regimes, to deceive both those within the land and those peering in from outside.” In today’s Washington, the media is partnering with Team Biden to concoct a Potemkin Village to deceive Americans about Biden’s faltering fitness for office.

The White House built a fake Oval Office equipped with a teleprompter for Biden’s announcements. But the president struggles reading routine words aloud like an Arkansas television anchor grappling with five-syllable names of East European cities.

Biden has gotten lost on stage so many times that WAZE should create a special app for Joe to navigate his next steps. The *Atlantic* noted last year that Biden’s “aides look visibly nervous at times” when he is giving a public speech. What do they know that we don’t?

Biden has stumbled several times going up the steps to Air Force One. White House staff “fixed” that problem by having the president take the short stairway

into the plane’s belly to “reduce the risk of a televised fall that goes viral,” NBC News reported. As long as Biden is not being loaded onto the plane via a hydraulic medical lift, the media will pretend there is nothing to see. Thus far, much of the media has responded to Biden’s falls by scrambling to put him back on his feet while proclaiming, “Nothing to see here, move along.”

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Biden often seems detached from reality, such as his false claim that he swayed Congress to enact his federal student loan forgiveness scheme. At a White House summit last September, Biden repeatedly called out for a dead congresswoman to come to the podium, forgetting that his political ally had died in a car crash. And then there is Joe’s ludicrous assertions that his son “did nothing wrong.” But Hunter admitted guilt in a corrupt wrist-slap plea bargain that collapsed when an honest federal judge asked a few simple questions about the political fix.

“Joe Biden’s age is his superpower,” according to Biden reelection campaign cochairman Jeffrey Kat-

zenberg. In reality, Biden’s “superpower” is a craven media that shamelessly pretends he is mentally and physically fit for another five years of the presidency. Biden won in 2020 in part because the media enabled his “basement campaign strategy” — purportedly because COVID made mass gatherings unsafe except when denouncing the police.

### Who really runs the show?

Perhaps the biggest Potemkin Village nowadays is the pretense that Biden is actually in charge of the federal government and national policy. Major media outlets assiduously avoid even recognizing the curtain hiding the D.C.’s actual power brokers. Who is actually making the decisions?

“Shut up — it’s for your own good,” is the tacit elite media response.

“How do we know?” Americans wonder.

“Trust us — we are insiders who had higher SAT scores than you did” — the ultimate Beltway proof.

Who is pulling Biden’s strings? Perhaps Biden spends so much time away from the White House because the Secret Service has effectively declared that Americans have no right to know who is meet-

ing with or manipulating the president on the road or in Delaware. The Secret Service pretends that the Freedom of Information Act doesn’t pertain to revealing who is pulling presidential strings.

House Oversight Committee chairman James Comer complained, “With the amount of time this president is spending away from the White House, visitor records should be made public from all of Joe Biden’s residences. Americans deserve the transparency they were promised from the Biden administration. All they are getting is obstruction.”

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**Perhaps the biggest Potemkin Village is the pretense that Biden is actually in charge of the federal government and national policy.**

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Deferring to the media’s “no problem” storyline is folly considering the sordid record of the press corps betraying truth to snare Oval Office access. In 1919, President Woodrow Wilson was left partially paralyzed and mentally incapacitated from a severe stroke. In 1920, *New York World* reporter Louis Seibold scored the first interview with Wilson after his illness. As historian Thomas Fleming wrote:



Delighted by a chance to get on the front page, Seibold collaborated shamelessly with the scam. The reporter told how delighted he was to find the president almost his old self. He joshed with him about running a footrace in a month or two; he would give the president a modest handicap because of his ‘slight limp.’ (In fact, Wilson’s whole left side remained paralyzed.)

Seibold claimed he saw Wilson “transact the most important functions of his office with his old-time decisiveness, method, and keenness of intellectual appraisalment.” Brazenly lying about Wilson’s competence won Seibold the 1921 Pulitzer Prize — a sham that has been almost completely forgotten by today’s media poohbahs.

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### How many Biden “senior moments” has the White House press corps covered up?

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Flash forward a couple decades and the press corps propagated the sham that President Franklin Roosevelt was fit for another term — even though he was obviously dying of congestive heart failure and other illnesses by late 1944. He

tumbled badly while walking down an aisle at the 1944 Democratic National Convention but that was air-brushed from his triumphal path to a fourth term. As professor David Welky wrote in 2020,

Democratic power brokers also understood the situation, although most held their tongues or waited several years before revealing their concerns. They had insisted on replacing the sitting vice president, the ultraliberal Henry Wallace, with the more moderate Harry S. Truman in part because they doubted Roosevelt would live until 1948, or believed that he would resign before his term ended.... In a sense, Roosevelt’s presidency had been one long deception. Americans knew he had survived polio and were vaguely aware of his restricted mobility, but they had never seen him in the wheelchair he used every day.

How many Biden “senior moments” has the White House press corps covered up? Thanks to a Judicial Watch lawsuit, Americans belatedly learned this week that

Biden's German Shepherd "Com-mander" attacked seven Secret Service agents late last year and early this year. If Americans didn't even hear about Biden's dog badly mauling a Secret Service agent, what are the chances we hear about all of Biden's own stumbles?

The Biden presidency increasingly resembles the final boxing matches of former heavyweight champion Muhammad Ali. Ali would lie on the ropes and get pounded senseless before referees would belatedly end the fight. But it is Americans' rights and prosperity that are being pounded as Biden is led to one pathetic photo opportunity after another.

