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A MONTHLY JOURNAL OF IDEAS ON LIBERTY

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UTOPIA

dream into nightmare

ALEXANDER WINSTON

PLATO FATHERED the first blueprint of a planned society, and his descendants still clasp us in a sticky embrace while they rifle our freedoms. His *Republic* mapped out a spartan state run by benevolent philosophers, defended by a secondary caste of warriors, and supplied with the necessities of life by a mass of farmer-artisans whose only political role was to obey. He did away with two obstacles to the ordered state: private property and the family. In the *Republic* each citizen performs that task for which he is fitted; the lowly toiler's ignorance is his bliss; and all parts of the body politic function together in well-oiled harmony.

Thomas More's *Utopia* (Greek for "no-place") in 1516 gave the name to this whole type of literature. A spate of others followed: Andreae's *Christianopolis* (1619), Campanella's *City of the Sun* (1623); Bacon's *New Atlantis* (1627), to cite a few; then a growing flood rising from the French Revolution and spreading amidst the industrial turmoil of the nineteenth century (Edward Bellamy's *Looking Backward,* 1888, being the most popular); and on to our own day in such projections of the future as H.G. Wells' *Modern Utopia* (1905) and B.F. Skinner's *Walden Two* (1948).

They number by the score, and their variety in detail is as great. The majority rely on rule by an aristocracy of merit, a few try to preserve a modicum of democracy; most are communistic, but one at least (Hertzka's *Freelands,* 1890) recognizes self-interest as basic and aims to save capitalism by restraint on overproduction. They

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A former lecturer in philosophy at Tufts College, Dr. Winston has written extensively in the field of history. His most recent book is *No Man Knows My Grave: Privateers and Pirates, 1665-1715.*

may be secular or religious, agricultural or industrial, favorable to education or distrustful of it, resolutely egalitarian or frankly hierarchical.

Common Assumptions

However, certain elements of these multiform visions emerge with such frequency that they deserve our attention. The utopian pictures a static society in which careful planning solves every major problem of human life. Faith is placed in a collectivity that owns or controls all property. Competition for markets or jobs vanishes. Family ties diminish, and the rearing of children by the state is taken for granted. Everything is rationally ordered by those most capable of doing so: Plato's guardians, More's king and his advisers, Bacon's Solomon's House scientists, Bellamy's industrial council, Wells' austere samurai, Saint-Simon's Council of Newton, Campanella's quartet of superior men, Skinner's panel of psychologists.

In utopia everyone works, the women on equal terms with the men. Hours are short – four to six daily—and retirement as early as age fifty, but the wants of the people have a stoic simplicity, and all enjoy a decent living. There is little to quarrel over, the atmosphere is uniformly brotherly, crime is almost unknown and disease rare – a perfect whole of perfect parts, all supremely content. "U-topia," the no-place, is plainly "eu-topia" the happy place.

But how to get there? Utopians had no answer to that, and avoided the question. They sprang their flawless states full-armed from the ink-pot, always somewhere else – a distant island, an obscure wilderness, another planet – or at a dim future time. The transition from a callous, exploitive society, its people already deformed by prevalent evil, to one of affection and universal sharing, struck the utopians dumb. Their residue of hope rested in a double view of human nature. They mixed these two elements at will, for each one favored a regeneration of man's sorry existence. In one they saw man fundamentally good (but perverted by a debasing environment); in the other they saw man quite plastic, molded to the last detail by his surroundings. Either way, the right society would very quickly set men right.

A combination of circumstances after 1800 convinced social idealists that the time was ripe for bringing heaven to earth. The French Revolution had produced a new crop of theorists, the long hours and short pay of the early factory system promised to grind down the poor, and overseas the

American republic offered a haven for all who wanted to try something better than mankind had ever known. "Our fathers have not seen it," said Saint-Simon; "our children will arrive there one day, and it is for us to clear the way for them."

American Experiments

The result was more than 130 attempts to establish utopian societies in the United States during the nineteenth century. A ferment of change filled the air, even in staid New England. "We are all a little wild here with numerous projects of social reform," Emerson wrote to Carlyle. "Not a reading man but has a draft of a new community in his waistcoat pocket." Many of the settlements were European in origin as well as theory; some seeking escape from religious persecution, others imbued with recent secular plans for utopia; but all drawn by the cheap land of the American frontier and the easy tolerance of the young republic that had thrown off the shackles of old Europe and considered itself the vehicle of the new age. At last the utopians had before them something very like the fabulous island of the old dreamers. In America they could found minuscule states, as self-sufficient as possible, based on common ownership of property, filled with the brotherly spirit, and isolated from contamination by the outside world. "Our ulterior aim," said young Charles Dana of Brook Farm, "is nothing less than heaven on earth."

As might be expected, some of these starry-eyed experiments were simply preposterous. At Fruitlands that "tedius archangel" Bronson Alcott would not harness work-horses to the plow (unnatural), nor allow sugar (reaped by slaves), nor wear woolen cloth (robbed from sheep), nor spread manure on the fields (filthy stuff), nor burn whale-oil lamps (from slaughtered whales). Shakers led by an illiterate factory girl hailed as "Ann the Word" were strictly celibate, and regulated the lives of the faithful down to such details as what shoe to put on first in dressing, and which trouser-leg to step into. An irresistible little fellow in Michigan got himself proclaimed James I of Zion by 2,000 adherents and five wives; "King Benjamin" of the House of David announced that he was the younger brother of Jesus Christ; the final verdict in the early days of the Amana settlement rested with an oracular *Werkzeug* whose utterances came straight from God; the ruler of a Florida colony taught that we all live inside the earth, our feet on its inner surface. The Lake Erie

Brotherhood of the New Life gave major attention to the sisterhood, in the belief that:

> "Soul-life and sex-life are at one,
> In the Divine their pulses run."

Robert Owen and Charles Fourier

Founders of other perfectionist settlements were more sincere and a bit less silly. Robert Owen, a successful English textile manufacturer, believed community of property essential to the good life, and was sure that the individual is totally shaped by his environment. In 1825 he bought up the extensive holdings of a religious community that was moving from Harmony, Indiana. The 900 who flocked in at his open invitation seemed to Owen's son a "heterogeneous collection of radicals, enthusiastic devotees to principle, honest latitudinarians and lazy theorists, with a sprinkling of unprincipled sharpers thrown in." Owen's communal system gave full vent to their shabby ways. They couldn't run anything properly—flour mill, saw mill, tannery or smithy—and their only solution to problems of production was to write another constitution or make another speech. The industrious soon tired of supporting the idle. From the Nashoba, Tennessee Owenite settlement, leader Frances Wright informed Owen that "cooperation has nigh killed us all," and departed. Within two years every Owenite venture, fourteen in all, disintegrated.

Disciples of the unsmiling Frenchman Charles Fourier set up no less than twenty-seven American experiments. Fourier based his utopian ideal less on man's malleability than on his fundamental goodness. The twelve passions, which he carefully listed and classified, would act in perfect harmony with each other and with society as a whole if given a chance. Let people gather into "phalanxes" of some 2,000 members, housed communally in one huge "phalanstery" lying in a spread of 1,600 acres owned in common. Let each choose the work he wished to do. Pay the highest wage for disagreeable but necessary labor, less for the more attractive, and least for work that was downright pleasurable. Bring all goods produced to a single warehouse, where they could be purchased with work-tickets. In Fourier's ample vision all mankind would finally be gathered into three million phalanxes, coordinated by an Omniarch in Constantinople.

Fourier-inspired communes quickly died of dissension, ineptitude, and sheer tomfoolery. An attempt to use some Fourier principles dealt the final blow to the most charming and humane of all the utopian experiments, Brook Farm. The Farm was owned in shares; it intended to support itself by voluntary labor at an equal wage for all (ten cents an hour), and have plenty of time left over for culture. Some choice souls sought refuge there: The Rev. George Ripley, founder; Nathaniel Hawthorne, who soon discovered that forking manure ten hours a day was not conducive to literature; George Curtis, later to edit *Harper's;* and Isaac Hecker, a humble German who became a priest and instituted the Paulist Fathers. Good families sent their boys down to be prepared for Harvard at the Farm school.

Into this idyllic but financially precarious community of like minds swept a voluble enthusiast for Fourier, Albert Brisbane. He convinced them that their happy anarchy wouldn't work. They must organize. Tasks were specialized on Fourier principles; a Sacred Legion took on the dirtier jobs; unequal wages replaced equal pay; work became compulsory; uneducated artisans came in with their ignorant and sharp-tongued wives; and before long the genial spirit that had held Brook Farm together evaporated. Six years after its beginning in 1841 the Farm was sold to West Roxbury (Mass.) for an almshouse, thus passing, in the words of one observer, from "the highest ideal" to "the lowest actual."

Two That Remain

Two utopian communes have the distinction of remaining, though much altered, to the present day. In 1848 John Humphrey Noyes settled fifty-one Perfectionists along Oneida Creek near Utica, New York, an area so filled with fiery religious fanatics that wits called it "the burned-over district." A slab-chinned fellow with a scraggly beard and bleating voice, Noyes was nevertheless personally impressive, and a canny manager of people. He quipped that too many agricultural communes had "run aground," and set out to make Oneida industrial. The growing membership (an average of 250) canned farm produce for the market, made traveling bags and a special type of steel trap, spun silk, silver-plated dinnerware, and prospered.

Noyes' word was law. He rested it on divine inspiration, and exerted pressure so gently that no one thought him despotic. The individual at Oneida had no life apart from the community—property in common, personal acts under common scrutiny, sexual sharing on the theory that monogamy was un-Christian "claiming." The women said that they belonged to God first and Noyes next, an order of precedence that they in fact reversed. A system of selective breeding called "stirpiculture" admitted only the most fit to parenthood. Children lived apart, rarely seen by their parents.

For thirty years Oneida adhered to the original plan. By 1880 Noyes had aged; the religious spirit that he had evoked flickered; the young revolted at the idea of sharing spouses and surrendering their children. The commune converted to a joint-stock company in an effort to avoid collapse, but its old habits were too ingrained. In 1890 P.B. Noyes, one of the founder's "stirpiculture" sons (he sired ten) saved the community by transforming it into a typical well-run American business. He concentrated on silverware, cut costs, emphasized teamwork, hustled, advertised, and competed. Today Oneida differs in no essential from any other enlightened manufacturing firm.

Where Oneida chose industry, the Amana community of Iowa remained rural, and even more pervasively religious. Eight hundred Germans of the "True Inspiration" sect established it in 1854 on 26,000 choice acres, seven villages spread in a circle around the central one. Every member surrendered all his capital to the common fund (if he left, he got it back with interest) and in return was guaranteed his necessities for life. Under the rule of church elders the maxim, "obey, without reasoning, God, and through God your superiors," kept members in line. Amana supplied its own needs—weavers, cobblers, tailors, watchmakers, pharmacies, printshop – and exported only high-grade woolen cloth. As much as possible the members ignored the world around them, even hiring outsiders to serve in the hotel lest their own girls be corrupted.

By 1900 Amana's piety had waned. Without the invigorating spur of competition the economy lagged badly. In 1932 it became a joint-stock company intent on profit. A business manager brought in from the outside trimmed the labor force of its hired hands, closed shops that had run at a loss for years, eliminated fifty-two inefficient dining halls, sold businesses into private hands and houses to their occupants. Still quaint and quiet today, Amana is a producing and marketing cooperative, without a vestige of its former communism.

American experiments that went under in two years, as many did, had too large a proportion of misfits whose record outside was one of steady failure. Intimacy bred discord, as people living too close together bumped each other at every turn. The absence of competition resulted in lethargy. None of these eccentrics had any business sense; the purchase of a 300-acre tract in Pennsylvania, for example, was made in midwinter snows by an artist, a doctor and a cooper, and turned out to be rock-and-sand that had to be abandoned in a year. The Ruskin colony in Tennessee (1894) was ruined by an agent who took such pleasure in making a sale that he sold regularly at a loss. Occasionally plain chicanery was too much for the innocent: the Rev. Adin Ballou lost his "miniature Christian republic" at Hopedale when one of his Christians bought up enough shares to force everyone else out. Worse, the utopians misread human nature. "If men were angels," remark the *Federalist Papers,* "no government would be necessary." The utopians discovered to their sorrow that men are not angels now, nor can be so shaped.

Displaced by the Welfare State

While these sad little failures gathered dust, Americans awoke to the fact that in the welfare state of the western democracies, and more explicitly in communist Russia, utopia had already arrived on a massive scale. The results in this country stirred up a general unease. Every step that added to the individual's security detracted from his liberty; every move toward the better life exacted its toll. The United States government assumed vast new powers to tax, spend – and regulate the affairs of its citizens. Mass production and the communications media created a bland uniformity, with the flesh-and-blood breadwinner converted into a Social Security number. Welfare programs that averted gross poverty also robbed the individual of his initiative. Women's equality did much to skyrocket divorce. The same technological advance that increased abundance polluted the landscape. Nuclear energy was more bomb than blessing. Parents did all they could to make a heaven on earth, and their children kicked them in the stomach for the effort.

The West edged piecemeal toward the planned society; Russia made it in a leap. Marx had revived the utopian dream and promised its fulfillment: abundance of consumer goods, universal happiness, absolute equality, peace at home and abroad, government that would hardly need to govern – a perfect whole of perfect parts. Liberals who had been beguiled by this splendid vision shuddered at the actuality. In Russia the government clamped an iron grip on the people and showed no inclination to let go. Everything was in short supply except armaments. The mildest critic of the regime was branded a traitor, and shipped off to Siberia. Art and science became tools of the Party; news media spewed nothing but the official line; and the calculated lie became a habit. The planned society, dreamed of through the ages, turned out to be the police state.

Americans who had believed in a steady march to the promised land now quailed at the prospect. Once they had yearned for utopia; now they asked themselves, "What can we do to prevent it?"

