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BERTEL M. SPARKS

CAVEAT EMPTOR: The Consumer's Badge of Authority

ANY DISCUSSION of the doctrine of *caveat emptor* necessarily involves a discussion of the free market. And although it has been clearly demonstrated that the free market is the most efficient allocator of scarce resources mankind has yet discovered, it is not a popular concept. Its lack of popularity is probably due to a misunderstanding of the manner in which it works. In any event, those who have benefited most from its operation are often among its severest critics, and even those who are particularly vocal in declaring their support of the market are frequently in disarray as to its meaning.

Early in 1973, the present writer happened to attend a public meeting where substantially all persons present considered themselves devotees of free market principles. On that occasion the speaker made an approving reference to the doctrine of *caveat emptor*. A number of eyebrows were raised; and when the time for questions and comments arrived, at least one person raised an objection to the implied approval of what the objector evidently considered as being something less than the best of morality. He specifically admonished his fellow listeners to beware of showing too little regard for the moral order. His clear implication was that approval of *caveat emptor* demonstrated a moral weakness. There was little discussion of the point, but such as there was tended to indicate that the objector had as many adherents as the principal speaker. And even the speaker withdrew a bit from his initial posi-

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tion by admitting that he might have overstated his case.

That incident appears to demonstrate a failure of free market advocates, or people who think they are free market advocates, to understand the tools of their trade. At least it raises questions as to what these particular supporters of the free market, if they were actually in that category, meant when they used the term *caveat emptor* on that occasion. It seems strange that anyone, and especially one who claims to be a supporter of the free market can find anything immoral about a doctrine that does nothing more than limit contractual liability to the terms of the contract. *Caveat emptor* extends no further.

Let the Buyer Beware

Literally translated, the expression means, "Let the buyer beware." To this bare translation of the Latin phrase, Webster adds the explanatory note, "that is, let him [the buyer] examine the article he is buying, and act on his own judgment...."[1] That interpretation by Webster is an accurate rendition of what *caveat emptor* means as it is applied in English and American law.[2] Let the prospective buyer who is contemplating the purchase of an article examine the article, and then let him decide for himself the terms on which he is willing to purchase or decline to purchase the article. Let the rights and duties of both buyer and seller be governed by the terms upon which they mutually agree, nothing more and nothing less. When viewed in that light, what moral or ethical principle is violated by the doctrine of *caveat emptor?* The clear answer should be, none at all.

The notion that there is something that is at least slightly immoral or improper about the doctrine of *caveat emptor* apparently rests upon the mistaken belief that its application relieves the seller from his contractual obligations to the buyer. This is a gross distortion of what the phrase actually means. The expression *caveat emptor* is merely an effort to describe the broader doctrine of freedom of contract as it applies to the vendor-purchaser relationship. The doctrine has nothing to do with the liability of the seller for the promises he makes concerning the product he sells. He is liable for his express promises and guarantees, and in certain circumstances that liability is extended to additional promises and guarantees that may reasonably be implied from the nature of the particular transaction.[3]

Precisely what promises or "warranties" will be implied depends upon the intention of the parties as revealed by the circumstances surrounding the transaction.

Where the circumstances justify the implication, the implication will be made; and when it is made, the implied promises are given the same legal effect as the express promises. The chief difference between the two kinds of promises is a difference in the evidence by which they are proved. But once they are proved, they are both treated as promises actually made, and both are equally enforceable against the seller.

The Growth of the Doctrine of Implied Warranties

The doctrine of implied warranties is not new in the law. The content of such warranties, however, does change from time to time as adaptations are made to changing business practices. And the current trend is toward expanding rather than curtailing the areas where such implication will be made. At a very early date in the English law it was held that a seller of personal property (as distinguished from real property) impliedly warranted that he had title to the product sold and that he had a right to sell the same. Likewise there also arose the concept of implied warranties of wholesomeness or fitness for human consumption in the case of a sale of food, and conformity to sample where a bulk of goods was sold by sample.[4] Similar doctrines were incorporated into American law, and, with appropriate refinements and extensions into new areas to coincide with changes in trade customs, have prevailed to this day.[5]

Traditionally the doctrine of implied warranties has not been extended to sales of real estate.[6] Various reasons have been assigned to explain this distinction between real and personal property. All of them have something to do with what is believed to be the intention of the parties. The buyer usually makes a careful examination of the real estate he buys and relies upon his own judgment, or else he relies upon the advice of a trusted consultant. The seller did not manufacture the land and usually did not erect the buildings upon it; therefore, he is not in a position to have the same kind of special knowledge of its quality and fitness as could be expected from the grower or manufacturer of a product such as a bushel of potatoes or a suit of clothes. Furthermore, there is a lack of uniform specifications concerning land or buildings; and it is not unusual for a buyer, especially one who is young or of limited financial means, to deliberately look for a somewhat dilapidated house which is within his price range and which he can improve with his own hands to the point where it is both more useful to him and capable of bringing a better price when he is ready to sell.

But it is in the buying and selling of real estate that the law frequently shows its capacity to grow and to adapt itself to the changing customs of the market. An illustration of such an adaptation is currently in process in the real estate market. There was a time when the housing consumer in search of a new home was likely to buy a lot and employ a contractor to build a house. In that instance the consumer dealt directly with the contractor and the contractor was liable to the consumer for a workmanlike performance of his contract to build. In present-day society it is becoming more likely that the building of the house will be accomplished by a real estate developer who buys a large tract of land, divides it into lots, and builds houses on the various lots without having particular buyers in mind. He then offers the completed houses for sale. The housing consumer buys his house from the developer and has little or no connection with the actual building process. The builder and the seller are one and the same. Even in that situation, traditional real estate law would seem to dictate that the developer would be liable to the consumer for any express promises or guarantees he might make concerning the quality or fitness of the house sold but that no such promises would be implied.

Recent Change

But within the last decade there has developed a trend toward recognition that the nature of the transaction between buyer and seller has so changed that the law must adapt itself to cope with the change. The developer has placed himself more in the position of a manufacturer offering a product of his own making for sale. Under these circumstances, it is more likely that the developer, by his very acts, manifests an intent to create an impression in the buyer that the house being sold was built in a workmanlike manner and that it is reasonably fit for the purpose for which it is intended, namely, human habitation. It is also likely that the buyer purchased in reliance upon that implied representation. The situation has become an appropriate one for the implication of certain warranties by the seller, and a number of courts have so held.[7]

Such judicial recognition of implied warranties in this area where there were no implied warranties before does not affect nor is it affected by the doctrine of *caveat emptor*. Rather it is an adaptation of an old principle to a new business condition. It is a recognition that as modern vendors of housing move into a market where they are becoming manufacturers, they are tending to place themselves in the same legal position as the manufacturers of other consumer goods. By their acts, they are now making certain kinds of implied promises which housing vendors had not made before, either expressly or by implication. But they are promises actually made and resting upon the actual intent of the parties to the particular transaction.

Buyer's Choice

Enforcement of such promises is unrelated to the doctrine of *caveat emptor* which is nothing more than a doctrine that the seller will not be held liable for promises he did not make or purport to make in any manner whatever. He is not required, as a matter of law, to guarantee the goods sold. Neither does the doctrine apply in any instance where the intent to guarantee can be shown either by the words used or by the acts done. If the intention cannot be shown by either of these methods, then *caveat emptor;* that is to say, let the prospective buyer who is contemplating a purchase of an article examine it, make his own judgment as to its suitability for his purposes, and then let him decide for himself the terms on which he is willing to buy or decline to buy the article.

And if the buyer is not permitted to exercise his own judgment as to the suitability of a product for his purposes, who is to make that judgment for him? That is the critical question too often ignored by those who would deprive the consumer of his dominant role in the market place. And the consumer does play the dominant role in the market place as long as he is permitted to exercise his own judgment as to what goods he will buy. The interventionists who prefer having some form of government agency in control of the market offer numerous reasons why the consumer cannot be trusted to play that role. But when their various reasons are examined, it will be found that they can all be summarized in just two points. First, the consumer is not in a position to make wise decisions. Second, even if the consumer could make such decisions, he would have no way of getting the producer to listen.

Pity the Consumer

The interventionist's lament over the consumer's lack of qualification for making his own decisions is without end. A few years ago consumers were competing with each other to see which one could have the highest fins on his automobile. If a producer expected to sell automobiles, he had to put fins on them. This was interpreted in some circles as an unscrupulous effort by the producers to trick consumers into paying for frills that failed to add anything to the functional qualities of the automobile. Some even suggested that there ought to be a law prohibiting producers from manufacturing and selling automobiles with fins; that is to say, a law to prevent producers from offering the consumer what the consumer wanted.

The ridiculousness of the whole issue was that no one could be found who ever believed or claimed that fins added anything to the functional qualities of the automobile in the first place. The customer wanted fins. That was all there was to it. He didn't have to have reasons. And if the consumer wanted fins, the producer was ready to supply fins. Whether or not there should be a law on the subject was a question of whether the consumer or some third party should decide what would best satisfy the consumer. If the consumer was to be allowed to make his own choice, no law was needed. His willingness or unwillingness to purchase spoke for itself, and it spoke in language the producer could understand. If the choice was to be in the hands of a third party who was necessarily a stranger to the transaction, a law accompanied by a whole body of enforcement machinery would be needed.

The high fins gradually disappeared from automobiles without their ever being prohibited by law. But worse things than the passage of an anti-fin law have happened since. A whole swarm of consumer protectionists have entered the field. Each one insists that he knows better than the consumer how to make decisions for the consumer. And laws are being passed. The most unfortunate victim of all this is the American housewife. At least she is being maligned more than anybody else. It has become fashionable for interventionists, bureaucrats, and academic theoreticians to demean her as being one of the most stupid creatures who ever entered a supermarket.

Bewildered Housewives?

According to some of these self-proclaimed protectors of the American consumer, the bewildered housewife never has any idea what she wants when she enters a grocery store, nor is she at all adequate to the task of making her own selections when she gets there. The idea of permitting an ordinary, uninstructed housewife to examine an article she is buying and act on her own judgment is totally repulsive to the interventionist. He will assure you that such a wife doesn't know how to compare prices or how to evaluate her own needs.

It is doubtful if the American

housewives are quite as incompetent as the interventionists seem to believe. It is also a bit surprising that some kind of retaliatory measures have not been taken by the American Housewives Association, or some similar body if no organization under that name exists. At least it would appear that the ladies should be given an opportunity to offer evidence that they do know the difference between pounds and ounces and that they are almost as proficient at comparative shopping and price calculation as some of the interventionists who worry so much about them.

Even after the shopper has made her careful calculations of price, with or without the help of the ever-present officeholder, is there any assurance that her needs will be met by the box of detergent or the bottle of real lemon juice that gives her the absolutely lowest per unit price of merchandise? Is it possible that she might choose to pay a little more in order to get the size that is more convenient for her? Not all kitchen cabinets are of uniform size or design. And even if the lady doing the buying has no reason whatever for selecting a particular package except that she prefers the looks of the containers of that particular size or shape, why should some intervening government official be appointed to frustrate her choice? The selection is being made to satisfy a particular customer, and who can possibly know more about what will satisfy that particular customer than the customer herself?

