FUTURE OF FREEDOM

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Thou inquirest what liberty is? To be slave to nothing, to no necessity, to no accident, to keep fortune at arms length.

— *Seneca*

FUTURE OF FREEDOM

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Which Way Forward for America?

by Jacob G. Hornberger

With the adoption of the U.S. Constitution, the American people brought into existence the most unusual way of life in history, one that led to the greatest economic miracle that mankind has ever seen. Americans not only discovered the solution to poverty but also experienced the greatest outburst of charity in history.

Ironically, when the delegates met at the Constitutional Convention in Philadelphia, they initially had no intention of forming a new national government. The purpose of the meeting was simply to come up with ways to amend the Articles of Confederation, which had been America's governmental system since the time of the revolution. Problems had arisen under the articles, such as trade wars between the states, and so the initial purpose of the convention was simply to figure out ways to iron out those problems.

Instead, the delegates, meeting in secret, proposed a different form of governmental structure, one that could be labeled a "limited-government republic."

Throughout history, governments had operated under the assumption that government wielded inherent powers to do whatever the rulers decided was in the best interests of the populace. These had come to be known as "police powers." They vested government with the power to do whatever was necessary to protect the "health, safety, morals, and welfare" of the people.

The American people were not interested in that sort of government because it oftentimes enabled government officials to exercise omnipotent powers that resulted in tyrannical regimes. They preferred a government whose powers were extremely weak. Indeed, under the Articles of Confederation, which was essentially a pact between independent sovereigns, the federal government didn't even have the power to tax.

Thus, if the Constitution had proposed a government with the inherent "police powers" that had characterized governments throughout history, it is a virtual certainty that our ancestors would have rejected it and simply continued operating under the Articles of Confederation.

> To secure approval of the new proposal, the Founders formed a government with limited powers.

Thus, to secure approval of the new proposal, the Founders formed a government with limited powers — ones that were expressly enumerated in the Constitution. That is, if a power wasn't enumerated, it simply could not be legally exercised.

Knowing that it was the propensity of government officials to exercise as much power as they can, the proposed new government included a U.S. Supreme Court as part of a federal judiciary. It would be the responsibility of the judiciary to enforce the Constitution against the rest of the government.

The Bill of Rights

Americans, however, were still leery. Even though the Constitution's enumerated powers were few and limited, they still were concerned about the possibility that government officials would end up exercising totalitarian-like powers and that the federal judiciary would fail to fulfill its responsibility to enforce the Constitution.

That's what the Bill of Rights was all about. It was designed to send a message to government officials: Do not use your powers to destroy or infringe our rights. The first two amendments protected fundamental rights, such as freedom of speech, freedom of the press, freedom of religion, and the right to keep and bear arms.

The Fourth, Fifth, Sixth, and Eighth amendments are fascinating because those amendments showed that our ancestors were concerned about federal officials targeting people with extrajudicial punishment, including arbitrary incarceration, execution, assassination, or forfeiture of property. Those amendments were designed to ensure that important prosecutorial protections are guaranteed, such as trial by jury, due process of law, right to counsel, right to confront witnesses, and others.

The Ninth Amendment emphasized that people's rights were not limited to those mentioned in the Constitution.

The Tenth Amendment stated that states would possess the powers that were not delegated to the federal government, unless the state was expressly prohibited by the Constitution from exercising a particular power. Thus, it was understood that the states would be vested with the traditional "police powers" that had characterized governments throughout history — that is, the powers to regulate the "health, safety, morals, and welfare" of the citizenry. However, it was also understood that state constitutions could limit the powers of state governments.

Thus, America ended up with a federal government of limited powers and with state governments whose powers were subject both to the federal Constitution as well as their respective state constitutions.

Sound money

This unusual type of governmental system shocked the world. Having lived under governments with omnipotent powers for centuries, the people of the world could not imagine a government whose powers had been limited by the people themselves.

For example, consider the issue of money. The federal government was given the power to coin money. It was not given the power to emit "bills of credit," which was the term used at that time for paper money. Therefore, the federal government could not establish a monetary system based on paper money.

The people of the world could not imagine a government whose powers had been limited by the people themselves.

What about the states? Ordinarily, the Tenth Amendment would ensure that the states would be empowered to issue paper money, unless a power was expressly prohibited by the Constitution. The Constitution did expressly prohibit the states from emitting "bills of credit" (paper money) and also stated that no state could make anything but gold and silver legal tender.

Thus, the Constitution established gold coins and silver coins as the official money of the United States. It was a system that not only brought the soundest money in history into existence but was also a prime factor in the economic miracle that America experienced into the nineteenth century.

This governmental system bought into existence the most unusual and freest society in history. But permit me to point out that there was one horrific violation of freedom that had originated before the Constitution and that continued into the first half of the nineteenth century. That violation was, of course, slavery. There were also other violations of freedom, such as matters relating to women's rights and tariffs.

The most unusual society in history

Let's jump to the period of from 1870 to 1910, which I consider the greatest and freest period in history. Imagine the following:

- No income taxation. People were free to keep everything they earned, and there was nothing the federal government could do about it.
- No Social Security, Medicare, Medicaid, or other welfare programs.
- Hardly any economic regulations. People were free to open businesses and pursue occupations without a governmental license or permit. No minimum-wage laws.
- Open immigration. Although government controlled the movements of people from Europe and Asia, the government let in the vast majority of migrants to the United States. In the American southwest, people were free to cross the U.S.-Mexico border without any restrictions or checkpoints whatsoever. Millions of immigrants flooded into America.
- No gun control.
- No paper money. No Federal Reserve System or central bank. Gold coins and silver coins were the nation's official money.
- No enormous, permanent standing army.
- No national-security state (Pentagon, CIA, and NSA).
- No foreign wars, interventions, coups, invasions, occupations, or state-sponsored assassinations.
- No foreign aid.
- No governmental school systems.

The solution to poverty

The result of this unusual society was the most prosperous nation in the history of man. The standard of living grew by leaps and bounds during this 30-year period — 1870 to 1910. In fact, Americans, whether wittingly or unwittingly, had discovered the solution to poverty.

Throughout history, the vast majority of people had lived lives of abject poverty. That's because their governments tightly controlled their economic activity with rules and regulations, many of them intended to protect the poor from the rapaciousness of the rich. Moreover, governments had almost always taxed citizens heavily to ensure that the regime had sufficient money to run its operation, wage its perpetual wars, and take care of the citizenry with welfare or "poor relief." That left people with little money to sustain their families.

> It was a cycle that was resulting in higher standards of living for everyone, especially the poor.

Americans discovered that when people were free to keep everything they earned, they would save a large portion of their income, which they would deposit into banks. The banks would then lend those savings to businesses, which would use the money to purchase tools and equipment that would make their workers more productive. More productivity meant higher revenues for the business, which would mean higher wages for the workers. It was a cycle that resulted in higher standards of living for everyone, especially the poor. Some families were going from rags to riches in one, two, or three generations.