The media may help Biden dodge political debates, frequent public appearances, or even interviews with anyone who refuses to kowtow. But it is a riverboat gamble whether Biden's worsening debility can be hidden until November 2024. The most recent Associated Press national poll revealed that "77 percent of adults think Biden, 80, is too old to effectively serve for four more years, with 89 percent of Re-

publicans holding that view and 69 percent of Democrats."

Unfortunately, Biden's condition will likely spark fierce partisan conflicts with scant lessons taken. The current American system of government is incoherent without assuming great capacities in the ultimate boss. But collusion between politicians and the media suppress the truth about incapacity in the White House. This problem existed long before Biden, and it will continue after he returns to Delaware for his final vacation.

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*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.*

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**NEXT MONTH:**  
**"Is Free Speech a Relic in America?"**  
*by James Bovard*

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# Reform, Replace, or Repeal?

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by *Laurence M. Vance*



**T**he U.S. government is a monstrosity. With its four million employees and annual budget approaching \$7 trillion, there is no other way to describe it.

The federal government contains a myriad of agencies, bureaus, corporations, offices, commissions, administrations, authorities, and boards, most of which are organized under 15 cabinet-level, executive-branch departments headed by a secretary: for example, Health and Human Services, Housing and Urban Development, Homeland Security, Agriculture, and Education. The Executive Office of the President (EOP) contains agencies that support the work of the president: for example, the National Security Council (NSC), the Council

of Economic Advisors (CEA), the Office of Management and Budget (OMB), the Office of National Drug Control Policy (ONDCP), and the Office of the United States Trade Representative (USTR).

And then there are the many independent executive and regulatory agencies of the federal government: for example, the Social Security Administration (SSA), the Environmental Protection Agency (EPA), the Equal Employment Opportunity Commission (EEOC), the National Aeronautics and Space Administration (NASA), the National Endowment for the Arts (NEA), the Federal Communications Commission (FCC), the Small Business Administration (SBA), the National Security Agency (NSA), and the Central Intelligence Agency (CIA).

The number of federal programs and regulations are incalculable.

One result of all of this is a vast welfare state, as pointed out by the late Walter Williams, professor of economics for many years at George Mason University:

Tragically, two-thirds to three-quarters of the federal budget can be described as Congress taking the rightful earnings of one American to give to an-

other American — using one American to serve another. Such acts include farm subsidies, business bailouts, Social Security, Medicare, Medicaid, food stamps, welfare, and many other programs.

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**Some libertarians confuse making the welfare state more effective and efficient with advancing liberty and libertarianism.**

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But with the Constitution in focus, things are even worse than that. Writing recently at the *American Thinker*, J. B. Shurk pulls no punches:

The plain meaning of the U.S. Constitution and the Founding Fathers' copious essays and personal correspondence all attest to their intention to keep the federal government small, limited in authority, and deferential to the states. Instead, we have today the largest, most expensive, most powerful central government that has ever existed on Planet Earth. No detail of an American's life is too small for the federal government not to regulate;... If we were still

abiding by the Constitution, then 99 percent of today's federal government would be chucked to the bottom of the Potomac.

What, then, can be done about this?

Conservatives think they have the answer. And they think that if they recite their mantra of the Constitution, limited government, individual freedom, private property, and free enterprise enough times, people will take their proposals seriously. Nevertheless, it is reform and replace that is their cry, not repeal. But what is really unfortunate is that some libertarians have adopted the same approach. They confuse making the welfare state more effective and efficient with advancing liberty and libertarianism.

### Reform

A recent article (“Reforming the EITC to Reduce Single Parenthood and Ease Work-Family Balance”) by American Enterprise Institute (AEI) senior fellow Scott Winship, originally published by the Institute for Family Studies (IFS), is a typical example of a conservative reform proposal. Winship is the director of AEI's Center on Opportunity and Social Mobility. At AEI, he “re-

searches social mobility and the causes and effects of poverty” and “focuses on economic insecurity and inequality, among other poverty issues.”

The Earned Income Tax Credit (EITC or EIC) was instituted by Congress in 1975 and has grown by leaps and bounds ever since — with the help of conservative Republicans. According to the Internal Revenue Service (IRS): “The EIC is a tax credit for certain people who work and have earned income under \$59,187. A tax credit usually means more money in your pocket. It reduces the amount of tax you owe. The EIC may also give you a refund.” The IRS reports that “nationwide as of December 2022, about 31 million eligible workers and families received about \$64 billion in EITC” and that “The average amount of EITC received nationwide was about \$2,043.”

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**One’s income and family size determine eligibility for the EITC and the amount of the credit received.**

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The EITC is a refundable tax credit. A regular tax credit is a dollar-for-dollar reduction of the amount of income tax owed. Tax credits may reduce the tax owed to

zero, but if there is no taxable income to begin with, then no credit can be taken. A refundable tax credit, on the other hand, is treated as a payment from the taxpayer like federal income tax withheld or estimated tax payments. If the tax credit “payment” is more than the tax owed after the regular tax credits are applied, then the “taxpayer” receives a “refund” of money he never actually paid in. One’s income and family size determine eligibility for the EITC and the amount of the credit received. For the most recent tax year (2022), the maximum credit amounts are \$560 for someone with no qualifying children, \$3,733 for someone with one qualifying child, \$6,164 for someone with two qualifying children, and \$6,935 for someone with three or more qualifying children. And then to sweeten the deal, the IRS says that “any refund you receive because of the EIC can’t be counted as income when determining whether you or anyone else is eligible for benefits or assistance, or how much you or anyone else can receive, under any federal program or under any state or local program financed in whole or in part with federal funds.”

