
FUTURE OF FREEDOM

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The reason why men enter into society is the preservation of their property.

— *John Locke*

FUTURE OF FREEDOM

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

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The Future of Freedom Foundation

11350 Random Hills Road

Suite 800

Fairfax, VA 22030

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www.fff.org · fff@fff.org

...

703-934-6101



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Border Tyranny

by Jacob G. Hornberger



Libertarian advocates of immigration controls always focus solely on the issue of immigration controls and never on the police state that comes with them. That's because the police-state aspects of an immigration-control system make them extremely uncomfortable given the fact that a police state is the opposite of a libertarian society.

I believe that it's important to constantly remind people that one of the prices that we pay for the abandonment of the libertarian principle of open borders is a police state — that is, a society in which the government wields and exercises immigration powers that destroy the principles of a libertarian society.

Before we examine the specific aspects of America's immigration police state, however, it's worth noting that a police state is an inevita-

ble part of America's immigration-control system. That's because migrants, in an attempt to save or improve their lives by fleeing to a society that offers hope and opportunity, will inevitably circumvent the controls that have been established to prevent entry into the United States. Thus, as migrants figure out ways to avoid the existing controls, the government piles more controls onto the existing ones until the point is reached that a full-fledged police state is now in operation.

Highway checkpoints

When one leaves my hometown of Laredo, Texas, situated along the Rio Grande, which is the U.S.-Mexico border, and heads north on IH 35, one encounters a surreal site. About 40 miles north of Laredo, there is an immigration-control station at which every driver is required to stop, roll down his window, and answer questions from immigration officials. Anglos are quickly permitted to proceed onward after answering a simple question: "Are you an American citizen?" However, darker-skinned Mexican-Americans had better have their passports with them. Otherwise, they run the risk of being arrested, incarcerated, or even deported to Mexico. Drivers are

also required to follow orders to exit their vehicles and open their car trunks for warrantless searches.

There is something important to note about that checkpoint: It is not located on the U.S.-Mexico border. It is located 40 miles north of the U.S.-Mexico border. In other words, people who have never crossed into Mexico are subjected to the same type of treatment as people who cross a bridge from Nuevo Laredo, Mexico, and enter the United States.

Drivers are required to follow orders to open their car trunks for warrantless searches.

These highway checkpoints also exist on U.S. highways that run east to west. Again, travelers are required to stop and subject themselves to questioning and a warrantless search even though they have never entered Mexico and are simply traveling inside the United States. Many years ago, this is how famed country singer Willie Nelson got caught and charged with illegally possessing marijuana.

Given that Americans have been born and raised with these highway checkpoints, they have become accustomed to them. But the fact is that they are one of the hall-

marks of a police state. Many years ago, I traveled to Cuba, which most everyone recognizes as a police state. Cuban officials maintain these types of checkpoints on their highways as well.

Roving Border Patrol checkpoints

The Border Patrol stops vehicles at random on county and state roads near the border. No probable cause and no reasonable suspicion are required. Not even a broken taillight. They just pull drivers over with their flashing lights and order them to get out of their vehicle and open the trunk so they can see if any illegal immigrants are hiding there.

When I was in high school, I got stopped while traveling outside Laredo on the way to the beach in Port Aransas. The stop was entirely random. I had done nothing to justify it, but I was forced to exit my vehicle and open my trunk. Since the Border Patrol agent who stopped me didn't find any illegal immigrants (or drugs) in my car, I was permitted to continue my trip.

Warrantless searches

U.S. Border Patrol agents wield the authority to enter onto ranches, farms, and other property within 100 miles of the border without a

search warrant, with the ostensible aim of looking for illegal immigrants.

I grew up on a farm on the Rio Grande. We hired illegal immigrants, and they were the hardest working people I've ever seen. The Border Patrol would come onto our farm whenever it wanted and arrest, incarcerate, and deport our workers. Needless to say, those busts, which took place in the 1960s, did nothing to resolve the 80-year-old immigration "crisis."

Immigration officials board Greyhound board buses without warrants.

If we placed a lock onto our gate from the highway that adjoined our property and failed to give a key to the Border Patrol, they would simply shoot the lock off the gate and enter onto our farm without a search warrant. They would do the same with gigantic ranches miles away from the border. One of the unwritten rules of ranches is that one should always leave an internal gate inside a ranch the way one finds it — open or closed. When I was growing up, however, there were repeated instances of Border Patrol agents leaving closed gates open. They just didn't care.

Hiring, transporting, and harboring illegal immigrants

One of the most significant police-state reforms that have been enacted to resolve the 80-year-old immigration crisis is the criminalization of hiring, transporting, or harboring of illegal immigrants. The argument went like this: If there are no jobs for illegal immigrants, if people won't transport them, and if people won't harbor them or take care of them, then migrants will no longer come to the United States.

Thus, overnight they converted countless American employers into criminals for simply hiring foreigners. Or let's say that a farmer has hired illegal migrants that he transports into town on weekends. He is now a felon. Or consider a person who sees a migrant on the side of the highway who is dying of thirst or dehydration. If he gives the migrant water or shelter within his car or transports the migrant to a hospital for treatment that could save his life, he will be arrested, charged, and prosecuted for harboring.

Greyhound buses

Immigration officials board Greyhound buses without warrants to search for illegal immigrants. They go through the bus and de-

mand to see everyone's papers. When they encounter a dark-skinned Mexican-American who cannot speak English and who is not carrying identification papers, they remove him from the bus, take him into custody, and either charge him or deport him.

Requiring people to carry passports while traveling domestically is a hallmark of a police state.

When I was practicing law in Laredo in the 1970s and 1980s, the jury panels always consisted of around 20 percent of people who could not read or write English. No one, including the judge and the attorneys, cared. They would simply be excused from jury service. But if those people traveled to San Antonio or elsewhere on the bus, they had to be certain to take their passports. For example, we had a nanny growing up who was a Mexican-American U.S. citizen. Until she died at the age of 91, she never learned English. Who cares? My family certainly didn't care. But whenever she traveled north on the bus to visit my siblings in San Antonio or Dallas, she had to remember to take her passport or else she would not be permitted to proceed on.

At the risk of belaboring the obvious, requiring people to carry passports while traveling domestically is a hallmark of a police state.

Border checkpoints

When Americans and others cross the international border or fly into the United States from a foreign country, they are required to stop and subject themselves to the possibility of a full-fledged warrantless search of their body, their vehicle, and their personal belongings. Among the newest features of this police-state measure is the search that U.S. officials conduct of people's cell phones and laptops. People are even required to deliver their passwords to the searchers.

Since we have all been born and raised under this system, hardly anyone questions it. It's just become a normal part of traveling outside the country. But in fact it is anything but normal. It is highly aberrant. Why should the mere fact that someone has traveled outside the country require him to forfeit his natural, God-given rights of liberty and privacy on his return to the United States?

Some years ago, I flew into a foreign country — I can't recall which one it was — and, for some reason, there were no border officials work-

ing that day. Maybe it was a national holiday. I cannot begin to tell you what a pleasant experience it was to simply grab my suitcase and walk out of the airport without being stopped and questioned by a government functionary. As far as I know, the country did not disintegrate with its open border that day.

Airport checkpoints

If one flies out of my hometown of Laredo, Texas, he or she is required to stop, not only to be subjected to questioning and search by TSA officials but also by immigration officials. This airport checkpoint is the same as the highway checkpoint 40 miles north of Laredo, except it's one that's located at the airport rather than on the highway. I once was sitting next to a darker-skinned Mexican-American on a flight from Laredo to Dallas. I asked him how he felt about that airport checkpoint. He told me that when he travels on that flight, he always makes it a point to dress nicely so that he isn't suspected of being an illegal immigrant. He said he also always makes it a point to carry his passport with him. Of course, Anglos flying out of Laredo never have to carry their passports because immigration officials always quickly waive them through.