By the same token, Americans were showing the world the fantastic economic results of a "free enterprise" system — that is, a system in which economic enterprises were free of government control and regulation. With every economic exchange, people's standard of living would rise. That's because in every trade, people were giving up something they valued less for something they valued more. Thus, with the mere act of trade, people's economic well-being was soaring.

At the same time, everyone was benefiting from sound money. That's because with the gold-coin, silver-coin standard that the Constitution established, neither the federal government nor the state governments could plunder and loot people through the inflation of paper money.

There was another outcome from this unusual economic system — the most charitable nation in history. When people were free to accumulate unlimited amounts of wealth, they used large portions of their health to benefit mankind — and not to get an income-tax deduction, because there was no income tax. This was how the hospitals, churches, museums, opera houses, and libraries got built. At the same time, there were so many organizations voluntarily formed to help others that it was impossible to keep track of them all.

The turn toward socialism and empire

Needless to say, the world marveled at this political and economic miracle. And then everything changed.

People began pointing to the horrific conditions in America's factory system, especially to the women and children working exceedingly long hours in extremely unsafe working conditions. They began demanding that government step in with laws and regulations to protect people from such abusive conditions.

What they failed to recognize, however, is that when overall society is impoverished, families will do anything to survive, including sending the entire family to work in unsafe conditions. After all, when the choice is between death by starvation and working long hours in an unsafe factory, everyone is going to choose the latter. But then as wealth is accumulated and the standards of living rise, people will be able to choose better ways.

Moreover, people began seeing the vast amounts of wealth created by this unusual system and became consumed by envy and covetousness. They demanded that government step in to "equalize" wealth by seizing money from those who owned it and transferring it to those who didn't own it. The income tax and the Federal Reserve System came into existence in 1913.

Families will do anything to survive, including sending the entire family to work in unsafe conditions.

Americans abandoned the system of open immigration on which our nation was founded in favor of the socialist principle of central planning, thereby bringing about continuous decades of crisis, chaos, death, injuries, and an immigration police state that has never succeeded, and never will.

They also supported the rise of empire and foreign intervention, which led to the Spanish-American War, World War I, and World War II. After the Second World War, the Cold War and the anticommunist crusade brought about the conversion of the federal government to a national-security state, which wielded omnipotent, totalitarian-like powers. Americans were now living under a regime that our American ancestors had feared — one that wielded the powers of assassination, torture, secret surveillance, and other violations of civil liberties and privacy.

There were those who were concerned about alcohol and drug consumption. Americans therefore enacted a constitutional amendment and laws to criminalize the possession and distribution of such substances, contrary to what had been the case throughout the 1800s.

With the adoption of Social Security in the 1930s by President Franklin Roosevelt, America was transformed into a welfare state, one that was based on the socialist principle of using the coercive apparatus of government to take money from one group of people and give it to another group.

Americans were now living under a regime that our American ancestors had feared.

This was followed in the 1960s by the adoption of Medicare and Medicaid, which succeeded in destroying what had been the finest health-care system in the world and hurling America into a perpetual health-care crisis.

Without even the semblance of a constitutional amendment, the FDR regime abandoned the gold-coin, silver-coin standard that had been in existence for more than 100 years. FDR nationalized gold and made it a felony offense to own it. America's monetary system was converted to paper money, a system that the Framers had rejected. That began a continuous process of monetary debauchery, one that had characterized regimes throughout history.

At the same time, war, strife, and conflict became a permanent feature of American life, killing and injuring countless millions of people all over the world, including Americans. Civil-rights leader Martin Luther King correctly described the U.S. government as the greatest purveyor of violence in the world.

At the same time, federal spending and debt soared, threatening the nation with national bankruptcy. Decade after decade, the Federal Reserve plunged the nation into an endless cycle of booms and busts and, at the same time, impoverishing countless people with its inflationary policies.

Meanwhile, the national-security state has produced an endless stream of wars and conflicts, some of which may push America toward all-out nuclear war with Russia and China.

At the risk of being trite, it would be safe to say that America is at a crossroads. The question naturally arises: Which way forward? The answer seems obvious.

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

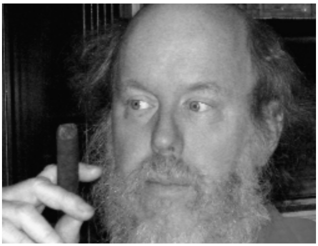
NEXT MONTH:
"Border Tyranny"
by Jacob G. Hornberger

Our country has stumbled into socialism during the past half century; by now — 1958 — we have adopted nearly all the things socialists stand for. Those of us who are aware of socialism's built-in destructiveness have watched this process with apprehension and are forever predicting, or warning against, the impending catastrophe which we think we see hanging over our society. Under socialism, some men are put at the disposal of other men, deliberately, legally, and on principle. Socialism, in other words, is premised in an immoral extension of political power.

— Leonard E. Read

The World Economic Forum Is Still Conspiring Against Your Freedom

by James Bovard



Last January, humanity's elite gathered again in Davos, Switzerland, to plan out the rest of our lives. World Economic Forum (WEF) honchos are morally superior because they are devoted to destroying your freedom to save the Earth, or at least to safeguard plant habitat.

Sixty heads of government from around the world attended, as did endless Lear Jet–loads of multilateral officials. Ursula von der Leyen, president of the European Commission, out-blathered President Biden: "The world is not at a single inflection point; it is at multi-inflection points." (Biden drags "inflection points" into almost every speech.)

UN Secretary General Antonio Guterres told the WEF crowd that "deep reforms to global governance" were needed. And who better to deepen governance than the United Nations, the supreme tyrants' club in the solar system?

Kristalina Georgieva, managing director of the International Monetary Fund, declared, "We have a responsibility to be stewards of our beautiful, small planet's future. There is something that leaders need to embrace, and it is the responsibility to act, even if it's not popular." This spiel perfectly captured the prevailing disdain for democracy — or at least of any populace that fails to vote themselves into ever-greater subjection to their self-proclaimed-expert saviors. WEF Founder Klaus Schwab whooped up the Davos attendees as "trustees of the future."

No wonder that Australian senator Alex Antic warned in the Australian Parliament: "The WEF is steeped in authoritarianism and Marxist ideology. It's an ideology which is creeping into governments across the world."

A world of censorship

The WEF had two big goals this year: "restore trust" and "crush dissent." Okay, that last one is a paraphrase. Instead, the WEF is proclaiming that the greatest peril humanity now faces is "misinformation and disinformation." And it knows this because its own truths are self-evident.

The WEF officials have complained bitterly that it is "misinformation" to assert that they are power-crazed maniacs. But consider its June 2020 call for a Great Reset for humanity:

> To achieve a better outcome, the world must act jointly and swiftly to revamp all aspects of our societies and economies, from education to social contracts and working conditions. Every country, from the United States to China, must participate, and every industry, from oil and gas to tech, must be transformed. In short, we need a "Great Reset" of capitalism.