Winship is concerned that the EITC gives unmarried couples with

children an incentive to remain unmarried. He therefore proposes:

To encourage marriage and marital childrearing and to provide working- and middle-class families with more options in combining work and parenting, EITC eligibility should be tied to individual earnings rather than the earnings of the tax unit. This change would not affect single beneficiaries, but it would markedly alter the benefits available to married couples.

At the most basic level, this would allow any couple to marry who would do so but for the loss of EITC benefits. But not only would this marriage penalty be eliminated; there would also be a sizable marriage bonus. That should affect the behavior of a larger group of couples.

For families already headed by a married couple, the reformed EITC would, at a minimum, serve as an effective tax cut, increasing their ability to afford necessities, pay bills, or invest in their children.

Winship concludes:

Reducing the number of children being raised without one of their biological parents should be at the top of the nation's priorities, and it is time to throw everything at the problem. Reforming the EITC along the lines described here should be part of that effort. It would help already-married working- and middle-class families while leaving the safety net undiminished for single-parent families, even as it clearly rewards marriage.

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**Winship's colleague at AEI, Bodi Yang, "estimated the cost of his proposal at \$395 billion over 10 years."**

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So, how much would an expanded EITC cost the taxpayers? Winship's colleague at AEI, Bodi Yang, "estimated the cost of his proposal at \$395 billion over 10 years." The cost of Winship's reforms would be even higher except that "the new EITC would be restricted to people in tax units with under \$100,000 in combined income." An earlier proposal of Winship ("Reforming Tax Credits to Promote Child Opportunity and Aid Working Families") would add a "marriage bonus" to the EITC. It would

cost the taxpayers \$767 billion over 10 years.

Is marriage a good thing? Of course. Is a traditional two-parent family the best way to raise children? Certainly. Should there be a marriage penalty in the tax code? Of course not. Okay, then should the government encourage or reward marriage? Certainly not. It is not the job of the government to encourage marriage or reward marriage any more than it is the job of the government to discourage marriage or penalize marriage. It is neither constitutional nor the proper role of government to set social policy goals. But this is the least of the problems with Winship's EITC reform proposal.

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**It is neither constitutional nor the proper role of government to set social policy goals.**

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The EITC is not just the crown jewel of refundable tax credits, it is a major component of the welfare state. The government has no money of its own. Every dime the government gives to someone must be first taken from someone else. The EITC is a vast income-transfer program and wealth-redistribution scheme. It is effectively a universal basic income. Calling for the ex-

pansion of the EITC is calling for the expansion of the welfare state. Because it is immoral for the government to take money from those who pay income taxes and give it to those who don't, the EITC should be repealed.

From a libertarian perspective, although it is not ideal, the only meaningful way to reform the EITC that would actually advance liberty would be to increase eligibility requirements, reduce the benefit amount, or eliminate the refundable nature of the credit. Yet, these things are never included in any EITC reform proposals. Instead of calling for the limitation, reduction, or elimination of the EITC, some libertarians waste their time and energy complaining about tax deductions and credits that are nonrefundable; that is, they allow Americans to keep more of their money out of the hands of Uncle Sam. Even worse, some libertarians have promoted an actual universal basic income because it would be "better" and "cheaper" than our current welfare system.

Another area where conservatives are proposing reforms is higher education. Another AEI senior fellow, Beth Akers, who "focuses on the economics of higher education," is ecstatic that Senate Republicans

introduced a package of legislation to reform the financing of higher education. The bills in question, which she describes in “Senate Republicans Step Up to the Plate on Higher Ed,” would require additional consumer information at the time student loans are taken out, standardize financial aid offers, simplify the student loan repayment process, constrain borrowing for graduate school, and hold colleges and universities accountable by denying their students federal student loans in cases where half of previous graduates have been unable to earn more than the median level of earnings among high school graduates.

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**The fact that the income transfer is for a “good” cause (education) doesn’t make it constitutional or legitimate.**

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Akers has the audacity to say that “these proposals are constitutional.” But if there is anything that is unconstitutional, it is federal financing of higher education via grants and loans. According to the most recent student loan debt statistics as published by *Forbes*, there is outstanding \$1.75 trillion in total student loan debt, 92 percent of which is federal student loan debt

owed by about 43 million borrowers. But again, the government has no money of its own. Every dime the government gives to someone must be first taken from someone else. The fact that the income transfer is for a “good” cause (education) doesn’t make it constitutional or legitimate. It is not the job of the government to make student loans any more than it is the job of the government to make car loans. It is neither constitutional nor the proper role of government to finance anyone’s education.

### Replace

In addition to being consummate reformers, conservatives often propose replacing one government program with another instead of repealing the legislation that created the original program. This is why Republicans in Congress could never repeal Obamacare. President Trump remarked in a speech about Obamacare, “It was terrible and very, very expensive. Hurt a lot of people. Premiums were too high. Deductibles were a disaster. Patients had no choice. You couldn’t keep your doctor. But, by far, the worst part of Obamacare was this thing called the ‘individual mandate.’” Then, instead of demanding its repeal, he claimed to “manage it



properly” with “tremendous people working on it” to make it a “better” plan. He boasted that his plan “expands affordable insurance options, reduces the cost of prescription drugs, will end surprise medical billing, increases fairness through price transparency, streamlines bureaucracy, accelerates innovation, strongly protects Medicare, and always protects patients with preexisting conditions.” In other words, Trumpcare in place of Obamacare. But since it is neither constitutional nor legitimate for the federal government to have anything to do with health care, Obamacare should be repealed and replaced with nothing.