Parents and children

Among recent police-state measures to resolve the decades-long immigration "crisis" is the separation of parents from their children. The idea is that if parents learn that they could lose their children, they might be dissuaded from coming to the United States with their families. It's difficult to conceive of a more pathetic police-state measure than that.

Refugee camps

To dissuade migrants from entering the United States and claiming refugee status, U.S. and Mexican officials struck a deal requiring refugees to remain in refugee camps on the Mexican side of the border. Mexico, of course, is a very poor country, at least compared to the United States. Therefore, those refugee camps are models of squalor, misery, and suffering. The idea though is that if enough pain can be inflicted on them, they will abandon their application for refugee status and return to their country of origin, where they will be subjected to death by murder or starvation.

The Berlin Wall

Among the most significant police-state reforms that have been enacted in recent years is the Berlin

Wall along the border. Instead of declaring, “Tear down this wall!” I sometimes wonder if President Reagan would have been better off declaring, “Move this wall to the southern border of the United States!”

Of course, like all other police-state measures, the wall was supposed to be the cure-all for America’s 80-year-old immigration “crisis.” Not surprisingly, the immigration “crisis” has only gotten worse, notwithstanding the wall. Moreover, doctors are now dealing with severe injuries suffered by migrants trying to traverse the wall. Finally, it’s worth mentioning that the wall has been built on land that the feds stole from people through the power of eminent domain.

Surveillance

Modern-day technology has enabled government officials to turn the borderlands into models of police-state surveillance measures, including tall towers with surveillance equipment and drones that monitor people’s activities along the border.

But the newest police-state measure designed to deter migrants from coming to the United States is the placement of concertina wire,

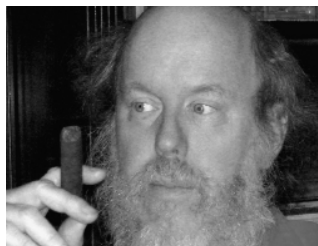
either on the U.S. shore of the Rio Grande or under water in the river so that migrants can’t see it. The idea is that by cutting up and even killing some migrants, others will be dissuaded from attempting to illegally enter the United States by swimming across the Rio Grande.

Needless to say, none of these police-state measures has succeeded in resolving America’s perpetual immigration crisis. That’s because the perpetual crisis is rooted in the immigration-control system itself. Piling more and more police-state measures onto previous police-state measures only makes the situation worse from the standpoint of liberty and privacy. As I have maintained for more than 30 years, there is one — and only one — solution to America’s never-ending immigration crisis — open borders — that is, the same system we have domestically with state borders. With open borders, the perpetual immigration crisis disappears, along with the police state that comes with it.

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

Time to Separate Piety and Politics

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by James Bovard



The First Amendment of the Constitution specifies, “Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof.” In Washington, the “free exercise thereof” perennially includes politicians exploiting religion to sanctify themselves and all their power grabs.

Piety with a side of eggs

One of the most brazen if not most shameless “free exercise thereof” examples is the annual National Prayer Breakfast. Politicians gather to silently pray that the Lord will smite all their enemies — or at least get them indicted on multiple charges. And the common theme of comments at the event is that the political class is doing God’s work.

The prayer breakfast long ago turned into the type of “market” that Jesus castigated thousands of years ago. The prayer breakfast became notorious as “an international influence-peddling bazaar, where foreign dignitaries, religious leaders, diplomats and lobbyists jockey for access to the highest reaches of American power,” the *New York Times* reported. Maria Butina, who the media labeled as a Russian spy because she failed to register as a Russian agent, used the breakfast as a way “to establish a back channel of communication” with America’s top political leaders, according to a 2018 federal indictment. Franklin Graham described the prevailing motive at prayer breakfasts in 2018: “I can tell you right now, everybody in that room has the same agenda. They’re wanting to be able to rub elbows with somebody that they normally couldn’t rub elbows with.”

Controversy over the foreign spying spurred a newly formed organization to take over the prayer breakfast gig. It issued a revised mission statement: “The vision of the National Prayer Breakfast Foundation is to promote and share the idea of gathering together in the Spirit of Jesus of Nazareth,” with participants “united in believing that by looking to the life of Jesus,

people of diverse backgrounds and beliefs can join together, encourage and promote forgiveness and reconciliation.”

Politicians joyfully join together to con the rubes — to keep average Americans paying and obeying Uncle Sam. The national Prayer Breakfast is a keystone of civic religion in the nation’s capital. That religion is devoted to worshiping the government and pretending that federal agencies can perform miracles, regardless of their past records.

Shaming the masses into submission

Prayer breakfasts provide an opportunity for presidents to uncork their biggest lies without getting hooted down by hostile audiences. In his 2000 speech to the prayer breakfast, President Bill Clinton called for reconciliation among all groups clashing around the world, from Northern Ireland to the Middle East to Kosovo. Clinton then revealed, “And here in Washington we are not blameless.... For we often, too, forget in the heat of political battle our common humanity. We slip from honest difference which is healthy into dishonest demonization.”

This was a shameless pitch from a politician who had proclaimed that Republicans who opposed his

Superfund legislation wanted to poison America; who ignored a jury verdict and declaimed that Texas residents were murderers because they resisted federal agents attacking their home; who, in his 1996 reelection campaign ads, accused Republicans of favoring killing older Americans because of their position on Medicare; whose wife went on national television after the Monica Lewinsky story broke and said it was just another concoction of a “vast right-wing conspiracy;” whose vice president compared opponents of affirmative action to people who sought to murder blacks; and who perennially portrayed advocates of tax cuts as favoring throwing old people out on the street via the destruction of Social Security.

Prayer breakfasts provide an opportunity for presidents to uncork their biggest lies.

At the 2023 prayer breakfast, Biden proclaimed that “we can redeem the soul of America” and called for Americans to “go forward together.” Such prattle was null-and-void last month when he denounced his likely election opponent Donald Trump for allegedly “echoing the same exact language

used in Nazi Germany.” The Biden campaign is using a graphic explicitly comparing Trump and Hitler’s rhetoric. Biden previously denounced Republicans for “semi-fascism.” The backdrop for his raging September 2022 speech in Philadelphia looked like it was borrowed from 1930s Nuremberg.

Prayer breakfasts give politicians a chance to remind voters that they are God’s anointed. Shortly after he was selected as House speaker in October 2023, Congressman Mike Johnson (R-LA) declared, “I don’t believe there are any coincidences. I believe that scripture, the Bible, is very clear that God is the one that raises up those in authority, he raised up each of you, all of us. And I believe that God has ordained and allowed us to be brought here to this specific moment and time.”

Johnson did not explain why God decided to sanction ballot harvesting and millions of unverified mail-in ballots in 2020 — in contrast to prior presidential elections. Shortly before the 2024 prayer breakfast, Johnson riled up some conservatives by adding that Biden’s 2020 election victory and presidency “must have been God’s will. That’s my belief.” Johnson’s assertion spurred plenty of howling by Washington conservatives.

To safeguard the event’s purity, the breakfast was not held at a spacious Washington hotel this year. Instead, it was held at the U.S. Capitol and had far fewer attendees. Organizers stressed that the event strictly adhered to “congressional ethical standards” — a phrase that boosts confidence only inside the Beltway. The fact that the breakfast kingpins would use such a phrase proved that most attendees were probably beyond redemption.

Prayer breakfasts give politicians a chance to remind voters that they are God’s anointed.

Perhaps it was a divine spirit lifted Biden’s rhetoric higher than usual that morning: “We’re the beacon to the world. The entire world looks to us. That’s not hyperbole. This is an idea. This idea was made real before the soul became flesh, before this dream became a fact. It was prayed for, it was hoped for, it was believed in. That’s the story of America.”

Lord have mercy on anyone trying to follow Biden’s revelatory narrative.