Anti-utopian novels clanged like warning bells in the night. Eugene Zamiatin's *We* (1920) was among the first, and dozens followed (if we include science fiction), notably Aldous Huxley's *Brave New World* (1932), Vladimir Nabokov's *Bend Sinister* (1947) and George Orwell's *1984* in 1949. They draw a frightening picture of the planned society: its ruthless manipulation by the rulers of the ruled, its grey-faced homogeneity, its stifling of creative change, its reduction of man to a producing and consuming animal, its hideous distortion of truth. Once the masters of this nightmare society are in the saddle, few can escape or even want to. Human nature, in these anti-utopias, is infinitely malleable; men can be taught to kiss their chains.

Are we all doomed to this? There is reason to doubt it. The anti-utopian sounds a needed alarm, but he badly overplays his hand. He regards the individual as an empty sack into which any rubbish can be poured. Even the lonely rebels of anti-utopian novels are spineless, stupid, or both. D-503 of *We* can build a cosmic machine, but is otherwise a bumbling idiot; Bernard in *Brave New World* is a sniveling coward; Smith in *1984* is a perverter of truth by vocation and a love-sick ninny on the side; the renowned philosopher Kruger in *Bend Sinister* has a backbone of rope. In anti-utopia western man has thrown away every vestige of his hard-won rights, to gain a bovine placidity. All the world is content to chew its cud.

Common Sense May Prevail

Such a view undoes history. Western man has shown himself far too stubborn, restless and plain cussed for any such fate. Once the common man has had a full taste of speaking his mind, no one can shut him up for long. Once he is used to the ballot, and the exhilarating experience of throwing the rascals out, he can be deprived of it only under the most extraordinary conditions. Once real power is firmly established at the base of the political pyramid (as it never was in Russia or China), tyranny from the top becomes an outside chance.

This may be faith, but it is a faith worth having. A man's essence is his hazardous freedom. It is built-in, inexpungeable. For it he has fought wars, rioted, hidden in catacombs, gone to the stake, killed kings, languished in prison, and he does not forget. Freedom disrupts old orders, and sometimes gives the impression that everything nailed down is coming loose, but as long as Americans demand it as their right, the horrors of the police state will stay beyond our borders.

Umpire

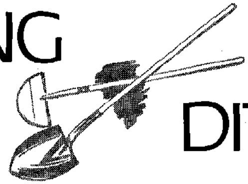
IN GENERAL, nothing happens except a change in the weather, unless somebody makes it happen. Under a free economic system, the man who makes things happen is called an enterpriser. With his own savings or savings borrowed from others, he goes into farming, manufacturing, mining, or banking, and begins producing goods or moving them around. That much is basic.

IDEAS ON LIBERTY

Thomas Nixon Carver, the economist, said the reason many countries are backward is that there was nobody who cared to invest in them. Either the government itself was predatory, or thieves and robbers roamed unmolested. In such countries the rich keep their wealth in the form of unproductive goods – gold and jewels – which they can hide and easily transport when things get too tough.

If a nation wants production and prosperity, the persons to encourage are the enterprisers. Not only should they be encouraged to build and produce, but they should be assured that their property and a decent part of their gains are protected against confiscation. If they lose part or all of their savings in the competitive game, they must take the loss and shut up. Government's main job is to see that the rules are fair and are enforced.

FROM *The William Feather Magazine*, November, 1971

DIGGING  DITCHES

Robert W. Demers

I first met Joe when I was about ten. My dad was foreman on a sewer job in our town and they were digging a long ditch for the pipe on the street where we lived. I was watching the men dig – no machines in those days. About mid-morning a horse-drawn vegetable wagon pulled up where several of the men were on the bank taking a "break." I noticed Joe because he bought a large cabbage, cut it in half with his jack knife, and proceeded to munch on it, raw. I was watching him, wide-eyed, when he smiled, cut off a slice of the cabbage, and offered it to me. I bit into it, hesitantly, and soon found that I liked it very much. That was the first good thing I learned from Joe, the first of many things I would learn from him over a period of several years.

Joe was a short, squat man, barrel chested, short legs, and a long, powerful torso. He was already past 40 when I first met him, with a thick thatch of greying hair and a catching little accent in his voice. His father came to this country from Italy, but Joe was born in New York City and had migrated to the mountains with his wife and family. That's when he began working for my granddad, digging ditches.

Whenever I could, through the years, I would "visit" with Joe wherever he was working. He had many interesting stories to tell a young boy, and a great pride in his work.

He taught me the proper way to use a round-nosed shovel, a square-nosed shovel, a long-handled and a short-handled shovel. It was important to keep the sides of the ditch perpendicular, to keep the banks clean, to throw the dirt in a certain place and a certain distance from the edge of the ditch. The ditches varied in width, and the angles of the sides varied depending upon the condition of the soil. No facet of Joe's digging was too insignificant to command his full interest and attention. He loved to talk about his job and to show others how to do the job "properly."

I recall my sadness on hearing that Joe no longer dug ditches for

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the city. One of his daughters, in my class at school, told me her father had gone into business for himself, digging ditches. Before long, he was the most sought after ditch digger in town. Mechanical contrivances were now available, but there were still a hundred and one places where a ditch could only be dug by hand; there you'd find Joe. Most of the plumbers in town were "waiting in line" for Joe's skills, even holding off on certain jobs until he could dig their ditch, or their hole, or whatever digging they needed.

Through the lean Depression years, Joe was one of the very, very few who found full employment. Somewhere Joe kept "digging." His pay sometimes was a sack of beans, a chicken, or a dozen eggs, but his children, all seven of them, remained well, strong, and in school.

Few, indeed were the people in town who didn't know Joe, who didn't know and who didn't tell everybody that he was "the best ditch digger ever," and that he also built the "best stone walls and fences," and grew the "most beautiful roses."

Years later, on a fall day when the cabbages were ripe, I sought out Joe, where he was digging a ditch along a side hill. I was on leave for a few weeks and had learned that Joe's son, one of my classmates, had died on the beaches at Normandy. As I walked up the hill, Joe greeted me with the same big smile. His hair was snowy white now, his back a little more hunched, his stance a bit more squat, but his arms were still sinewy, muscular and powerful, as he cupped one hand over the end of the hickory handle of his beloved shovel and extended the other warmly and affectionately in my direction.

We talked long in the warmth of the autumn sun. I learned that a job worth doing is a job that ought to be extremely well done. I learned something of the distance I must travel toward such a worthy goal. Joe was sure that most of the trouble in the world stemmed from the refusal of people to exercise to their fullest potential the talents with which they were blessed. I wish that everyone might hear the tone, the richness, the wisdom in Joe's voice as he said: "A man ought to find out, as soon as possible, what it is that he *can* do, then learn and study, and do it as best he can *all* of his life. If a man really did this he'd have no time to drift to the right or the left, or to stumble up or down because he'd be too busy doing well what he knew best, best for himself and for all those about him; and he'd be happy and rich, both here and beyond."

ON APPEASING ENVY

HENRY HAZLITT

ANY ATTEMPT to equalize wealth or income by forced redistribution must only tend to destroy wealth and income. Historically the best the would-be equalizers have ever succeeded in doing is to equalize downward. This has even been caustically described as their intention. "Your levellers," said Samuel Johnson in the mid-eighteenth century, "wish to level *down* as far as themselves; but they cannot bear levelling *up* to themselves." And in our own day we find even an eminent liberal like the late Mr. Justice Holmes writing: "I have no respect for the passion for equality, which seems to me merely idealizing envy."[1]

Henry Hazlitt is well known to FREEMAN readers as author, columnist, editor, lecturer, and practitioner of freedom. This article will appear as a chapter in a forthcoming book, *The Conquest of Poverty*, to be published by Arlington House.

At least a handful of writers have begun to recognize explicitly the all-pervasive role played by envy or the fear of envy in life and in contemporary political thought. In 1966, Helmut Schoeck, professor of sociology at the University of Mainz, devoted a penetrating book to the subject.[2]

There can be little doubt that many egalitarians are motivated at least partly by envy, while still others are motivated, not so much by any envy of their own, as by the fear of it in others, and the wish to appease or satisfy it.

But the latter effort is bound to

[1] *The Correspondence of Mr. Justice Holmes and Harold J. Laski* (ed. M. De Wolfe Howe, 2 vol. Cambridge, Mass., 1953). From Holmes to Laski, May 12, 1927, p. 942.

[2] Helmut Schoeck, *Envy* (English translation, Harcourt, Brace & World, 1969).

be futile. Almost no one is completely satisfied with his status in relation to his fellows. In the envious the thirst for social advancement is insatiable. As soon as they have risen one rung in the social or economic ladder, their eyes are fixed upon the next. They envy those who are higher up, no matter by how little. In fact, they are more likely to envy their immediate friends or neighbors, who are just a little bit better off, than celebrities or millionaires who are incomparably better off. The position of the latter seems unattainable, but of the neighbor who has just a minimal advantage they are tempted to think: "I might almost be in his place."

The Urge to Deprive Others

Moreover, the envious are more likely to be mollified by seeing others deprived of some advantage than by gaining it for themselves. It is not what they lack that chiefly troubles them, but what others have. The envious are not satisfied with equality; they secretly yearn for superiority and revenge. In the French revolution of 1848, a woman coal-heaver is reported to have remarked to a richly dressed lady: "Yes, madam, everything's going to be equal now; I shall go in silks and you'll carry coal."

Envy is implacable. Concessions merely whet its appetite for more concessions. As Schoeck writes: "Man's envy is at its most intense where all are almost equal; his calls for redistribution are loudest when there is virtually nothing to redistribute."[3]

(We should, of course, always distinguish that merely negative envy which begrudges others their advantage from the positive ambition that leads men to active emulation, competition, and creative effort of their own.)

But the accusation of envy, or even of the fear of others' envy, as the dominant motive for any redistribution proposal, is a serious one to make and a difficult if not impossible one to prove. Moreover, the motives for making a proposal, even if ascertainable, are irrelevant to its inherent merits.

We can, nonetheless, apply certain objective tests. Sometimes the motive of appeasing other people's envy is openly avowed. Socialists will often talk as if some form of superbly equalized destitution were preferable to "maldistributed" plenty. A national income that is rapidly growing in absolute terms for practically everyone will be deplored because it is making the rich richer. An implied and sometimes avowed principle of the British Labor Party leaders

[3] *Ibid.*, p. 303.

after World War II was that "Nobody should have what everybody can't have."

Equality, Yes; Abundance, No!

But the main objective test of a social proposal is not merely whether it emphasizes equality more than abundance, but whether it goes further and attempts to promote equality at the expense of abundance. Is the proposed measure intended primarily to help the poor, or to penalize the rich? And would it in fact punish the rich at the cost of also hurting everyone else?

This is the actual effect, as we saw earlier,[4] of steeply progressive income taxes and confiscatory inheritance taxes. These are not only counter-productive fiscally (bringing in less revenue from the higher brackets than lower rates would have brought), but they discourage or confiscate the capital accumulation and investment that would have increased national productivity and real wages. Most of the confiscated funds are then dissipated by the government in current consumption expenditures. The long-run effect of such tax-rates, of course, is to leave the working poor worse off than they would otherwise have been.

There are economists who will admit all this, but will answer that it is nonetheless politically necessary to impose such near-confiscatory taxes, or to enact similar redistributive measures, in order to placate the dissatisfied and the envious – in order, even, to prevent actual revolution.

Appeasement Provokes Envy

This argument is the reverse of the truth. The effect of trying to appease envy is to provoke more of it.

The most popular theory of the French Revolution is that it came about because the economic condition of the masses was becoming worse and worse, while the king and the aristocracy remained completely blind to it. But Tocqueville, one of the most penetrating social observers and historians of his or any time, put forward an exactly opposite explanation. Let me state it first as summarized by an eminent French commentator in 1899:

> Here is the theory invented by Tocqueville.... The lighter a yoke, the more it seems insupportable; what exasperates is not the crushing burden but the impediment; what inspires to revolt is not oppression but humiliation. The French of 1789 were incensed against the nobles because they were *almost* the equals of the nobles; it is the slight difference that can be appreciated, and what can be appreciated that counts. The

[4] "Should We Divide the Wealth?" in THE FREEMAN, February, 1972, p. 100.

eighteenth-century middle class was rich, in a position to fill *almost* any employment, *almost* as powerful as the nobility. It was exasperated by this "*almost*" and stimulated by the proximity of its goal; impatience is always provoked by the final strides.[5]

I have quoted this passage because I do not find the theory stated in quite this condensed form by Tocqueville himself. Yet this is essentially the theme of his *L'Ancien Régime et la Révolution,* and he presented impressive factual documentation to support it.

As the prosperity which I have just described began to extend in France, the community nevertheless became more unsettled and uneasy; public discontent grew fierce; hatred against all established institutions increased. The nation was visibly advancing toward a revolution. . . .

It might be said that the French found their position the more intolerable precisely where it had become better. Surprising as this fact is, history is full of such contradictions.

It is not always by going from bad to worse that a country falls into revolution. It happens most frequently that a people, which had supported the most crushing laws without complaint, and apparently as if they were unfelt, throws them off with violence as soon as the burden begins to be diminished. The state of things destroyed by a revolution is almost always somewhat better than that which immediately preceded it; and experience has shown that the most dangerous moment for a bad government is usually that when it enters upon the work of reform. Nothing short of great political genius can save a sovereign who undertakes to relieve his subjects after a long period of oppression. The evils which were endured with patience so long as they were inevitable seem intolerable as soon as a hope can be entertained of escaping from them. The abuses which are removed seem to lay bare those which remain, and to render the sense of them more acute; the evil has decreased, it is true, but the perception of the evil is more keen. . . .

No one any longer contended in 1780 that France was in a state of decline; there seemed, on the contrary, to be just then no bounds to her progress. Then it was that the theory of the continual and indefinite perfectibility of man took its origin. Twenty years before nothing was to be hoped of the future: then nothing was to be feared. The imagination, grasping at this near and unheard of felicity, caused men to overlook the advantages they already possessed, and hurried them forward to something new.[6]

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[5] Emile Faguet, *Politicians and Moralists of the Nineteenth Century* (Boston: Little, Brown; 1928), p. 93.