Most troubling are the three areas where conservatives are sometimes joined by libertarians in advocating the replacement of one government program with another: (1) replacing Social Security with personal retirement accounts, (2) replacing the income tax with a national sales tax, and (3) replacing public schools with vouchers for private schools.

Social Security is currently funded by a 12.4 percent payroll tax (split equally between employers and employees) on the first \$160,200 of income. Tax receipts are pooled from current workers

and used to pay benefits to current retirees. Thus, there is no connection between what one pays in Social Security taxes and the benefits one receives. The main problem with replacing Social Security with personal retirement accounts is that “contributions” to the accounts would be mandatory just like the “contributions” currently taken from employees’ paychecks. The federal government has no authority to operate or mandate a retirement program. Social Security should be repealed and replaced with nothing.

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**The income tax is highly progressive and punishes success.**

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The current income tax brackets are 10, 12, 22, 24, 32, 35, and 37 percent. The income tax is highly progressive and punishes success. It is extremely complex and imposes heavy compliance costs. Replacing the income tax with a national sales tax may simplify the tax code, but the new tax would still be progressive — thanks to a built-in monthly “rebate” given to lower income families, it would still have an IRS — under a new name — to enforce tax collection, and — because it would be revenue neutral — it would still

fund the federal leviathan's vast welfare state. The income tax should be eliminated and replaced with nothing.

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**It is not only the government provision of education that should be ended; the government financing of education should be ended as well.**

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Public schools are dangerous places that have failed to properly educate students. Even worse, they are the chief means of indoctrinating the nation's young people with socialism, environmentalism, and political correctness. They only exist because of taxation. Yet, many conservatives and libertarians want to keep the taxation and give the money directly to parents to send their children to the school of their "choice." But this is a choice that Americans already have right now on the free market. The fact that they don't want to pay for it out of their own pocket doesn't justify government vouchers for education. Thus, under a private school voucher system, most Americans would still be forced to pay for the education of the children of some Americans. It is not only the government provision of education that should be ended; the govern-

ment financing of education should be ended as well.

### Repeal

The only real way to reform an unconstitutional, illegitimate, and immoral government program is to repeal it — not to make it more effective and efficient or replace it with a "better" or "improved" program. No American should be given money, food, or subsidies, or provided with medical, housing, or educational services, courtesy of taxes taken from other Americans. No tax credits should be refundable. Health care, education, and retirement should be completely separated from the state. All health care, educational, and retirement services could and should be privately provided and privately funded. All charity should be private and voluntary. Instead of passing legislation to create new programs or reform existing ones, old legislation establishing federal agencies and programs should be repealed lock, stock, and barrel.

It is bad enough when conservatives propose reform and replacement measures, but it is unconscionable for libertarians to do so. Just because libertarians are the ones advocating a reform or replacement measure doesn't mean that the

measure is advancing liberty or libertarianism. And being a disgruntled conservative doesn't mean that one is a libertarian and therefore puts forth libertarian ideas. Principled libertarians should be at the forefront of those calling for the repeal of all welfare state legislation, not their reform or replacement.

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**NEXT MONTH:**

**“Conservatives, Hate Crimes,  
and Victimless Crimes”  
by Laurence M. Vance**

*There is in most Americans some spark of idealism, which can be fanned into a flame. It takes sometimes a divining rod to find what it is; but when found, and that means often, when disclosed to the owners, the results are often extraordinary.*

— *Louis Dembitz Brandeis*

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# The Austrian Economists and Classical Liberalism

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by Richard M. Ebeling



The Austrian School of Economics has been widely identified with classical-liberal and free-market ideas. This is especially the case in the writings of Ludwig von Mises (1881–1973) and Friedrich A. Hayek (1899–1992). But the free-market, liberal orientation of many members of the Austrian School goes back to its founding in 1871 with the publication of Carl Menger’s (1840–1921) *Principles of Economics* in 1871. This was most clearly seen when he served in 1876 as tutor in political economy to the Habsburg heir-apparent Crown Prince Rudolf (1858–1889), in a series of lectures in which he educated the young prince in the logic and workings of a competitive market economy and the dangers

from socialism and paternalist interventionism. Alas, the Prince Rudolf took his own life in a moment of great despair over his personal circumstances in 1889. (The lectures only appeared in English in 1995 under the title *Carl Menger’s Lectures to Crown Prince Rudolf of Austria*.)

Menger developed a subjective theory of (marginal) value to explain the process by which prices emerge in the market for both finished goods and the factors of production and how competition tends to bring about a balancing or coordination of supply and demand. He also devoted a chapter to showing how money emerges out of the “spontaneous” interactions of multitudes of transactors over time and is not the creation of the government.

In his second book, *Investigations into the Methods of the Social Sciences* (1883), besides defending the analytical importance of economic theory in place of merely descriptive history, Menger restated his theory of the evolution of money in the wider context of showing how many, if not most, social institutions — language, custom, tradition, law, notions of rights — are also the product of spontaneous evolutionary processes of far great-

er long-run significance than government legislation, regulation, and decrees.