Biden prattled that “the fruit of the spirit is love, joy, peace, patience, kindness, goodness, faithfulness” — perhaps embodied by

Biden's subversion of the Supreme Court ruling on student loan forgiveness. He mumbled about how the room in the Capitol had seen "insurrection and instability" — another reminder of his plans to endlessly invoke January 6 for his reelection campaign.

Biden's homilies

Prayer breakfasts provide presidents the opportunity to sprinkle rhetorical holy water over the foreign conflicts they have propelled. Voice of America, a federal agency, headlined its report on the 2024 shindig: "Biden Attends Prayer Breakfast, Promotes Global Peace and Unity." The fact that Biden was pushing for far more military arms to be delivered to Ukraine and Israel was irrelevant to his devotion to global peace, at least according to scoring by Washington insiders.

After making that speech, Lincoln took actions that almost guaranteed that a Civil War would ravage the nation.

Biden assured listeners that "the fruit of the spirit is love joy, peace, patience, kindness, goodness, faithfulness — I believe that's our collective calling." Biden boasts that America "gives hate no safe harbor"

but hating Republicans is apparently merely doing God's work.

Biden dragged out one of his favorite quotes into his spiel:

History remembers President Lincoln's first inaugural address counseling us to heed, quote, "the better angels of our nature." We do well to remember what he said just a few moments before he concluded the same address. At a moment of deep division in our nation, President Lincoln said, "We are not enemies." He said, "We are not enemies, but friends." "We must not be enemies," he went on to say.

Biden neglected to mention that shortly after making that speech, Lincoln took actions that almost guaranteed that a Civil War would ravage the nation. After the first seven states seceded in late 1860 and early 1861, a huge sticking point was the fate of Fort Sumter in the harbor of Charleston, South Carolina, a fort that continued to be held by Union forces in defiance of the state and new nation.

Most of Lincoln's cabinet and his military commander, General Winfield Scott, favored abandoning the fort to deny a pretext for war and al-

low tempers to cool on both sides. Prior to the attack on Fort Sumter, Virginian supporters of the Union believed that Lincoln was serious when he seemed to offer them “a state for a fort” — that he would abandon Fort Sumter if Virginia would stay in the Union. But a day or two after delegates at a Virginia convention voted almost 2-to-1 not to secede, Lincoln approved sending the U.S. Navy to resupply Sumter.

Lincoln knew that would spur Confederate Jefferson Davis to order Gen. P. T. Beauregard to open fire on the fort. The Confederates launched an idiotic, self-defeating attack, and Lincoln quickly exploited it to fan mass hysteria and war fever. Lincoln’s order to other states to provide troops to suppress the “rebellion” quickly doubled the size of the Confederacy east of the Mississippi as Virginia, Tennessee, North Carolina, and Arkansas seceded. Lincoln’s invocation of “better angels” did not deter him from reckless policies that helped lead to the deaths of 600,000 soldiers.

Of course, it shouldn’t be a crime for politicians to meet in public and claim to be praying. The real problem is the “rent a halo” effect of such confabs. Attending a prayer breakfast makes politicians as religious as waving a flag makes

them patriotic. Unfortunately, there are plenty of gullible folks out there, and not all of them are in the press corps.

Concluding a prayer breakfast spiel with hell is more appropriate than Team Biden might like to admit.

Tartuffe is the patron saint of the prayer breakfast. It would be more accurate to label the event “Parade of Pharisees.” But that would be tricky considering the Biden Justice Department’s proclivity for prosecuting people for “parading without a permit” (their favorite charge for January 6 defendants). How many of the politicians pirouetting at today’s breakfast supported forcibly shutting down churches and synagogues during the Covid pandemic?

Biden concluded his spiel this year: “Let’s remember who the hell we are: we’re the United States of America. It’s all about dignity and respect.” At least Biden didn’t fling the F-word at the audience. But concluding a prayer breakfast spiel with hell is more appropriate than Team Biden might like to admit.

News coverage of the breakfast stressed that House Speaker Mike Johnson sat next to Biden and the

two of them shook hands. Johnson said that “we wept in the front row” during the screechy performance by a famous Italian singer that started the breakfast, and photos showed Biden wiping away a tear. Pundits are hopeful that this signals a new era of politicians working together.

Actually, that is how America got a \$34 trillion national debt. Maybe the breakfast should have offered special prayers for the federal government’s credit rating? For decades, D.C. bipartisan deals have been smarmy Solomonic solutions sawing the Bill of Rights in half to help politicians snare campaign contributions. But citizens didn’t send members of Congress to Washington to destroy their rights, liberties, or currency on the installment plan.

Cynicism is routinely denounced at prayer breakfasts, but cynicism is blowback from decades of deceit.

Perhaps presidents and congressmen should be praying for a new, even more gullible cadre of voters to reelect them. Cynicism is routinely denounced at prayer breakfasts, but cynicism is blowback from decades of deceit. Most of the major political power grabs

in modern history have been propelled by official falsehoods, as have all the major wars since 1950. Perpetual bipartisan chicanery explains why only 20 percent of Americans trust the federal government nowadays. Cynicism is simply a discount rate for political honesty.

Prayer breakfasts foster the illusion that politicians are corrigible. But lying is practically the job description for politicians. Economist John Burnheim, in his 1985 book *Is Democracy Possible?*, observed of electoral campaigns:

Overwhelming pressures to lie, to pretend, to conceal, to denigrate or sanctify are always present when the object to be sold is intangible and its properties unverifiable until long after the time when the decision to buy can be reversed.

Dishonesty is practically the distinguishing trait of the political class. Thomas Jefferson observed in 1820, “Whenever a man casts a longing eye on offices, a rottenness begins in his conduct.” One carpet-bagger Reconstruction-era Louisiana governor declared, “I don’t pretend to be honest. I only pretend to be as honest as anybody in politics.”

A 1996 *Washington Post* poll found that 97 percent of people interviewed trusted their spouses, 87 percent trusted teachers, 71 percent trusted the “average person,” but only 14 percent trusted politicians. A 1994 poll found that only 3 percent of those surveyed had a “high” opinion of politicians. Burns Roper, the director of the Roper poll, observed, “Those in government-related occupations are at the very bottom of the list of occupational groups thought well of.”

Are politicians who praise the Lord preparing to pilfer the Treasury? Or are they revving up some foreign intervention designed to create full employment for grave diggers? Or are they harmlessly gasbagging, stalling until they can remember to wave the flag again?

Americans are amidst an election year which is dominated by two presidential candidates that most Americans heartily distrust. It

would take divine intervention for either Joe Biden or Donald Trump to be consistently honest with the American people. That type of miracle is so unlikely that even Las Vegas is not taking bets.

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:

**“The Kennedy Assassination:
Fraudulent Photos, X-Rays,
and Film”**

by Jacob G. Hornberger

**“Merle Haggard and the Lost
‘Free Life’”**

by James Bovard

Why Libertarians Loathe Tariffs

by *Laurence M. Vance*



Former president and current Republican presidential candidate Donald Trump loves tariffs. In his 2011 book *Time to Get Tough: Making America #1 Again*, Trump included as part of his five-part tax policy “a 20 percent tax for importing goods.” During his first campaign for president, he called for a 35 percent tariff on cars and trucks imported from a proposed new Ford plant in Mexico and a 45 percent tariff on all imported goods from China “if they don’t behave.” Mexico is our largest trading partner, while China is third, contributing about 12 percent of total U.S. foreign trade.

Although Trump once declared that trade wars are good, and easy to win, the trade war that he instituted during his first term as presi-

dent was a failure. As explained by Erica York, senior economist at the Tax Foundation: “Though intended to boost U.S. manufacturing and reduce the trade imbalance, (unsurprisingly) neither occurred. Americans almost exclusively paid the tariffs that the U.S. imposed on nearly \$380 billion worth of imports. Businesses faced higher costs, making it harder to compete internationally. Foreign governments retaliated with tariffs on U.S. exports, and China halted its purchases of agricultural products altogether. Lobbying, along with political favoritism, mushroomed.”