Freedom to Err

Needless to say, if the customer is left free to make his or her own selections, many of the selections made will be unwise, or even stupid, when measured by the standards of different people who have different tastes or desires. The real question is whether or not a person of mature years should be free to make mistakes. Should he be free to select an unsafe automobile, or at least one without seat belts, if that is what he wants? If his vehicle is more likely to create a special hazard to others who are legitimately using the highway, that is one reason for denying him the privilege of being on the road. But suppose the only danger is a danger to the customer himself. Should he be compelled to protect himself from that danger even though he would prefer to assume the risk? The interventionist would answer, and has answered, that question in the affirmative.

The interventionist would tell all customers that they should not be permitted to pay a higher price for a product in order to get it into a package of a unique or colorful size or shape. The interventionist is opposed to letting the consumer examine the article and act on his own judgment. The consumer must not be allowed a freedom of choice. For if he is allowed such freedom, he might hurt himself. And to allow him to hurt himself, that is, to allow the doctrine of *caveat emptor* to operate, would be immoral.

Unwittingly, the interventionist is striving toward a rather drab society where the introduction of new products will be delayed or prevented, and the variety of articles being offered will tend to decline. When he is pressed on that point, he is likely to shift his emphasis to the second part of his argument. He will tell you that even if the consumer does make right choices, the consumer will have no way of imposing his will upon the producer or even informing the producer of his choice. An intervening government agency is required for that.

Market Effectiveness

It is the contention of the present writer that if the consumer is allowed the freedom of a *caveat emptor*, open market system, his control of the productive process will be far more effective than that of any government agency can possibly be. That point will be disputed by the interventionists, and it must be admitted that the overwhelming majority of the American people are interventionists. But majorities can be mistaken even when their claims are most persuasive.

In this instance the interventionists are eager to point out that the manufacturer of an automobile, a box of cereal, or a pair of shoes is likely to be large and powerful while the consumer is likely to be of small means and lacking in influence. They will then tell you that the big and powerful producer is prepared to offer a finished product to the consumer on a take-it-or-leave-it basis, and that the choice of the individual consumer cannot influence the producer.

That line of reasoning seems to ignore the marketing and production processes. The fact is that it is the free choices of individual consumers that force the producer to constantly search for ways to improve the old products and develop new ones. One might begin by inquiring how the big and powerful producer became big and powerful in the first place. He was not always that way. The truth is that there are very few corporate enterprises in the United States that have had a very long run. Most of them are quite young. And with the exception of those few that might have become rich because the government granted them a partial monopoly by using the powers of government to exclude competitors, there was only one way for them to have become strong and powerful. That way was by producing the articles individual consumers wanted and for which individual consumers were willing to pay. This is not to say that the articles being produced have always been good for the consumer in any objective sense. It is to say that the articles were what the consumer wanted.

How the Giants Began

This point can be illustrated by a simple inquiry into how the Ford Motor Company, General Motors Corporation, International Business Machines, American Telephone and Telegraph Company, Atlantic and Pacific Tea Company, or any one of the corporate giants of present-day American industry arrived at its current economic position. Each one had to begin by offering a product or a service that the consumer had been doing without up to that point. In no instance did the new producer have any power to exercise over even one consumer, to say nothing of the whole body of consumers who have since become customers. The only thing any of these beginning producers could offer was the quality or attractiveness of his product. He had to meet the subjective approval, not only of one consumer, but of large numbers of consumers or else be out of business very shortly.

Suppose circumstances had been different. Suppose it had been the approval of a consumer protection agency rather than the approval of a nameless mass of individual consumers that had been required. Would the enterprise winning approval have been different? What standards would the consumer protection agency have applied? How well could the agency have understood individual consumer desires? Where consumers differed as to their respective wishes, how would the agency have decided which consumer to favor? Would the possibility of bribery or fraud have entered the field? The answers to such questions as these can never be known with certainty. But what is known is that the route to approval would have been different. Control would have been removed from the consumer and would have been placed in some part of the political machinery.

No Way to Tell

And if the power to decide what product is to be produced is placed under political control, it is impossible to know which products will best satisfy the consumer. This is true even if every official involved in the process is motivated by the very best of good will; and every possibility of bribery, fraud, or other improper conduct is removed. It is true because the public official is necessarily a third party. He is neither the producer nor the user of the product involved. Whether he is guided by his concern for the protection of the environment, the health or safety of the consumer, or some other such worthy purpose, it is still impossible for him to know what the consumer really wants. The consumer's power to make his wants known by his acts in the market place has been removed.

And once the political decision is made, there is no longer any measuring rod for determining whether the consumer is satisfied. The producer is not called upon to meet the rigorous test of satisfying consumer demand in order to stay in business. The political authority has said that this type of seat belt, this size container, or this kind of shoes, and this only will be offered for sale in this jurisdiction. The producer of the approved product is thereby shielded from the competitor who might be ready to offer a different product tailored more to the consumer's wishes. The approved producer can relax. He has won bureaucratic approval; the wishes of the consumer are no longer important. The consumer is still free to buy or not buy, but he is not in a position to reward a competing producer who might offer an unapproved product. The consumer's power of choice, and therefore his power to control, has been taken from him.

To Buy or Not to Buy

Under the free market, *caveat emptor* system, the consumer's control of production is absolute. And he has only one way to express his approval or disapproval. That way is by buying or rejecting the products or services being offered to him. If the market is free, his rejection of a product is an invitation to a possible competitor to offer him an alternative which will more closely conform to his personal wishes. And every time the consumer makes a purchase in the free market system, he is casting his ballot for one product and against another. Since the consumer is the best possible judge of what brings satisfaction to him, he is likely to be both better informed and less corruptible when exercising his choices in the market place than he can reasonably be expected to be when he is at the polls casting his vote for a new director of consumer protection.[8]

As for the producer, the only way he can get into the business in the first place is to risk his capital, labor, and abilities in the production of a new item without any assurance that it will ever be accepted. If it is accepted, he might be on his way to a fortune; but if it is not accepted, his substance as well as his hopes are shattered. His hopes are shattered because he made an erroneous judgment of consumer demand. There is no political agency here to back up the producer's choice or to compensate him for his losses when he has misjudged the consumer. He is left to the mercies of the free market; and as long as consumers are left free, they are a tough lot. They will not reward a producer for having exhausted his substance on a product the consumer doesn't want. If the would-be producer who has made the wrong estimate of consumer demand is to remain an entrepreneur of any kind, he is forced by the market processes to change his plans, make a new evaluation of consumer wishes, and try again. The significant thing is that it is the consumer himself, not a political commissar, that must be satisfied.

Consumer Control or Political?

The choice between a *caveat emptor,* free market system and a consumer protection system is a matter of deciding whether the productive processes should be under consumer control or political control. If the goal is to satisfy the consumer, the answer in favor of consumer control is clear-cut. And that means the choice is in favor of the free market. Under that system, no product can find favor in the market place without consumer approval. Neither can any product be denied favor if it has consumer approval. And the only law needed to create an atmosphere in which the free market will operate is a law to enforce contracts between willing buyers and willing sellers.

Thus far, emphasis has been on getting a new enterprise launched. Admittedly it will not be a success in the market place unless it meets with consumer approval. But what about the producer who is already a success, the large corporation that has already become a major producer in the industry? Is an enterprise of that magnitude subject to consumer control even after it has arrived? In this instance the producer places his product on the market at a particular price and the consumer must buy it as it is and at the price offered or else do without the article. The buyer would like to have a slightly different size, one that has either more or less power, or one of a different color or style. How can the individual buyer persuade the producer to give him what he really wants? What influence can the buyer have in getting desired alterations or improvements in the article? Or how can he bring about a reduction of the price when it becomes too high?

Consumer Power

The answer to each of these questions and many similar ones that could be asked is that the consumer has the same quiet, but deadly effective, control over the established producer that he is capable of exercising over the newcomer. In this particular arena of human action, the lowest paid wage earner is by no means helpless even in the land of the giants so long as he is free to make his own decisions as to what goods he will buy or refrain from buying.

When the comparatively small individual consumer decides to buy his automobile from X Company, his clothing from Y Company, or his groceries from Z Company, he does so because he has learned from experience that he can depend upon these particular firms to deliver what he wants. Of course he is not qualified to make an informed inspection or evaluation of the engineering qualities of the automobile any more than he is able to determine the purity or the nutritional qualities of the groceries being offered. Therefore, he buys from a company whose products have always worked and whose promises are always kept. But suppose that company fails to meet its usual standards in just a few instances. Consumer confidence is shattered. The rest of the story is then determined. There is always an alternative source. And the more highly industrialized the economy becomes, the more certain it is that that alternative is readily available.

But suppose Y Company, a well established firm, never makes a mistake. It always delivers what is promised, its merchandise is of impeccable quality, and it always goes the extra mile to satisfy the demands of every customer. Its prices are high but customers are satisfied. Is it possible for any competitor to enter the market under these circumstances? Why should any customer ever leave a company that is performing so well and buy from an untried newcomer?

Attracting Competitors

The answer is easy. If the performance of the established firm is so nearly perfect as what is here described, you can be sure that it has or soon will have a favorable profit margin. The more favorable that profit margin becomes, the more likely it is that would-be competitors will be watching for an opportunity to enter the field. That opportunity will not occur until some prospective competitor is able to offer a comparable product at a reduced price or an improved product without substantially increasing the price.

As the profit margin improves, the efforts of prospective competitors will increase both in numbers and in diligence of effort. The competition becomes a race among giants to see which one can bring the greatest satisfaction to the individual, low-income wage earner at the lowest price. It is the kind of race that is impossible except in a free market. It is also the kind of race that is inevitable in the free market. It is a race to see who can be first with a solution to the problem of giving the consumer better service at a lower cost. Under the kind of pressure such a race is certain to generate, somebody is sure to find a solution if a solution exists. And as soon as it is found, the fickleness of customers is such that many of them will abandon their first love and flock to the new.

That is the way consumer demand expresses itself in the *caveat emptor,* free market system. It is the process by which individual consumers have kept a constant stream of new products flowing to the American market for almost 200 years. If there is any way consumers can exercise such absolute pressure in the consumer protection system, that way has not yet been discovered. It is high time that the consumer protection system be recognized for what it is. In its essence, it is a producer protection system designed to protect the producer from the rigors of competition faced in the free market. So long as the market is free, the consumer pressure for improved products is intense. No producer can remain in the market without keeping constantly alert to consumer demand. And that consumer demand is so constantly and so urgently inviting competitors to enter the field that no producer, however well established, can afford to relax in his efforts to improve.

A Change of Preference

As recently as the 1920's the Ford Motor Company held such a dominant position in the automobile industry that the possibility of effective competition from any source seemed remote. Ford had arrived at that position by producing the kind of vehicle the customer wanted at a price the customer was willing to pay. Having arrived at that zenith, Ford continued to produce the same kind of automobile. He continued to make the same product that made him famous. He reduced price without any decline in quality. But the consumer was ready for something new. Chevrolet introduced innovations and frills at a slightly increased price. Consumers examined what they saw, exercised their own judgment, and began to buy the competing product. And look who is ahead now!