[6] Alexis de Tocqueville, *On the State of Society in France before the Revolution of 1789.* (London: John Murray, 1856) pp. 321-324. Also available as *The Old Regime and the French Revolution* in a Doubleday paperback.

Aggravated by Sympathy

The expressions of sympathy that came from the privileged class itself only aggravated the situation:

> The very men who had most to fear from the fury of the people declaimed loudly in their presence on the cruel injustice under which the people had always suffered. They pointed out to each other the monstrous vices of those institutions which had weighed most heavily upon the lower orders: they employed all their powers of rhetoric in depicting the miseries of the common people and their ill-paid labor; and thus they infuriated while they endeavored to relieve them.[7]

Tocqueville went on to quote at length from the mutual recriminations of the king, the nobles, and the parliament in blaming each other for the wrongs of the people. To read them now is to get the uncanny feeling that they are plagiarizing the rhetoric of the limousine liberals of our own day.

All this does not mean that we should refrain from taking any measure truly calculated to relieve hardship and reduce poverty. What it does mean is that we should never take governmental measures merely for the purpose of trying to assuage the envious or appease the agitators, or to buy off a revolution. Such measures, betraying weakness and a guilty conscience, only lead to more far-reaching and even ruinous demands. A government that pays social blackmail will precipitate the very consequences that it fears.

[7] *Ibid.*, pp. 329-330.

The "Law of Sympathy"

IDEAS ON LIBERTY

BUT AID and sympathy must operate in the field of private and personal relationships under the regulation of reason and conscience. If men trust to the State to supply "reason and conscience," they so deaden themselves that the "law of sympathy" ceases to operate anywhere. Men who shrug off their personal obligations become hard and unfeeling, and it is small wonder then that they are entirely willing to go along with hard and unfeeling politics. It is when he decides to "let the State do it" that the humanitarian ends up by condoning the use of the guillotine for the "betterment" of man.

FROM JOHN CHAMBERLAIN'S REVIEW OF SUMNER'S *What Social Classes Owe to Each Other,*
September 1955 issue of *Ideas on Liberty.*

CLARENCE B. CARSON

THE FOUNDING OF THE AMERICAN REPUBLIC

8

British Acts Become Intolerable

THE REPEAL of the Stamp Act in early 1766 did not put an end to resistance in America. It did lower the level of the contest between Britain and America from its crisis proportions by removing the most conspicuous irritant. But repeal of the Stamp Act only whetted the appetite of some Americans for much more thoroughgoing removal of British impositions. As early as April the New York Sons of Liberty were demanding that "Americans should also insist on the removal of all restrictions on trade, the abolition of post offices and admiralty courts, and they should do so 'while the colonies are unanimous.' "[1]

After all, most of the parliamentary acts against which the colonists objected were still on the books, and executive action remained unaltered. Troops were still stationed in America, and naval ships of war were stationed along the coast. The Sugar Act was still in effect. New York merchants sent a petition to Parliament in 1766 complaining bitterly about the effects of trade restrictions upon their commerce. Re-

[1] Merrill Jensen, *The Founding of a Nation* (New York: Oxford University Press, 1968), p. 186.

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straints upon imports and exports of sugar were particularly galling, and their trade was hurt badly by limitations on how wood products could be sold.[2] The Quartering Act still placed requirements on the colonies involved which some of them refused to comply with. The Currency Act restricted the issuance of paper money both upon colonies which had responsibly retired theirs in the past as well as those which had not. And there was the Declaratory Act with its strident claims about the unlimited powers of Parliament.

The Strategy of Resistance

The colonists employed a variety of tactics in their resistance to British impositions during the decade or so after 1763: some legal, some extra-legal, and others illegal. These tactics ranged from resolutions of legislatures, to petitions to the government in England, to unauthorized conventions and congresses, to boycotts, to demonstrations, all the way to rioting and the intimidation of officials by mobs. The use of some of these latter tactics in recent years has been justified on the grounds that they were employed by our venerated forebears — an excuse whose merits would be dependent upon analogous conditions. It may be of some use to examine the conditions of the resort to violence by some Americans of that earlier time, both for the light it will shed on their situation as well as what it may tell us about the appropriateness of this justification for contemporary violence. By such an examination, too, the issues between the colonists and the British can be sorted out.

[2] *Ibid.*, pp. 207-08.

What tactics are appropriate is surely dependent on the options available. To understand what options were available to the colonists, one needs to review the political situation.

The colonists did not fully control their governments. Far from it, in most cases. Usually, the governor was appointed from England (the charter colonies of Connecticut and Rhode Island were exceptions), and he quite often received instructions from officials there. No more did the colonists ordinarily choose the members of the governor's council. The assembly was popularly elected, but its actions could be severely circumscribed. It met on call from the governor, could have its acts vetoed by him, and was subject to being dismissed or dissolved by the executive. There were even efforts to control assemblies from England. For example, the New York legislature was suspended for its failure to provide supplies for the troops under the Quartering Act.

Therefore, legislatures were greatly hampered when it came to preventing impositions on the colonies. No direct action was open to them ordinarily because of the power of governor and council to negate such action.

Nor was there any established means for intercolonial action; none had ever been set up, and the British were not about to allow any to be legally established during the decade under consideration. At best, only extra-legal means were available for concerted action across the lines of colonies. The means for legal action by the colonists were limited then, not, as is the case usually, the means for some minority to express itself, but for the colonies as a people. This distinction is quite germane both for the justifications of revolution which would be offered in the 1770's and for such justification as there could be for illegal action prior to the revolt.

A Balance of Powers

Now the elected legislatures had gained considerable power during the colonial period, as was shown in an earlier chapter. That power derived mainly from their authority to originate taxes and appropriations. Governors even depended upon the elected legislature for their salaries in most colonies, and all actions requiring moneys awaited legislative action. Governors and other crown officials were dependent upon or subject to the local populace in other ways as well. The force that had ordinarily been at their disposal before the period under discussion had to be exercised by militia and other local persons. Crown officials had to act through courts whose judges might be appointed by governors but whose most basic decisions were made by juries; and they could, themselves, be brought before the courts for mistreating colonists.

In short, a precarious balance of powers had grown up over the years in most colonies. Colonial legislatures were counter-balanced by governors and councils, and the governor's power was limited by the necessity of his relying upon elected legislatures. Action depended upon a considerable measure of co-operation among the branches of government. If they would not act together, many kinds of action could not be taken.

Massive resentment was aroused in the 1760's, then, when Parliament moved to alter these arrangements: by taxing colonists, by making appropriations, by sending standing armies, by setting up admiralty courts without juries, and so on. The thrust of parliamentary action was to eviscerate the independence of elected legislatures.

The Quartering Act points this up, for the act required that colonies appropriate supplies for troops within the colony. If a legislature had to act in this fashion, it was hardly independent of Parliament. If Parliament could tax the colonists, it could appropriate moneys to free officials within the colonies from dependence on the legislatures. The fear of this was no phantom, for Parliament was moving in this direction on governor's salaries. Of course, taxation by Parliament raised another basic issue. The Connecticut legislature put the matter in this fashion in 1765:

> That, in the opinion of this House, an act for raising money by duties or taxes differs from other acts of legislation, in that it is always considered as a free gift of the people made by their legal and elected representatives; and that we cannot conceive that the people of Great Britain, or their representatives, have right to dispose of our property.[3]

In fact, Parliament was moving to unbalance the powers within colonies and make the colonies subject to itself. The colonists raised the question from the outset whether Parliament had the authority to do this. This question, in turn, led to an even more basic one: What was the extent of parliamentary authority over America? This was a question for which no definitive answers had ever been given. As Richard Bland of Virginia said in 1766: "It is in vain to search into the civil constitution of *England* for directions in fixing the proper connection between the colonies and the mother-kingdom. . . . The planting colonies from *Britain* is but of recent date, and nothing relative to such plantation can be collected from the ancient laws of the kingdom. . . ." He argued that "As then we can receive no light from the laws of the kingdom, or from ancient history to direct us in our enquiry, we must have recourse to the law of nature, and those rights of mankind which flow from it."[4] Others sought to base the argument, however, on charter rights.

Colonial spokesmen generally maintained that Parliament could properly regulate relations among the parts of the empire and with other nations. They accepted the sovereignty of the British government over them and did not question – during the early years – that Parliament played a role in changes in the actions of the sov-

[3] Quoted in Edmund S. Morgan, "Colonial Ideas of Parliamentary Power,: *The Reinterpretation of the American Revolution,* Jack P. Greene, ed. (New York: Harper and Row, 1968), p. 166.

[4] Jack P. Greene, ed., *Colonies to Nation* (New York: McGraw-Hill, 1967). pp. 88-89.

ereign. Beyond these general functions, Parliament should not go. The position of Parliament regarding its powers over the colonies was set forth in the Declaratory Act: it could legislate for the colonies in all matters whatsoever.

Who was right? The answer to that question depends on what is right. The majority in both houses of Parliament never proposed to consider the question. They did not doubt that they had the authority to take what actions they would (Where were the limits upon them?), and they did not appear to doubt that when called upon they would have the necessary power to enforce their acts. It was not a matter of what was right (a minority in Parliament disagreed about this), it was only a matter of what was expedient.

The colonial opposition, from the beginning, did tackle the question from the angle of what was right. They believed that Parliament, by right, was limited in what it could do. They believed that the original charters, the British constitution, and, in the final analysis, the laws of nature, set bounds to the authority of Parliament. The colonists should be adjudged to have been right, then. Since Parliament chose to act on the grounds of expediency, it is only fair that they should be judged, in part, on those grounds. It turned out not to have been an expedient course, for by it the American empire, except for Canada, was lost. Since Parliament did not choose to stand on right, the colonist's position as to right can be accepted without difficulty, because it was not contested.[5]

In any case, Parliament and the colonies were on a collision course each time they acted from their opposite premises. Parliament might, and did, find it expedient to back down on particular issues, though not on the general principle. The colonists, on the other hand, since they did not suppose themselves to be acting from expediency, did not back down. Once Parliament no longer found it expedient to back down, the die was cast.

The Townshend Acts

Parliament plunged ahead with new legislation aimed at the colonies in 1767. The leader in formulating this legislation was Charles Townshend, and it became known

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[5] This does not mean that colonists were right in everything they did in opposition to British action, nor that others at some later time would be justified in imitating their every action, even if they found themselves in analogous conditions. The rightness of a cause does does not absolve people from moral and just behavior. That a cause is just is reason for working for its triumph, not for the engaging in wrongful acts.

as the Townshend Acts. For a while after the repeal of the Stamp Act, things began to look better for the colonies. William Pitt formed a cabinet, and he had been quite outspoken on the side of the colonies during the debates over the Stamp Act. In fact, Pitt was far and away the most popular Englishman in America at this time, though truth to tell he had little competition. But Pitt was made the Earl of Chatham, moved into the House of Lords, and was debilitated by illness. The legislative leadership passed to Charles Townshend, chancellor of the exchequer, in 1767.

Taxes and Intervention

The act which has drawn the most attention was the one levying import duties on glass, lead, painter's colors, paper, and tea. During the debates over the stamp tax the distinction between internal and external was talked about considerably. Some got the impression that Americans accepted external taxes, but not internal ones. Operating from this premise, Townshend argued that Americans should accept these new duties, since they were levied on imports and would be considered external taxes. The act indicated that it was for the purpose of raising a revenue, that such moneys as were raised would go first to defray costs of governing in America, that what was left would go to the British treasury, and that the duties must be paid in silver. It also authorized the use of writs of assistance to be used in searching for goods on which duties had not been paid and specifically empowered "his Majesty's customs to enter and go into any house, warehouse, shop, cellar, or other place, in the *British* colonies or plantations in *America,* to search for and seize prohibited or uncustomed goods" with writs which courts in America were directed to issue.

Another act, passed at the same time, was the American Board of Customs Act. This established a board of customs for America, to be composed of five commissioners, and to be located at Boston. A little later in the year, an act was passed suspending the New York legislature for not providing troop supplies. In a similar vein, an act in September of 1767 curtailed the power of colonial elected legislatures. Finally, an act passed in July of 1768 extended and spelled out the jurisdictions of vice-admiralty courts in the colonies and increased the number of courts in America from one to four.

Resistance to the Townshend duties, as to the other British actions, was preceded or accompanied by theoretical formulations,

formulations which held that British action was in violation of immemorial rights. These theoretical formulations frequently appeared first as a series of anonymous letters in newspapers and then as pamphlets, though the order might be reversed. America had quite a number of men ready to enter the lists with such writings at critical junctures. James Otis, Samuel Adams, Daniel Dulany, and Richard Bland provided some of the early grist for the mills of opposition.

John Dickinson's "Letters"

The man who came forward to do duty against the Townshend Acts was John Dickinson, a Marylander born, who was sometimes from Pennsylvania but most regularly from Delaware. He belongs in that select circle of men entitled to be called Founding Fathers. From 1767 to 1775 he was the theoretician of colonial resistance. Though he opposed declaring independence, he headed the committee which produced the Articles of Confederation. He served in the army for a time during the War for Independence and was a delegate to the constitutional convention from Delaware, though leadership in such matters was now in other hands.

Dickinson's position on the Townshend duties was published as a series of letters published weekly in the *Pennsylvania Chronicle and Universal Advertiser* beginning November 30, 1767. These collected letters were called *Letters from a Farmer in Pennsylvania.* New England newspapers began publishing them in December, and before it was over all colonial neswpapers except four published them. They were published as a pamphlet in 1768, went through seven American editions, one in Dublin, two in London, and a French translation.[6] A historian sums up their impact in this way: "Immediately, everyone took Dickinson's argument into account: Americans in assemblies, town meetings, and mass meetings adopted resolutions of thanks; British ministers wrung their hands; all the British press commented, and a portion of it applauded; Irish malcontents read avidly; even the dilettantes of Paris salons discussed the Pennsylvania farmer."[7]

For one thing, the tone of the *Letters* was right. Dickinson not only claimed a formal loyalty to the king and the empire but actually cast his argument in terms of the well being of the empire. Though the natural law philosophy under-

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[6] See Jensen, *op. cit.*, pp. 241-42.