Trump — who considers his China tariffs to be a key accomplishment of his first term — wants to double down on his destructive tariff policies. In an interview last year, he called for a “universal baseline tariff” of 10 percent on virtually all imports into the United States. Most recently, Trump has promised, if elected, to revoke China’s “most favored nation” trade status and impose a 60 percent tariff on all Chinese goods. Once again, Erica York comments:

The 2018 to 2019 trade war was immensely damaging, and this would go so far beyond that it’s hard to even

compare to that. This threatens to upend and fragment global trade to an extent we haven't seen in centuries.

Imports from China would depress significantly. Supply chains would fragment, investment plans would be disrupted, and trade would be diverted to third countries. A prohibitive tariff would create a void in trading opportunities with China that other countries would fill, leaving the U.S. excluded.

Adam Posen, president of the Peterson Institute for International Economics, called Trump's trade proposals "lunacy," and pointed out that "if a Trump administration were to put up much higher tariffs on imports from China, American companies would lose most of their market share in both China and many third countries."

Economists and tariffs

Economists, just like politicians, come in all varieties. Yet, if there is one thing that the vast majority of economists agree on, it is opposition to tariffs. There is, in fact, practically a zero-tariff consensus among economists and a united trust in the Ricardian theory of

comparative advantage. As explained in a 1978 lecture by economist Milton Friedman (1912–2006):

With respect to the area of international trade, with respect to the question whether it is desirable for a country to have free trade or to have tariffs and other restrictions on imports and exports, in that particular area economists have spoken with almost one voice for some two-hundred years. Ever since the father of modern economics, Adam Smith, published his great book, *The Wealth of Nations*, in 1776, the same year in which the Declaration of Independence was issued in this country; ever since then the economics profession has been almost unanimous on the subject of the desirability of free trade.

This uniformity is even acknowledged by Oren Cass — the executive director of American Compass who believes not only in the primacy of domestic manufacturing but that America should adopt an industrial policy — in his opening essay ("Free Trade's Origin Myth") in a recent *Law & Liberty*

symposium on the origins of free trade. Because of the ideas of Alexander Hamilton and Henry Clay, Cass maintains that “the American tradition from the founding was one of aggressive protectionism and support for domestic industry.”

**If there is one thing that
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The United States “transformed from colonial backwater to continent-spanning industrial colossus” during the late nineteenth century “behind some of the world’s highest tariff barriers.” But as economists are fond of pointing out, correlation is not causation. Cass’s premise is a classic case *post hoc ergo propter hoc* fallacy (after this, therefore because of this). He is also simply ignoring the other economic conditions prevalent during the late nineteenth century: low or no taxes, minimal or no regulations, a genuinely free market, no government subsidies, an almost nonexistent federal bureaucracy, and no special protections for labor unions.

In his response to Cass (“Why Economists Loathe Tariffs”), Brian Domitrovic of the Laffer Center provides some historical perspec-

tive on economists’ universal opposition to tariffs:

Antipathy to the tariff is “the date that economics brought to the dance,” so to speak. It would be impolitic for economics to jilt antipathy to the tariff, to accept the possibility of positive tariff rates, because the cause of free trade made economics what it is today. Economics first developed in the United States, as an academic discipline in the latter nineteenth and early twentieth centuries, as a scholarly initiative at the margins of the main institutions of American political and economic life. Its agenda was to bring greater intellectual substance and purity to political-economic policy. The great issue of the day was the tariff, and economics set itself up in opposition to it.

The problem with Cass and his ilk, like the proponents of national conservatism and economic nationalism, is that their calls for higher protective tariffs are purely political. They never call for a concomitant reduction in income taxes. Tariffs are solely for protection and punishment.

Free trade

Trade is simply engaging in commerce. International trade is simply engaging in international commerce. Although it is common to hear people talk about the United States trading with China or Mexico or America having trading partners, foreign trade really just occurs when entities in one country engage in commerce with entities in some other country. Unless the government has complete control of the economy, which is not even the case in communist China, trade always takes place between individuals or businesses located in different countries, but not between the countries themselves. Although an individual or a business in one country may sell a good or service to the government of another country, that doesn't mean that trade is between countries.

That the two parties engaged in commerce are not located in the same country has no economic significance whatsoever.

Transactions between parties residing in two different countries should not be regarded as any different from two parties in the United States engaging in commerce. That the two parties engaged in

commerce are not located in the same country has no economic significance whatsoever. Two economic fallacies emerge when trade is thought of as between countries.

The first is the fallacy that trade results in some countries benefiting (winners) at the expense of others (losers). But trade is not a zero-sum game in which one country gains at the expense of another. Economic nationalist Donald Trump — whose ignorance and incoherence on economics know no bounds — claimed as president that his trade policies were necessary because America was “abused like no nation has ever been abused on trade” and that other countries “stole our jobs and they plundered our wealth.” In every exchange, both parties give up something they value less for something they value more. Each party to a transaction anticipates a gain from the exchange or it wouldn't engage in commerce with the other party in the first place. International trade is therefore always a win-win proposition. It encourages efficiency in production and in the utilization of resources, gives consumers a wider variety of choices, keeps prices in check, leads to innovation, and fosters peace and goodwill.

The second fallacy is the bogus concept of the trade deficit, that is,

the amount by which the value of imported goods and services exceeds the value of exported goods and services. But exports are not necessarily preferable to imports. Manufacturers who export goods should not be entitled to a protected position in a nation's economy. And merchants who import goods should not be penalized for doing so. American manufacturers who send goods from one state or city to another and merchants who bring goods from one state or city to another are lauded for facilitating and expanding commerce. Those that send or bring goods from one country to another should be viewed likewise. There is nothing sacred about having a positive balance of trade. Indeed, as Adam Smith wrote in *The Wealth of Nations* back in 1776: "Nothing can be more absurd than the whole doctrine of the balance of trade."

**Free trade is the absence
of any form of management or
protectionism.**

Free trade is the absence of any form of management or protectionism. This means not only no tariffs, quotas, barriers, sanctions, regulations, restrictions, or dumping rules but also no government subsidies,

crony capitalism, export-import bank, or trade agreements, organizations, representatives, or treaties. Managed trade is not free trade and protectionism is central planning. Free trade just needs a willing buyer and a willing seller, each of whom benefits from engaging in commerce across international borders. All trade is fair trade.

Libertarians and tariffs

Donald Trump may love tariffs, but libertarians loathe them. Yet, the libertarian aversion to tariffs is unique, and goes beyond that of economists who likewise loathe tariffs.

First of all, a tariff is a tax. It is simply a tax on imports levied on importers for the right to offer foreign goods for sale in a domestic market. The fact that a tariff only applies to imports and not to wages, capital gains, rentals, sales, services, property, particular commodities, or estates does not make it any less of a tax or a less onerous tax. All of these taxes — no matter what they are called or what good or service they are imposed on — involve the government taking money from people against their will and therefore preventing them from spending it as they see fit. When done by a private actor, this is termed theft.

But as the late Austrian economist Murray Rothbard explained:

It would be an instructive exercise for the skeptical reader to try to frame a definition of taxation which does not also include theft. Like the robber, the State demands money at the equivalent of gunpoint; if the taxpayer refuses to pay his assets are seized by force, and if he should resist such deprecation, he will be arrested or shot if he should continue to resist.

The libertarian view of taxes is not that taxes should be fair, adequate, sufficient, constitutional, uniform, flat, simple, efficient, apportioned, or low. The libertarian view of taxes is that taxation is government theft and violates the non-aggression principle. To say that taxation is not theft is to say that the government is entitled to a portion of every American's income or a percentage of every transaction that is made.