Even more recently an article known as the ball point pen came on the market. Although it sold for considerably more than the price of the old fountain pen, the consumer examined the new article, acted on his own judgment, and decided to buy. So successful were the initial offerings that fantastic financial rewards for producers seemed a near certainty. This brought more producers into the field with each one trying to attract consumer attention. The result was that the old fountain pen virtually disappeared from the market. The ball point pen was so improved and its price pushed so steadily downward that, even after all the intervening inflation, nineteen cents will buy a better ball point today than could be had for fifteen dollars in the years immediately following its initial appearance in the market place.

A Miracle in Process

What happened to the automobile and the ball point pen is illustrative of what has happened throughout American industry. The speed with which comparatively new products have disappeared from the market to make way for still newer ones has been fabulous if not miraculous. In fact, the word miracle might not be too strong. It is the miracle of a market where consumers are free to call the shots, where they are free to inspect every product offered to them and to act on their own judgment. It is a market where it is not considered immoral for consumers to act on their own judgment. In short, it is a market that is free.

In such a market, the consumer has every producer and would-be producer in the world striving to give him more of the things he wants and at the lowest prices possible. They are not striving toward that end because of any special love they might have for the consumer. They are striving to please the consumer because that is their only route to their own economic survival. It is the producer's search for newer and better ways of satisfying the consumer that keeps the flow of newer and better products pouring into the market, thereby assuring a wide variety of goods available for almost every purpose.

Every time the consumer buys a toothbrush, a loaf of bread, or a ticket to the theater, he is using the market to send a signal to the producer about what he wants or does not want. The producer either responds to that signal or goes out of business to make room for a producer who will. And every time the government intervenes to prop up a failing business or to restrain the operation of a successful one, the government is using the consumer's hard-earned tax dollars to veto the consumer's wishes that have already been registered in the market place. Government intervention sends wrong signals to the producer. The wrong signals bring to the market more products the consumer does not want and fewer of the ones he does want.

The Best Government Lets the Consumer Choose

The greatest contribution the government can make toward protecting the consumer is to quit trying to make his decisions for him and leave him free to make decisions for himself. Let him examine each article he is contemplating buying and act on his own judgment. Consumer choices will then be accurately reflected in the market place. In that kind of a market, only those producers who accurately respond to consumer demand and who operate with efficiency will survive. Those who are inefficient or who misjudge the market signals will fail. And from the consumer's viewpoint, it is as important that some businesses be allowed to fail as it is that others be allowed to prosper. The important thing is that in the *caveat emptor,* free market system, the authority to control which ones fail and which ones survive is determined by the consumer rather than the politician. *Caveat emptor* then becomes the consumer's true badge of authority. With that badge the consumer can dictate what goods will be produced, in what quantities, and at what prices.

• FOOTNOTES •

1 WEBSTER'S NEW INTERNATIONAL DICTIONARY (Merriam-Webster, Unabridged 2d ed. 1947).

2 Barnard v. Kellogg, 77 U.S. (10 Wall) 383 (1870); State ex. rel. Jones Store Co. v. Shain, 352 Mo. 630, 179 S.W.2d 19 (1944).

3 Drumar Mining Co. v. Morris Ravine Mining Co., 33 Cal. App.2d 492, 92 P.2d 424 (1939): McConnell v. Jones, 228 N.C. 218, 44 S.E.2d 876 (1947).

4 3 BLACKSTONE, COMMENTARIES ON THE LAWS OF ENGLAND 165, especially note 24 (Chitty's ed. 1832).

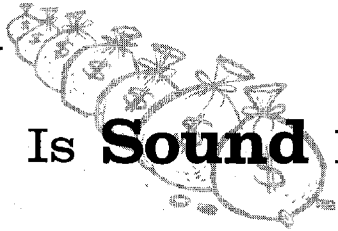
5 WHITE AND SUMMERS, HANDBOOK OF THE LAW UNDER THE UNIFORM COMMERCIAL CODE 271-305 (1972).

6 7 WILLISTON, CONTRACTS sec. 926 (3d ed. 1963).

7 Hanavan v. Dye, 4 Ill. App.3d 576, 281 N.E.2d 398 (1972); Theis v. Heuer, 280 N.E.2d 300 (Ind. 1972); Elderkin v. Gaster, 447 Pa. 118, 288 A.2d 771 (1972); Gay v. Cornwall, 6 Wash. App.595, 494 P.2d 1371 (1972).

8 See LUDWIG VON MISES, SOCIALISM 21 (J. Kahane Transl. 1951).

Free Money Is Sound Money



HANS F. SENNHOLZ

RECENT ECONOMIC DEVELOPMENTS reflect and portend the painful convulsions of our fiat money system. The federal government is projecting a budget deficit of $34.7 billion for fiscal 1975 and a deficit of $51.9 billion for fiscal 1976. The U.S. Congress can be expected to boost federal spending even further which, together with the growing deficits of such "off-budget" agencies as the Postal Service and the Environmental Protection Agency, may raise the total federal deficit to more than $100 billion. State and local government deficits are making additional demands for economic resources. To finance such deficits out of the savings of the American people is well-nigh impossible. Therefore, the federal government may be expected to rely increasingly upon its monetary arm, the Federal Reserve System. Only hyper-inflation can finance super deficits.

A budgetary deficit is not just a temporary shortage of money that is readily covered by a loan. It is not primarily a monetary phenomenon that is efficiently handled by monetary authorities and bankers. Instead, a federal deficit means consumption of economic resources – real goods and services – beyond those taken directly from taxpayers. It consumes the real wealth and substance of savers who directly or indirectly buy the new Treasury obligations. The coming $100 billion deficit, in fact, greatly exceeds the annual savings of the American people, which were estimated to be $74.4 billion in 1973

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and $76.7 billion in 1974. (Federal Reserve *Bulletin,* February, 1975, p. 57).

Redistributing Wealth

Whenever our savings are consumed by government, they obviously can no longer be used by individuals who would build or buy homes, household appliances, or make some other improvements. More facilities of production are used to serve government demand, fewer are left to cater to private demand. As the U.S. Treasury enters the capital market to sell its bills, notes and bonds, it absorbs and consumes the very substance of economic productivity. Its capital demand is felt as a chronic lack of capital for industry and commerce, for public utilities, for development of more energy, modernization and renovation and new production facilities. It is felt as a universal "shortage of funds" which, in reality, is a shortage of real savings and economic resources. Plagued by such shortages and enmeshed in serious economic difficulties and crises, the federal government then calls on the Federal Reserve System to alleviate the shortages through credit expansion and money creation. Tons of new paper money are thus to take the place of real goods that are consumed by our political organizations.

The inevitable rise in prices of goods, commonly called inflation, then serves to withdraw the resources from certain individuals and redirects them to the spender with the newly created purchasing power, the federal government. Inflation acts as a federal tax on all holders of money and claims to money. It silently and efficiently transfers real income and wealth from millions of individuals to the inflating government. Nor do most of the victims understand the nature of this taxing process. After all, rising prices can be blamed on merchants and industrialists, thus exculpating the government that is withdrawing and consuming the economic resources. The very administration that is conducting such policies may even blame businessmen for the inflation and proceed to impose price and wage controls on its victims.

A Tool of Politics

In the coming years of galloping inflation the American people may come to understand the true nature of the fiat system that makes government the creator and guardian of money. They may learn what the defenders of gold as money knew all along, that fiat money is political money – an effective tool for the financial aspirations of political parties and administrations. Fiat money serves as an important implement, not only for such policies as "full employment" and "economic growth," but also for massive redistribution of economic wealth from creditors to debtors. Fiat money is the political device ideally suited to achieve the transfer of income and wealth on a gigantic scale.

Inflation that gradually erodes the capital substance of the middle class can be effective in the fog of political confusion and economic ignorance. In a few years of double-digit inflation, the savings bonds, pension funds, life insurance policies and even corporate stock holdings which constitute the very substance of the middle class, are consumed by government or transferred into the possession of debtors. Massive deficits financed by double-digit inflation thus sustain the redistributive society that heretofore depended mainly on confiscatory taxation of its richer members.

The proceeds of inflation as a tax on monetary assets accrue not only to the government that is actively inflating the currency but also to all other debtors, including corporations and individuals. When the dollar depreciates, all creditors lose while all debtors gain, whether they are political organizations or corporations. Economic property is redistributed universally from a large class of victims, commonly the middle class, to the political institutions and a new class of *nouveaux riches,* which is enjoying the fall-out effects of inflation. We need not emphasize here that such policies create new sources of economic conflict and social strife.

Yearning for Stability

The yearning of the people of America for "stable money" is a natural reaction to the painful experience of unprecedented instability. The task of philosophers, jurists, historians, and economists is to explain the alternative to the fiat system, to teach the virtues and advantages of natural money which is also honest money. If people who work and trade are free to choose between political fiat and gold or silver, they naturally turn to the precious metals. They choose the gold standard as a monetary system in which gold is proper money and all paper moneys are merely substitutes that are payable in gold. This makes the U.S. dollar a piece of gold of a certain weight and fineness.

But it is a popular mistake that is shared by many historians and economists alike that the gold standard affords monetary stability and that gold coins are endowed with unchanging purchasing power. In a changing world of human action, no money can be neutral or stable. Even a 100 per cent hard-money gold standard, in which the currency of each country would consist exclusively of gold, cannot afford stability of purchasing power to its gold coins. Just as the price of an economic good is ultimately determined by the subjective valuation of buyers and sellers, so is the purchasing power of money. Individual valuation of money is subject to the same considerations of demand and supply as that of all other goods and services. People expend labor or forgo the enjoyment of other economic goods in order to acquire money. At times they bid for money, at other times they offer money, and all this bidding and offering ultimately determines the purchasing power of money in the same way as it determines the mutual exchange ratios of other goods.

All plans to make money stable are contradictory to human nature and dangerous to individual freedom, as they would call on government to enforce the impossible. The yearning for "stable money," therefore, is forever futile unless it means to want honest money that is free from the political processes of public treasuries and central banks. The best we can hope for is monetary freedom that embodies the freedom of contract and choice of money. In freedom, the American people once again could express their preference for gold and silver coins over depreciating political fiat.

A Crucial Choice

Our choice of a monetary system is of crucial importance. Do we want a system in which government creates and manages money through the political process? Or do we prefer to leave that choice to acting people who are exchanging goods and services on the market? If we rely on government we must be prepared to live with government fiat, which is ideally suited to serve political ends. Fiat money can be expanded or contracted at will, always accommodating the national policy of the moment. Above all, it can be inflated at will to supplement government revenue.

On the other hand, if buyers and sellers are free to make the selection they may choose a great variety of marketable goods as their media of exchange. In the past, in a selective process extending over several thousand years, they chose the precious metals, gold and silver, as their money. Are they no longer to be trusted with such freedom of choice?