### Eugen von Böhm-Bawerk and Friedrich von Wieser

The liberal orientation of the Austrian School continued with one of its first intellectual followers, Eugen von Böhm-Bawerk (1851–1914), who became an internationally renowned economist as the developer of the “Austrian” theory of *Capital and Interest* (revised ed., 1914). He also served three times as finance minister of the old Austro-Hungarian Empire. Particularly during his four-year term in that office between 1900 and 1904, he limited government spending, reduced the national debt, opposed wasteful infrastructure projects, and supported liberal free-trade policies.

He also criticized the proto-Keynesian ideas of his time, including the notion that government spending can create lasting prosperity separately from market-based savings and investment. His last written work, published shortly after his death in 1914, was *Control or Economic Law*, in which Böhm-Bawerk demonstrated that price controls, including minimum wage laws, cannot repeal the market laws of supply and demand and can only

result in imbalances and distortions between the two sides of the market that in the long-run make the conditions of workers worse, not better.

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**Böhm-Bawerk criticized the notion that government spending can create lasting prosperity.**

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Menger’s other early intellectual follower, Friedrich von Wieser (1851–1926), became famous for the development of the subjectivist theory of cost. Cost is not the quantity of labor that goes into the manufacture of a good; rather, it is the value to the individual decision-maker of the foregone alternative uses of the scarce means available to him for another purpose considered of greater value or importance by that individual. Wieser understood very well the prerequisites and workings of the market economy and especially highlighted Menger’s theme that the institutions of society are primarily the outcome of free “spontaneous” social evolution and development, not the product of political or legislative designs and commands.

But he was more in sympathy with some of the “social” liberal ideas of the late nineteenth and early twentieth centuries on policy issues such as income redistribution.

For instance, in his major treatise *Social Economics* (1914), he argued that the theory of diminishing marginal utility could be used to demonstrate that the last unit of money in the possession of a rich man would have a far lower value to him than such a dollar would add to the wellbeing of a financially poor person if transferred to him by either charity or government through progressive taxation. He was also more tolerant of some tariff restrictions on behalf of domestic sectors of the national economy.

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After the First World War, the Austrian School became associated with free-market and classical-liberal policies.

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Wieser's analysis of political elites, social processes, and institutional evolution appeared in *The Law of Power* (1926); he has often been accused of a bias in favor of political elites, arguing that society is always the product of "the few" guiding and directing "the many."

One of the early "Austrian"-oriented textbooks in the German language was written by Eugen von Phillippovich (1858–1917), *Foundations of Political Economy* (1893). Phillippovich had studied with Menger at the University of Vienna

and became a professor there in 1893. He clearly and thoroughly explained the "individualist" principles and premises underlying any real understanding of the logic and universal validity of core economic concepts and their playing out in the marketplace. But he, too, like Wieser, was open to a variety of government interventions in the name of social justice and the attempt to ameliorate the economic conditions of the "working class" and the poor, and he also spoke of a "national interest" that at times had to preempt the narrower interests of the individual.

Ludwig von Mises and the "Austrian" liberal tradition

It is in the period just before and during the two decades after the First World War that the Austrian School became far more clearly and distinctly associated with free-market and classical-liberal policies. With little doubt, it originated with and was most consistently developed by Ludwig von Mises. As a student at the University of Vienna, Mises was at first heavily influenced by the interventionist ideas of his time. But in his *Memoirs* (1940), Mises said that it was reading Menger's *Principles* over the Christmas holiday in 1903 that "made me

an economist.” He later participated in a university seminar run by Böhm-Bawerk, and this also greatly impacted Mises’s thinking on economics in general.

In addition, as a graduate student, he wrote a series of economic history monographs on the emancipation of the peasantry in the Galicia region of Austria-Hungary in the late eighteenth century and then on the introduction of government-built and subsidized public housing in Vienna in the late nineteenth century. He concluded that all real improvements in the working and living conditions of the poor and less well-off had been due to the freeing of markets from government control and the initiative of private enterprise. Political interference, he said, had been the great barrier to human betterment. His reading of the early Austrian economists and his historical research made him a proponent of free-market classical liberalism when he was in his mid-twenties.

His other major area of study in the years before the First World War had been on the nature of money and the monetary and banking systems. These culminated in *The Theory of Money and Credit* (1912). In it, Mises laid out what became known as the Austrian theory

of money and the business cycle. The booms and busts of the business cycle, with accompanying inflations and depressions, are not inherent in the market system but are ultimately due to various forms of government control and manipulations of money, credit, and interest rates in the banking system.

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**Mises laid out what became known as the Austrian theory of money and the business cycle.**

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His theoretical and policy conclusions were refined in the second edition of *The Theory of Money and Credit* (1924) and in *Monetary Stabilization and Cyclical Policy* (1928). Mises concluded that the only way to prevent or minimize the likelihood of the reoccurrence of the business cycle was the separation of government from the monetary and banking systems. The medium of exchange should be determined by the free choices of participants in the marketplace, and central banking should be replaced with free, private competitive banking. He reiterated and improved this argument in his discussion of money, banking, and the business cycle in his magnum opus, *Human Action: A Treatise on Economics* (1949; revised ed., 1966).

But what won Mises international recognition and, indeed, controversy for the rest of his life, was his critique of socialist central planning. In the immediate aftermath of the First World War, and in the wake of the communist revolution in Russia in 1917, a growing socialist movement in many European countries was presumed to be leading to “the end of capitalism.” In its place would come government ownership and control of the means of production, with central planners determining what would be produced, how, where, when, and for whom. Most previous critics of socialism had focused on the danger of a terrible tyranny once government controlled the entire economy, determining and dictating the life of everyone in the society, from which there would be no escape since there no longer would be a private sector offering some haven from the all-powerful grasp of the state.