Tariffs are supposed to protect certain domestic industries from foreign competitors by raising the prices of imported goods or to punish foreign countries for any number of reasons: "unfair trade prac-

tices," human rights abuses, currency manipulation, or an unfavorable balance of trade. But this comes at the expense of the American people who, as a consequence of tariffs, have to pay higher prices for imported goods and higher prices for domestic goods (raising the prices of imports opens the door for American companies to raise prices), as well as less consumer choice and fewer exports of finished goods (because of the higher prices of imported raw materials). Those who clamor for more or higher tariffs are calling for a tax on themselves. Although a tariff is an indirect tax, it is a tax nonetheless.

The libertarian view of taxes is that taxation is government theft.

Tariffs are paid to the customs authority of the country imposing the tariff by the importer of foreign goods. They are not a tax on the foreign seller of the goods. Foreign firms don't pay tariffs for the privilege of selling their goods in the U.S. market. And neither do foreign governments pay tariffs into the U.S. treasury, as Trump has so ignorantly implied. American consumers ultimately pay tariffs just like they would pay more in taxes if the income tax or payroll tax rates were increased.

It is libertarians alone who are consistently opposed to any and all taxes. Economists may uniformly oppose tariffs, but they certainly don't uniformly oppose the income tax. They have generally made peace with the income tax as an alternative to the tariff.

The second reason why libertarians loathe tariffs is that tariffs violate personal and commercial economic freedom. Tariffs violate the natural right of entities to buy goods from whomever is selling them and the natural right of entities to sell goods to whomever is buying them, without interference by the government in either location at prices mutually agreed upon between buyer and seller no matter where they are located.

The freedom of individuals to engage in commerce is just as fundamental to a free society as the freedom to worship, speak, travel, publish, marry, own property, accumulate wealth, and form peaceable associations. The freedom of businesses to engage in commerce unhindered by government taxes, rules, and regulations is likewise fundamental to a free society, and should not be dependent upon political preferences, national interests, the public good, or utilitarian considerations. No business should

have to win government approval for the right to sell goods and services in any domestic or foreign market.

Tariffs violate the natural right of entities to buy goods from whomever is selling them.

Most arguments for free trade miss the real issue. Although the benefits of free trade are incalculable and can never be quantified in a spreadsheet, the foundation of free trade is freedom. Just as free trade does not depend on trade organizations, trade treaties, or trade agreements, so trade should not be free because of the theory of comparative advantage, because it is efficient, or because it meets a certain set of arbitrary conditions. And neither does it matter whether other countries reciprocate, subsidize their domestic production, or engage in currency manipulation. Government should never interfere with personal choice, voluntary exchange, freedom of contract, property rights, commerce, or free enterprise. It should not be the goal of U.S. trade policy to promote exports over imports. In fact, there should be no U.S. trade policy or Office of the U.S. Trade Representative in the first place.

It is libertarians alone who are consistently opposed to all forms of government intervention in the marketplace. Economists who oppose tariffs and make eloquent defenses of free trade may at the same time be in favor of any number of government interventions in the free market: regulations, subsidies, antitrust laws, price gouging laws, minimum-wage laws, predatory pricing laws, limits on days and hours of operation, mandatory family leave, antidiscrimination laws, usury laws. They might even be ardent defenders of the welfare state.

Libertarians should be universally and uninhibitedly for free trade. Trade restrictions of any kind are a violation by government of personal and property rights. Any and all trade restrictions should be abolished, unilaterally and immediately. Economists and libertarians

may both loathe tariffs, but that doesn't make economists libertarians.

Laurence M. Vance is a columnist and policy advisor for The Future of Freedom Foundation, an associated scholar of the Ludwig von Mises Institute, and a columnist, blogger, and book reviewer at LewRockwell.com. Send him email at: lmvance@laurencemvance.com. Visit his website at: www.vancepublications.com.

NEXT MONTH:
**“What Trump Didn’t Say
about NATO”**
by Laurence M. Vance

Ludwig von Mises and the Austrian Theory of Money, Banking, and the Business Cycle, Part 3

by Richard M. Ebeling



When the English-language edition of Ludwig von Mises's *The Theory of Money and Credit* was published 90 years ago, in 1934, the world was in the midst of the Great Depression. The American stock market crash in October 1929 soon snowballed into a severe economic downturn in 1930 and 1931 that reached its lowest point in terms of rising unemployment and falling industrial and agricultural output in 1932 and early 1933.

In Europe, the economic conditions were no better. Great Britain and France, for instance, were experiencing the same negative effects

of falling outputs and rising joblessness, though the worst of it, in terms of these two indicators of economic “bad times,” was being experienced in Germany. Intensifying the global impact of the economic downturn was a return to trade protectionism in many of the leading economies, including the United States, along with foreign exchange controls that led, not surprisingly, to a dramatic fall in international trade and investment.

Government and the Great Depression

Why was the severity and depth of this economic depression the most serious in virtually anyone's living memory? In Mises's view, it was due to the degree to which governments almost everywhere were introducing policies that hindered and prevented the market economy from readjusting and rebalancing following what had turned out to be the false prosperity of the 1920s. Not that all that had happened in the 1920s was unsustainable or lost. Technological innovations, cost-efficiencies, improvements in organization and management of industry and manufacturing, had represented real improvements in the standards and qualities of life for many around the world, especially in the United States.

But overlaying these impressive improvements in production potentials had been monetary policies followed in the United States and in Europe that had brought about mismatches and imbalances between savings and investment that had set the stage for an inescapable period of correction, due to unsustainable price and wage relationships and resource and capital uses, if there was to be a return to longer term growth and stability of the market economies in these countries.

There had been economic booms and busts, inflations and depressions in the past. These earlier downturns, however, had rarely been anywhere nearly as severe and disruptive as was being experienced in the 1930s. In the past, governments, for the most part, had kept a fairly “hands off” policy approach, allowing financial and investment and consumer markets to adjust and find their new coordinating price and wage patterns and resource and capital uses across sectors of the economy to return to full employment and output potentials.

The gold standard and growing government intervention

However, in the 1930s, governments did the opposite. The British government had ended the gold

standard as the basis of the country’s monetary system in September 1931. Following the inauguration of Franklin D. Roosevelt in the United States in March 1933, the United States was taken off the gold standard in June of that year with the command that Americans had to turn in their gold coins and bullion in exchange for Federal Reserve paper money under threat of arrest, confiscation, and imprisonment.

With the coming of the New Deal, Roosevelt imposed a fascist-style system of economic planning.

First under Republican President Herbert Hoover and then under FDR’s New Deal programs, the U.S. government ran large budget deficits, raised taxes on business, undertook sizable public works projects, and interfered with market-based adjustments of wages and prices to restore balance between supplies and demands. Indeed, with the coming of the New Deal, Roosevelt imposed a fascist-style system of economic planning over industry and agriculture that for all intents and purposes did away with the American market economy. Only a series of Supreme Court decisions in 1935 and 1936 that declared some of the major New Deal programs as

unconstitutional saved America from the possibility of a permanent command economy.

The Nazis formally introduced four-year central planning in 1936.

In the 1920s, Germany had a weak post–World War I democratic government, known as the Weimar Republic. In 1931 and 1932, the three largest political parties represented in the German parliament were the Social Democrats, the National Socialists (Nazis), and the Communists. In January 1933, Adolf Hitler was appointed Chancellor (prime minister), and within months, the Nazis were rapidly transforming the country into a totalitarian dictatorship, with government-directed spending and investment as the keystones of the National Socialist economic program. The Nazis formally introduced four-year central planning in 1936.

In neighboring Austria, where Mises was living and working as a senior economic analyst for the Vienna Chamber of Commerce, a brief civil war broke out in February 1934 between the fascist-oriented government and the armed forces of the Social Democratic Party,

which ended with the defeat of the Austrian socialists. Soon after, a new constitution was instituted that officially established an authoritarian political system and a corporatist economy. In October 1934, Mises left Austria and took up his first full-time professorship at the Graduate Institute of International Studies in Geneva, Switzerland. This enabled him to escape both from living under the fascist dictatorship in his home country and the rising tide of aggressive anti-Semitism in both Nazi Germany and in the Republic of Austria that became violent and deadly in Mises’s homeland after Hitler entered Vienna in March 1938 and Austria was annexed into the German Third Reich. (See my article “Celebrating the Arrival of Ludwig von Mises in America,” *Future of Freedom*, August 2020.)