[7] Forrest McDonald, intro., *Empire and Nation* (Englewood Cliffs: Prentice-Hall, 1962), p. xiii.

lay much of what he wrote, he did not emphasize natural laws and natural rights so as to distinguish them in a divisive manner from the rights of Britons under the Constitution, as some writers had rushed to do prematurely. His appeal was to tradition, precedent, prudence, self-interest, the desire of liberty, and continuity with the past. And though he bade Americans to resist the Townshend duties, he proposed that they do so in an orderly fashion. First, they should send petitions; if these did not get results, turn to something like a boycott of goods; only when all peaceful means had failed, should other approaches be considered. But he pled with Americans not to give in to a spirit of riotousness. "The cause of *liberty* is a cause of too much dignity to be sullied by turbulence and tumult. It ought to be maintained in a manner suitable to her nature. Those who engage in it, should breathe a sedate, yet fervent spirit, animating them to actions of prudence, justice, modesty, bravery, humanity and magnanimity."[8]

The Argument Against Taxes

The great appeal of his work stemmed, of course, from the fact that he shredded the argument for the Townshend duties, showed it to be grounded in sophistry – no better than the case for the Stamp Act, only more subtle – and found the duties violative of the rights of British subjects and potentially confiscatory. As for these duties being acceptable because they were external taxes, he thought the case hardly worth considering. The objection to taxation by Parliament did not hinge upon the distinction between internal and external; it was to taxation as such. Americans accepted, he pointed out, as they had accepted, duties that were for the purpose of regulating trade, but not those levied for the raising of revenue. The latter were clearly taxes, and they involved the taking of property without the consent of the owners. True, incidental revenues might arise from the regulation of trade, but they were a consequence, not the cause of it. No such case could be made for the Townshend duties; they were laid on items which must be obtained from England. Certainly, it was not the aim of the British to inhibit trade in them nor to restrain it. In fact, it was simply a tax, for the colonists were not permitted to obtain the goods elsewhere, and might, if the British chose, be prohibited from manufacturing them. There was ample precedent for this.

Property was no longer secure,

[8] *Ibid.*, p. 17.

Dickinson said, if the principle of parliamentary taxation of the colonies be once accepted. "If the parliament have a right to lay a duty of Four Shillings and Eightpence on a hundred weight of glass, or a ream of paper, they have a right to lay a duty of any other sum on either. . . . If *they* have any right to tax *us* – then, whether *our own money* shall continue in *our own pockets* or not, depends no longer on *us*, but on *them*. 'There is nothing which' we 'can call our own; or, to use the words of Mr. Locke – WHAT PROPERTY HAVE' WE 'IN THAT, WHICH ANOTHER MAY, BY RIGHT, TAKE, WHEN HE PLEASES, TO HIMSELF?'"[9]

Massachusetts' Circular Letter

Colonial elected legislatures began to act in 1768. Massachusetts took the lead in February by drawing up a Circular Letter which it sent around to the other colonies. This letter was subsequently endorsed by New Hampshire, Virginia, Maryland, Connecticut, Rhode Island, Georgia, and South Carolina, sometimes by assemblies, and, if they were not sitting, by the Speaker.[10] The British reply came from the Earl of Hillsborough in April; it was sent as a circular letter to the governors of all the colonies. He had already written to Governor Bernard of Massachusetts that at the next session of the House of Representatives he "must 're-quire'" them "to rescind the Circular Letter and declare" their "'disapprobation of and dissent to that rash and hasty proceeding.'"[11] To the other governors, he declared that his expectation was that their assemblies would not participate in this new effort to arouse resentment to British rule. "But if notwithstanding these expectations and your most earnest endeavors, there should appear in the Assembly of your Province a disposition to receive or give any Countenance to this Seditious Paper [the Massachusetts Circular Letter], it will be your duty to prevent any proceeding upon it, by an immediate Prorogation or Dissolution. . . ."[12] In June, Hillsborough ordered troops to Boston.

Non-Importation Agreement

It was obvious from these and other instances – the harassment of shippers by customs agents, the increasing of military forces in the colonies, the rejection of petitions – that petitions and resolutions alone would not produce

[9] *Ibid.*, pp. 43-44.

[10] See Lawrence H. Gipson, *The Coming of the American Revolution* (New York: Harper Torchbooks, 1962), pp. 185-87.

[11] Jensen, *op. cit.*, p. 253.

[12] Greene, *Colonies to Nation*, p. 143.

a change in British policy. The colonists, then, moved toward attempting to hit Britain where it would hurt – in trade. Boston took the lead in adopting a non-importation agreement in August of 1768. What they proposed to do, among other things, was to cease almost all imports from Britain. The movement to do this spread through the colonies, though it was rough going. Understandably, importers and shippers were not overly enthusiastic about this, especially those for whom this was a major source of income. Moreover, it needed to be a concerted effort throughout the colonies. If it were not, ports which remained open could put the efforts of the others to nought. Colonists did succeed in closing down the major port cities in America to most British imports in the course of 1769. The best weapon against ports which did not co-operate was to cut off commercial relations with them. This usually brought them into line.

Though non-importation was far from absolute, it did succeed. Imports from Great Britain into the colonies fell from £2,157,218 in 1768 to £1,336,122 in 1769.[13] Some ports did much better than this average. For example, Philadelphia's imports from Britain dropped from £432,000 in 1768 to £200,000 in 1769 to £135,000 in 1770.[14] More importantly, since the object of non-importation was not simply to reduce imports from Britain, the British began to back down once again in the face of determined colonial opposition. In 1769, Parliament moderated its position on the Quartering Act to allow colonies to supply troops on their own initiative.

Reduced Tensions under Lord North

More success for the colonies was to follow with the coming of a new ministry. Lord North became, in effect, Prime Minister in early 1770, a position which he was to hold until 1782. During these years he served George III as best he could, doing his will during a time when a man of lesser loyalty and fortitude would have sought a less demanding job. He served his king first by acting to reduce tensions in America. In April, the Townshend duties were repealed, except for the tax on tea. Some concessions were also made in the application of the Currency Act.

It was not long before the non-importation agreements began to be abandoned. There was considerable sentiment for continuing them – after all, the tax on tea

[13] Richard B. Morris, ed., *Encyclopedia of American History* (New York: Harper, 1953), p. 78.

[14] Jensen, *op. cit.*, p. 357.

had not been repealed, nor had other sources of tension been removed — but many of the merchants had had enough of such self-denial. By various maneuvers, they opened up the ports to British goods once again. This course was the more attractive generally because the hasty efforts at increasing domestic manufactures to replace British imports had produced few tangible results.

Calm Before Storm

The colonies were comparatively calm during 1771. Although there had been clashes between British troops and colonists at New York and Boston (the latter leading to the "Boston Massacre") in 1770, these did not expand into any general conflict. Such as remained of the British threat to the colonies was difficult to dramatize; there can hardly be said to be a trend toward oppression if the oppressive measures are being reduced. At any rate, no major figure ventured forth to attempt any dramatization. Even though tea continued to be taxed, the amount of tea imported into the colonies from England increased from the low point for the past several years of 110,000 pounds in 1770 to 362,000 pounds in 1771.[15]

[15] See Donald B. Cole, *Handbook of American History* (New York: Harcourt, Brace and World, 1968), p. 51.

It was, however, the calm before the storm, the clouds for which began to gather in 1772. The first of these was the burning of the revenue ship, the *Gaspée*, by Rhode Islanders in June. The *Gaspée* had been harassing shipping coming into Rhode Island for some time; the captain was particularly obnoxious in his treatment of those on ships stopped for searches. The *Gaspée* ran aground, and while she was in that disabled condition, a party boarded her, drove the crew off and burned the ship. An investigating committee turned up no useful information but its appointment from England stirred resentment. A little later in the year, the British Exchequer took over the payment of the salaries of the governor and judges in Massachusetts. Here the move that had been long feared: to remove crown officials from reliance on the elected legislature. In November, Boston formed a committee of correspondence which sent statements to other towns in Massachusetts and to all colonial assemblies. Early the next year, the House of Burgesses in Virginia established a committee of correspondence, and most other colonies followed suit.

Tea Act of May, 1773

What stirred the colonists to open resistance once again, however, was the Tea Act in May of 1773. The purported intent of this act was to rescue the East India Company. That company was in dire straits, on the verge of bankruptcy, and sorely in need of a market for its tea. Though imports had picked up in the American market, it is generally believed that most of the tea consumed in America came from the Dutch; by buying such tea the the colonists unlawfully evaded the tax on it. The Tea Act was devised to make tea from the East India Company almost irresistible. It enabled that company to sell tea directly in America, relieving it of the necessity of selling it first at auction to merchants in England. "By eliminating the middleman . . . the company was able to sell tea in the colonies cheaper than in England," even though it was still taxed in the colonies. "More significantly, its tea now undersold that of the Dutch smugglers."[16]

A Monopoly, plus Taxes

The British were about to succeed in doing what John Dickinson indicated to be the danger. They were going to establish a monopoly for a taxed item, something which could not be competitively produced in America, but was very popular. It is likely that had Parliament contented itself with establishing a monopoly it might have got away with it. But the fact that tea was taxed entangled the monopoly question with taxation-without-representation. The objections which had been raised before had now a fresh exemplar; but now Americans were to be seduced into compliance by a lower price.

It did not happen. True, the East India Company caused chests of tea to be loaded on many ships for America, and these put into port at Boston, Philadelphia, New York, and Charleston. The colonists were ready for them; they would not buy or consume the tea, nor would they allow it to be landed if they could help it. The most dramatic opposition occurred at Boston, where Bostonians dressed as Indians boarded the ships and heaved the chests into the water. Patriots prevented tea from being landed in Philadelphia. It was landed and transferred to the customs house at Charleston; there it stayed until war came.

The Intolerable Acts

This time Parliament did not back down when confronted by colonial resistance. The majority determined, instead, on a policy of coercion, a policy backed by four

[16] John C. Miller, *Origins of the American Revolution* (Boston: Little, Brown and Co., 1943), p. 339.

acts passed between March 31st and June 2nd of 1774. They are known formally as the Coercive Acts. The force was to be concentrated on Boston and Massachusetts. The Boston Port Act closed the port of Boston to commercial shipping until such time as the East India Company had been compensated for the tea. The Massachusetts Government Act provided that the governor's council would be appointed by the king, not elected as had been the case, that the governor and king would appoint judges, that juries would be chosen by the sheriff, and that town meetings could not be held without the consent of the governor, except for annual election meetings. The Administration of Justice Act was of general effect and provided for the trying of certain officials from the colonies in England, if the governor thought it necessary. The Quartering Act applied generally to the colonies, also; it authorized the quartering of troops in occupied dwellings.

The colonists dubbed them the Intolerable Acts.

Next: The Prelude to Independence.

A Policeman's Lot

IDEAS ON LIBERTY

A GOVERNMENT'S proper function in a free society is to act as a policeman, not as a regulator over people's actions or choices.

The more regulations or restrictions, the more corruption. Why? Because we have reached a time when honest businessmen must get the right to produce or engage in a business from men who do not produce. A dozen permits are needed by businessmen before they can engage in activity which is their right. More often than not, they must grease the palm of every parasite issuing these permits or suffer deliberate and disastrous delays. In addition the city has the "right" to take away these permits, in the event some asinine regulation is not complied with.

JACK MORANO, A MEMBER OF THE TACTICAL PATROL FORCE OF NEW YORK CITY, FROM A LETTER TO *The Wall Street Journal*, December 28, 1960.

PROFIT

Who is the MARGINAL PRODUCER?

LOSS

W. A. Paton

CONCEPTIONS of the marginal entity ranging from the fuzzy to the downright indefensible are frequently encountered in current discussions of business management and finance and perhaps this justifies some comments aimed at clarification and sharper definition.

Marginal Firm Defined

In making use of the term "marginal" in this connection there is a need, to begin with, to have clearly in view the quality or characteristics we are looking for when attempting to define the marginal enterprise. In this search our concern, presumably, is with the price-making process, and we are focusing attention on the business firm that occupies the crucial position in this process, for a special field or market area, at a particular point or period in time.

The definition I consider appropriate may be stated as follows: *The marginal producer is the one who is just barely induced to remain in operation by the existing state of affairs and who is so situated with respect to volume of output that his dropping out will exert sufficient pressure on the array of price-influencing forces, through the supply side of the market, as to bring about a recognizable change in product price.*

This was the description of the marginal man or firm, as I recall it, stressed by my revered mentor, Fred Manville Taylor, when I was in his graduate courses sixty years ago. A slightly different version that is acceptable is: *The*

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marginal producer is the one who will be the first to withdraw unless conditions improve.

The Break-Even Approach

The most common conception of the marginal producer nowadays, so it seems, is that of the entity that is precisely at the break-even, zero-earnings stage. The textbooks in the courses in management and other subjects in the schools of business administration are full of charts which identify the break-even position as of critical importance. I am one of those who are getting very tired of this preoccupation with break-even "analysis." In my judgment no convincing case has ever been made for the view that the zero-earning level is a decisively significant spot in connection with business decision-making. And when the "analysis" includes the designation of the firm at the break-even point as "marginal" those who know anything about either economic theory or actual business operation can feel their hackles rising.

The notion that the marginal position is occupied by the break-even producer finds no solid support in business experience. Even firms operating at a loss often hang on for years. This is particularly true in the case of the small or medium-sized firms with ownership and control residing in a family or small local group, but the condition is not unknown among relatively large enterprises. As long as revenues cover current expenditures, including attractive salaries for executives, immediate management has a strong urge to continue operations, even if the outlook is unpromising to the point of being downright gloomy. This accounts for the phenomenon of corporations that are worth more dead than alive. Examples are not rare of substantial concerns whose shares have been quoted for months or even years at less than net liquidation value (that is, at less than could be realized if the entity disposed of all assets for what they would bring, paid all liabilities, and distributed the balance to shareholders).