Government need not establish the gold standard by any conscious or deliberate act. In fact, the gold standard needs neither rules nor regulations, no legislation or government control, merely the individual freedom to own gold. Of course, this freedom of gold ownership embodies the freedom not only to buy and sell gold for use in industrial production, but also to employ it in exchange.

The gold-coin standard means sound money. It is true, it cannot achieve the unattainable ideal of an absolutely stable currency. But it protects the monetary system from the influence of governments. The quantity of gold in existence is utterly independent of the wishes and manipulations of government officials and politicians, parties and pressure groups. There are no arbitrary "rules of the game," which people must learn to observe. The gold standard is a social institution that is controlled by inexorable economic law.

Fully Redeemable

The issuers of money substitutes keep their currencies at par with gold through unconditional redemption. The issuing bank can buy any amount of gold offered to it at the parity rate, and agrees to sell indiscriminately and on demand any amount of gold against its notes or deposits. It thereby renders no national service in the sense of "defending" or "protecting" its currency. It merely fulfills the contract it made when it issued the money substitutes.

Under the gold-coin standard, inflationary policies are not rendered impossible, but they are made difficult. Redemption requirements and the threat of drains of their gold reserves would restrain the issuers of money substitutes from inflationary expansion. For any such expansion would alarm the owners of substitutes and cause them to demand redemption in gold coin, which would spell ruin to the issuer. As the gold standard makes inflationary policies difficult, it avoids the wide fluctuations of economic activity, known as the business cycle. This binds the issuers of money substitutes within very narrow limits, and thus efficiently checks the sort of credit expansion that creates great instability and generates the economic boom and bust cycle.[1]

Professor William Graham Sumner, the great Yale economist of the pre-Federal Reserve era, described the instability of irredeemable paper currency as follows: "Scheme after scheme has been proposed and tried for realizing the gain which it was believed that cheap money could produce for the public; that is, for those who buy and use currency. This gain has been pursued as the alchemists pursued the philosopher's stone, by trial and failure. Whether

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[1] Ludwig von Mises, *Human Action*, Yale University Press, 1949, p. 535 *et seq.*

there be any such gain or not, our attempts to win it have all failed, and they have cost us, in each generation, more than a purely specie currency would have cost, if each generation had had to buy it anew. . . . The revulsions to which the system was subject overwhelmed us in every decade. The notions on which the system was based are proved to have been delusion, disastrous to everybody concerned, including those who tried to profit by them."[2]

A World Market

The international gold standard evolved without intergovernmental treaties and institutions. No one had to make the gold standard work as an international system. When the leading nations of the world had adopted gold as their currency, the world had an international money. It is true, the coins bore different names and had different weights. But this hardly mattered as long as they consisted of gold and could be exchanged freely. After all, an ounce of gold is an ounce of gold whether it consists of eagles or sovereigns.

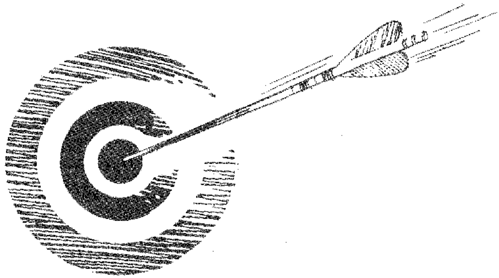
The gold standard united the world as it overcame the problem of international payments. It facilitated international trade and finance, and thereby promoted a world-wide division of labor. Countries specialized in producing those internationally traded commodities which afforded them the greatest comparative advantage. But above all, the gold standard encouraged exportation of capital from the industrial countries to the backward areas. Without fear of devaluation losses or transfer restrictions, European capital eagerly sought profitable employment opportunities on all continents. It developed commerce and industry and thus improved working and living conditions all over the globe.

The history of the gold standard heralds the principles and achievements of free and honest money. The history of fiat money is little more than a register of monetary follies and inflations. Current affairs afford but another entry in this dismal register. We may hope for an early return of monetary freedom and sound money, but realization is hidden in the dark clouds of the future. Sound money is the most prominent concomitant of economic freedom and morality; fiat money is an inevitable symptom of their absence.

The duty of each of us is to understand and explain as best he can the principles of economic freedom and honest money. Our future depends on it.

[2] William Graham Sumner, *History of Banking in the U.S.*, New York: The Journal of Commerce and Commercial Bulletin, 1896, p. 472.

RALPH BRADFORD



The Pursuit of Excellence

THE PHRASE has a fine, challenging ring to it – *the pursuit of excellence.* Nearly everybody responds to the dare of it. To excel, to exceed, to outdistance, to be master of a situation, or of a technique, or of a medium – this urge has been a great stimulus to growth and achievement, and men have responded to it as far back as we have any record of their emotions and motivations.

About the time of Christ, Publilius Syrus was lamenting how long it took to bring excellence to maturity; and Sophocles, some 400 years earlier, fretted because people didn't know the excellence of what they possessed until somebody took it away from them. Browning, on the other hand, attributed the growth of excellence to a whim of "the Great Gardener" – a kind of grafted-on gift from heaven, rather than an attainable goal that men might strive for.

Of late the pursuit of excellence has tended to be thought of principally as an academic matter, and students have been frequently and somewhat tiresomely exhorted to adopt it as their aim. And that is all well and good, to the degree that it may help set a productive life pattern. But to limit the pursuit of excellence to the classroom is as futile as it is to assume (as is often done) that education itself is exclusively an academic process. Actually, the ceremony of a graduation, the acquisition of a coveted

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degree in some discipline of learning — these events are but the initial milestones along the way toward the balanced intellectual fulfillment that constitutes an education.

A Life-Process

The concept of education as a life-process is well expressed in an episode related by Jean Renoir in the excellent biography of his father which he published some years ago. After the long struggle that led finally to general recognition and acclaim, Pierre Auguste Renoir grew old and became ill. In time he lost the use of his right hand through crippling rheumatoid arthritis, and at 60 he taught himself to paint with his left hand. But by the time he was 70 that hand also was so deformed that he could no longer hold the brushes normally, but had to wedge them between his permanently clenched fingers. Yet he painted on, still experimenting, still striving for perfection. And on the day he died, he asked for his palette and a canvas and, sitting propped up in bed, he worked for several hours on what was to be his last bit of painting. And as he finished it, he said to his son, "You know, Jean, I think I am beginning to understand something about it!"

That was one man's pursuit of excellence, as it applied to the art of painting. Other craftsmen have been equally assiduous in their special fields: the sculptor who makes and destroys many models in his quest for perfection; the poet who scribbles and discards through many a midnight to achieve the right phrase or a felicitous rhyme; the naturalist who experiments for twenty years to produce a new rose; the dramatist who writes and rewrites, even after his play has been produced; the research scientist whose 150th laboratory experiment may be only half way along the road to a final discovery that shall benefit mankind. These and their spiritual comrades in many fields are seekers after excellence.

In Search of Freedom

But what of us who labor in a realm that is no less vital and should be equally demanding? It is our purpose, we say and believe, to express and defend and interpret the spirit of freedom, which we are convinced is of vast importance to the human family. This is truly a high calling, and should require of its followers the same devotion to excellence that we demand of others in their various fields. But this is not always easy to encompass, for while freedom is an appealing abstraction, it is so related to material things that we are apt to express it in physical terms, and so lose half the battle of ideas at the outset.

Thus if we merely assert that people ought to be free from burdensome taxation, we can be accused of poor citizenship – of having an unsportsmanlike desire to shirk our fair share of the cost of government. About such matters we need to be explicit. We are not opposing the idea of taxes as such. They are necessary to defray the costs of government, which in turn is a human necessity. The point is that we object to having the power to tax used whimsically and arbitrarily, to finance ventures that are outside the proper realm of government, and that may be of no benefit whatever, either to the individual taxpayer, or to society as a whole.

The Example of Foreign Aid

We can add that we object to being taxed to support an ever-expanding bureaucracy that has grown up about agencies that were supposed to be temporary, to meet some emergency, real or fancied, but that tend to be perpetual. One example out of many that might be cited is our experience with what may be lumped under the general head of Foreign Aid. It started in 1946 as the Marshall Plan. Its purpose was to help rehabilitate western Europe, mainly France, Germany, England and Italy, after the ravages of World War Two. A plausible case could be made for this, aside from humanitarian considerations, on the ground that these countries, with Belgium and the Netherlands, were the economic backbone of western Europe, whose continuance as industrial nations was essential to the western world – and also because they were very large users of American goods and services. The original idea was to help these nations at a total cost of about $32 billion – a sum that was vast, but supportable. Once they were on the way to recovery the Marshall Plan would go out of business. Or so it was assumed.

Erosion of Freedom

But what happened? Instead of phasing out, Foreign Aid became a cornerstone of American foreign policy, and is still in business after nearly 30 years and several reorganizations, including five changes of name. And the cost? I have not checked it for the purpose of this article, because we are not concerned here with statistics, but with the torrential inertia of governmental programs, once they get started. But if you like figures, the latest I have at hand show that this program has cost the American taxpayer *at least* $171 billion.

This is not written as an argument against foreign aid as such.

Clearly there can be cases where a loan or even an outright grant to certain countries may be in our national interest. But one can only look with dismay and unbelief at the list of some 120 countries all over the world to which our country has poured out all these billions.

Why dwell on such matters? Because they are part of the erosion of freedom that accompanies accumulating and unamortized debt – a debt, in our case, that is now temporarily pegged at a possible $500 billion, with a deficit for the current fiscal year estimated at around $50 billion! But why worry about so crass and materialistic a thing as mere dollars? One very good reason (and this gets us at once to the relationship between freedom and physical things) is that dollars are what we use to buy food and clothing and pay bills; and when the value, i.e., the purchasing power, of those dollars is eroded or destroyed through debt-induced inflation, our freedom to live without threat and fear of bankruptcy has been reduced and may ultimately be destroyed.

And freedom is the essential condition, not only for happiness, but for achievement and progress. Its denial or curtailment is the precursor of social and economic stagnation, and often of personal degradation. Man, of course, has never been wholly free from the inner tyranny of his own nature; but granting that, it is true that he has attained to the highest levels of happiness and both material and social progress in those eras of time when he has enjoyed the largest degree of personal and political freedom.

But freedom, unfortunately, is not a constant of the human condition. It comes—and, alas, it goes. It is gained, usually at pain of sacrifice and struggle – and it is lost, often through sheer carelessness with respect to life's political and economic realities. Nations have grown great and powerful, and they have sickened and died; and the malady which laid them low has often been the failure of their own people to understand, prize, enjoy and protect that vital, intangible thing called freedom.

Lack of Vigilance

At various times in human history men have walked erect and unafraid through streets in which their not-too-remote descendants – sometimes, indeed, their own grandchildren, or even their own children—would cringe and wither under tyrannical laws and conditions. At times, of course, such conditions of disaster were imposed by foreign conquerors; but often they resulted from intellectual and moral sloth and the unwillingness to make the sacrifices and exercise the vigilance that are the price of freedom – or even, indeed, to understand that such a price is demanded.