Mises on the causes of the Great Depression

In February 1931, Mises delivered a lecture on “The Causes of the Economic Crisis,” which was soon afterwards published in German in an expanded version. The countries of Europe and the United States were caught in this Great Depression precisely because governments had failed to allow market-based

readjustments and rebalancing to restore production and employment.

Instead, governments did their utmost to maintain prices and wages at nonmarket levels through various forms of intervention and regulation. Tariffs protected uncompetitive domestic producers from foreign rivals; trade unions were privileged with unofficial power to shut down businesses and use violence to prevent nonunion workers from filling the jobs of union workers on strike as part of the attempt to impose higher-than-market wages; unemployment insurance was used to reduce the pressure on unions from the jobless; taxes on private enterprise reduced investment and threatened the consumption of capital; and government deficit spending was used to “create” jobs bound to be found to be mostly wasteful and unnecessary. From this Mises concluded:

If everything possible is done to prevent the market from fulfilling its function of bringing supply and demand into balance, it should come as no surprise that a serious disproportionality between supply and demand persists, that

commodities remain unsold, factories stand idle, many millions are unemployed, destitution and misery are growing and that finally, in the wake of all these, destructive radicalism is rampant in politics.... With the economic crisis, the breakdown of interventionist economic policy — the policy being followed today by all governments, irrespective of whether they are responsible to parliaments or ruled opening as dictatorships — becomes apparent.

The corrupting influence of the interventionist state

The corrosive effect such interventionist policies had on the functioning of the market and the perverse antisocial incentives it fostered in the private sector was explained by Mises a year later, in 1932, in an essay entitled, “The Myth of the Failure of Capitalism”:

In the interventionist state it is no longer of crucial importance for the success of an enterprise that the business should be managed in a way that it satisfies the demands of consumers in the best and least costly manner. It is far

more important that one has “good relations” with the political authorities so that the interventions work to the advantage and not the disadvantage of the enterprise. A few marks more tariff protection for the products of the enterprise and a few marks less for the raw materials used in the manufacturing process can be of far more benefit to the enterprise than the greatest care in managing the business. No matter how well an enterprise may be managed, it will fail if it does not know how to protect its interests in the drawing up of the customs rates, and in the negotiations before the arbitration boards, and with cartel authorities. To have “connections” becomes more important than to produce well and cheaply.

So, the leadership positions within enterprises are no longer achieved by men who understand how to organize companies and to direct production in the way the market situation demands, but by men who are well thought of “above” and “below,” men who understand how to get along with the press and all the po-

litical parties, especially with the radicals, so that they and their company give no offense. It is that class of general directors that negotiate far more with state functionaries and party leaders than with those from whom they buy and to whom they sell.

Since it is a question of obtaining political favors for these enterprises, the directors must repay the politicians with favors. In recent years, there have been relatively few large enterprises that have not had to spend very considerable sums ... [on] campaign contributions, public welfare organizations and the like... The crisis from which the world is suffering today is the crisis of interventionism and of national and municipal socialism, in short, it is the crisis of anti-capitalist policies.

The German economic environment was one in which a symbiotic relationship closely connected those in politics and the bureaucracy with special-interest groups desiring favors and privileges at others’ expense. It is not too surprising that a year later, in 1933, the corrupt and corrupting interventionist state

transitioned easily into the National Socialist command and control economy — and that in Mises’s own country of Austria, authoritarian fascism and the planned economy followed a year later in 1934.

Mises’s theory of the business cycle

However, even if a growing spiderweb of government interventionist policies explains how and why the Great Depression of the 1930s became so deep and prolonged, there still was the question of how and why the depression had occurred at all. In other words, what were the monetary and banking policies that preceded the Great Depression that made an economic downturn inevitable. Mises had first presented what later became known as the Austrian theory of the business cycle in *The Theory of Money and Credit*, and then in his monograph, *Monetary Stabilization and Cyclical Policy* (1928).

Mises’s theory of money, banking, and the business cycle was a synthesis of Carl Menger’s theory of money, Eugen von Böhm-Bawerk’s theory of capital, and Knut WickSELL’s theory of interest rates and prices. As we saw, earlier, building on Menger, Mises developed an analysis of the non-neutrality of money, that is, how changes in the

money supply works its way through the market in temporal-sequential patterns that influence the structure of relative prices and wages and the allocations of resources and capital among sectors of the economy.

The monetary and banking policies that preceded the Great Depression made an economic downturn inevitable.

Mises adapted Böhm-Bawerk’s theory of a time structure of investment and production, focusing on the price-coordinating market processes by which resources and labor are combined in the required stages of production to both produce capital goods and with capital to manufacture desired finished goods wanted by consumers. Each of these of stages of production must be successfully coordinated with the others. The “length” of the respective time-structures must also be consistent with the amount of overall savings in the economy so the needed and necessary resources, labor, and capital goods may be available to complete and maintain the complex processes of production through period after period of time.

As we also saw, the market-generated rate of interest assures that

investments undertaken are able to be maintained and kept within the bounds of the savings set aside by income-earners. In a world of scarcity, the uses for the resources of any society are in competition between different applications of them both in the present and between the present and time horizons of the future. More of them used in one direction means that there is less available to utilize in alternative ways.

Knut Wicksell on interest rates and the inflationary process

The Swedish economist Knut Wicksell (1851–1926) argued in *Interest and Prices* (1898) that if goods in the present directly traded for goods in the future, that is, as in barter transactions, the intertemporal competitively determined price between goods in the present and the future would tend to assure that investment was kept in balance with savings. The intertemporal price of present goods for future goods is the equilibrium “natural rate of interest.” However, in actual markets, all trades, including those across time, are undertaken through the medium of money. Money in the present (and the purchasing power over various goods that sum of money represents) is

traded for a sum of money in the future (and the purchasing power over various goods that sum of money is expected to represent).

In a world of scarcity, the uses for the resources of any society are in competition.

If the money rate of interest coincides with the hypothetical equilibrium “natural” rate of interest, then savings and investment are kept in coordinated balance even in a money-using economy. The problem, Wicksell pointed out, is that the quantity of money offered through the banking system for investment purposes may exceed the quantity of money that income-earners had originally deposited in the banking system as desired savings. Or banks could lend less in the form of money loans than had had been deposited with them as money savings. Thus, there could be either total money investments undertaken greater than money savings, or more money savings than money loans issued within the banking system. Thus, total investments greater than available savings, or total investments less than available savings.

Banks might try to extend money loans greater than deposited sav-

ings by setting the interest rate below the natural rate through the creation of bank notes or increased checking deposits for those additional borrowers to spend. But since scarcity continues to limit the real total of economic activities that can be undertaken, the increased quantity of money only ends up generating a cumulative rise in prices (price inflation) for as long as the money rate of interest is kept below the natural rate. Similarly, if the money rate of interest were to be set above the natural rate, total money loans undertaken would be less than available money savings, with part of the total quantity of money in the economy taken out of circulation, resulting in a cumulative decline in prices (price deflation) for as long as the money rate of interest was kept higher than natural rate.

Free banking and the limits on inflationary currencies

This was the backdrop to Mises's theory of the business cycle. As he developed the theory through the 1920s and 1930s, Mises argued that if there prevailed private competitive free banking, there would be market-based checks and balances preventing such imbalances between savings and investment from occurring to any significant degree.

If any one or number of banks decided to increase their respective quantity of bank notes or checking accounts by lowering the money rate of interest at which they were extending loans to potential borrowers, the sums borrowed would soon be spent by those borrowers on various goods and services they wanted to buy.