In some of these cases the announcement, finally, that the directors had decided on a program of liquidation has caused a sharp advance in the price of the stock. I recall one example, a mining company, with shares listed on a major exchange, where the market price of the stock – which had been hovering under $2 per share for some time – promptly moved up to $16 when the plan to go out of business was formally decided upon at a board meeting. The low price preceding the announcement was of course based on the assumption — by those trading in the company's shares — that the management would continue to fritter away the liquid resources in unprofitable operation and exploration. (By these observations I am not intending to deny that there have been many cases where tenacity in the face of a poor showing over a considerable time has finally paid off.)

It may be safely concluded that in a given situation neither the firm at the zero-earning point nor the concern suffering persistent losses is necessarily the vulnerable, marginal entity, the enterprise just barely hanging on, and that will be the first to drop out if conditions become less favorable. And it may also be concluded that even the most badly situated firm, the one at the very bottom of the stairway of earning power (or that shows the greatest level of loss) need not be in the marginal position in the sense defined above. (Of course, the term might be used to designate the worst-off enterprise — and some seem to employ it for this purpose.)

Profit Maker May Be Marginal

Indeed the marginal producer, soundly defined, may be an enterprise that has an established earning power. Assume, for example, a producer operating in a high-risk field for some time has been achieving an earning rate of 4 per cent on the stockholder capital employed (computed in terms of the current value of resources less liabilities). Assume, further, that a 10 per cent annual return is regarded as the necessary lure for risk capital in this field, as evidenced by the data of the investment market. With these conditions the management may well decide to curtail production — or stop operations altogether as soon as practicable — and thus step into the marginal-entity role. Remember, it's the producer just on the verge of dropping out, and whose decision will have an effect on product price, who may be regarded as marginal.

In practice, it must be conceded, the identification of the marginal producer in a given industry and time period may be difficult if not impossible. This is especially true when we think of such producers as poised on the brink of withdrawal, but not yet having taken decisive action. The difficulty in the way of specific identification, however, is no warrant for adoption of sloppy or unsound concepts and definitions. A good guess would be that seldom does reaching the precise position of a zero level of earnings signal or trigger a cease-production decision.

The Cost of Capital-Furnishing

In conclusion I wish to return to the fashionable break-even charts and discussions for a moment to register an objection somewhat outside the question of the definition of the marginal firm. From the standpoint of good market-economy theory the basic difficulty with all this rubbish lies in an improper conception of what it means to "break even." If *capital-furnishing* is a primary, essential factor in the productive process – and that this is the case has been brilliantly demonstrated by economists over and over again – it shouldn't be ignored in the computation of *total cost* in the broad sense of price-influencing cost. And if, in a given situation, this cost is omitted from the reckoning, and revenues just match the recognized costs, the producer is not truly breaking even. Instead, he is operating at a loss (even if this is not the way the accountants look at it). Here is a crucial point in the case for the free-market economy as opposed to socialism, and certainly those who strongly prefer control by the market to authoritarian directives (including "freezes") shouldn't use concepts and terms that play into the enemy's hands.

How to Attract Capital

IDEAS ON LIBERTY

THERE IS NO REAL SHORTAGE of capital in the world, and I do not know of any major project which has been held up solely because of the lack of money. Capital is plentiful wherever it is "wanted and well treated." The real bottleneck in the development of the world is the shortage of human capital: people with the skill, training, and education intelligently to employ the world's resources.

The facts are that when political freedom and free enterprise spread, markets increase, and that the expansion of markets is only prevented through political motivation. The interest of American business in the expansion of a free enterprise system around the world as part of a free political system is based not only upon moral considerations, but on the hard fact that there is no market for consumer goods among slaves.

WALTER B. WRISTON

AMERICAN COMPETITIVISM CAUSE or RESULT?

RON HEINER

FROM TIME IMMEMORIAL, thinkers and philosophers have attributed to that which has been called the "character" or "spirit" of the people all of those noteworthy accomplishments achieved by various civilizations. Rome was the product of a great spirit of discipline and a genius of organizational ability; the European Renaissance was the product of a rebirth of energy and creativity; and the American rise to world eminence was due to the unheralded rugged competitive spirit of its people. The preeminence of this view is seen by its implicit reflection in most ethnic jokes (i.e., the implication being in certain jokes that the Polish are stupid, the Italians are lazy, the Germans are militaristic, and so on).

Concomitant with this view is the belief that if order and civilization are on the decline, if "times are bad," what is needed is a recommitment, a rededication, a renewed spirit of sacrifice on the part of the citizens and then all will be well again.

In the last two centuries, however, a select group of thinkers has fundamentally challenged the correctness of these views concerning civilization and social life. Beginning most recognizably with the writings of Adam Smith, *The Wealth of Nations,* there emerged an essentially new discipline later to be called economics, and with it sprang a different view of human civilization which was to revolutionize subsequent thought. Two paragraphs from the opening pages of Ludwig von Mises' *Human Action* serve as a striking

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introduction to this view and its significance:

"Other philosophers . . . looked at human things from the viewpoint of government. They were intent on establishing rules of political action, a technique, as it were, of government and statemanship. Speculative minds drew ambitious plans for a thorough reform and reconstruction of society. The more modest were satisfied with a collection and systematization of the data of historical experience. But all were fully convinced that there was in the course of social events no such regularity and invariance of phenomena as had already been found in the operation of human reasoning and in the sequence of natural phenomena. They did not search for the laws of social cooperation because they thought that man could organize society as he pleased. If social conditions did not fulfill the wishes of the reformers, if their utopias proved unrealizable, the fault was seen in the moral failure of man. Social problems were considered ethical problems. What was needed in order to construct the ideal society, they thought, were good princes and virtuous citizens. With righteous men any utopia might be realized.

"The discovery of the inescapable interdependence of market phenomena overthrew this opinion. Bewildered, people had to face a new view of society. They learned with stupefaction that there is another aspect from which human action might be viewed than that of good and bad, of fair and unfair, of just and unjust. In the course of social events there prevails a regularity of phenomena to which man must adjust his actions if he wishes to succeed. It is futile to approach social facts with the attitude of a censor who approves or disapproves from the point of view of quite arbitrary standards and subjective judgments of value. One must study the laws of human action and social cooperation as the physicist studies the laws of nature. Human action and social cooperation seen as the object of a science of given relations, no longer as a normative discipline of things that ought to be – this was a revolution of tremendous consequences for knowledge and philosophy as well as for social action."[1]

In other words, the belief in the sole primacy of ethics in social matters was fundamentally challenged: society could not be organized according to any set of ethical norms; and further, there prevailed certain inescapable effects of various social structures which could not be nullified re-

[1] Ludwig von Mises, *Human Action* (3rd ed., Chicago. Regnery, 1966), p. 2.

gardless of the sincerity and diligence of those individuals attempting to reform the social system in terms of various desired ethical qualities (such as equality in all aspects of social life). Indeed, the view now developed that many of these qualities (viz., character, spirit, dedication, and so forth of the people) could more correctly be regarded as effects or results of certain patterns of social collaboration, rather than the cause of the specific social structure and the achievements of the people therein.

Ethics Plus Organization

Thus, one of the significant revelations derived through the development of economics is that the necessary conditions for the progression and "flowering" of a civilization include not only a system of workable ethical values but also the appropriate system of social organization, and that neither is sufficient without the other. Moreover, if there prevails a set of ethical norms, the practice of which precludes the development of an appropriate system of social organization (for example, beliefs which consider merchants and lenders of money who demand interest as people engaged in activities of low moral character), there can be no general advancement for that civilization; or, if the application of a set of political and economic doctrines also precludes the establishment and continuance of an appropriate system of social organization, then appeals and efforts to revitalize the dedication and moral spirits of the populace cannot succeed in bringing about advancement (or preventing downfall) for that civilization.

It could be argued, therefore, that the oft-cited American "competitive spirit" and "rugged individualism" are consequences of that system of social collaboration characterized by the unhampered market economy, and that this competitive drive could not have developed without this system of social collaboration.

Very much related to the above discussion is a remarkable and significant series of events in recent months most dramatically represented by the current "wage-price freeze." In one of the statements made by President Nixon shortly after the initiation of the "freeze," it was emphasized that, in the long run, what is needed to revitalize America (in addition to wage-price controls) is a rededication by Americans to that spirit of competitivism which made America great.

In light of the preceding development, however, this plea for a recommitment of the American "rugged individualist spirit" is seen to be completely illusory.

In fact, what has been done is to implement the most drastic form of restriction (general scale price controls) on that system of social organization (viz., the unhampered market economy) which is the cause or necessary co-condition which permitted the emergence of the very spirit of competitive individualism which the President deems as necessary for America's continued greatness.

This means that the President has embarked on a policy which, if continued and enlarged, will eliminate what is left of this competitive spirit and render its re-emergence impossible.

Compounding Error

All of this testifies to the words of Ludwig von Mises in the closing pages of *Human Action*[2]: "the study of economics is almost outlawed today. The public discussion of economic problems ignores almost entirely all that has been said by economists in the last two-hundred years. Prices, wage rates, interest rates, and profits are dealt with as if their determination were not subject to any law. Governments try to decree and to enforce maximum commodity prices and minimum wage rates. Statesmen exhort businessmen to cut down profits, to lower prices, and to raise wage rates as if these matters were dependent on the laudable intentions of individuals."

In order to attain any end, appropriate means must be used in order to effect the true causes of that which is sought. The ironic aspect of the solely ethical interpretation of economic affairs is that it fundamentally misconceives the operation of the social system in such a manner as to suppress and obscure the real workings and true causes of the problems it seeks to remedy. In so doing, the measures which are thus implemented themselves become causes of systematic distortions in the economic system; which are then interpreted as proof of the necessity for even more drastic extensions of those original policies — thus compounding and multiplying the distortions in a self-justifying cycle.

All of these considerations would be academic but for the reality that these measures and their extensions adversely affect millions of lives in an essentially irreparable fashion, the ill effects possibly enduring for centuries.

[2] *Ibid.*, pp. 879-880.

GARY NORTH

FIXED EXCHANGE RATES AND MONETARY CRISES

STATE INTERVENTION to assure to the community the necessary quantity of money by regulating its international movements is supererogatory. An undesired efflux of money can never be anything but a result of State intervention endowing money of different values with the same legal tender. All that the State need do, and can do, in order to preserve the monetary system undisturbed, is to refrain from such intervention. That is the essence of the monetary theory of the classical economists and their immediate successors, the Currency School. It is possible to refine and amplify this doctrine with the aid of modern subjectivist theory; but it is impossible to overthrow it, and impossible to put anything else in its place. Those who are able to forget it only show that they are unable to think as economists.

LUDWIG VON MISES
The Theory of Money and Credit, p. 249

PEOPLE ADVOCATE identical economic policies for very different reasons. The recent interest, both practical and theoretical, in the subject of international monetary exchange rates is a point in question. Advocates of flexible exchange rates, in which a free market in international monetary transactions would set the prices of various currencies, include monetarists – who would have each government manage its own nation's money supply – as well as those who believe in a full gold coin standard to preclude government control. Opponents of flexible international exchange rates,

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on the other hand, include not only the creators of the Bretton Woods agreement that established the International Monetary Fund but also a number of conservative economists.[1] How is it possible that the camps could be divided in this fashion?

To answer this, one has to examine the contexts. Ludwig von Mises, for instance, believes in total freedom in the monetary sphere: the government should be limited to the enforcement of contracts, whatever the exchange medium might be in any particular contractual obligation. Milton Friedman also wants to see all citizens free to own gold and to make contracts in gold, but he thinks the central bank should guarantee a constant increase in the supply of money each year. Mises would reject such a proposal as inflationary, unless the legal tender provision of Federal Reserve Notes were abolished and people were thereby free to avoid doing business in fiat money. But neither man wants to see any infringement on the right of men and women on either side of the border or ocean to make bargains with each other, even if those bargains involve the exchange of national monetary units, present or future.

The Keynesians, who would prefer Friedman's views on monetary management to Mises' full gold coin standard, find themselves working together with conservative economists who support a gold standard and are anti-inflationary in perspective. Both the Keynesians and these conservatives favor the establishment of government-enforced limits on the range of prices that can legally exist between one currency unit and any other. Unfortunately, no economist seems to be able to agree with any of his colleagues as to the precise acceptable range of price flexibility or the legal mechanism used to enforce such a range; this indicates the nature of the problem. Year after year, the publications of the International Finance Section of the Department of Economics of Princeton University pour out *Essays in International Finance*. We read of crawling pegs and running pegs, of parities and currency swaps, of paper gold and international trust. What does it all mean? So far, no one has even been able to define a Eurodollar, let alone explain how it works; or if someone can, no colleague agrees with him.[2]

No Faith in Freedom

The Keynesian economist simply does not trust the free market's unhampered price mechanism to clear itself of supplies of scarce economic resources. Thus, we need fiscal policy, fine tuning of the economy, econometric models, data gathering on a massive scale, and controls over the money supply. Especially controls over the money supply. Naturally, certain flaws appear from time to time: a $1.5 billion predicted surplus for fiscal 1970 became a $23.3 billion deficit, but what's a few billion dollars among friends? We owe it to ourselves, right? A private firm, unless it has a cost-plus government contract, would not long survive in terms of such a woefully inefficient economic model, but what do businessmen know about economics, a faithful econometrician may ask? If reality does not conform to the model, scrap reality, by law.

So reality is scrapped, and the Keynesian finds it necessary to abandon one more area of market freedom, namely the freedom of private, voluntary international exchanges of money at prices established by the market. Such a voluntary system of international exchange would reduce the predictability of the government's econometric model. That would allow a "bleeder" in the overall control device. That would allow men to measure the extent of the depreciation of their own and other's domestic currencies, thus calling attention to the policies of inflation and confiscation being enforced by their governments and other governments. As for the United States, floating exchange rates on a free international market for currencies would end, overnight, the exported inflation of our continual budgetary deficits.[3] That is why government bureaucrats do not generally approve of floating exchange rates.

Flexible Exchange Rates: A Counsel of Despair?