"Misinformation" seems to include any facts which obstruct WEF cronies from ruling the earth. The WEF's latest Global Risks Report warns, "Some governments and platforms ... may fail to act to effectively curb falsified information and harmful content, making the definition of 'truth' increasingly contentious across societies." In other words, governments must suppress "falsified" information to save truth. The WEF presumes governments are founts of truth — regardless of "politician" being a term of derision going back thousands of years. Or maybe the WEF considers "truth" the same type of luxury nowadays as eating meat.

The destruction of private property

We are barely two thousand days away from the halcyon time — the year 2030 — when the WEF has promised, "you will own nothing and be happy." (Davos attendees are exempt from that lofty edict.) Recent political reforms in many nations have furthered the first promise, ravaging private-property rights and subverting individual independence. Australian senator Malcolm Roberts warned:

> The plan of the Great Reset is that you will die with nothing. Klaus Schwab's 'life by subscription' is really serfdom. It's slavery. Billionaire, globalist corporations will own everything — homes, factories, farms, cars, furniture — and everyday citizens will rent what they need, if their social credit score allows.

The world's kingpins will need to tighten all the mental thumbscrews for propertyless serfs to "be happy." Public euphoria could be in especially short supply considering other policies championed at the WEF.

Mass surveillance

"Individual carbon footprint trackers" are a popular panacea at Davos, and the WEF has proposed the "setting of acceptable limits for personal emissions." How many burps will it take to get sent to reeducation camp?

Footprint trackers will be useless without imposing universal "digital identification," another WEF pet project. How can government "serve" people unless it can find and accost them at any moment, day or night? Vaccine passports are also a cause célèbres for this crowd. Count on the master wizards to exert far more effort to compel injections than to ensure vaccines actually provide the protection they promise.

Environmental tyranny

One of the wackiest shows at Davos was performed by British environmental activist Jojo Mehta, the chief of "Stop Ecocide Now." She hectored Davos attendees to recognize that people making money from farming or fishing could be as guilty as people committing "mass murder and genocide." But if the elites succeed in stopping farmers from farming and fishermen from fishing, future Swiss shindigs may run short of caviar.

Cartoonists have long ridiculed all the private jets that fly in for the WEF conference.

"Climate change" is probably the WEF's best short-term hope to put a halo over tyranny. This is a topic which requires boundless censorship in order to keep peasants in their place. Cartoonists have long ridiculed all the private jets that fly in for the WEF conference, but such details need to be suppressed on "world security grounds" or some such crap. The same is true for the appalling failure of green energy schemes such as windmills to provide energy at reasonable prices. But those pratfalls did not deter Jane Goodall, an officially designated United Nations Messenger of Peace: "We know exactly what we ought to be doing to slow down and eventually reverse climate change and loss of biodiversity … if only various countries lived up to promises they made about reducing emissions."

Chrystia Freeland, Canada's deputy prime minister and a member of the WEF Board of Trustees, recently prattled as if glaciers should have veto power over elections: "Our shrinking glaciers, and our warming oceans, are asking us wordlessly but emphatically, if democratic societies can rise to the existential challenge of climate change." (A Canadian court recently condemned the Trudeau-Freeland government for tyrannizing truck drivers and other protestors against their COVID policies.)

The point of the "climate change" hysteria is not to protect either the environment or humanity.

Davos provided a cosseting atmosphere that encouraged some supposedly objective observers to reveal their fervent dogmas. *New York Times* climate correspondent David Gelles gave a speech in which he said:

> implored a room full of CEOs, diplomats and NGO leaders to step up their urgency and begin considering truly radical political and economic interventions.... The hour is late, and it's incumbent on those with the capital and the clout to start deploying the whole of their resources toward the climate crisis.

To boost confidence in the all-electric future, government censors will need to be extra vigilant during harsh winter weather so that people are not warned that their Tesla becomes a useless block of metal during cold snaps.

But the point of the "climate change" hysteria is not to protect either the environment or humanity. It is to provide a pretext for perpetual, boundless subjugation by the elites. According to Christine Anderson, a member of the European Parliament from Germany, "The green agenda is just part of [the overall globalist agenda], which is to erect a totalitarian regime, in which people are under complete control." If Davos folks were meeting in the woods and subsisting on nuts and berries, they would have more credibility to lecture everyone else on their diets.

Monetary control

The WEF is also gung-ho on Central Bank Digital Currencies (CBDC). The U.S. dollar has lost 97 percent of its value since the Federal Reserve was created in 1913, but politicians deserve more arbitrary power over the currency, right? Never forget: "cash is printed freedom." But CBDCs have powerful appeal to would-be financial tyrants. Saule Omarova, Biden's nominee for Comptroller of the Currency, proposed in 2021 to give government total control over every person's finances: "There will be no more private bank accounts, and all of the deposit accounts will be held directly at the Fed." And you will be happy or you will be relocated to Fargo.

A 2023 WEF analysis declared, "CBDCs offer potential benefits for financial inclusion, but.... Governments and central banks need to be transparent and honest about the potential advantages and risks of digital currencies in order to build public trust in CBDCs." To expect central banks to be honest and transparent is worse than believing in the tooth fairy. This is not how political machinations to depreciate a currency happen.

The WEF states that "CBDCs would allow for the creation of digital records and traces, and this could make it easier to stop money laundering and flows of money used to finance terrorism." Even better — CBDCs could enable government officials to prohibit citizens from spending anything on unapproved items — or maybe to financially destroy anyone who complained about central banks. As Mark Seilor observed, "CBDCs are a totalitarian's wet dream, and would enable governments to centrally enforce tyrannical policies on an industrial scale — at the flick of a switch — without the need for human enforcement agents."

Biden's nominee for Comptroller of the Currency proposed in 2021 to give government total control over every person's finances.

The swagger of the Davos crowd is beyond parody. WEF president Borge Brende promised: "We will make sure that we bring together the right people ... to see how we can solve this very challenging world." But how can they have the right people when neither you nor I were invited?

Paeans to democracy

The WEF offers platitudes for democracy while championing iron-fisted paternalist policies. This is why pervasive censorship is vital to carry out WEF-favored schemes to force common people to stop bothering the environment. Government policies will be propelled by alarmist pronouncements which private citizens could debunk.

With WEF-sanctioned censorship, self-government could be replaced by "one person, one vote, one time." Whoever wins a national election will take control of the censorship regime and exploit it to insulate and perpetuate their power. We already saw that in this nation. Censorship helped Biden win the 2020 election, and his administration proceeded to carry out potentially "the most massive attack against free speech in United States history," according to Federal Judge Terry Doughty. (The Supreme Court will settle that censorship controversy.)

The specter of libertarianism

But there is a specter haunting the Davos crowd. WEF Chairman Klaus Schwab recently practically echoed Marx's Communist Manifesto, warning of a new specter haunting the world. Schwab derided "an anti-System which is called Libertarianism, which means to tear down everything which creates some kind of influence of government into private lives." But it is not libertarians' fault that Schwab's standard for "some kind of influence of government" is eerily similar to medieval serfdom. Schwab also warned of the rising danger of individuals become "ego centric." And we all know that the worst form of selfishness is refusal to submit to your superiors.

Censorship helped Biden win the 2020 election.