And the loss or curtailment of freedom is not always a disaster of the remote past. In our own times we have seen it happen. Some of the nations that were great only fifty years ago are now reduced to near-bankruptcy or vassalage. Others have been brought down until they are only debt-ridden, tottering relics of their former greatness, whose people are burdened with confiscatory taxes and stifled with repressive laws and bureaucratic regulations. And why? Did they do this voluntarily? Yes, alas – but not intentionally. I mean they voluntarily took certain actions, or permitted them to be taken, in what they thought was for the general good; but they certainly did not intend to bankrupt their country or impoverish themselves in the process.

Unintentional Injuries

Nowhere that I know of is there any evidence that a great people chose deliberately to be less great, or that a free people elected to be less free. The measures that have led to their abasement – to debt, inflation and smothering statism – have usually been quite cheerfully adopted by the people themselves through action by their elected representatives, all for the greater glory. Nobody that I am aware of in England ever said, in effect, Look, fellow Britons, let us become a second-rate power; or See here now chaps, let us tax ourselves until we stifle our economy. Nobody in Sweden, I believe, ever suggested to the enterprising people of that country that they should tax themselves to economic death for alleged social benefits. Instead, the English Fabians and their Swedish counterparts proposed only to improve the condition of life for all the people. Juan Domingo Peron never, so far as I am aware, threatened or intended to destroy the money and cripple the economy of Argentina; he was just going to do something for the "descamisados." Salvador Allende, being a devoted Communist, may have intended to bankrupt Chile; but he never said so. His purpose, he said, was to improve the lot of the common people. And so on and on, through the list of good intentions that have paved the hell of inflation, bankruptcy and the death of freedom, for much of mankind.

What is it that humankind has striven for, down the long centuries of its life? Out of the instinct for self-preservation, plus the promptings of a deathless hope, the slowly emerging phylum of the human species has been groping . . . for perfection! In a strange, blind, sometimes pathetic, but persistent way it, too, has been engaged in the pursuit of excellence – the excellence of a better and richer life.

A Magnificent Quest

And what a magnificent quest it has been! Of its earlier stages we know little and must rely on the patient digging and informed conjectures of the archeologists and other delvers into the past. If we express the lifetime of the human race as a year, then we have dependable historic record of only a few hours, or maybe minutes, of the long ascent. But both the evidence of history and the deductions of paleethnology offer a record of tenacity, adaptability, courage, and an ultimate awareness of man's need for carefully formulated and generally accepted rules for the complicated business of living together on the Planet Earth.

This led inevitably to the concept of government – an agency that would protect members of one tribe from aggression by other, and hostile, tribes. In time it assumed also the function of internal guardianship – the protection of individuals within the tribe against the acts of unruly and aggressive fellow tribesmen. Thus the police function – and power – developed, a power that was both necessary and dangerous. Many governmental forms, no doubt, came and went as the centuries drifted by – tribal chieftains, elders, committees, councils. In time these devices evolved into kings, assemblies, parliaments, congresses. Government would undergo refinements – and abuses. Men would fight and die to maintain it . . . or to overthrow it. Enlightened chieftains ruled benignly; wicked ones enslaved their subjects.

Contradicting Drives

Through it all, man held to one basic idea. As was said of prayer in the old hymn, it was his soul's sincere desire, uttered or unexpressed – namely, to be protected . . . and to be let alone. But this involved a fundamental contradiction which inhered in his nature: he wanted to be let alone, but he didn't want to let others alone! Simple laws for protection of life and property were well and good, but they were not enough. Men needed – *other* men, that is – needed a certain amount of guidance. Developing religious beliefs provided such guidance in the moral sense. Every faith generated its table of thou shalts and thou shalt nots, these being ethical concepts arrived at in the various stages of man's development. And in time these rules or precepts, having evolved into articles of faith, found expression in law.

But even these did not satisfy the strong desire of man to mold others to his moral and political will. Obsessed by a passion for religious freedom, he did not hesitate to impose his beliefs on others, not only by the weight of ecclesiastical canons, but by the compulsions of law. Determined to be politically free, and willing to fight and die for that principle, he has also been quite willing, with no apparent recognition of his inconsistency, to deny that same freedom to others. Anxious to be "let alone," he has erected state mechanisms that bind others against their will and judgment – and in the process he has bound himself. Fearing and indeed abhoring debt in his personal affairs, he has time and time again pushed his governments into insolvency, and in doing so has impoverished himself.

Much Has Been Achieved

Yet he is not to be condemned too harshly for these inconsistencies. In the relatively short time that he has lived on this Blue Planet he has achieved greatly. The matter of mere survival itself is a test that has defeated many another form of life. Gigantic creatures flourished for a time, but died finally through their inability to adapt; and their fossilized bones are their only bequest to the modern world. But man has survived. Century by century, he lives longer, and he lives better. He is the thinker and the rememberer. Moreover, he is the dreamer and the singer of songs. He is the creator of things outside himself. He has written great books, carved heroic sculptures, painted inspiring pictures, composed deathless songs, built great commercial and industrial processes. By courageous trial and bitter error he has lifted a species of life to the pinnacle of organic achievement.

He is arrogant in his assumptions of superiority and infallibility, and in his incessant efforts to mold and regulate the lives of his peers. In this endeavor, by the ceaseless extension of the State and its powers, he may yet destroy the great structure of freedom that he has dreamed of. But his rationality and self-interest are strong and will probably yet triumph over his compulsion to guide, direct and rule. His greatest and most important field of conquest is still . . . himself.

Finally, he has dared greatly, most of all perhaps in imagining that he himself is cast in the very image of God – an assumption which is probably the ultimate in the pursuit of excellence.

JO NATHAN

A Majority of I

UNTIL RECENTLY, I had so much faith in the intelligence and integrity of women that the growing noise over "equal rights" (which I have always claimed) failed to disturb me. As time went on, however, I found myself doing something I thoroughly disapprove of; putting labels on people. I have kept my labels few and simple: 1) male, 2) female, 3) Man, and 4) Woman.

By accident of birth we enter this world as male or female. By our own effort and maturing we become Man or Woman.

For as long as I can remember, I have admired great women and men, identifying more with the women, of course. My parents and teachers encouraged me to believe I could become successful at anything I attempted, providing I possessed the innate ability and the willingness to work. They taught my brothers the same thing.

My older brothers encouraged me in my "tomboy" attitude of equality, explaining to my mother that tomboys usually grow up understanding men and how to get along with them. I believe my brothers were right. I still have great respect for the men I meet. It is a pity their number is dwindling. However, I am not prepared to work alongside boys over 21 years of age, who show no interest in becoming men. I confess to being impatient with them. But I am even more impatient with aging girls. Perhaps because of ingrained habit and tradition, I still expect more from females than I do from males.

In their search for "change" in their society, too many idle females have worked on shallow lev-

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els, such as changing the suffix *man* to *person* (chairman becomes chairperson, etc.). It is not strange to me that they did not seek to change the basic word, Wo*man* to Wo*person*. They show no real awareness of the meaning of the word, WOMAN, and the responsibility and discipline required to wear such a beautiful, powerful name.

A brief UPI news release concerning a convention of feminists stated that four different leaders "told delegates" to do this or not do that . . . A new flag was waved at the delegates. The new flag is labeled "minirape." Minirape was then defined as a physical or verbal intrusion on the rights of women as human beings. Then, the person who defined the word told the other persons at the meeting what to do about such an intrusion.

I maintain that women have already learned how to handle such situations. In most cases they *prevent* "intrusion" by behaving as women. We are aware that men are victims of minirape also, possibly more frequently than women. Do they need someone to tell them what to do about it?

My temper is flaming again. It does every time I read things like this from a news release: Women were told to watch for and demand removal of textbooks if they show women in the traditional, *lesser* role of homemaker . . .

Like many other women, I prepared for and chose the role of homemaker. I have never thought it is lesser and I still do not think it is, although many have tried to make me believe it.

Who *are* these brainwashed females who would like me to become a carbon copy of themselves and my children a carbon of their own? This "majority of one" refuses to accept the invitation to join the club. They have a right to think and become whatever they wish, but their freedom ends where mine begins!

What Social Classes Owe to Each Other

IDEAS ON LIBERTY

I REGARD FRIENDSHIP as mutual, and I want to have my say about it. I suppose that other components of humanity feel in the same way about it. If so, they must regard any one who assumes the *role* of a friend of humanity as impertinent. The reference to the friend of humanity back to his own business is obviously the next step.

WILLIAM GRAHAM SUMNER

GOLD STANDARDS

CHARLES CURLEY

MANY FREE MARKET ADVOCATES are familiar with *the* gold standard, and why a gold standard is preferable to a fiat standard. But there are several different kinds of gold standards, each with its own characteristics and its own implications for the economy.

The earliest and simplest form of gold standard is trading for gold in the form of gold dust or gold bullion. There are no banks or money substitutes whatever, and the total money stock is simply the total amount of gold in the trading area. This form of gold standard requires no government intervention in the economy at all, and requires of the government only the prosecution of fraud, which is easy to prove since contracts (written or verbal) are defined in terms of a specified amount of gold in a specified form.

Gold for this purpose is constantly being provided by gold mines or foreign trade and refined into recognizable forms by known refiners. If the purchasing "power"* of money (gold) increases, then it will become profitable to mine or import more gold (by exporting more products). This will bring about an expansion of the gold stock, which, other things being equal, will reduce the purchasing "power" of money until the profitability of mining or importing gold is comparable to the profitability of other activity, and the marginal mines and importers will cease production.

Charles Curley is the author of *The Coming Profit in Gold* (Bantam), and is a founding member of the National Committee to Legalize Gold.

* I put the term "power" in quotes to avoid confusion with *political* power, which purchasing "power" is not.

This is one example of how, with *no* government intervention, a commodity standard money tends to keep a constant purchasing "power" by a simple market mechanism, based on the profit motive of the people involved. Notice that neither gold miners nor anyone else are concerned with such things as the stock of money or other esoteric economic concepts, yet it is they who act to stabilize the purchasing "power" of money when it becomes necessary.

Primitive and Inconvenient

This gold standard is rather primitive, as it requires the inconvenience of weighing out amounts of gold for each purchase, and the fact that one must carry one's gold around with him, an obvious temptation to muggers.

The solution to the first problem is to manufacture slugs of gold in uniform amounts with a uniform purity so that one can tell at a glance how much gold is in the slug. Since the gold content is known, the manufacturer can alloy the gold with other metals to harden the coin, thus reducing wear. The manufacturer's name and the weight of fine gold are stamped on the coin. A modern example is the Krugerrand, which is minted by the South African Chamber of Mines (all the government does is provide the dies). It carries the legend, "FYNGOUD 1 OZ. FINE GOLD" (in Afrikaans and English).

Because the gold is what is valued, and not the alloy or fancy designs on the two faces, the unit of weight of fine gold becomes identified with the coin. For example, the dollar was at one time defined as 1/20th of an ounce of gold simply because the United States coin of one ounce was labeled "20 Dollars."

Of course, there is always a possibility of fraud on the part of the minter, and the objection is usually raised at this point: "Why, we can't trust people to mint coins! That function has to be turned over to the government!"