If there prevailed private competitive free banking, there would be market-based checks and balances.

Those receiving the banknotes issued in this way by, say, the Adam Smith Bank would deposit them in their own banks, say, the Thomas Malthus Bank and the David Ricardo Bank. The Thomas Malthus and David Ricardo Banks, receiving deposits of the banknotes of Adam Smith Bank from their bank customers, would trade them in through what is called the “clearing house,” demanding the gold or silver that those banknotes represent from the bank that issued them. Banks that have overissued their banknotes relative to other banks will experience a net outflow of their gold and silver deposit reserves. If they continue their own monetary expansion in this man-

ner, they threaten, over time, to face insolvency or even bankruptcy as the total number of banknotes claimed against them threaten a loss of all their gold and silver reserves.

At the same time, if their own depositors become concerned about the bank's solvency, that bank would risk facing a bank run, that is, many of their depositors all demanding their gold and silver money more or less simultaneously. Thus, in their own self-interest, under the pressures of the clearing house process and maintaining the confidence of their own depositor customers, private banks, under a competitive free-banking system, would have incentives to resist excessive creation of fiduciary media (banknotes and deposits not fully covered by gold and silver reserves).

Unjustifiable creations of banknotes and checking deposits (that is, in excess of actual gold and silver money deposited with that financial institution) would be kept in narrow bounds under private competitive banking. Looking over the market as a whole, therefore, investment would be kept within the scarcity constraints of actual savings set aside by income-earners for such purposes. As Mises explained it in *Monetary Stabilization and Cy-*

lical Policy, in a free banking environment, there might still be fiduciary media issued by banks:

However, banks would have to be especially cautious because of the sensitivity to loss of reputation of their fiduciary media, which no one would be forced to accept. In the course of time, the inhabitants of capitalistic countries would learn to differentiate between good and bad banks.... The management of solvent and highly respected banks, the only banks whose fiduciary media would enjoy the general confidence essential for money-substitute quality, would have learned from past experiences.

The cautious policy of restraint on the part of respected and well-established banks would compel the more irresponsible managers of other banks to follow suit.... For the expansion of circulation credit can never be the act of one individual bank alone, nor even a group of individual banks.... If several banks of issue, each enjoying equal rights, existed side by side, and if some of them sought to expand the volume of circula-

tion credit while others did not alter their conduct, then at every bank clearing, demand balances would regularly appear in favor of the conservative banks. As a result of the presentation of notes for redemption and withdrawal of their cash balances, the expanding banks would very quickly be compelled once more to limit the scale of their emissions.... It may be that a final solution of the problem of [unjustifiable monetary expansion] can be arrived at only through the establishment of completely free banking.

Central banks and monetary expansion

However, this was not how the banking systems had developed in Europe or North America. It is true that in the nineteenth century, after earlier experiences with paper-money inflations caused by governments or their central banks, new rules were established under which many of the leading central banks managed their systems according to the rules of the gold standard. But these remained, nonetheless, monopoly monetary systems controlled and managed by government central banks.

Governments and their central banks would periodically oversee undue expansions of fiduciary media and the artificial lowering of money interest rates through the banking systems under their control. This would set the stage for the types of price inflationary booms and price deflationary busts that Wicksell had outlined in *Interest and Prices*. This was only exacerbated in the twentieth century when central banks were taken off the gold standard by their respective governments, with no longer the check and fear of losing gold reserves underlying a country's monetary system.

The additional aspect to the Wicksellian process that Mises developed was a focus on the non-neutral manner in which monetary and credit expansions through the banking system distorted the relative price structure and the allocations and use of capital and labor across sectors of the market. Such an artificial lowering of the money rate of interest below the "natural" rate results in the newly created money and credit first passing into the hands of borrowers who utilize the new money at their disposal to undertake investment projects for which the amounts of real resources to complete and sustain

them will be found to be insufficient in the longer-run.

They place orders with the suppliers of capital equipment and construction enterprises to start or expand investment projects, and they hire workers to assist in these endeavors. The resources, labor and capital for these undertakings are drawn from more immediate consumption goods production through the offering of higher prices and wages made possible by the expansion of the money and credit by which those loans have been extended to them.

The central bank monetary authority increases the lending reserves of the banks.

If these factors of production had been redirected into the more time-consuming investment sectors due to actual increases in people's savings preferences (and therefore an implied decrease in preferences for consumer goods), the increased demands for inputs in investment goods production would have been counter-balanced by a decrease in the demands for consumer goods production. The changes in relative prices and wages, and reallocations of inputs from some areas of the market to others,

would have brought about the needed re-coordinated equilibrium. In time, the greater savings and completed investment activities would bring forth the improved and increased supplies of consumer goods that would be the future "reward" for foregone consumption in the more immediate present.

Monetary expansion and misallocation of resources

But this is not the case. Instead, the central bank monetary authority increases the lending reserves of the banks (in the case of the Federal Reserve of the United States, most frequently by purchasing U.S. government securities that the federal government has issued to cover deficit spending), which expands their ability to extend additional investment loans to interested borrowers in the private sector at lower rates of interest made possible by the increase in loanable funds in the banking system.

Borrowers compete away the resources, labor, and capital to initiate their investment projects by offering higher factor prices from their current employments in the consumer-goods sectors. But there are no corresponding decreases in consumer goods prices or the factor prices in these parts of the market

since there has been no decrease in consumer demands. Those drawn into the investment goods sectors may be presumed to have the same consumption-savings preferences they had before their new employments. They use their higher money incomes to demand the same proportions of consumer goods as before. Therefore, prices in the consumer goods and complementary factor markets rise, with those still employed in consumer-goods sectors experiencing also increases in their money wages and factor prices. But these higher prices and wages in the consumer goods parts of the economy act as a “pull” to attract workers and resources away from the investment goods markets and back to consumer-goods production.

If the monetary expansion, with the resulting lower rates of interest and greater investment borrowing, was a “one-off” act by the central bank, relative prices and wages and resource, labor, and capital uses would reestablish themselves after a short period of time in the pattern reflecting income earners’ underlying preferences for consumption and savings. But historically, the central-banking authorities, once they have initiated an expansionary monetary and lower interest-rate

policy, continue it period after period, with new injections of lendable funds into the banking system and with interest rates pressed down below where the market would set them in a noninflationary environment.

Prices continue to rise following in the temporal sequence in which the money is introduced.

Prices continue to rise following in the temporal sequence in which the money is introduced, spent first on investment activities, followed by rising factor incomes, and then by increased money demand for consumer and other goods and services. A tug-of-war occurs with investment goods producers and consumer goods producers competing against each other in the attempt to pull the factors of production in one direction and then another.

If the “twisted” production house of cards is to be maintained indefinitely, the central-bank authority finds it necessary to accelerate the rate of monetary expansion so in the temporal sequence of rising prices, the “injections” are great enough to keep the relative prices of production goods ahead of the relative prices of consumer goods. Otherwise, if consumer goods prices

completely catch up with or start to rise at a faster rate than production good prices, the monetary-induced investment patterns will be found to be unsustainable, and the recession phase of the business cycle will set it. And, indeed, unless the monetary authority allows the inflation to get completely out of control, with a resulting hyperinflation of economic chaos, the inflation must be ended or significantly slowed down, at which point the recession can no longer be avoided.

Stabilizing the price level destabilized the market process

In the 1920s, the Federal Reserve had attempted to maintain a stabilized “price level” in an economy of growing output, productivity increases, and cost efficiencies that would have otherwise resulted in falling consumer prices to the betterment of the buying public now able to purchase more and better goods at lower prices. Instead, the Federal Reserve increased the money supply in an attempt to counteract this benign price deflation. As a result, it in fact created a hidden price inflation by keeping prices in general higher than they otherwise would have been if the money supply had not been increased.