This does not explain why various conservative economists also oppose the extension of the market into the realm of international monetary exchange. The late William Roepke called the idea "a counsel of despair."[4] His argument against flexible exchange rates: "Without stability of exchange rates any international monetary system would be flawed at an important point, because it would lack a major condition of international economic integration." This sounds plausible enough, until one reads his next sentence: "Just how important this condition is will be seen if we reflect that national economic integration (among the separate regions of one country) is unimaginable with fluctuating rates of exchange between, say, regional currencies."[5] The government's answer to this "unimaginable" process of regional currencies is to establish a central monopoly of money creation coupled with a legal tender law. And this is precisely the goal of international socialist planners: a single world bank with a legal tender law to enforce its control over the entire face of the earth.[6] The planners want a "rational" world economy, but their faith is in bureaucratic rationalization – a bureaucratic hierarchical chain of economic command – and not the rationalization that is provided by a voluntary free market and its sophisticated computer, the free market price mechanism.[7] As yet, they have not achieved such "rationalization" simply because all the nations want their own domestic, inflationary, autonomous "rationalizations." Fixed exchange rates are as close as they can come to centralized world planning, so they tried it, by means of the International Monetary Fund, from 1947 until August 15, 1971. On December 19 they returned to the familiar policy of fixed exchange rates. Four months of international monetary freedom were all they could take.

Let the State Control Itself, Some Conservatives Argue

Why do conservative economists lend support to fixed exchange rates? Because they think that this is a form of statist intervention into the world market which can impose restraints on the state's own policies of domestic inflation. The state, the argument goes, will control itself by law. To some extent, this may be true, *temporarily*. The fear of an international run on the dollar may have restrained the Federal Reserve System's expansion of the domestic money supply from December, 1968 through the spring of 1970. Officials may have feared the action of foreign central bankers in demanding gold at the promised price fixed by 1934 law of $35 per ounce. But this slowing in the money supply created an inevitable reaction: the stock market fell by one third, and the government could no longer finance its debt through sales of bonds to individuals or private corporations. Therefore, the Federal Reserve stepped in once again to purchase the available government bonds at the preferred low interest rate. A new wave of inflation began in the spring of 1970. The pressures on the American gold stock rose once again, and the President finally escaped on August 15, 1971 – or hoped that he had. He cut the dollar's official tie to gold in international payments and left it free to float on the international markets. Of course, this act was a violation of International Monetary Fund rules, to which the United States is a party (or was). As

Lenin said, treaties are made to be broken.

For a time, fixed exchange rates seem to restrain policies of domestic monetary inflation. But for how long? Franz Pick's report lists devaluations every year, and there are a lot of them. They are international violations of contract – violations that call into question the whole structure of international trade. The honoring of contracts is the very foundation of free exchange. Apart from this, economic prediction becomes exceedingly difficult and productivity suffers. Thus writes Alfred Malabre:

> International currency exchanges can transpire in various ways. One is through a system where Currency A can indefinitely be exchanged at a fixed rate for Currency B. This is the system that allegedly prevailed through most of the post-World War II era and to which most Western leaders now wish to return. Ideally, it's a magnificent system, because it promises to eliminate uncertainty from international financial dealings. The widget maker knows, when he gets an order from abroad, that the money he will receive will be worth as much to him in the future as at present.
>
> In practice, however, fixed-rate arrangements provide anything but certainty. Between 1944, when the present fixed-rate system was conceived at Bretton Woods, N.H., and mid-August [1971], when the system finally collapsed, 45 countries changed the international rates for their currencies. In some instances, changes were repeated many times, so that in all 74 currency-rate changes occurred.[8]

The problem with such devaluations, as Mises has shown, is that they create incentives for retaliatory devaluations on the part of other governments. "At the end of this competition is the complete destruction of all nations' monetary systems."[9] *If there were no fixed exchange rates in the first place, there would be no need for these governmentally imposed economic discontinuities.*

International Stability, a Myth

The myth of international monetary stability is just that, a myth. Stability can only be approached, like economic equilibrium, and then only by the free price mechanism. Exchange rates cannot be fixed without increasing the pressures for the radical discontinuities of revaluation and devaluation. That is why the IMF rules allowed for a 1 per cent band, upward or downward, of flexibility in exchange rates. That is why rules imposed since December 19 allow a currency a plus or minus 2.25 per cent band. But fiat exchange rates cannot supply stability in a world of fiat currencies; they can only mask the extent of mutual inflation through an illusion, the illusion of fiat stability. And inevitably, the illusion will be broken, sooner or later, as on August 15.

Fixed exchange rates create an enormous temptation among men whose professional careers are, in a planned economy, dependent upon deception. Fixed exchange rates, themselves a practical absurdity in a world of fiat currency, create a premium on lying. When Sir Stafford Cripps promised that the pound would not be devalued throughout the first nine months of 1949, he led the people to believe that no devaluation was going to take place. And yet it did on September 18, 1949. John Connally had to admit his own part in a similar deception in his August 16 press conference. What else could we do, he pleaded. What else indeed? Once you start the big lie – that exchange rates can be fixed by law without serious economic consequences – you just cannot stop.

Polylogism!

Any economist, of whatever school of thought, can tell you why bimetallism failed in the late nineteenth century. The legal parity between gold and silver, unless changed continually, could not match the true conditions of the forces of supply and demand between the two metals. Thus, one or the other precious metal was always in short supply *at the fixed price.* The attempt to enforce such a fixed ratio led to monetary disequilibrium – Gresham's Law – in which the artificially overvalued currency drove the artificially undervalued currency out of circulation and into either hoards or foreign countries. Thus it is with every attempt of government at any kind of price control. Thus it is with fixed exchange rates.

Ask the economist who has just demonstrated to his own satisfaction that bimetallism is impossible, since the state cannot successfully set a fixed exchange rate between gold money and silver money, to extend his analysis to dollars and pounds or francs and marks. Then watch him squirm. Logic, when applied to the case of gold and silver, somehow becomes inoperable when applied to dollars and pounds. Mises has an expression for this: *polylogism.* It is his most contemptuous expression. Mises, of course, subsumes exchange rate fixing under the general theory of exchange, thus following the logic of bimetallism through to the logic of the impossibility of permanent fixed exchange rates in international monetary transactions.[10]

Professor Mises long ago had demonstrated the utter bankruptcy theoretically of fixed exchange rates and their tendency to lead to national bankruptcy in practice. He did so in his 1912 classic, *The Theory of Money and Credit,* and in *Human Action.* The general theory of monetary exchange starts from a premise:

For the exchange-ratio between two or more kinds of money, whether they are employed side by side in the same country (the Parallel Standard) or constitute what is popularly called foreign money and domestic money, it is the exchange-ratio between individual economic goods and the individual kinds of money that is decisive. The different kinds of money are exchanged in a ratio corresponding to the exchange-ratios existing between each of them and the other economic goods.[11]

In other words, if 1 ounce of gold is exchanged for 10 pounds of another commodity and 1 ounce of silver is exchanged for 1 pound of that same commodity, then the exchange-ratio of gold to silver should be 1:10. Fifty years later, Mises was still saying the same thing:

The final prices of the various commodities, as expressed in each of the two or several kinds of money, are in proportion to each other. The final exchange ratio between the various kinds of money reflects their purchasing power with regard to the commodities. If any discrepancy appears, opportunity for profitable transactions presents itself and the endeavors of businessmen eager to take advantage of this opportunity tend to make it disappear again. The purchasing-power parity theory of foreign exchange is merely the application of the general theorems concerning the determination of prices to the special case of the coexistence of various kinds of money.[12]

That last sentence is crucial. Exchange rate theory is simply a subordinate application of the more general theory of price. Mises continues:

Let us consider again the practically very important instance of an inflation in one country only.

The increase in the quantity of domestic credit money or fiat money affects at first only the prices of some commodities and services. The prices of the other commodities remain for some time still at their previous stand. The exchange ratio between the domestic currency and the foreign currencies is determined on the bourse, a market organized and managed according to the pattern and the commercial customs of the stock exchange. The dealers on this special market are quicker than the rest of the people in anticipating future changes. Consequently the price structure of the market for foreign exchange reflects the new money relation sooner than the prices of many commodities and services. As soon as the domestic inflation begins to affect the prices of some commodities, at any rate long before it has exhausted all its effects upon the greater part of the prices of commodities and services, the price of foreign exchange tends to rise to the point corresponding to the final state of domestic prices and wage rates.

This fact has been entirely misinterpreted. People failed to realize that the rise in foreign exchange rates merely anticipates the movement of domestic commodity prices. They explained the boom in foreign exchange as an outcome of an unfavorable balance of payments. The demand for foreign exchange, they maintained, has been increased by a deterioration of the balance of trade or of other items of the balance of payments, or simply by sinister machinations on the part of unpatriotic speculators.[13]

The Speculator's Role

The speculators perform a crucial set of services, contrary to popular opinion. They help balance the supply of and demand for future moneys. In doing so, they help to reduce the zone of uncertainty about the future. Second, they also alert citizens of any given country to the monetary policies of their own central bank. If the policies of monetary expansion are being pursued by the central bank, the speculators will reveal this fact, daily, to anyone wishing to consult a financial newspaper. The citizen receives information from an impartial source concerning the latest opinions of skilled, competitive and domestic monetary experts concerning the stability or lack of stability of his own country's money. Because of this, the freedom of the international monetary speculator is as crucial to the defense of free institutions as one might imagine. Hamper his activities, and you have taken a sinister step away from freedom. The bureaucrats know this:

> What those governments who complain about a scarcity of foreign exchange have in mind is, however, something different. It is the unavoidable outcome of their policy of price fixing. It means that at the price arbitrarily fixed by the government demand exceeds supply. If the government, having by means of inflation reduced the purchasing power of the domestic monetary unit against gold, foreign exchange, and commodities and services, abstains from any attempt at controlling foreign exchange rates, there cannot be any question of a scarcity in the sense in which the government uses this term. He who is ready to pay the market price would be in a position to buy as much foreign exchange as he wants.
>
> But the government is resolved not to tolerate any rise in foreign exchange rates (in terms of the inflated domestic currency). Relying

upon its magistrates and constables, it prohibits any dealings in foreign exchange on terms different from the ordained maximum price.[14]

Radical economic discontinuities are difficult to predict—far harder than economic countinuities. The steady movement of international exchange transactions in terms of an unhampered free market is basic to economic continuity. Impose fiat exchange rates, and you create the "stability plus devaluations" program which the Bretton Woods agreement imposed on the world. You create the "hot money" effect, as currency speculators are forced to anticipate radical jumps in the fiat exchange rates, thereby encouraging them to transfer billions of dollars or marks or pounds or francs from one country to another, trying to beat the imposition of September 18ths or August 15ths.[15] It is a huge game of musical chairs, except that people's lives – economically, politically, and physically – are at stake. In the 1949 edition of *Human Action,* Mises wrote, concerning "hot money": "All this refers to European conditions. American conditions differ only technically, but not economically. However, the hot-money problem is not an American problem, as there is, under the present state of affairs, no country which a capitalist could deem a safer refuge than the United States."[16] It is a testimony to the monetary inflation of the past twenty years in this country that Mises saw fit to drop that footnote from the 1963 and 1966 editions of his book.

Instability?

Wouldn't the establishment of a totally free market for international monetary transactions add elements of instability into international economic affairs? Emphatically no! What it *would do* is to present a highly accurate reflection of the economically irrational policies of fiat money creation that are being pursued with a vengeance by almost every government on earth. It would serve as an economic mirror which would answer truthfully the question, "Mirror, mirror on the wall, who has the most honest currency of them all?" Daily, the international money mirror would answer the truth and it would also give its guess as to the answer at any point in the future concerning any given currency. Like the wicked witch of Snow White, domestic magicians of fiat money resent that inescapable answer. So they buy themselves a new mirror – fixed exchange rates. Unfortunately, these fiat mirrors break periodically, causing great confusion, consternation, and windfall profits and losses to speculators. And, need we be reminded, everyone involved in foreign trade — prospective buyers of Volkswagens and Hong Kong toys included — is an international speculator.

Instability is the charge that is always made against the market by statist interventionists. Marx and Engels leveled precisely this criticism of the theory of capitalistic economics. Capitalitstic distribution, they argued, is anarchistic.[17] Such a view of capitalist processes stems from a fundamental misconception: supposedly, there are no laws of economics regulating the voluntary exchanges which take place in the free market, and therefore fiat state rules must be imposed on the "disorder" of market affairs. Everywhere these critics look, the free market tends toward instability — an instability defined as anything deviating from that model which a central planning board would impose on the economy. "Pass a law! Make it stable!" Not quite. "Pass a law! Make it rigid! Watch it break!" That's it exactly; the breaks, in international monetary affairs, are called devaluations and revaluations. They happen all the time.

The Subsidy to Business

If you do not impose fixed exchange rates, we are told by various conservative economists as well as by neo-Keynesians, you will see the destruction of international trade. Businessmen apparently cannot afford to bear the terrible uncertainties associated with forward currency speculation. How do we know this? Because businessmen, who have become used to international price controls on money — fixed exchange rates — and who have learned how to make profits under such interventionist measures, constantly tell us so. Like the farmer who wants his subsidy (fixed parity prices guaranteed to him by the state for his goods), like the domestic producers of steel who want tariff subsidies, like the airlines that want price floors for their flights (whether international or domestic), like the labor union leader who wants compulsory bargaining legislation, the foreign trade entrepreneur wants his contract guaranteed by fixed exchange rates. He just cannot bear the uncertainties of future-prediction, in spite of the fact that *all* entrepreneurial profit is a residual accruing to successful predictors.[18] Instead, the state is supposed to bear the uncertainties of prediction. The state is supposed to worry about the rate of exchange of its currency with any other currency, at any time. The bureaucrat in a state office is supposed to take the responsibility that at a particular point in the future the currencies of the world will trade at certain fixed parities. Let the violent intervention of the state compel men on both sides of any border to accept each other's currencies at a legal rate, and you have turned the economic affairs associated with international trade over to the bureaucrats. The entrepreneurs, by allowing state officials to bear the responsibility for certain aspects of international trade, thereby give to the state a great power over their businesses. Thus, citizens in every country lose their personal freedom to that extent.