We can trust private manufacturers to mint coins according to the market's specifications just as we can trust private firms to manufacture nuts and bolts to specification, or carry the mail. Advocates of the free market maintain that private enterprise can provide every other product or service better than the government can. Why not coins?

But the introduction of coins still leaves two problems: storage and convenience. The convenience problem is two-sided. In the case of large purchases, one must transport a lot of gold around to make the payment. One runs into the problems of transportation and security. Small purchases, say a piece of bubble gum, would require the availabilty of a coin small enough to pay for it or make change if a large coin is presented. This problem would be solved by the market by the use of a bimetallic system, as where gold and silver circulate side by side.

Bimetallism

Bimetallism here simply means that the market accepts either gold or silver as money. This is a decision that must be left to the market. It is like having two currencies. The idea of having two (or more) currencies is far more disturbing to Americans than to Europeans, who might have to deal in sterling one minute, Swiss francs the next, and then dollars. It simply requires that people express their prices in terms of both gold and silver, just as many European shops express their prices in both dollars and the local currency. The bimetallic system simply means that the monetary metal with the lower purchasing power per unit of mass would be used to make the smaller purchases, such as bubble gum.

Another innovation solves several problems. The introduction of warehouses for money solves, of course, the problem of safely storing one's money. The warehouse would store your gold for a fee and give you a receipt for the gold. It is still your gold, and the fact that it is in someone else's storehouse does not mean that title to the gold passes to him or that he has any other claim to the gold (except possibly to ensure payment of the storage fees). Because it is your gold, the warehouse has no more right to use it for any purpose than an employee in a furniture warehouse has to sit on your chair. Also, the warehouse must deliver your gold upon demand, just as the furniture warehouse must deliver your chair when you want it.

The receipts are usually in the form of bearer receipts, which means that the warehouse will deliver the gold to whoever presents the receipt for redemption. This carries with it the obvious implication: don't lose your receipts! But it also carries the implication that, instead of trading the physical gold, clients of warehouses can trade the receipts back and forth. But, still, as with the coins, the value is attributed to the gold, not the piece of paper.

A Modern Example

A modern example of the gold warehouse is the gold certificate offered by the Bank of Nova Scotia. Although the certificates are issued in ten-ounce lots with a minimum purchase of twenty ounces, the principle of the gold warehouse is maintained, as the Bank of Nova Scotia keeps on hand all the gold which its certificates represent. The storage fee is defined as 3¢ per hundred ounces per day, or $10.95 per year for up to one hundred ounces.

An alternative to issuing one or several receipts which would circulate in place of gold is to have the warehouse give the depositor a book of checks which he could use to make payments of exact amounts of gold, limited only by the availability of coins or bullion to make the exact amount of the check. (If the smallest amount of gold available is 5 grams, it does no good to write out a check for 9 grams, because no one makes small enough gold bars to pay the check.) This makes it easier to make purchases in that the buyer need only fill out the check for the exact amount of the purchase. However, the purchaser must not only establish the trustworthiness of his warehouse, but also whether he has enough gold in his account to cover the check.

Full Reserves

What I have described here is called 100 per cent reserve banking, which means that for every ounce worth of receipts outstanding, the warehouse has an ounce of gold in the vaults. The receipts are substitutions for rather than additions to the gold in the vault, and the money stock stays the same as gold flows into or out of the warehouse. The 100 per cent reserve banking system also differs from other bank systems in that the gold is considered to belong to the holder of the receipt, not to the bank or warehouse.

Because the warehouse operator is in the business of handling money, it is only natural that he should make a market for the use of it. When a warehouse operator matches up savers and borrowers so that the savers can earn interest on their savings, he becomes a banker. He facilitates this money market by accepting deposits of gold over a specified time and lending the money out over the same or a lesser period of time. He charges the borrower a higher rate of interest than he pays the depositor, the difference being the banker's profits. A modern example of this is the certificate of deposit, where the bank can pay you a higher interest rate than on a regular checking or savings account because it knows that you are going to leave the money on deposit for a specified period of time.

However, soon enough a banker will notice that most of the gold on deposit in his bank, even though in demand deposits, will be left in the bank for years, as the receipts are traded back and forth. If no one is going to redeem this gold, he reasons, why shouldn't I lend it out to someone else? Of course, the fact that he is lending out money that doesn't belong to him, that was entrusted to him, doesn't bother him; no one will find out, will they?

Even easier is to continue to hold the gold in his vault and instead lend out receipts for gold that doesn't exist. No one will find out; our banker won't lend out so much money that receipts brought for redemption will remove the entire gold stock from his vault. Of course, the fact that he is lending out gold that doesn't even exist doesn't bother him in the least, even if it is fraud.

Fractional Reserve

When the banker lends out the gold in his vaults, or lends out false receipts, he obviously no longer has enough gold in his bank to pay off the obligations of the bank. He has gone from 100 per cent reserves to fractional reserve banking. He also has created more circulating medium (money) than there was previously, but without the limiting device of the costs of mining or importing gold. It costs less than an ounce of gold to mine an ounce of gold, but, as more gold is mined than lost through wear, and as the purchasing "power" of money goes down, eventually the marginal mines find that it costs more than one ounce to mine one ounce of gold, and so they cease production. With pseudo-receipts, the limiting cost of production is the cost of printing!

Thus, when a bank goes off 100 per cent reserves, its action results in more circulating media, which tends to lower the purchasing "power" of money. In other words, while 100 per cent reserve banking *cannot* be inflationary, fractional reserve banking *must be.*

Governments benefit from inflation. A very simple example is where politicians promise to "stimulate the economy" and proceed to inflate the currency in order to do so. Sometimes they are under the mercantilist mistake that more currency is the same thing as more wealth, so they encourage banks to create more currency. Obviously, in order to create more currency, the banker has to resort to fractional reserve banking. Usually, when the government is in on the deal, it will help out by giving banks a special status. The government simply removes the title to the gold from the holder of the receipt and gives the title to the bank. Notice that fractional reserve banking in all its variations requires this invasion of property rights, this intervention in the market.

At this point, the biggest thing that the bank has to fear is the possibility of a bank run, where all the depositors line up to retrieve their gold (that isn't all there). In order to avoid the temptation to create so much paper money that a bank run is precipitated, the government steps in, not to enforce the fraud laws, but to set reserve requirements, which specify what per cent of outstanding notes the bank must have in gold in its vaults. For example, if the government sets a reserve requirement of 25 per cent and a bank has $250,000 in outstanding currency, then the bank must have at least $62,500 in gold in its vaults.

The lower the reserve requirement, the more money the bank can create and lend out. If the government raises the reserve requirement, then banks may have to call in outstanding loans in order to meet the new requirements.

Debtors Gain

A government in debt (like any debtor) has much to gain from inflation. A rate of price increases of 10 per cent means that the government gains 10 per cent while the lender loses by that amount. As the federal government is the largest single debtor in the U.S., it obviously has much to gain by inflation: both in reduced value of the debt, and in having available newly created dollars which it can borrow without the politically objectionable side effect of higher interest rates.

One way to decrease the reserve requirements without running the risk of a bank run is to make it more difficult for people to redeem bank notes in gold. By raising the minimum lot for which one could trade his paper, banks make it harder for note holders to get gold. Thus, Britain, after World War I—and a great decrease in reserve requirements – changed the minimum amount of gold from a sovereign (a fraction of one ounce) to 400 ounces.

This restrictive gold standard is called a gold bullion standard, and stands in opposition to the original U.S. gold standard, where one could get gold for as little as $5, which was called a gold coin standard. The gold bullion standard allowed the Bank of England to continue with its wartime reserve requirements of 18 per cent instead of returning to the pre-war level of 52 per cent. This, in turn, meant that the British banking system did not have to deflate in order to return to the level of credit imposed by a 52 per cent reserve requirement.

Restricted Redemption

Another way to limit gold outflow is to limit the people to whom the bank will give up the gold. The U.S. did this quite abruptly in 1933 by prohibiting Americans from owning gold, and hence, from turning in their paper for gold. This meant that only foreigners could trade their dollars for gold.

Although still nominally tied to gold, at this point the dollar was really a fiat currency; at any time the link between the dollar and gold could be severed, as we saw in August of 1971. In the late 1960's, it became apparent that Europeans were willing to buy all the gold that the U.S. would offer on the London gold market. Rather than deflate, the U.S. authorities ceased selling gold on the free market, and established the two-tier market in 1968. The free market price of the dollar soon moved down to 1/42nd of an ounce of gold, while central banks continued to trade gold at the old price of 1/35th of an ounce. Then, in 1971, even the central banks were banned from trading their dollars for gold. The U.S. had, for the first time since the 18th century, a completely fiat currency, in both the economic and legal sense.

It was during this period that the concept of a "price of gold" first came into use. When a currency is divorced from gold so that its purchasing "power" becomes different than that of the amount of gold which the currency originally was defined to be, then it can be said to be a fiat currency. It still may have ties to gold, such as the rather tenuous link between the dollar, the SDR, and gold from 1971 to 1973; but these are mere legalisms. As the fiat currency loses purchasing "power" relative to gold, then an ounce of gold will buy more and more units of the currency. This readjustment can be done occasionally and abruptly, via the mechanism of devaluations, or over a period of time via daily quotes on an organized private market such as the London Gold Market or the Commodity Exchange in New York. Thus, the monetary unit was divorced from gold in the eyes of the market as well as the government, and the dollar, for example, became defined as . . . well, a dollar, instead of 1/20th of an ounce of gold. Once this mental division is made, it is possible to talk of a "price of gold" just as one can talk of a "price of Swiss francs" or a "price of roast beef": each is a separate commodity from the unit of account – the (fiat) dollar.

Central Banking

During this century, the United States also moved away from free banking by modifying the reserves that banks could use for their deposits. Before the establishment of the Federal Reserve (in 1913), banks used gold, either bullion or coins, as reserves. However, with the establishment of the Fed, banks were allowed to deposit dollars with the Fed and count these deposits as reserves (still fractional).

The Fed learned rapidly how it could manipulate these reserves. Not only could it modify reserve requirements, but it could change the level of reserves in the banking system. The mechanism is very simple: the Fed buys an asset, any asset. To pay for it, the Fed writes out a check to the seller. The seller deposits the check in his bank, and the bank credits his account with the proper amount. Then, the bank presents the check to the Fed for collection. Instead of simply paying the bank so many dollars, the Fed credits the bank's reserve account with the Fed with the amount of the check. The bank's reserves are now expanded by the amount of the check, and the bank can now create and lend out additional dollars.

Any Debt Will Do

It is important to note in passing that the Fed can expand reserves by buying *any* asset. The most popular assets with the Fed are Treasury debts; and why not: they are buying the obligations of their parent organization, the U.S. government. But simply balancing the Federal budget will not deprive the Fed of assets to buy; simply balancing the budget will not stop inflation. After all, if the Fed couldn't get Treasurys, it could always buy New York Citys!