### Mises’s critique of socialist central planning

Mises asked a simple but fundamentally profound question, first in his article, “Economic Calculation in the Socialist Commonwealth” (1920), and then in *Socialism: An Economic and Sociological Analysis*

(1922, revised eds. 1932, 1951). How would the socialist planners know how to rationally and efficiently utilize the scarce resources of the society for the betterment of “the people” than the market system that socialism had now replaced? With the nationalization of all the means of production by the state, there would be nothing to (legally) buy and sell. With nothing to buy and sell, there would be no ability or incentives for people to make bids and offers for the purchase and hire of land, labor, resources, or capital, especially since there would no longer be private entrepreneurs making appraisements as to how best to apply them in manufacturing goods wanted and paid for by consumers.

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**How would the socialist planners know how to rationally and efficiently utilize the scarce resources of the society for the betterment of “the people?”**

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Without bids and offers there would be no agreed-upon terms of exchange, and without agreed-upon terms of exchange, there would be no market prices to inform all participants in the economy what goods were wanted by consumers and what might be the most highly



valued and best uses of those scarce resources in producing those desired consumer items. Hence, there would be no means or method for rational economic calculation. Competitive, market-generated prices give direction and orientation to all that goes on in the market system of division of labor, said Mises.

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**Competitive, market-generated prices give direction and orientation to all that goes on in the market system of division of labor, said Mises.**

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Abolish private property in the means of production, eliminate the market system of exchange with the motivations of pursuing profits and avoiding losses, and end a market-based medium of exchange through which the value of everything may be commonly expressed for ease of economic calculation, and the central planners will have institutionally created a system of what Mises later called *Planned Chaos* (1947).

Mises's conclusion, therefore, was that institutionally, if a society of both freedom and prosperity is desired, there is no substitute for a functioning competitive free-market economy. A comprehensive system of socialist central planning would only lead to economic disas-

ter and human material hardship. The history of all systems of socialist central planning, from the Soviet Union to Mao's China, to Cuba, North Korea, and all the others, have confirmed what Mises argued starting in the early 1920s. But was there no middle ground between laissez-faire and the total command economy? Could there not be a "mixed" or interventionist economy?

**Mises's critique of the interventionist state**

Ludwig von Mises concluded his analysis of alternative economic systems with his next two books, *Liberalism* (1927) and *Critique of Interventionism* (1929). *Liberalism* is a highly readable, clear, and articulate case for the free society based on individual liberty, free markets and free trade, and a government primarily limited to the securing of people's life, liberty, and honestly acquired property. In addition, he criticized imperialism, colonialism, and authoritarianism in general, concluding that only the power of ideas can secure a free and prosperous society; liberty can never be won through political intrigue or manipulative propaganda.

But what about a "middle way?" Government intervention and regulation did not fully do away with

the institutions and functioning of a market economy, but it imposed controls, prohibitions, and restrictions the cumulative effect of which was to undermine the efficient operation of the market, ultimately threatening the ability of the market to effectively function at all. Production restrictions, commands, prohibitions, and controls, all ended up narrowing or preventing the ability of private enterprisers to fully make their own decisions on how best to (peacefully and honestly) apply and utilize the scarce means of production under their ownership and control in the service of consumer demand, from which they hoped to earn profits and avoid losses.

The most disruptive form of government intervention, Mises argued, were all types of price controls. His critique of socialist planning had made it clear that market-based prices have a vital function: to inform entrepreneurs what is wanted by the consumers and what are the appraised value of resources on the supply-side of the market in terms of their worth and cost in alternative lines of production. Market prices also serve, at the same time, to bring the two sides of the market into coordinated balance through competitive bids and

offers by demanders and suppliers. Mises insisted that when government attempts to impose either minimum or maximum price controls on various goods and services in the market, it soon brings about wasteful surpluses when prices are fixed above market-determined prices and frustrating shortages when prices are fixed below market-determined prices.

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**Mises made it clear that market-based prices have a vital function.**

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The dilemma, Mises reasoned, is that when the government fixes, say, the price of milk below what was or would be the market price, the supply of milk falls short of all that consumers would desire to purchase at the controlled price. The only way retail milk suppliers could afford to continue to buy the same or a larger quantity of milk from the milk wholesalers is for the government to extend the price controls to the wholesale level. But now, at this below-market wholesale price, the wholesalers cannot afford to continue to buy the same amount of milk from the dairy farmers. So then the government would have to extend the price controls to the dairy farmers. But, once again, the below-market price fixed

for the sale of milk from the farmers would reduce the farmers ability to afford to purchase the same amount of feed and other supplies without which they cannot continue to raise and care for the same number of dairy cows. So, once more, the controls must be extended to the suppliers of inputs to the dairy farmers. But now, the same problem arises for the suppliers of daily farm inputs. The result, concluded Mises, was that step-by-step, the price controls would have to be extended throughout the entire economy due to the interconnect- edness of all markets and prices.

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**The conclusion that Mises reached was that socialism was an inherently dysfunctional economic system.**

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At the end of the day, if the government refused to give up its attempt to artificially fix the prices for various goods, the controls finally would have to encompass the entire economy. But then, since prices could no longer guide market-based decisions in determining what, how, where, and for whom to produce, the government would have to come in and dictate these decisions. Hence, through the introduction and extension of price

controls, the government would have imposed (even if not intentionally) a form of centralized planning over the entire society.