Why is it that private entrepreneurs involved in international trade want the government to take over the responsibility for organizing the terms of the monetary exchanges which govern the operation of their businesses? This is a familiar tale. It is the old respected argument of the vast majority of people: let my suppliers compete, keep my competitors out of the market. Let others bear the burden of predicting the future. Subsidize me. I'm the important one. And governments do it. They take profits away from one group – international currency speculators – and guarantee the price of foreign exchange – almost. Unless there is a devaluation, of course. And then it is every man for himself and any port in a storm. (The port is usually Switzerland.)

Counting the Costs of Intervention

A key rule was laid down by Jesus to his disciples: *count the cost* (Luke 14:27-30). He was speaking of spiritual matters, but as he so often did, he explained them in terms of familiar economic affairs. That principle has been the economic foundation of Western civilization, and especially of capitalism. It is, specifically, the inability of socialist economies to count the costs of anything that constitutes the most patent economic failure of socialism.[19] It is the genius of the free market that it allows voluntary, flexible pricing of scarce economic resources. Apart from this free pricing mechanism, there can be no free market economy, by definition, and no economic calculation.

When a state inflates its monopolistically controlled domestic currency – which it could not do if it did not hold the monopoly – it creates many problems for the economy. It makes forecasting more difficult. This leads to the demand for more controls over the economy – to mitigate the effects produced by the very policies of monetary inflation. These controls are an attempt by bureaucrats to disguise these effects. The effects are called rising prices. The controls are called price and wage controls.

On August 15, 1971, the President of the United States announced the unmitigated failure of the IMF agreements of 1944. The gold-exchange standard no longer operated, as it had for 25 years, to shield this country from the effects of its own policies of monetary inflation. So it was scrapped. Bretton Woods is dead, Arthur Okun announced a few hours later. Conservative economists – a few of them at least – had been saying that since 1945. The President announced that the cure for this unparalleled economic failure of international finance would be the complete abandonment of fixed exchange rates internationally. International price controls over the free exchange of money, we were told, were clearly leading to economic disaster. Indeed, that was exactly where such controls were leading, as all interference with prices will invariably lead.

Domestically, however, voluntary pricing had led to another disaster: higher prices. The President failed to mention that Federal deficits financed through Federal Reserve fiat money creation had caused prices to rise. So to "cure" domestic economic affairs, the President imposed price and wage controls. There is a peculiar sort of irony here. In order to cure an international economic disaster which had been caused by price controls, the President allowed the dollar to float. In order to cure the domestic economic disaster, the President imposed domestic price controls.

Controls in international monetary affairs are specifically designed by bureaucrats to hide the effects of policies of domestic monetary inflation. Similarly, controls on domestic prices are designed to hide the effects of those same policies of domestic monetary inflation. If the purpose of controls is to hide effects rather than to remove causes, then they involve the use of fraud.

What the advocates of a free market should desire is that the price system be left completely uncontrolled, in order that it might register the subtle and unsubtle shifts in economic external conditions. Only then can entrepreneurs predict the future with any degree of success. Only then will those who wish to buy at the best possible price be served. Everyone should count the cost of his actions. Price controls interfere with such cost accounting.

Exposing Inflation

Advocates of floating exchange rates may be advocates of domestic monetary inflation. But so can advocates of fixed exchange rates, as Keynes would seem to demonstrate. The issue is not whether floating exchange rates will make it easier for domestic governments to inflate. The issue is whether price controls are legitimate tools of government economic policy. If they are, then we can begin to examine the specifics of the arguments for fixed exchange rates. If they are not, then the debate is ended. For fixed exchange rates are, by definition, price controls.

Good economic theory results in good economic practice, as Mises and Hayek have explained repeatedly. We do not apply sound economic theory and produce economic disaster. Thus, it is possible to argue that free pricing in international monetary affairs will be beneficial to all citizens who wish to enter the market in order to make voluntary exchanges. Free pricing among the various national currencies will help to expose the policies of monetary inflation in any given nation, thereby adding incentives to citizens of that country to challenge their government's policies. This, of course, assumes that citizens generally are economically rational and prefer good consequences to bad ones. It is easier for a man to count the costs of socialism in the monetary sphere if he can witness, daily, the statistics that chronicle the deterioration of the purchasing power of his money.

Let Citizens Own Gold

If a citizen can own gold, so much the better. If a free market in gold is allowed to operate, so much the better, for the price of gold, in relation to the citizen's paper currency, will rise as a consequence of the continuing monetary inflation. This gives a citizen the opportunity to make a profit by taking his paper money to the local branch of the national Treasury and buying gold at the fixed, legal rate of exchange (which has become a legal fiction as a result of the monetary inflation).

Let citizens, rather than the state, profit from the higher price of gold. Let their desire to make a profit act as a barrier that helps to retard state officials in their inflationary policies, as the Treasury's supply of gold decreases.

A fixed rate of exchange between gold and a currency is not the same thing as fixed rates of exchange between currencies. A fixed ratio between gold and any particular currency is definitional: a unit of paper money is said, by definition, to represent so much gold at a specific fineness. *Free convertibility* of a *currency into gold* requires a legalized *fixed* ratio of exchange; free convertibility of one *national currency with* *any other* requires a *flexible* rate of exchange set by the market. The former is a definitional relationship; the latter cannot be.

Obviously, the best possible world would be one in which no government has any monopoly of credit or money creation, where all citizens all over the globe have the right to own gold and make contracts in gold. But just because utopia has not arrived, there is no reason to abandon the theory of voluntary exchange at unhampered prices. The argument we hear so often today is this: "Given the government's monopoly over money, given policies of deficit financing through monetary inflation, given domestic legal tender laws, we therefore need price controls over international monetary exchange." *Polylogism!* The fact that we find ourselves in an increasingly socialistic economy in no way disproves the theoretical validity of free pricing – any time, any place, under any circumstance. If the theoretical (and therefore the practical) validity of free pricing is undercut in any way simply because of all the socialistic "givens" that we operate under, then Marx was right, Hegel was right, the German historical school of economics was right, institutional economics is right, historicism is right, and economic theory is wrong.

Multiple Interventions

There is a tendency, argues Mises, for one intervention by the state into the economy to lead to another intervention. The disruptions caused by the first intervention lead to cries for further political intervention to solve them. The state takes control of money, to "reduce the irrationality of the domestic money markets." (And to arrogate unto itself ultimate sovereignty.) Then it inflates the currency in order to increase its own influence in the affairs of men by gaining access to scarce economic resoures with the inflated currency. Then citizens refuse to accept the debased money. So the state's officials pass legal tender laws. The money, now artificially overvalued, drives out both gold and silver. People prefer to trade in the artificially overvalued money and either hoard the gold and silver or send it abroad where it can purchase foreign goods cheaper than the domestic inflated currency can purchase them. As domestic goods climb in price due to the inflated paper currency, imports increase and dollars flow out; foreign central banks then raise the price of their currencies in relation to dollars. The United States government realizes that this exposes its policies of domestic monetary inflation and therefore presses for fixed exchange rates.

Then foreign governments, buried in dollars (at the artificially low price), begin to demand gold (held by our government at an artificially low 1934 price). One intervention leads to another, usually. But not always.

The exception came on August 15. Basically, the President had three choices. First, balance the budget and stop the monetary inflation – maybe even use the surplus of revenue over expenditures to reduce the national debt. Unfortunately for political purposes, such an action would have risked depression and high unemployment (given the previous policies of monetary expansion and the downwardly inflexible wage rates that prevailed in a unionized economy).[20] Second, continuing the deficits, he could let all of our gold (their gold, really, given our promise to pay on demand) flow out. Third, the President could have established floating exchange rates and cut the redeemability of the dollar in terms of gold. This is exactly what he did. It involved a return to free market pricing of international monetary exchanges. He believed that it was preferable to do this than to take either of the first two steps. In this sense, pressures internationally on the dollar forced the President to return to a policy which was closer to the free market than the policy of fixed exchange rates which had been established by the IMF in 1947. Naturally, to make the operation truly conservative, he should have maintained the free convertibility of gold provision and reestablished it domestically with American citizens. This did not detract from the basic move which he made; namely, to reestablish free floating exchange rates in which voluntary transactions of money internationally can prevail. By returning to fixed exchange rates on December 19, the President thereby abandoned the advance made on August 15, reestablishing the rigidities that lead toward economic discontinuities.

Yet what did we find between August 15 and December 19? Many advocates of free market economics were howling bloody murder! "Free pricing is fine, and all that, *but*, given prior interventions by the government. . . ." Leonard Read is right: "We are sinking in a sea of buts."[21]

Return to Gold

What is the proper position with respect to valid international money? Clearly, a money system which is the product of free men, voluntarily exchanging scarce economic resources. Professor Murray Rothbard has given us a picture of what such a system might be:

Why not freely fluctuating exchange rates? Fine, let us have freely fluctuating exchange rates on our completely free market; let the Rothbards and Browns and GMs fluctuate at whatever rate they will exchange for gold or for each other. The trouble is that they would never reach this exalted state because they would never gain acceptance in exchange moneys at all, and therefore the problem of exchange *rates* would never arise.

On a really free market, then, there would be freely fluctuating exchange rates, but only between genuine commodity moneys, since the paper-name moneys could never gain enough acceptance to enter the field. Specifically, since gold and silver have historically been the leading commodity moneys, gold and silver would probably both be moneys, and would exchange at freely fluctuating rates. Different groups and communities of people would pick one or the other money as their unit of accounting.[22]

Floating exchange rates reflect what the prevailing external economic conditions really are. The rule governing the operation of floating exchange rates is identical to the rule operating in all computer affairs: "Garbage in, garbage out." If prevailing economic conditions on the international markets are inflationary, then floating exchange rates will respond appropriately, making the best of a very bad situation. If a full gold coin standard exists internationally, then floating exchange rates will make the best of a very good situation. Floating exchange rates are nothing more and nothing less than freely fluctuating voluntary prices on international markets (even if the primary participants are national central banks). Like all other forms of free pricing, floating exchange rates make things better than things would be under coercive price controls. Floating exchange rates should not be regarded as some kind of economic panacea for the world's inflationary conditions, except insofar as free pricing is always a panacea in relationship to the conditions which exist under government-imposed prices. No matter what other external conditions may be — inflationary, deflationary, relatively stable, gold standard, fiat standard, electric money standard, or any other standard conceivable to the mind of man — *free pricing is always preferable to fiat price controls*. Always.

There is no doubt that domestic monetary inflation, especially if carried on by a majority of national governments, produces great uncertainties in international trade. There is also little doubt that floating exchange rates impose the burden of dealing with these economic uncertainties on the shoulders of those who wish to participate in international trade and who expect to profit from such voluntary exchanges. These people are precisely the ones who *should* bear the burdens associated with economic forecasting. They are all entrepreneurs. If they resent the uncertainties associated with international trade in a world of fiat money, then they should put pressure on their respective governments to restore a full gold coin standard domestically. They should not be lured by the siren call of statist price controls to reduce the visible effects of statist policies of domestic monetary inflation.

If we want stable exchange rates, then there is one way, and only one way to get them: each government must impose upon itself the restraint of the full gold coin standard, give up its monetary monopoly, return the right of gold ownership to its citizens, and spend only that money which is raised directly through taxation. That is the way to achieve the goal of international monetary stability – not rigidity, but calculable, predictable, moderate stability.[23] The rule of gold alone has proven itself to be a producer of international monetary stability. That rule, and not the rule of government bureaucrats, is the foundation of monetary stability.[24]

The conclusion should be obvious: all advocates of free markets should call for solutions that promote economic freedom. If the proposed solutions do not promote free pricing on free markets, they are fallacious solutions. Fixed exchange rates limit the voluntary economic exchange of goods among free men. Therefore, fixed exchange rates are the wrong solution.

– FOOTNOTES –

[1] Paul Einzig, *The Case Against Floating Exchanges* (New York: Macmillan, 1970). Einzig's weekly column in *The Commercial and Financial Chronicle* includes an attack on floating exchange rates at least once a month. *Cf*. Brochure, Committee on Monetary Research and Education, Inc. (1971), pp. 9-10.

[2] *Business Week* (September 25, 1971), pp. 91 ff.

[3] On exported inflation, see Wilhelm Roepke, "The Dollar as Seen from Geneva," *National Review* (March 8, 1966); *Against the Tide* (Chicago: Regnery, 1969), ch. 13: "The Dilemma of Imported Inflation."

[4] *Against the Tide*, p. 229.

[5] *Ibid*., p. 230.

[6] Ludwig von Mises, *Human Action* (3rd rev. ed.; Chicago: Regnery, 1966), pp. 476-78.

[7] Cf. Gary North, "Statist Bureaucracy in the Modern Economy," THE FREEMAN (January, 1970); Mises, *Bureaucracy* (New Rochelle, New York: Arlington House, [1944] 1969); North, "The Mythology of Spaceship Earth," THE FREEMAN (November, 1969). On the nature of knowledge and the market's division of labor, see F. A. Hayek, *Individualism and Economic Order* (University of Chicago Press, 1948), ch. 2.

[8] Alfred L. Malabre, Jr., "Is It Really Time for Monetary Cheer?" *Wall Street Journal* (December 2, 1971). Malabre's estimate of the number of devaluations is far too low. Franz Pick, in the introduction to the second edition of *All the Monies of the World* (1971), reports that at least 418 partial or full devaluations took place in 108 countries between 1954 and the end of 1970. 1971 saw an additional 99 devaluations: *Barron's* (January 3, 1972), p. 9. This, in spite of the so-called stabilizing influences of the International Monetary Fund, the organization drawn up at the Bretton Woods Conference in July, 1944, officially established on December 27, 1945, and put into operation on March 1, 1947.

[9] Mises, *Human Action*, p. 791.

[10] *Ibid.*, p. 800.

[11] *The Theory of Money and Credit* (Foundation for Economic Education, 1971), pp. 180-81.