Thus, beneath the surface of a relatively stable “price level,” central bank monetary policy had set in motion a distortion and mismatch between savings and investment that inevitably had to end in an economic downturn. But an economic downturn became the Great Depression only because government interventions of sundry sorts had prevented the market process from bringing about a healthy rebalancing of supplies and demands and prices that would have brought back full employment without the economic disaster of the 1930s.

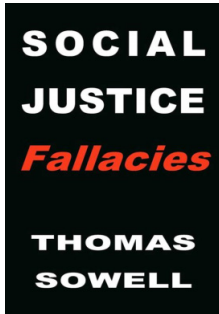
Richard M. Ebeling is the BB&T Distinguished Professor of Ethics and Free Enterprise Leadership at The Citadel. He was professor of economics at Northwood University and Hillsdale College, president of the Foundation for Economic Education, and served as vice president of academic affairs for FFF.

NEXT MONTH:
“The Global Economy: Free Trade versus Managed Trade”
by Richard M. Ebeling

Social Justice Fallacies

by George C. Leef

Social Justice Fallacies by Thomas Sowell (Basic Books, 2023)



Now 93, Thomas Sowell continues to produce excellent work — work that would help the United States escape from the grip of statism if people would heed him. Sowell has just published a new book, *Social Justice Fallacies*, and it contains a wealth of common sense about that terrible menace to freedom and prosperity, namely the Left's demand that we transform the country to conform to its concept of "social justice."

The obsession with equality

The central obsession of the Left is with equality. Their complaints about a free, truly liberal society

usually stem from the fact that freedom doesn't result in equality, therefore requiring that government employ coercion to bring it about. In the past, those people, who misleadingly call themselves "progressives," insisted that government power be employed to ensure equal opportunity for individuals. But after decades of government efforts aimed at that, the progressives have taken to demanding equality of outcomes for favored groups. To that idea, Sowell responds,

In the real world, there is seldom anything resembling the equal outcomes that might be expected if all factors affecting outcomes were the same for everyone.... People from different backgrounds do not necessarily even want to do the same things, much less invest their time and energies into development the same kinds of skills and talents.

He's right, of course. The world is not geared for equality, and most human beings are content with that fact. As he always does, Sowell supplies plenty of evidence to support his point. For example, in 1912 in Istanbul, the capital of the Ottoman Empire, which was ruled by Turks,

there were no Turks among the city's stockbrokers. That "inequality" was not because Turks were kept out but because the field didn't appeal to them, so it was dominated by "outsiders." No one minded that.

What about inequality between men and women? Statists have successfully demanded equal-pay laws, but as Sowell argues, no such laws were ever needed in a labor market with free competition. "As far back as 1971," he observes, "single women in their thirties who had worked continuously since leaving school were earning slightly more than men of the same description." Such facts, however, never deter statists from insisting on coercive "solutions."

The excuse of "institutional racism"

One of Sowell's biggest targets is the claim that racism is the cause of many of the disparities we see in society. He calmly argues that racism is rarely the reason for the problems that are blamed on it. For instance, we today hear that Black students in public schools are doing poorly because of "institutional racism."

But if that were true, how do we explain the fact that Black students in the 1970s managed to get into and graduate from New York City's elite public high school? Has "rac-

ism" become much more pronounced since then — or is there another explanation for the declining academic performance of Black students?

Sowell points out that culture explains backwardness far better than race does.

Sowell finds other factors to be responsible, especially the unionized schools that have been steadily abandoning academic rigor in favor of "feel-good" fads and ideological indoctrination. Naturally, that explanation is not one that "progressives" are willing to examine because control over public education is their pride and joy.

Sowell points out that culture explains backwardness far better than race does. White Americans living in Appalachia are just as educationally and economically depressed as are many American Blacks, but racism and "the legacy of slavery" is obviously not the reason.

The constant harping on racism as the obstacle to success for Blacks has adverse consequences for them by undermining their sense of personal agency. Sowell recounts an encounter between then-president Barack Obama and a young Black man who told him that he wanted

to become an Air Force pilot but gave up that idea because, he said, “they would never let a Black man fly a plane.” Sowell’s retort is piercing: “Whoever indoctrinated this young man did him more harm than a racist could have done.” Just so. Progressives apparently would rather have poorly educated and disaffected Blacks who look to government for things than capable ones who rely on themselves.

The Progressive mindset

Perhaps Sowell’s most devastating critique is aimed at intellectuals who regard themselves as superior to regular people and are therefore positioned to make decisions for them. He cites many of these arrogant people, such as President Woodrow Wilson, playwright George Bernard Shaw, and Harvard Law School Dean Roscoe Pound. Those know-it-alls were supremely certain about their ability to reshape and improve society, always through the coercive intervention of the state.

Wilson disliked the Constitution’s limits on federal authority and argued that the freedom it sought to protect was illusory; true freedom, according to him, came from the receipt of government benefits so people could thereby ac-

complish their goals in life. To Wilson, “freedom” didn’t mean the absence of coercion: rather, it depended upon government coercing some to give to others. Similarly, Pound was dissatisfied with our common law and constitutional traditions, advocating that judges set aside precedents and instead decide cases with “social justice” in mind.

Busybodies are only dangerous when they can harness the power of government to implement their utopian schemes.

Sowell abhors that “progressive” trait. Humanity has always had plenty of arrogant busybodies who are eager to rearrange society — to make decisions for other people. They are only dangerous when they can harness the power of government to implement their utopian schemes. A point he drives home is that the “reformers” are not the people who will pay for the cost of their errors. If readers learn nothing else from this book, they should understand that when decision-makers bear no cost if they are wrong, we will have a lot of bad decisions. Increasingly, that is exactly what’s going on as government power expands.

For example, intellectuals push for minimum-wage laws, claiming that such laws help to lift poor workers out of poverty by ensuring a “living wage.” They are wrong about that. Minimum-wage laws make many low-skilled workers unemployable because employers cannot afford to pay the mandated minimum hourly wage. But the intellectual crusaders don’t bear the cost of their unemployment: the hapless workers do.

Another good illustration Sowell gives is laws against payday lending. Payday lenders make short-term loans to people who are desperate for immediate cash. The borrowers are people who don’t have other ready sources of cash or credit and they pay what is a high interest rate for short-term loans. Progressive busybodies have managed to outlaw payday lending in some states, and they say they are protecting the poor against “exploitation.” But as Sowell points out, this deprives the poor of one option they could turn to when they’re badly in need of cash without providing them anything better. You can’t make people better off by taking options away from them. This is another case where intellectuals don’t bear the price of being wrong.

Another of Sowell’s targets are the social justice zealots who seek to suppress the natural tendency to choose people based on merit because that is supposedly unfair. He writes, “In the social justice literature, unmerited advantages tend to be treated as deductions from the well-being of the rest of the population.” Thus, we hear again and again about how “the rich” are “taking” too high a percentage of “national income.” The reformers want people to think that they are being victimized by greedy plutocrats, thereby engendering support for more governmental activism. What they don’t want people to understand is that when highly productive people earn (not “take”) more, they are adding to prosperity, not depriving others of anything.

If you want to be well-equipped to spar with our Social Justice Warriors when they demand government expansion, you should read and absorb the wisdom of Thomas Sowell. You’ll be able to stop them in their tracks.

George C. Leef is the research director of the Martin Center for Academic Renewal in Raleigh, North Carolina.

As the conditions of men become equal amongst a people, individuals seem of less, and society of greater importance; or rather, every citizen, being assimilated to all the rest, is lost in the crowd, and nothing stands conspicuous but the great and imposing image of the people at large. This naturally gives the men of democratic periods a lofty opinion of the privileges of society, and a very humble notion of the rights of individuals; they are ready to admit that the interests of the former are everything, and those of the latter nothing. They are willing to acknowledge that the power which represents the community has far more information and wisdom than any of the members of that community; and that it is the duty, as well as the right, of that power, to guide as well as govern each private citizen.

— Alexis de Tocqueville

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11350 Random Hills Road
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www.fff.org

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703-934-6101