The conclusion that Mises reached, therefore, was that socialism was an inherently dysfunctional economic system, and the interventionist economy was fundamentally unstable and distortion-creating through price controls and production regulations. Hence, there is no logical and institutional alternative to a free and competitive market economy in which government's role is to secure and protect the individual's right to his life, liberty, and honestly acquired property, and under which all human interactions in the social system of division of labor are based on voluntary agreement and mutual consent.

### **Mises's influence on a new generation of Austrian economists**

Through his books and articles, his teaching at the University of Vienna as an unsalaried lecturer (a *privatdozent*), his work as a senior economic analyst for and public figure of the Vienna Chamber of Commerce, Crafts and Industry, and his organizing of a private seminar of selected Viennese scholars and authors covering several fields and disciplines that would meet

regularly at his Chamber offices, Ludwig von Mises succeeded in influencing a generation of younger “Austrian” economists in the 1920s and 1930s. Many of them later became internationally renowned.

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### The younger Austrian economist most influenced by Mises in these years was Friedrich A. Hayek.

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They included Gottfried Haberler (1900–1995), who wrote *The Theory of International Trade* (1933), *Prosperity and Depression* (1936), *Economic Growth and Stability* (1974), and *Judging Economic Policy* (1997); Fritz Machlup (1902–1983), whose works included *The Stock Market, Credit, and Capital Formation* (1931; revised ed., 1940), *A Guidebook Through Economic Crisis Policy* (1934), *The Political Economy of Monopoly* (1952), *The Economics of Sellers’ Competition* (1952), and “Liberalism and the Choice of Freedoms” (1969); Oskar Morgenstern (1902–1977), who wrote *Economic Forecasting* (1928), *The Limits of Economic Policy* (1934), *The Theory of Games and Economic Behavior* (1944, coauthored with John von Neumann), and *On the Accuracy of Economic Observations* (1966); and, in Great Britain, Lionel Robbins (1898–

1984), who oversaw the economics program at the London School of Economics and transformed the LSE into what one German economist called in the early 1930s (with a high degree of exaggeration), “a suburb of Vienna.” Even when not all of them fully accepted Mises’s integrated and consistent analysis and defense of the liberal, free-market society and its laissez-faire implications, virtually all of them were greatly influenced by his ideas in fundamentally free-market-oriented policy directions.

### Friedrich A. Hayek on business cycles and Keynesian economics

No doubt, however, the younger Austrian economist most influenced by Mises in these years, the one who took up and developed many of Mises’s ideas and gave them further international exposure and recognition, was Friedrich A. Hayek. Hayek returned from his service in the Austrian Army during the First World War and earned a doctoral degree in jurisprudence at the University of Vienna in 1921, followed by a second doctorate in political science from the university in 1923. At that time, economics was taught as part of the law faculty, and it is in that way that Hayek was trained to be an economist, at first

greatly influenced by Friedrich von Wieser, who replaced Carl Menger at the University of Vienna when Menger retired in 1903.

In need of a job upon graduation from the university, Hayek found one in a government office being run by Mises as part of sorting out the postwar financial arrangements among the successor states to the old Austro-Hungarian Empire. In later years, Hayek more than once said that for the next decade there was no other person who so molded his thinking on economic and social matters as did Ludwig von Mises. This was reinforced by Mises helping to arrange the financing and the legal documents for the establishment of the Austrian Institute for Business Cycle Research in 1927, with a young, twenty-seven-year-old Hayek as the institute's first director. Hayek soon gained the institute growing respectability in Austria and Europe in general through the monthly economic bulletins written almost completely by him, the joint work he arranged between the institute and the economic section of the League of Nations in Geneva, Switzerland, and his own scholarly and policy writings.

But what redirected his professional career for the rest of his life

was an invitation to deliver a series of lectures at the London School of Economics in January 1931, which led to a visiting and then permanent professorship at the LSE, where he remained until 1949, when he accepted an appointment at the University of Chicago, which he held until 1962. His lectures were published later in 1931 as *Prices and Production* (2nd revised ed., 1935), followed by the English translation and publication of his 1929 book, *Monetary Theory and the Trade Cycle*, in 1933.

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**Hayek accepted an appointment at the University of Chicago, which he held until 1962.**

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In these two works, Hayek presented his version of the Austrian theory of money and the business cycle, arguing that it was the monetary policies of the Federal Reserve during the 1920s that created the distortions and imbalances between savings and investment that made the economic downturn of 1929 and the resulting depression inescapable. He also explained that the severity and duration of the depression of the 1930s was not a “failure of capitalism” but the product of the unprecedented degree of government interventions that pre-

vented markets from a normal and reasonably short-lived rebalancing and readjustment back to a market-based “full employment.”

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**Hayek explained that the severity and duration of the depression of the 1930s was not a “failure of capitalism.”**

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This put Hayek on a collision course with British economist John Maynard Keynes (1883–1946). Hayek wrote a devastating lengthy review essay of Keynes’s *A Treatise on Money* (1930), in which he drew attention to numerous logical errors, factual misinterpretations, and economic fallacies and confusions, especially with Keynes’s misplaced focus on economic aggregates and averages instead of understanding the microeconomic interconnections between prices and time-consuming production processes that are at the heart of economic coordination and the potential for discoordination and depressions. Keynes implicitly admitted defeat and went back to Cambridge University to lick his wounds and work on a new book, *The General Theory of Employment, Interest, and Money* (1936), which became the starting point for Keynesian economic theory and

“activist” monetary and fiscal policy. In later years, Hayek said he greatly regretted not returning to the battle and critically reviewing this work of Keynes as well.