[12] *Human Action*, p. 455.

[13] *Ibid.*, pp. 455-56.

[14] *Ibid.*, p. 801.

[15] *Ibid.*, pp. 464-66.

[16] *Ibid.* (1949 ed.), p. 462n.

[17] Karl Marx, *Capital* (New York: Modern Library), p. 391. This is the first volume of *Capital*. He continued this same argument in Vol. 3 (Chicago: Charles H. Kerr, 1909), pp. 673, 1027. Frederich Engels, *Herr Eugen Duering's Revolution in Science [Anti-Duering]* (London: Lawrence & Wishart, [1877] 1934), pp. 296-301. For a critique of this concept of capitalist contradiction, see Gary North, *Marx's Religion of Revolution* (Nutley, New Jersey: Craig Press, 1968), p. 154.

[18] Mises, *Human Action*, pp. 289 ff. *Cf.* Frank H. Knight, *Risk, Uncertainty and Profit* (New York: Harper Torchbook, [1921] 1965), pt. 3.

[19] Mises, "Economic Calculation in the Socialist Commonwealth," (1920), in F. A. Hayek (ed.), *Collectivist Economic Planning* (London: Routledge & Kegan Paul, [1935] 1963). *Cf.* Mises, *Socialism* (New Haven, Conn.: Yale University Press, [1922] 1962), pp. 119-62; T. J. B. Hoff, *Economic Calculation in the Socialist Society* (London: Hodge, 1949). For an able refutation of the myth that Oskar Lange in some way "refuted" Mises on this point, see Paul Craig Roberts, "Oskar Lange's Theory of Socialist Planning," *The Journal of Political Economy*, LXXIX (1971), pp. 562-77. Roberts is not really happy with Mises' original formulation of his critique, however.

[20] Mises, *Human Action*, ch. 20. *Cf.* Gary North, "Repressed Depression," THE FREEMAN (April, 1969); North, "Downward Price Flexibility and Economic Growth," THE FREEMAN (May, 1971).

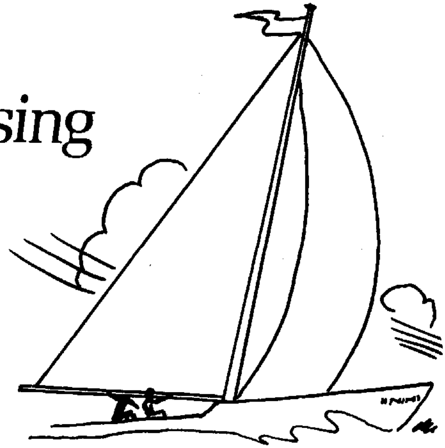
[21] Leonard E. Read, *Talking to Myself* (Foundation for Economic Education, 1970), ch. 6.

[22] Murray N. Rothbard, "The Case for a 100 Per Cent Gold Dollar," in Leland B. Yeager (ed.), *In Search of a Monetary Constitution* (Cambridge, Mass.: Harvard University Press, 1962), pp. 100-01.

[23] Mises, *Theory of Money and Credit*, p. 240. *Cf.* North, "Donward Price Flexibility," pp. 312-13.

[24] I must admit that the passage in Mises' *Theory of Money and Credit*, "Currency Reform in Ruritania," does not seem to conform to every other statement written by Mises with regard to the political control of prices, including rates of exchange. He calls for a state agency to set a legal parity and "to make this legal parity an effective real market rate, . . ." (p. 445). The meaning of this obscure passage is best understood in terms of his attack on statist foreign-exchange policy which appears on pp. 18-19. The whole corpus of Mises' writings is opposed to price controls; a single deviation – if, indeed, it is a deviation – should not be used to compromise the impact of his overall defense of the free market.

Cruising Speed



WILLIAM F. BUCKLEY, JR.'S *Cruising Speed: A Documentary* (Putnam, $6.95) begins as a chronicle of a week in the life of America's most engaging publicist. But time, with Bill Buckley, has a Proustian dimension, so the form becomes an excuse for unlocking years as well as days. A telephone call to Bill Buckley takes us in one direction, a "Dear Sir, You cur" letter in quite another, an encounter with a friend or colleague in still a third, until after darting down a hundred avenues one has the illusion that one is peeling off one of those Chinese eggs which contain egg within egg, almost to the vanishing point. But then, one reflects, the Chinese egg image won't do at all, for the average Buckley egg is so bursting with its own meat that it could contain nothing else.

Since the form is immaterial, it scarcely matters that the documented Buckley week began at Bill's Stamford, Connecticut, seaside home at ten o'clock on a Monday morning *after* a newspaper column had been written and some routine correspondence handled. The important thing is that one thing provokes another even as Bill is riding into Manhattan to tape-record a couple of TV shows.

Memories crowd until the book becomes as complex as the Buckley character, which deceives many who come upon it merely one aspect at a time. Yes, Bill Buckley can be offensive to modern-day liberals, as when he sets down in his list of accomplishments in *Who's Who in America* the fact that he founded the National Committee to Horsewhip Drew Pearson in 1967. Like any man of wit, Buckley outrages those who have no wit at all. But witty outrage, with Buckley, procedes from a gorgeous sense of unmalicious fun.

As Critics See Him

Unlike a few polemicists whom I could mention, Buckley stays in the kitchen not only because he likes to cook but also because he can stand the heat. His sense of editorial honor does not permit him to hide anything, so he prints a long diatribe about his character written by one Hank Levine, the chairman of the Party of the Left of the Yale Political Union. Mr. Levine sees Buckley in terms of a "kind of silent leer-wince," which, whatever this may say about the Levine eyesight, indicates that Leftist undergraduates at Yale can be as tone-deaf as a mummy.

What seems to Mr. Levine to be a superiority complex is, in a way, Mr. Buckley's way of overcoming his environment. He grew up with "liberals" to the left of him, to say nothing of those who kicked him from behind and gouged him from in front. (I recall defending Bill Buckley years ago against a charge, made by an editor of a well-known "liberal" monthly, that Buckley's *National Review* lacked humor, which is about as idiotic a criticism as could be made.) Bill had to rehabilitate wit among the witless, to re-establish elegance and finish in the arena of controversy, to bring tone and savor and cutting edge to our polemics. He could not have done this without having had some theatrical sense. Underneath the showmanship is the overmastering urge to instruct.

A Becoming Modesty

It may seem strange to Hank Levine, but Bill Buckley actually comes through in *Cruising Speed* as a person of most becoming modesty. He can kid J. Kenneth Galbraith, who is his friend, but when Galbraith tries, on the way to the ski slope at the Rinderberg in

Switzerland, to persuade Bill to focus his energies on books, the bantering tone disappears from the Buckleyian text. Give it up, says Galbraith, give up the whole thing, *National Review,* journalism, television, radio, lecturing. I did it, says Galbraith, I left *Fortune* and went to Harvard. Come to the academy and write books. It is only books that count in giving theoretical depth to ideological positions.

Now, if Bill Buckley were truly arrogant, he would have turned on Galbraith and said something to the effect that books can mislead as well as lead. Instead of indulging in a flip retort, however, Bill was provoked only to some dispassionate self-appraisal. He told himself that others had already provided the theoretical depth for conservatism. Wasn't it his mission, therefore, to advertise the profundity of the foundations already provided by others? How, he asked, could he hope to "do better against positivism than Voegelin has done?" How could he improve on "Oakeshott's analysis of rationalism?" How could he "rediscover orthodoxy more engrossingly than Chesterton?"

What of the Reserves?

To feel satisfied, so Bill Buckley told himself while musing on Galbraith's challenge, one must have a sense of social usefulness. But what, he asked himself, were his reserves? What would he have to satisfy those who listened to him tomorrow?

Turning back to "cruising speed," which involved getting to Washington in Frank Stanton's Columbia Broadcasting System jet plane and writing next day's column, Bill inevitably had to let the question of his reserves drop. But he needn't worry; the reserves will be there.

Since Bill himself has tossed the name of Chesterton, a superlative journalist, into the discussion, it should be said that journalism itself often has a theoretical depth that is missing in books. Galbraith's view of the superiority of the academy is all too simple. H. L. Mencken, no academician, wrote journalistic essays and criticism that have stood the transplanting between book covers. But who remembers W. C. Brownell, or Henry Beers, or other academic critics of Mencken's heyday? Who knows, Buckley's "journalism" may prove more enduring than, let us say, Galbraith's *The New Industrial State?* (Not wishing to be invidious, I hasten to add that I grant a permanent literary value to Galbraith's *Affluent Society;* its *phrasing* is always first-rate, even when the logic leaves something to be desired.)

Government's Limited Role

Just how good Bill Buckley can be is proved by his little essay written in defense of the *National Review* position (see page 92, where he passes along his musings while driving to Bridgeport to debate with Dick Gregory.) "It was fourteen years after NR began," says Bill, "that Peter Drucker would write in *The Age of Discontinuity* that the only thing government can do effectively is wage war and inflate the currency . . . individuation is what happens when the state ceases to be taken for granted as the necessary instrument for human progress. The conservative who spoke to little audiences fifteen years ago about the necessity for arresting the growth of government was saying then what the followers of Reich (author of *The Greening of America*) have come upon, except that *they* are now condemning America, while what they ought to be condemning is what I once called the special effronteries of the twentieth century. . . ."

For fifteen years Bill Buckley has been trying to tell people that nobody can "lead happy or full lives by buying one share each of common stock in – The State." This position was not new when Chesterton espoused it in England, nor when Albert Jay Nock taking off from the German Franz Oppenheimer, gave "theoretical depth" to it in *Our Enemy, The State.* Readers of *The Freeman* know better than most, however, that the theme was never in such need of refurbishing as now, when prices are being "controlled" in a time of peace. Bill Buckley's refurbishing is elegant, precise, and engaging, whether it appears as journalism – or in a book.

▸ LIBERTARIANISM: A POLITICAL PHILOSOPHY FOR TOMORROW by John Hospers (Los Angeles: Nash Publishing Co., $10)

Reviewed by: Allan Malz

THIS simply and lucidly written introduction to the free market philosophy summarizes the arguments of the finest libertarian literature.

In the first ten chapters, the author – a University of Southern California philosopher – discusses a broad range of topics. He defines the proper scope of government action, and analyzes the various types of State intervention whose disastrous results are so often blamed on capitalism. A persuasive justification of profit, on both moral and economic grounds, is presented. In an especially incisive chapter, Professor Hospers examines the welfare state, describing how, after each anti-poverty program, the poor somehow end up even poorer, and demonstrating that only a truly free market can effectively reduce poverty. This leads him into a discussion of taxation and its corrosive effects on enterprise.

The author's most important arguments, however, are reserved for the final chapter, in which he presents the case against anarchism. The no-government philosophy speaks for itself through lengthy quotations from its partisans, after which Professor Hospers analyzes it from a limited government point of view. He shows that anarchy would mean open season on minority groups and nonconformists. In the absence of government, there could be no Rule of Law, and certainly not the "objective law" of which the anarchists claim to be the champions. Even an anarchist must admit that some services cannot be supplied by the market, the author concludes, and it is precisely these that is the task of government to provide. A society in which any man can call himself a "defense agency" and take the law into his own hands would surely be an unstable one in which peaceful cooperation could not last; a "no-government society is always trembling on the verge of chaos," he observes. And there is no reason to believe that any government emerging out of chaos would be a limited one.

The weakest section is Hosper's discussion of natural rights. Too much of what Bentham would have called "sentiment" is brought into the explication. The reader is given no firm reason to believe that natural rights really exist, and it is not explained why they are "inalienable." Rousing prose about the beauty of liberty is sometimes substituted for reasoned explanation of its practical benefits. Fortunately, the flaws are limited to the opening chapters, and do not detract much from the value of the book.

All in all, a useful book, both as an introduction for the beginner and as a sort of memory-refresher for the advanced student.

▶ THE REGULATED CONSUMER by Mary Bennett Peterson (Los Angeles: Nash Publishing, 1971, 271 pp., $7.95)

Reviewer: Tommy W. Rogers

CONSUMERISM has spawned a multitude of regulations and a host of federal agencies to enforce them, but has it helped the consumer? It is the author's contention, well documented and illustrated, that consumerism is inherently uneconomic — and, ironically, anticonsumer; it adversely affects individual choice and diminishes efficiency in the use of our resources. Americans pay cartel prices for the coffee they drink and the sugar they eat, and in the process injure efficient international producers and world competition. Unions, as well as the government controlled farm sector, have the makings of giant cartels as government induced and protected monopolies. Government farm programs continue to widen the gap between rich agriculturalist-businessmen and poor farmers, and compulsory unionism not only limits freedom but breeds corruption.

The author contends that "combinations and conspiracies against trade may appeal to the monopolistic mentality, but in practice, unless enforced by government, they tend to evaporate." Regulatory agencies which supposedly "protect" the consumer become buffer agencies which act as accommodative bodies of the businesses they are supposed to regulate, at the expense of the public, as classically illustrated by the Interstate Commerce Commission.

A determined ICC seeking to give the image of zealously protecting the public interest has forced higher costs on the shipper, carrier, and, most important of all, the consumer. The activities of the Civil Aeronautics Board similarly illustrate that regulation can mean anything but security for those who are regulated, or economy for the consumers who are the supposed benefactors. The CAB, an opponent of competition between airlines, has constantly reflected a basic anti-consumer, pro-producer bias. Because of CAB regulation "commercial aviation has been treated as a giant subsidized public utility, managerial decision-making has been impeded, consumer sovereignty frustrated, economies of scale blunted, innovations and technological efficiency in airlines operations hampered."

"Interventionistic regulation," as Mrs. Peterson thoroughly demonstrates, leaves much to be desired. It is structured against the interests of the consumer whom its rhetoric claims it seeks to defend. Illustration after illustration is used to nail down the truism that quotas, minimum prices, subsidies, decrees, and regulations operate to the detriment of the Forgotten Man.

There is a remedy: an enlightened government and citizenry should progressively deregulate our regulated society and reenthrone the consumer in the marketplace. Only so may we provide justice, preserve freedom.