The most effective rebuttal at Davos of the WEF sirens of subjugation came from the newly elected president of Argentina. Javier Milei exhorted the friends of freedom around the globe: "Do not be intimidated either by the political class or the parasites who live off of the State. The State is the problem itself." Milei's scoff at people "motivated by the wish to belong to a privileged caste" was perhaps the ultimate face slap for the self-proclaimed saviors in Switzerland.

Boneheaded delusions

So many of the follies championed at Davos arise from the boneheaded delusion that political power is irredeemably benevolent. We should not trust elitists who portray "truth" as the same type of despicable luxury as eating meat or owning your own automobile. And we should not trust those who seek to convert officialdom into a priesthood with the right to blindfold people, to muzzle them, and to slash their living standards.

Luckily, people still have freedom to scoff on social media (thanks in large part to Elon Musk). Maybe the next Davos confab will convince critics to cease referring to the "World Enslavement Forum." It would help if WEF ceased fearing "runaway skepticism" with the same dread that old southern plantation owners viewed runaway slaves.

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, his new book,* Last Rights: The Death of American Liberty, *and nine other books.*

NEXT MONTH:
"Time to Separate Piety and Politics"
by James Bovard

It was the Americans who lived and kept their fighting spirit through the hard and bitter times that followed every surge of prosperity; it was men and women who cared enough for their own personal freedom to take the risks of self-reliance and starve if they could not feed themselves, who created our country, the free country, the richest and the happiest country in the world.

— Rose Wilder Lane

America Needs a Great Reset

by Laurence M. Vance

For several years now, and especially since the beginning of the COVID-19 "pandemic" fiasco, we have been told that the world needs a "great reset." World Economic Forum (WEF) executive chairman Klaus Schwab famously said in June of 2020: "The COVID-19 crisis has shown us that our old systems are not fit any more for the 21st century. In short, we need a great reset."

He challenged the world to "act jointly and swiftly to revamp all aspects of our societies and economies, from education to social contracts and working conditions." He called for every county, "from the United States to China," and every industry, "from oil and gas to tech," to be transformed. The need of the world is a "'Great Reset' of capitalism." This will require "stronger and more effective governments" to "implement long-overdue reforms that promote more equitable outcomes," make "large-scale spending programs" to "advance shared goals, such as equality and sustainability," and "harness the innovations of the Fourth Industrial Revolution to support the public good, especially by addressing health and social challenges."

When you dig a little deeper, you find that the "great reset" of capitalism includes such nefarious things as reducing global population, medical tyranny, drastic and detrimental reductions in carbon emissions, the imposition of carbon taxes, and the gradual "transition away" from meat, fossil fuels, coal, and the internal combustion engine — all in the name of combating climate change and saving the planet from humans.

In the United States, there is talk of the need for "stakeholder capitalism," "smart cities," "build back better," and a "green new deal." On the eve of the recent UN Climate Conference (COP28), the White House referred to climate change as "the existential threat of our time." But as former NYU professor Michael Rectenwald has explained:

Everything evil under the sun is deemed causally connected to climate change, including war and genocide, terrorism, poverty, inequality, inclusion, the condition of women, and population growth.

"Climate change" functions as a catch-all phrase for sequestering the world's problems under a single, global crisis rubric. As such, it is believed, a global governance system must be put in place to address it.

The economics of climate change catastrophism involve global centralized planning and interventionism on a scale hitherto unexampled.

The real crisis

The real crisis in America has nothing to do with climate, capitalism, cattle, coal, or combustion. The real crisis in America has everything to do with the monstrosity known as the federal government.

According to employment numbers released by the Bureau of Labor Statistics, the number of people employed by federal, state, and local governments in the United States has now surpassed 23 million. In 2023, government at all levels added an average of 56,000 jobs per month. Leading the way, of course, is the federal government, which contains hundreds of agencies, bureaus, corporations, commissions, administrations, authorities, offices, and boards organized under 15 departments. There is also the alphabet soup of independent agencies of the federal government (EPA, SEC, FTC, etc.) and the federal corporations (TVA, CPB, Amtrak, etc.). According to a report on the federal workforce by the Congressional Research Service, over 2.1 million federal civilian employees work for the federal government. And this doesn't include the Postal Service (about 580,000 people) or the legislative and judicial branches (about 64,000 people). And then there are the 1.4 million active-duty uniformed military personnel spread out all over the world.

The real crisis in America has everything to do with the monstrosity known as the federal government.

It wasn't that long ago (1987) that the entire budget of the federal government was "only" a trillion dollars. It didn't reach the $2 trillion mark until 2002. For fiscal year 2024 (Oct. 1, 2022, to Sept. 30, 2024), President Biden's proposed federal budget is a whopping $6.9 trillion.

When government spending exceeds revenue, the result is a budget deficit. To pay for the deficit, the federal government has to borrow money by selling marketable securities (bonds, bills, notes, and securities). In fiscal year 2023, the federal government spent $6.13, but only collected $4.44 trillion in revenue, resulting in a budget deficit of $1.7 trillion.

To fund the monstrosity known as the federal government, Americans are quadruple taxed.

The U.S. national debt has also reached a terrible milestone. Federal debt (the total of outstanding government borrowing since 1835 — the last year the federal government was not in debt) has now surpassed $34 trillion. The national debt was "only" $1 trillion in 1981, and it took 27 years to reach $10 trillion in 2008. By 2017, it was up to $20 trillion, and by 2022, it eclipsed $30 trillion. Going deeper in debt is a bipartisan occurrence. After campaigning on a promise to pay down the national debt "over a period of eight years," President Donald Trump presided over a $7.8 trillion increase in the debt, and this was with a Republican-controlled Congress for the first two years of his presidency. The national debt has increased by $6.2 trillion under President Biden, and he still has a number of months left before his term ends. The debt is now at its highest level relative to the economy since the end of World War II.

As everyone who has ever taken out a loan knows, with debt comes interest. The interest on the national debt in fiscal year 2023 was $659 billion, a $184 billion increase over 2022. Interest is now the fourth-largest government expenditure — behind only Social Security, Medicare, and "defense" — and, thanks to higher interest rates, is also the fastest growing government expenditure.

The Federal Register is the daily depository of rules and regulations of the federal government. At the end of 2023, it had added 90,402 pages for the year — the second highest tally of all time.

To fund the monstrosity known as the federal government, Americans are quadruple taxed — and that is just on their income. First, there is the federal income tax. Second, on that same income, they pay Social Security taxes, and if they make over a certain amount, their

Social Security benefits are taxed. Third, on that same income, they pay Medicare taxes. There is an additional Medicare tax of .9 percent that applies to income over $200,000 ($250,000 for married filing jointly). Fourth, on that same income, there is state income tax in 41 states. And then there are all of the other taxes that Americans pay to federal, state, and local governments that are not based on income.

Government powers have been expanded at the expense of individual freedom.