This system of expanding reserves means that the banking system can expand its reserves without regard to gold. Now, the Fed can inflate the money supply whenever anyone wants to go into debt, a not uncommon event! Even if the U.S. were to sell off all the gold in the Treasury stock, the Fed could continue to inflate, simply because *someone* would be willing to go into debt to buy that gold, or something else.

We have traced an evolution away from free banking toward the completely state-managed money system. Each step in between has been given a label, such as "gold exchange standard" or "gold bullion standard," each calculated to imply that the new setup was some form of gold standard. Even the Bretton Woods system was called a "gold-dollar standard" (not that the central banks even traded gold among themselves unless they had to – Gresham's Law applies to central bankers too).

Market Money or Political Money

The essence of the gold standard is that the gold in a bank's vaults regulates the credit that it can extend, and that the stock of money is regulated by the free market (specifically, the profitability or lack of profitability of gold mining), and not by the decisions of the bankers, especially the central bankers! Each step that was taken away from a 100 per cent reserve gold standard also made it both more necessary and easier to take the next step toward regulation. Each step also reinforced the idea that every time the banking system got into trouble, the government could bail it out, and do so by changing the banking system. Thus, later standards were gold standards only by virtue of a formal, legal link to gold. There was no commitment to gold, so whenever the banking system got itself into trouble, it was bailed out by the government — by another step away from gold.

Each step was supposed to make the banking system "more flexible," to make it easier to "meet the legitimate needs of business." But, as we have seen, each step has really had the effect of making it easier for the banking system to inflate. If we turn this around, we can see that each step was a step away from sound money, market-controlled, toward money controlled by a government with a vested interest in inflation.

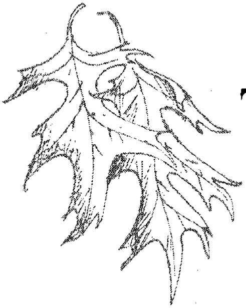
It is in the interest of the free market advocate to understand the different varieties of gold standards and mixed gold-fiat standards that have existed. This is the only way in which one can answer the many myths that surround money and banking. For example, careful study shows that it was not capitalism that failed in the 1930's, but central banking that failed in the 1920's.

The Highest Impertinence

IDEAS ON LIBERTY

IT IS the highest impertinence and presumption, therefore, in kings and ministers, to pretend to watch over the economy of private people, and to restrain their expense, either by sumptuary laws, or by prohibiting the importation of foreign luxuries. They are themselves always, and without any exception, the greatest spendthrifts in the society. Let them look well after their own expense, and they may safely trust private people with theirs. If their own extravagance does not ruin the state, that of their subjects never will.

ADAM SMITH, *The Wealth of Nations*



The Autumn of Our Discontent

AL BRAUN

ONCE UPON A TIME there was a great department store where people could buy any product they chose. This store had all of the latest scientific devices, medical aids, autos, washing machines, television sets—everything from soup to nuts. Customers were offered numerous options: you could go into the store just to browse, or you could buy on time, pay cash, or write a check, whatsoever you wished. People came from great distances to shop and to partake of the great assortment of products at reasonable prices.

Somewhat unique among the goods and services offered was one that went pretty much unnoticed: police service. Yes, at each of the store's many entrances and exits stood a man in blue with his shiny badge. The only time the policeman was noticed was when somebody tried to rob the store or take something out without paying for it. Occasionally, fights would break out in the store and the policeman would be called upon to restore order. Sometimes he was needed to apprehend a pickpocket or dealer in fraudulent merchandise. There was even an occasion when a store clerk tried to rob a customer and the police had to intervene; but basically the man in blue went unnoticed. Yet, he was always there and it was a comforting sign.

Everything went well for many years. The store enjoyed a good reputation; most everyone spoke well of it. Oh, there was the occasional gripe by someone who felt that he was being cheated, but this was very rare. All in all, the store showed profits, the customers were happy, and mutual respect prevailed.

Then, one day a poor crippled old man came into the store. He looked longingly at some of the products. This was not unusual; people with problems had come to the store before. Usually, some kind person would pay for a meal

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Mr. Braun is an engineer in Creston, Iowa. This article is from his recent speech before the Toastmasters group there.

or make a gift of some item purchased in the store; and this was fine. The receiver felt good and the giver felt good.

But on this occasion it seemed that no one was around to help this poor crippled old man. He did a great deal of browsing. At times it looked as if he were going to yield to temptation and steal something, but his integrity and honesty prevailed. A policeman had been observing him carefully. Suddenly, the policeman took something off the shelf and gave it to the crippled old man. The old man, startled at first, looked with surprise at the policeman and then smiled.

Several persons in the crowded store witnessed this scene with mixed emotions: "What is that policeman doing? He can't take things that don't belong to him and give them to others. Well, I guess it's O.K.; after all, the poor man is a cripple."

A few days later, the old man was back, this time with a sick friend. He gave the policeman a wink and a smile, whereupon the policeman took some food and gave it to the crippled old man and his feeble friend. And so began a trend. Others who were poor or had physical problems would go to this policeman and ask for free merchandise, and they usually received it.

As expected, this one policeman became very popular and received commendations from both receivers and observers; after all, the store was very rich. More and more people saw this happening and thought it was fair. Soon, the policemen at the other doors joined in giving away the store's merchandise. Before long, even healthy people were walking in on crutches trying to get free merchandise, and usually succeeding. Of course, as the merchandise began to disappear, the store had to raise prices to keep from losing money; but the increases were minor at first and nobody complained.

After the practice had spread and continued, the scene began to change in the store. Instead of the quiet orderly business place it once had been, it now looked like a madhouse. There were police all over the place, hundreds of them, giving things to people for all sorts of reasons. But the people receiving these things were not happy about it as had been the first crippled old man and his friends. They always seemed to want what the policeman gave to somebody else. They would stand around screaming: "I want some of that. He's getting more than I did. Why can't I have it now?"

The ordinary shopper, without an ailment, was beginning to wonder why he should have to pay for things that others were getting for nothing. In time, as prices continued to rise, he too would manage to get some merchandise free; so he didn't complain too much about the price because he felt someone else was doing most of the paying and he was getting only bargains. In the old days, if he saw someone stealing, he would yell, "Help, police, there is a thief" until the officer took notice. But now it wasn't really robbery because the police were doing the taking and giving.

Eventually, no one believed he was getting a fair deal, even if he got everything free. It seemed as if somebody else always got more. So, what happened? The great store, of course, went out of business and there no longer was a reason for anyone to go there.

You've guessed it! The store is America. The policeman is the government. You and I are the customers. And if this is truly the "Autumn of our Discontent", let us hasten to mend our ways. If we can get the police back to their proper function of guarding peaceful persons and protecting private property, we may still save the store.

In this Bicentennial season, let us celebrate the founding principles of liberty and justice – not what we can get from government at someone else's expense. With self-responsibility – to each the fruits of his own labor – we can all live happily ever after.

ENVIRONMENTALISM and ENERGY PROBLEMS

BERNARD H. SIEGAN

WHETHER THERE IS an energy crisis, crunch or problem, the only law that will relieve the situation is the law of supply and demand. The legislative and executive branches of government should consequently remove obstacles to its operation such as the many laws and regulations adopted in the name of environmentalism that decrease supply and increase demand.

Mr. Siegan is the author of *Land Use Without Zoning* and many articles on the subject. He practiced law for 20 years in Chicago before moving in 1973 to La Jolla, California where he is professor of law at the University of San Diego Law School.

This country has been on an environmental binge in recent years that is now raising havoc with the environment of the average American. The nation's lawmakers have been sold on a highly restricted definition of the word environment by those who contend it applies only to nature and the wild.

For the average person, the only meaningful environment is that experienced daily, in the home, on the road, and at work, and we are learning the hard way that each requires a maximum supply of energy. Indeed, what part of nature or the wild has done more for human happiness, comfort, and well-being than a smelly, ugly, dirty oil refinery?

On the other hand, there is not now nor will there ever be an energy crisis for the relatively few who reject the automobile or want to go back to the earth. There was no meat shortage for vegetarians either. For people of such persuasion to make environmental determinations is akin to appointing Bobby Riggs as spokesman for Women's Lib.

The problem is one of competing interests. Certainly clean air is a most laudable objective. In our modern society however, it doesn't come without the sacrifice of equally or more desirable goals. Pollution control devices have lowered auto emissions by reducing engine efficiency, appreciably increasing the consumption of gas and adding to the cost of purchasing and maintaining a car.

The use of coal or oil with higher sulphur content has been banned, further decreasing energy supply. Air pollution control requirements have raised the cost or prevented the building of new or enlarging of existing oil refineries and other factories. The construction of power plants, both nuclear and conventional, and oil refineries are being blocked to preserve areas that very few Americans will ever see, hear or read about.

These are a few of the examples which demonstrate that the laws passed in the name of the environment are actually doing a disservice to it. Admittedly, when they were not engaged in fighting the Alaskan pipeline, off-shore drilling, strip mining, new refineries and power plants, and deep water ports, environmentalists did urge conservation of natural resources, including oil. However, their desire to conserve on the use of oil is but one small part of a much larger package intended to basically change the prevailing life style of the country. They seek a massive transformation of our commercial and industrial society.

Any solution to energy problems necessitates that laws be eliminated inhibiting production and wasting consumption. Much of the benefits of off-shore oil drilling and gas and oil extraction from shale will be lost to auto and factory emission controls that are now required even in those vast portions of this country where there are no air pollution problems. Such requirements are unwise in the best of times; they are absurd when problems arise.

Before oil can be recovered from off-coast and shale deposits, present law requires that extensive reports be prepared and public hearings be held, the principal effect of which will be to consume more paper, electricity, gasoline and dollars. Regardless of the information obtained, few minds will be changed. The oil industry will favor and the environmentalists will still oppose development.

But this lengthy ritual may not cause the pumps to flow oil. Environmental groups appear likely to file law suits and the length and effect of the litigation will determine when and how much oil can be recovered. Almost every effort to extract oil from new sources or to build power plants seems to bring with it loud threats from environmental groups to prevent the action through litigation. Past performance indicates these are not idle promises. While a suit was not filed to stop the current work on the Alaska pipeline, this was due apparently more to concern for public opinion than for energy.

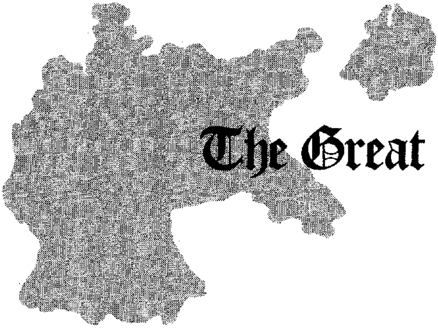
When Congress earlier in 1974 adopted statutory authority for the Alaska pipeline, it included a provision restricting litigation exclusively to constitutional issues. Although there is some question as to the validity of this restriction, it is certainly a small step in the right direction. At the very least, the public is entitled to demand that those responsible should pay for the harm these lawsuits create. The Alaska pipeline might now be supplying oil and would surely cost much less were it not for the lengthy litigation sponsored by environmentalists.