**Hayek’s political and economic critique of socialist central planning**

With the severity of the Great Depression, many academic and intellectual eyes turned to the Soviet Union, where Stalin had instituted full socialist “five-year” central planning in 1928 as an alternative to a “failed” capitalism in the Western world. Little attention was given to the government-imposed famine to coerce the peasants into government collective farms, or the mass murder of those accused of trying to “wreck” the central plan when failures and shortfalls occurred in meeting planning targets, or the millions arrested and sent to prison camps in Siberia and Soviet Central Asia to help fulfill the planning goals through forced labor.

The case was made for forms of central planning in the Western democracies, only without the “rough edges” of Soviet-style dictatorship and brutality. Hayek’s most famous response was in *The Road to Serfdom* (1944), in which he calmly and cogently argued that regardless of the good intentions and democratic

sentiments of socialists in countries like Great Britain, the very institutional nature of a centrally planned economy was to narrow individual freedom and choice to the confines of the goals and targets set by the central planners. Personal freedom, civil liberties, and economic choices would have to be radically reduced if “the Plan” was to be achieved. This would also seriously threaten the rule of law and the democratic processes of the country. Socialist planning, if fully implemented, ran the risk of returning society to a system of government-controlled serfs, tied down to what the government commanded them to do and how to live.

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Hayek built on Mises’s earlier critique of socialism to argue that central planning was inherently unworkable.

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In addition to the political analysis of the consequences of socialist planning, Hayek built on Mises’s earlier critique of socialism to argue in a series of articles that central planning was inherently unworkable, independent of its threats to human liberty. These writings may be found in his collection of essays, *Individualism and Economic Order* (1948), the most important of

which are “Economics and Knowledge” (1937), “Socialist Planning: The Competitive Solution” (1940), “The Use of Knowledge in Society” (1945), and “The Meaning of Competition” (1946).

Matching the division of labor is a division of knowledge of many layered sorts that only the individual members of society possess, know, understand, and have the ability and incentives to try to effectively use, guided by the profit motive and the price signals of a competitive market order. Through prices, all participants in the market communicate with each other in a convenient and shorthand form about what goods and services they may desire for reasons only they know in their respective corners of society, along with competing private enterprisers deciding on what they may think resources and types of capital and labor are worth when used in alternative lines of production. Prices integrate, coordinate, and disseminate more information in a simple, economizing form than any single or group of central planners could ever successfully know or understand, regardless of how wise and well intentioned they may be.

Without all the individuals in all the corners of the world having the liberty to use their knowledge,

judgements, and abilities as they see fit, and coordinated through the now global network of market prices that encapsulate everything that everyone knows, wants, and may be willing to do, society (meaning all of us) cannot benefit from all that others know that we do not for the greatest betterment of ourselves and everyone else. Markets and prices must be free to bring about the human improvement that only a free society makes possible.

### The spontaneous order and the later generations of Austrian economists

In his later works, *The Constitution of Liberty* (1960) and his three-volume *Law, Legislation, and Liberty* (1973–1979), Hayek extended his analysis of man and mind to an understanding of the general social and political importance of the liberal market society. Following in Menger’s footsteps, Hayek emphasized that our complex human order has not been the result or outcome of human design but is the outgrowth of the spontaneous development of human interactions inside and outside of the marketplace over multitudes of generations. The preservation of and the improvements in a free and “great society” require a clear system of rule of law that restricts infringe-

ments on people’s peaceful freedom of action, with a limited government that secures liberty rather than violating it.

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The preservation of and the improvements in a free and “great society” require a clear system of rule of law.

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All that later “Austrian” economists, such as Israel M. Kirzner (b. 1930) or Murray N. Rothbard (1926–1995) have contributed to the body of Austrian economic theory and policy analysis, to name only two of the most prominent and important contributors in the post–World War II period in the United States, have built on the writings of those earlier members of the Austrian School, especially Mises and Hayek. And they, in turn, have inspired new generations of younger “Austrians” who continue the tradition, including its policy implications for a liberal market order. At the heart of many of the new contributions by these intellectual heirs of Menger, Mises, and Hayek are precisely the importance and wonder of a social, cultural, and economic order without imposed political design, one that is threatened by all governmental encroachments on the free interactions of



humanity's billions. Only the establishment of a truly (classical) liberal society, based on the many insights of the "Austrian" analysis of the dynamics of the market process, can ensure continuing improvements in the conditions of humankind.

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*Foundation for Economic Education, and served as vice president of academic affairs for FEE.*

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**NEXT MONTH:**  
**"The Beginnings of a  
Reborn Austrian School of  
Economics"**  
*by Richard M. Ebeling*

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

*— New Hampshire Constitution*

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*All of the States [except] Virginia ... had ... delineated ... unceded portions of right, and ... fences against wrong, which they meant to exempt from the power of their governors, in instruments called declarations of rights & constitutions: and as they did this by Conventions which they appointed for the express purpose of reserving these rights, and of delegating others to their ordinary legislative, executive and judiciary bodies, none of the reserved rights can be touched without resorting to the people to appoint another convention for the express purpose of permitting it. Where the constitutions then have been so formed by conventions named for this express purpose they are fixed and unalterable but by a convention or other body to be specially authorized.*

— Thomas Jefferson

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