The invasive and intrusive federal government now gets away with justifying all manner of tyranny in the name of "public health," "national security," "national emergency," "existential threats," or "equality." Government powers have been expanded at the expense of individual freedom. As constitutional attorney John Whitehead has well summarized it:

> Since 9/11, we've been spied on by surveillance cameras, eavesdropped on by government agents, had our belongings searched, our phones tapped, our mail opened, our email monitored, our opinions questioned, our purchases scrutinized (under the USA Patriot Act, banks are required to analyze your transactions for any patterns that raise suspicion and to see if you are connected to any objectionable people), and our activities watched.
>
> Government eyes see your every move: what you read, how much you spend, where you go, with whom you interact, when you wake up in the morning, what you're watching on television and reading on the internet.
>
> Every move you make is being monitored, mined for data, crunched, and tabulated in order to form a picture of who you are, what makes you tick, and how best to control you when and if it becomes necessary to bring you in line.

He concludes: "There is not a single person in the U.S. who is not in some government database or another, and these databases are increasingly being shared between agencies, fusion centers, and the police."

And on the economic front, it is because of the bad economic policies of the federal government and the Federal Reserve that housing costs are the highest in 40 years, Americans are carrying more debt than ever, more consumers are delinquent on their debt payments, more formerly middle-class Americans are becoming impoverished, and homelessness is rapidly increasing. Although Americans think that they live in the freest country in the world, the United States only ranks number 25 on the 2023 Index of Economic Freedom — behind even the Baltic states of Estonia, Latvia, and Lithuania.

> The United States only ranks number 25 on the 2023 Index of Economic Freedom — behind even Estonia, Latvia, and Lithuania.

America certainly needs a great reset in many areas, but what kind of a reset? Should the federal government be given more power to intervene in the economy and society? Should the federal government be given more tax dollars to spend? Should the federal government institute more rules and regulations? The great reset that America needs can be summed up in two words: federalism and libertarianism. Federalism ensures that the federal government does only what it is authorized to do by the Constitution, with everything else left up to the states. Libertarianism ensures that government at every level be strictly limited to the protection of life, liberty, and property and not the violation of these natural rights.

The great reset: federalism

The United States was set up as a federal system of government under which the states, through the Constitution, granted a limited number of powers to a central government. Federalism is simply the division of power between the national and state governments. The first three articles of the Constitution delegate, not surrender, certain powers to the three branches of the national government. There are about 30 enumerated congressional powers listed in the Constitution, with everything else reserved to the states. As James Madison so eloquently explained in *The Federalist*, No. 45,

> The powers delegated by the proposed Constitution to the Federal Government, are few and defined. Those which are to remain in the State Governments are numerous and indefinite. The former will be exercised principally on external objects, as war, peace, ne-

> gotiation, and foreign commerce; with which last the power of taxation will for the most part be connected. The powers reserved to the several States will extend to all the objects, which, in the ordinary course of affairs, concern the lives, liberties and properties of the people; and the internal order, improvement, and prosperity of the State.

This means that in order for the federal government to follow its own Constitution and plan of government envisioned by the Founders, a great reset is absolutely necessary.

In order for the federal government to follow its own Constitution, a great reset is absolutely necessary.

As much as millions of Americans want it to be so, the federal government has no constitutional authority to have a retirement and disability program, job-training programs, welfare programs, farm programs, health care or health insurance programs, an unemployment compensation program, or energy assistance programs.

The federal government has no constitutional mandate to defend any country but the United States.

The federal government has no constitutional authority to spend one penny on education, public broadcasting, space exploration, scientific research, or the arts.

The federal government has no constitutional authority to institute a minimum wage, prevent discrimination in housing and employment, combat "disinformation," operate a railroad, make student loans, provide airline security, license certain occupations, set fuel-economy, emissions, or packaging standards, protect consumers, collect data, spy on American citizens, hinder companies from merging, or regulate broadcasting or the stock market.

The federal government has no constitutional authority to prohibit or regulate alcohol, medical or recreational drugs, tobacco, food, or drinks.

Therefore, a great reset of the federal government must include the complete elimination of whole departments and agencies. This means no more departments of Health and Human Services, Agriculture, Labor, Education, Transportation, Homeland Security, Energy, and Housing and Urban Development. And none of the functions of these departments should be transferred to any other department or agency. This means that the duties of the Department of Defense should be strictly limited to defense of the United States; that is, no more foreign wars, military alliances, overseas military bases, and troops stationed overseas.

This means that independent agencies of the federal government like the Social Security Administration, Export-Import Bank, Equal Employment Opportunity Commission (EEOC), NASA, Federal Trade Commission (FTC), National Endowment for the Arts (NEA), and Small Business Administration (SBA) should be shuttered, all of their assets sold to pay down the national debt, and all of their bureaucrats laid off — with no unemployment benefits.

The great reset: libertarianism

Libertarianism is the philosophy that says that people should be free from government interference to live their lives any way they choose, run their business as they see fit, pursue their own happiness, accumulate as much wealth as they can, assess their own risks, engage in commerce with anyone who is willing to reciprocate, participate in any economic activity for their profit, travel anywhere that is willing to welcome them, and spend the fruits of their labor as they see fit as long as their actions are peaceful, their associations are voluntary, their interactions are consensual, and they don't violate the personal or property rights of others.

Libertarians seek to eliminate, as much as possible, all forms of government aggression — domestic and foreign.

The creed of libertarianism is nonaggression: freedom from aggression and violence against person and property as long as one respects the person and property of others. Because government is the greatest aggressor against personal liberty and property rights, libertarians seek to eliminate, as much as possible, all forms of government aggression — domestic and foreign — and strictly limit, as much as possible, the actions of government to prosecuting those who initiate violence against, commit fraud against, or violate the personal or property rights of others and exacting restitution from them. As libertarian theorist Doug Casey has explained:

> Since government is institutionalized coercion — a very

> dangerous thing — it should do nothing but protect people in its bailiwick from physical coercion. What does that imply? It implies a police force to protect you from coercion within its boundaries, an army to protect you from coercion from outsiders, and a court system to allow you to adjudicate disputes without resorting to coercion. I could live happily enough with a government that did just those things.

This means that in order for personal liberty and property rights to flourish and government at all levels be tamed, a great reset is absolutely necessary.

First of all, just because some activity of the federal government is returned to the states does not mean that it is a proper function of government at the state or local level. For example: education and the drug war. Although the federal Department of Education — which does not educate a single child — should be among the first federal departments to be completely eliminated, this doesn't mean that the states should be in charge of educating anyone's children. And although the federal war on drugs should be ended immediately and the Drug Enforcement Administration (DEA) disbanded, this doesn't mean that the states should have their own drug wars. The same principle applies to state welfare programs, job training programs, and health care or health insurance programs.

Every crime needs a tangible and identifiable victim who has suffered measurable harm or measurable damages.

Second, because every crime needs a tangible and identifiable victim who has suffered measurable harm to his person or measurable damages to his property, existing laws at the state level prohibiting or regulating prostitution, gambling, and pornography — unless the practice of any of these things involves violations of the personal or property rights of others — should be eliminated. Vices, immoral actions, risky behavior, unhealthy living, self-harm, addictive conduct, and financial irresponsibility should never be considered crimes.

And third, states shouldn't intervene in the free market anymore than the federal government should. This means there should be no state laws establishing a minimum wage or requiring occupational licensing. This means no rules and regulations regarding business days and hours of operation, ticket scalping, usurious interest rates, price gouging, predatory-pricing, or the production of alcohol, tobacco, or raw milk.

As long as people's actions are peaceful, their associations are voluntary, their interactions are consensual, and they don't violate the personal or property rights of others, government should just leave them alone.

Federalism and libertarianism are the only great resets that America needs.

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NEXT MONTH:
"Why Libertarians Loathe Tariffs"
by Laurence M. Vance

War can really cause no economic boom, at least not directly, since an increase in wealth never does result from destruction of goods.

— Ludwig von Mises

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

— M. Scott Peck

Ludwig von Mises and the Austrian Theory of Money, Banking, and the Business Cycle, Part 2

by Richard M. Ebeling

When the second German-language edition of Ludwig von Mises's *The Theory of Money and Credit* appeared 100 years ago, in 1924, it was less than a year since the great German and Austrian inflations had come to an end in 1923. (See my article "The Great German and Austrian Inflations, 100 Years Ago," *Future of Freedom*, March 2023.) The huge monetary expansions had pushed prices in general to astronomical heights, bringing social and economic havoc in their wake. It had these effects precisely because of the inherent and inescapable "non-neutral" manner in which increases in the money supply are "injected" and introduced into society.

During the war years, the monetary expansions had been primarily used to feed the fiscal needs of the imperial German and Austrian governments to finance their military expenditures. In the postwar period between 1918 and 1923, the monetary printing presses had been set loose to cover the interventionist and welfare statist policies and programs of the new "democratic" governments in the German "Weimar" Republic and the much smaller Republic of Austria. The unevenness with which prices rose, with some prices rising before others, in both systematic and unsystematic patterns, distorted the structures of relative prices and wages, bringing about the appearances of profits in some sectors of the German and Austrian economies and losses in others that influenced the attempted uses of resources, labor, and capital.

One aspect of this monetary inflationary process was what became known as "forced savings," the rising of selling prices before input prices, especially wages, which resulted in the real incomes of many workers falling relative to profit margins of investors and capital owners. It was called forced savings due to it leading to attempts for greater capital investment than would have seemed possible and profitable in a noninflationary environment. This twisted process was highlighted due to the exaggerated nature of it under a hyperinflation, when prices were rising at hundreds of percent per month. The noted Italian economist Constantino Bresciani-Turroni, the author of *The Economics of Inflation* (1931), pointed out:

> Inflation, and more especially "hyperinflation," may be compared with a magnifying glass, which has allowed of distinctly observing many of the facts not easy to disentangle when following the sequence of events during an ordinary Trade Cycle. The changes in the structure of production, brought about by inflation, and later by a currency stabilization [in 1924], were most apparent in Germany. During the inflation period the substantial fall in real wages, which meant a 'forced savings' on a large scale, allowed the productive resources of the country to be deflected from the production of consumer goods to that of fixed capital. This continued as long as the new issues of paper money exerted a pressure upon real wages.

But when the German inflation came to an end in November 1923, there set in a "stabilization crisis" in which the German economy went through a reversal, with capital values falling relative to consumer goods prices, and a rebalancing of labor and capital uses and prices to reflect the new noninflationary setting. Bresciani-Turroni concluded, "It seems to me that these facts are significant" as an "inductive verification" of the Austrian theory of inflationary processes.

The German economy went through a reversal, with capital values falling relative to consumer goods prices.

Another aspect of money's nonneutrality, matching forced savings, was that of "capital consumption," already emphasized by Mises in his earlier book, *Nation, State, and Economy* (1919), before the worst of the German and Austrian inflations had occurred. With selling prices often running ahead of input prices (including money wages) for a period of time, the inflation created the impression of increased profit margins that acted as the incentives to undertake capital investments and expand output levels. However, when private enterprises reentered resource markets to continue production processes anew, they often found that input prices now had (with a lag) risen more than the higher input prices they had previously earned; as a result, these recently earned sales revenues were sometimes not sufficient to purchase all of the needed inputs to continue output at the same and higher levels, with often the inability to replace capital that had been used up in production processes.

Capital was "consumed," bringing about declines in the productive capacities of the economy as a whole.

Hence, capital was "consumed," bringing about declines in the productive capacities of the economy as a whole. All the inflationary "good times" turned out to be a great illusion with disastrous effects from a more longer-term perspective. Or as Mises expressed it in *The Theory of Money and Credit*, "Inflation had the great advantage of evoking the appearance of economic prosperity and of increased wealth, of falsifying calculations made in terms of money, and so concealing the consumption of capital."

Money and choices in the present vs. the future

The other important aspect to Mises's analysis of money and the monetary system, therefore, was the role of a medium of exchange in the relationship between savings and investment. All economic decision-making revolves around the problem of how best to use the means at our disposal to attain the desired ends. Many of these decisions involve us choosing between a variety of alternatives. Shall I use some of my available means to buy a hat today or a new shirt? Shall I order ham and eggs for breakfast at a local restaurant or pancakes with maple syrup? Shall I read the morning newspaper for the next half hour or watch my favorite 30-minute sitcom on my streaming service?

But other decisions involve us making choices between alternatives over and across time. Having graduated from high school, do I enter the job market right away and start earning a full-time income to buy many of the things I would like to have in the here-and-now? Or do I forego all or part of that earnable income for the next four years to go to college and finish with a degree that puts me on a career track that will result in my very likely earning far more income in the future than if I take a job right out of high school? Do I spend all or most of my earned income now, or do I put some of it aside to start accumulating a nest egg for retirement, or into savings in case of an unexpected emergency, or to have most or all of the tuition ready to pay for my child's future college education?

Sometimes, individuals find themselves with differing time preferences.

These and many similar types of choices concern options nearer to the present or further into the future. These are *time preference* decisions and choices between alternatives. Indeed, our decisions about the purposes for which we will use some of our available means in the present always include the implicit choice of deferring some consumption desires today for some gain in the future (when that future could be minutes, hours, days, or years away from right now). And like all other choices, time preference decisions are also made "at the margin," that is, a little bit less of something in the present in order to have a bit more of something desired in the future.

Time preference, gains from trade, and the rate of interest

Sometimes, individuals find themselves with differing time preferences. One person has less means at his disposal for some project that he would like to undertake over time, the desired outcome of which would not be until some point in the future. Another individual, however, might be willing to defer using some of his available means today for a desired end if there is a financial incentive to wait to use them until sometime in the future.

In the old Popeye-the-Sailor cartoons, Wimpy would say, "I will gladly pay you Tuesday for a hamburger today." But the person asked to wait until Tuesday to be paid by Wimpy for that hamburger might reasonably reply, "Why should I forgo eating that hamburger myself today, or not selling it to someone else willing to pay for it right now?" Then Wimpy would have to ask himself how much more might he be willing to pay in the future for today's hamburger, and how much the owner of that hamburger would want to be paid in the future to forgo his own consumption, or the premium over today's hamburger price, to make it worth his while for him to wait until the future to be paid. That premium in the future over the item's current value or price is the basis of a market rate of interest.

As in all market transactions, the exchange is facilitated through the medium of money.

The rate of interest, in other words, as the Austrian economists argued almost from the origin of the Austrian school, is the price of future goods over present goods. Of course, in the developed market economy, goods in the present do not directly trade for goods in the future. As in all market transactions, the exchange is facilitated through the medium of money to overcome the difficulties and "impossibilities" of barter, due to a lack of a coincidence of wants or indivisibilities in the goods to be bought and sold, or because goods offered in the present are not necessarily the same goods to be received in the future.

The saver who consumes less than the full income he has earned lends to the borrower an agreed amount of money. The saver forgoes his demand for particular goods in the present that he might otherwise have spent his money in purchasing, and for which particular resources would have been used to meet that demand. Instead, that sum of money passes into the hands of the borrower for the period of the loan, and he demands other types of goods than the lender would have. Resources, labor, and capital (tools, equipment, machinery) are devoted to different uses over that period of time, the outcome of which will be a finished good or product of some sort that the borrower anticipates will meet a future demand and earn a profit that more than justifies the expenses incurred and the interest payments to be made to the lender. When the loan is repaid, the lender may roll over that sum of money to lend it again to earn additional interest income, or spend all or part of the original principal and interest income on some of the present demands he wishes to satisfy.

Maintaining and increasing capital through savings

Imagine that there is a baker who possesses an oven that enables him to bake one thousand loaves of bread each day. No matter how diligent the baker may be in repairing and maintaining his oven, at some point wear and tear will require it to be replaced.

There needs to be enough savings by some in the society for sufficient resources, labor, and certain other types of capital to be "freed up" from current consumption so that others on the production side of the market may have them available to manufacture the new replacement oven in a market-coordinated manner such that the new oven will be available for sale and installation when the old oven needs to be replaced. Only in that manner could a given level of production of a thousand loaves of bread per day be ensured.

We can also imagine that the time preferences of some members of the society change.

We can also imagine that the time preferences of some members of the society change, such that they save more; that is, they demand fewer consumer goods today and therefore free up more resources for investment purposes. By some consuming less and saving more, the greater supply of savings on the loan market would tend to competitively lower the rate of interest. Since the lower rate of interest has, other things held the same, lowered the costs of producing ovens, the oven manufacturer could borrow the additional savings to now produce, say, two ovens. He could then offer the two to the baker at a lower price that makes it sufficiently attractive for the baker to purchase both the replacement oven and a second oven to expand his daily output of bread.

If the technology of the ovens has not changed, then the baker, with two ovens, could now supply two thousand loaves of bread every day on the market at a lower per unit price, bringing about a general rise in the standard of living with more food available for consumption. Thus, the "sacrifice" of some consumption satisfactions in the past due to greater savings is "rewarded" with more goods to consume when the future has arrived. While admittedly presented in a very simplified manner, this is, in essence, how societies economically grow and become wealthier in terms of more desired goods to better satisfy the wants of their members.

Investment and the time structure of production

At the same time, all such investment processes take time and usually go through a variety of stages of production. We can imagine that from start to finish, such an investment process passes through five stages to be completed, with each stage, just for the sake of the example, requiring one month of time. Again, for simplification, we might assume that at each of the stages, the inputs (resources, labor, use of capital equipment) require expenditures of $100. We can further suppose that each stage is undertaken by a separate enterprise, which sells its partially completed version of the product to the next enterprise, until at the end of the fifth month, the product is in its finished form and ready for sale to an interested buyer.

All such investment processes take time and usually go through a variety of stages of production.

Thus, the value added at each stage cumulatively comes to $500; if we presume that the entrepreneurial decisions at each stage had correctly anticipated the demand at the next stage, the final, finished product would sell for the $500 that has gone into its successful completion. If consumer demand for the product continues month after month, then each of these stages of production must be in process simultaneously through time. If this product is wanted for consumption in May, then the first of the five stages must be set in motion in January if it is to go through the remaining stages and be ready for sale at the end of May.

If the product is also wanted in June, then the same process must begin, again, in February, while the product to be sold in May is presently in stage two of this five-stage production process. If the product is also wanted in July, then stage one must start in March, while the May product is simultaneously in stage three and the June product is in stage two. In other words, each product planned to be brought to market must go through its own timeline of production simultaneously with the others for the period-after-period desired output of the desired goods.

At each stage of production in the manufacture of every product, there is employed not only labor but some forms of capital equipment (machines, tools, etc.), which, like the oven in the earlier example, have to be eventually replaced due to wear and tear. In other investment sectors of the market, there must be in progress projects whose purposes are to plan and anticipate the demand by other enterprises needing replacement capital equipment. And each of these must be planned ahead so they will have gone through their respective stages of production and are ready for sale and installation so that other investment activities can continue in smooth coordination, with supplies tending to match future demands based on entrepreneurial anticipation of what future market conditions will be.

This price system facilitates the economic calculations concerning possible profits and losses.

All of this overlapping and interdependent complexity of investment, production, supply, and demand are held together through the competitive price system. This price system facilitates the economic calculations concerning possible profits and losses that are estimated to be possible in changing circumstances and how best to produce what others want at the least cost. This is what enables a developed and extensive social system of division of labor to exist and coordinate the actions of multitudes of people, all of whom rely upon all those unknown others doing all the unknown things that generate the goods and services desired, and which results in the rising standards of living that so many of us simply take for granted with little or no thought about the social and economic institutional arrangements that make it possible.

Banking as the intermediary institution linking savings and investing

Key to all of this is a banking system that coordinates the willingness of savers to forgo current consumption so others may borrow what is saved (and the resources that savings represents) to undertake the time-consuming investment projects that enable capital and time-using production activities to begin. The rate of interest is not only the intertemporal price that brings saving and borrowing decisions into balance (like any other price that coordinates supply and demand). It also acts as a “break” on the time horizons of the investment projects undertaken, so the multistage production activities can be successfully completed (given the accuracy with which supply-side entrepreneurs effectively anticipate what consumers want and the prices they may be willing to pay in the future when goods in their finished forms are available for sale).

Of course, errors and misreading of particular future market conditions are not only possible but inescapable in a world in which all of us have less than perfect knowledge about the future. The problem that Mises became interested in were the frequent cycles of booms and busts, inflations followed by recessions or depressions. That is, disharmonies in the market process that impact not just one or few sectors of the economy at any particular time but economy-wide imbalances simultaneously. The answer, in his view, was to be found in the distinctive qualities of a money economy and modern banking systems.

The problem that Mises became interested in was the frequent patterns of booms and busts.

Whenever a product is produced and sold in the market, its sale represents the seller's demand for other things that he would like to buy. After all, in a system of division of labor, we each specialize in one line of activity and use what we produce as the means to pay for all the other things we desire that other individuals produce. Why else would anyone devote the time and trouble to produce an item and bring it to market?

But money turns what is one exchange under barter – a hat traded directly for a pair of shoes – into two transactions: the trading of one good for money and then the trading away of the money earned for some other good that is wanted. The hat I produce and sell need not be to the particular individual who has the shoes I want. The shoe manufacturer may have no need for my hats. So, instead, I sell my hat to someone in need of a hat in exchange for money, even though I may have no interest in buying the shirts or pants that the buyer of my hat specializes in offering on the market. Instead, having earned that sum of money, I use some of it to buy the pair of shoes I desire. Or as Mises expressed it in *The Theory of Money and Credit*:

> Anybody who sells commodities and is paid by means of a cheque and then immediately uses either the cheque itself or the balance that it puts at his disposal to pay for commodities that he has purchased in another transaction, has by no means exchanged commodities directly for commodities. He has undertaken two independent acts of exchange, which are connected no more intimately than any other two transactions.

Saving and investing through the medium of money

The peculiarities of the modern banking system in facilitating the coordination of savings and investment, Mises argued, enables an understanding and analysis of how things may go wrong and bring about the business cycle, especially under central banking. Mises suggests a particular terminology to better appreciate the reason banking systems may be susceptible to economy-wide fluctuations. The starting point is when savers loan money directly to interested borrowers. What is lent is a sum of money that represents an amount of purchasing power in the market given the market value of the monetary unit.

The starting point is when savers loan money directly to interested borrowers.

That sum of purchasing power is transferred to the borrower, and it is used to demand and direct the use of scarce resources into the production of the particular goods the borrower wishes to invest in and use, rather than the particular goods that would have been demanded and supplied if the original income earner had chosen to spend it on current consumption rather than lending it for investment purposes to someone else. Thus, some of the scarce resources in society, instead of being used to supply, say, more dinners out at restaurants in the present, are freed up to be used to make that second oven, from the earlier example, that would enable an increase in bread production.

The trade-offs in society, as we saw earlier, involve not only whether to demand more shirts versus to demand more meals in the present, given the scarcity of means to serve the ends we desire; the trade-offs are also between shirts and meals in the present versus more goods of various types in the future by freeing up some of those resources from current uses.

Now, if banking had evolved in such a way that only the money saved by some was lent to others, the connection between foregoing more goods in the present in exchange for more goods in the future would have remained a fairly close fit. Even through that two-transaction exchange process of goods traded for money and then money traded for goods, there still would have been maintained a fairly close balanced relationship between the decisions of savers with those of borrowers to assure a coordination between consumption and investment activities consistent with the limited means at people's disposal.

Banknotes and fractional reserve banking

One of the uses and conveniences of banking was that it made possible the use of banknotes issued by banks as claims to sums of commodity money — gold and silver — deposited with them as a "money substitute" for everyday transactions in lieu of directly using actual gold and silver left with the banks for safekeeping. If a bank had a good and reliable reputation of always "making good" when any holder of their banknotes demanded the withdrawal of the quantity of gold and silver the banknotes represented, that bank had greater leeway in issuing such money-substitute banknotes to those who wanted to borrow for some future-oriented investment plan that they might have in mind.

Suppose that the bank's depositor clients were to deposit $10,000 in gold and silver into their accounts for which banknotes were issued as claims to the specie money. If these were literal savings accounts, and if the bank managers were confident that holders of those deposits would not make any significant or noticeable withdrawals from their accounts for, say, two years, then that bank could lend that $10,000 for two-year loans to those deemed "credit worthy," with limited concern that the borrowed sum would not be repaid at the end of the two-year period, when it was anticipated that its savings depositors might make significant withdrawals. The savings-investment nexus would have been kept in a reasonably close demand and supply balance in the use of scarce resources across time.

One of the uses and conveniences of banking was that it made possible to use banknotes issued by banks as claims to sums of commodity money.

But banks also discovered that on the basis of those deposits of $10,000 in gold and silver into their accounts, they could extend loans to borrowers significantly greater than that $10,000. Every day, there are bank customers making new deposits, while others are making withdrawals. Suppose the bank learns from experience that, on average, those who hold and use their banknotes for transactions in the marketplace only make, on net, withdrawals in gold or silver equal to 10 percent of whatever the bank's total banknote liabilities may be. Thus, if depositors have $10,000 of actual gold and silver in the bank, depositors are unlikely to demand more than $1,000 in actual specie or commodity money during any particular period of time.

Mises called the amount of banknotes issued by such a bank in excess of that actual savings *fiduciary media*.

The bank could issue total loans, in the form of banknotes of, say, $20,000. If that bank's business pattern were to hold, only 10 percent of those outstanding $20,000 banknotes are likely to be turned in for redemption, or $2,000 of actual gold or silver withdrawn from the bank. Likewise, if the bank's depositor and banknote users' patterns were to remain the same, the bank could issue a maximum of $100,000 in banknotes, $10,000 of them representing the actual gold and silver of their claimants who deposited that actual specie or commodity money with it, plus $90,000 of additional banknotes issued as loans to presumed credit-worthy borrowers.

Mises used the term *commodity credit* (or *transfer credit*) to represent the $10,000 of actual savings lent to some of those deemed to be credit-worthy borrowers; Mises called the amount of banknotes issued by such a bank in excess of that actual savings *fiduciary media*, or *circulation credit* (or *created credit*), that is, not backed by actual gold and silver deposited as savings by bank customers. Here, in Mises's view, was the origin and the bases of the savings-investment relationship being thrown out of balance, resulting in an attempt to undertake investment projects, with their time structures of production, inconsistent with the actual available real savings to bring them to a profitably successful conclusion, or to be profitably maintained if completed before or after an economic crisis finally sets in.

Why an economic crisis grows out of this type of savings-investment imbalance, and what Ludwig von Mises considered to be the institutional changes needed to prevent or reduce the likelihood of the business cycle sequences to continue, will be the theme of part 3 in this series.

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NEXT MONTH:
"Ludwig von Mises and the Austrian Theory of Money, Banking, and the Business Cycle, Part 3"
by Richard M. Ebeling

The great truths of humanity do not spring newborn to each new generation. They emerge from long experience. They are the gathered wisdom of the ages. They are renewed in times of conflict and danger. In this sense, the current challenge to our political institutions may prove to be a kind of blessing in disguise. If the times in which we are now living do not bring a further understanding of the great traditions of our civilization and a deeper desire to affirm them, we are not worthy of our heritage.

— E. Smythe Gambrell

The possibility of a discriminatory capital-gains tax on gold 'profits,' or even of outright confiscation, cannot be wholly dismissed. We must remember that in 1933, when private citizens began to exercise their clear legal right to convert their Federal Reserve notes and gold certificates into gold, President Franklin D. Roosevelt suspended the conversion, ordered the citizens to exchange their gold for paper money, and made it illegal for private citizens to hold or own gold. In other words, the government not only broke its solemn and explicit pledge to convert its notes into gold on demand, but treated the holder (and dupe) who had taken the pledge seriously as the real culprit. And the Supreme Court later upheld the president's act and the new law.

— Henry Hazlitt

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