All the while they vehemently deny responsibility for contributing to energy problems, environmentalists do much to increase and prolong them. It is time we placed their objectives in a more realistic perspective.

IDEAS ON LIBERTY

James Russell Lowell

THE DEVIL loves nothing better than the intolerance of reformers, and dreads nothing so much as their charity and patience.



The Great German Inflation

BRUCE BARTLETT

THE FEBRUARY issue of the British magazine, *Encounter*, contains a heretofore unpublished lecture by the famous novelist, Thomas Mann, which recalls his experience with the great German inflation of 1913-1923. "A straight line," he tells us, "runs from the madness of the German Inflation to the madness of the Third Reich."

Just as the Germans saw their marks inflated into millions and billions and in the end bursting, so they were later to see their state inflated into "the *Reich* of all the Germans", "the German Living Space", "the New Europe", and "the New World Order", and so too they will see it burst. In those days the market woman who without batting an eyelash demanded a hundred million for an egg, lost the capacity for surprise. And nothing that has happened since has been insane or cruel enough to surprise her.

It was during the inflation that the Germans forgot how to rely on themselves as individuals and learned to expect everything from "politics", from the "state", from "destiny." They learned to look on life as a wild adventure, the outcome of which depended not on their own effort but on sinister, mysterious forces. The millions who were then robbed of their wages and savings became the "masses" with whom Dr. Goebbels was to operate.

Inflation is a tragedy that makes a whole people cynical, hardhearted and indifferent. Having been robbed, the Germans became a nation of robbers.[1]

This terrible inflation, which Mann credits for the rise of Hitler, had its origin in another holocaust: World War I. Like every other nation involved in that conflict, Germany was entirely unprepared for its intensity. German, French, and British troops all marched off in August 1914 absolutely convinced they would be home by Christmas.

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The German High Command shared this optimism, having full faith in the ability of the Schlieffen Plan to bring quick victory. With the resulting total war, outlasting the enemy became the only path to victory for either side.

At this point, Germany discovered just how badly it was prepared for this new kind of warfare. Cut off from its sources of food by a British blockade and failing to achieve any kind of breakthrough on the Western front, Germany began to gamble, as it did when it unleashed its submarines. At home too, the government began to gamble. The people, having been bled white by taxation already, had to be urged on to greater sacrifice. Toward this end, the government resorted to inflation on a mass scale, gambling that the people would be unaware of what was happening.

Inflation an Indirect Tax

Here, one should keep in mind that inflation, in its crudest form, is nothing but an indirect tax. The government, with its monopoly on the issuance of currency, found it simple to play the role of counterfeiter. It simply paid for the goods it needed with newly created money. Since an individual's conception of his money's worth is basically shaped by his past memory of its purchasing power, this process can go on for some time before it begins to significantly affect the price level.

During the war, goods were being withdrawn from the economy for war materiel and, simultaneously, fewer goods were being produced as workers became soldiers. At the same time, the government was increasing the money supply rapidly as it became increasingly difficult to raise needed funds from taxation or direct borrowing.

Historically, the speed at which people spend tends to remain relatively constant unless they expect a sudden change in economic relationships. Accelerated spending classically occurs when people feel that their money is losing its value. At this point, they begin to spend every cent they can get as quickly as possible before prices go up again. This only tends to raise prices even higher and drop the value of the money correspondingly. Economist Ludwig von Mises, a resident of Austria at the time, graphically described this process:

> In normal times, that is in periods in which the government does not tamper with the monetary standard, people do not bother about monetary problems. Quite naively they take it for granted that the monetary unit's purchasing power is "stable." They pay attention to changes occurring in the money-prices of the various commodities. They know very well

that the exchange-ratios between commodities vary. But they are not conscious of the fact that the exchange-ratio between money on the one side and all commodities and services on the other side is variable too. When the inevitable consequences of inflation appear and prices soar, they think that commodities are becoming dearer and fail to see that money is getting cheaper. . . . This ignorance of the public is the indispensable basis of the inflationary policy. Inflation works as long as the housewife thinks: "I need a new frying pan badly. But prices are too high to-day; I shall wait until they drop again." It comes to an abrupt end when people discover that the inflation will continue, that it causes the rise in prices, and that therefore prices will skyrocket indefinitely. The critical stage begins when the housewife thinks: "I don't need a new frying pan to-day; I may need one in a year or two. But I'll buy it to-day because it will be much more expensive later." Then the catastrophic end of the inflation is close. In its last stage the housewife thinks: "I don't need another table; I shall never need one. But it's wiser to buy a table than keep these scraps of paper that the government calls money, one minute longer."[2]

This entire process was set in motion when the Reichsbank suspended the redeemability of its notes in gold with the outbreak of war. As long as the paper currency was tied to a finite amount of gold, the currency also remained within finite limits. When this restraint was cast aside, there was no longer any legal limit to the amount of money that could be manufactured. The government, in turn, used this freedom to force the bank to buy its bonds, which the bank paid for by creating deposits in the government's account. In this way, the German debt became monetized, just as the American debt is today monetized by the Federal Reserve System. Simply put, this means that the government's debts are ultimately paid for by the consumer's loss of purchasing power; the creation of new money serving only to cheapen all money already in circulation. In Germany, this meant that by the end of 1918, the amount of money in circulation had increased fourfold. One would have expected this to lead to approximately a fourfold rise in prices, more when one considers the corresponding cutback in production, but in fact they only rose 140 per cent. This is because consumers were not yet fully aware that the rise in prices was due not only to goods being less available, but also due to inflation of the money supply.

Huge Deficits

To be sure, even the victorious nations had practiced the German method for financing their debts and experienced a similar rise in prices. But with the cessation of hostilities, they returned to sound fiscal and monetary policies. In Germany, the government made no effort to return to pre-war spending levels and continued to run huge budget deficits, as the following table demonstrates:[3]

YEAR	REVENUE*	EXPENSE*	DEFICIT*
1919	2,559	8,560	5,999
1920	3,178	9,329	6,054
1921	2,927	6,651	3,676
1922	1,488	3,951	2,442
1923**	519	5,278	4,690

*In millions of gold marks.
**April to October only.

As one can see, the debt mounted with each passing year, almost all of it being funded through monetization. The reasons for this were partly humanitarian, partly political, and partly selfish. On the one hand, there was terrific pressure for relief and rebuilding. Then too, the government sought to use inflation as a psychological weapon against the Allies. Finally, there was pressure from those benefiting from the inflation, which will be dealt with below. But the single most important factor in the ensuing hyperinflation was economic law. As people slowly began to realize that their money was losing its value, they began drawing out bank deposits and spending what they had as quickly as possible. This run on the banks and the tremendous increase in the demand for cash put fierce pressure on the treasury to stave off collapse with a flood of freshly minted bills. Thus the figures for total money in circulation begin to follow a pattern (in millions of marks): 1913, 6,070; 1920, 81,338; 1921, 122,500; 1922, 1,295,231; 1923, 2,274,000,000.[4] And the effect on the price level inevitably followed a similar pattern:[5]

YEAR	WHOLESALE PRICE INDEX
July 1914	1.0
Jan. 1919	2.6
July 1919	3.4
Jan. 1920	12.6
Jan. 1921	14.4
July 1921	14.3
Jan. 1922	36.7
July 1922	100.6
Jan. 1923	2,785.0
July 1923	194,000.0
Nov. 1923	726,000,000,000.0

Search for Scapegoats

Needless to say, the government never admitted its role in this, but instead sought out easy scapegoats. The most popular one was the Versailles Treaty. After all, the people already hated the Allies, so why not exploit it to good use? The campaign was so successful that even intelligent economists like Dr. Hjalmar Schacht accepted and perpetuated the myth: "The true cause of the inflation after the war was the perpetual pressure exercised by the Reparation Commission on Germany in the attempt to extort payments to foreign countries which in the nature of things could not be made."[6] The truth of the matter is that reparations expenses only made up about a third of the German budget deficit throughout the entire period. In his book, *The Economics of Inflation*, Costantino Bresciani-Turroni compiled the following figures:[7]

YEAR	DEFICIT*	REPARATIONS*
1920	6,053.6	1,850.9
1921	3,675.8	2,810.3
1922	2,442.3	1,136.7
1923**	6,538.3	742.4

*In millions of gold marks.
**April to December only.

Consequently, the reparations alone cannot account for the deficits or the ensuing inflation. The truth of this was, of course, irrelevant. There were plently of other causes for the inflation which could also be exploited. To blame profiteering became particularly popular because, as in the case of reparations, there was some truth in it. This is how Thomas Mann saw those who profited from the crisis:

For at least a section of this ruling class, the big industrialists, the inflation was profitable; they were in no hurry to stop it. During those years the Krupps, Stinneses, Thyssens, etc., got rid of their indebtedness, which ran into real millions, by paying their creditors in inflated millions, and thanks to these same inflated millions they acquired real millions-worth of property.

Though Germany was very poor at that time, it possessed great wealth in mineral resources and industrial plant. During the inflation a radical change occurred; this wealth became concentrated in fewer and fewer hands. The small and medium property-owners lost their holdings, and the biggest snapped them up. They acquired property and paid with paper. Years later one could hear it said that such and such a factory or mine was unproductive and would not be profitable if it had not been acquired for next-to-nothing during the Inflation. . . .[8]

Not a Major Cause

It would be a vast distortion, however, to say that profiteering in general was a contributing cause to the economic crisis. It is in the very nature of inflation that some will reap great profits. It was only those big industrialists like Hugo Stinnes who consciously realized what was taking place and deliberately sought to influence the government toward inflation.[9] For the rest, who reaped windfalls through no conscious effort, through simple foresight or luck, some defense should be made. Many of these entrepreneurs became the objects of scorn and an easy target for political extremists. The fact that many were also Jewish cannot be discounted as an explanation for their persecution. As early as 1920, John Maynard Keynes spoke up for these innocent entrepreneurs in a moving passage from *The Economic Consequences of the Peace.* "Lenin," he wrote, " is said to have declared that the best way to destroy the Capitalist System was to debauch the currency."

> By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not only confiscate, but confiscate *arbitrarily;* and, while the process impoverishes many, it actually enriches some. The sight of this arbitrary rearrangement of riches strikes not only at security, but at confidence in the equity of the existing distribution of wealth. Those to whom the system brings windfalls, beyond their deserts and even beyond their expectations or desires, become "profiteers," who are the object of the hatred of the bourgeoises, whom the inflationism has impoverished, not less than of the proletariat. . . . These "profiteers" are, broadly speaking, the entrepreneuer class of capitalists, that is to say, the active and constructive element in the whole capitalist society, who in a period of rapidly rising prices cannot help but get rich quick whether they wish it or desire it or not. If prices are continually rising, every trader who has purchased for stock or who owns property and plant inevitably makes profits. By directing hatred against this class, therefore, the European Governments are carrying a step further the fatal process which the subtle mind of Lenin consciously conceived.[10]

Thus we find the German government actively appealing to the lowest human emotions of jealousy, envy, and greed in order to hide its own responsibility for the economic disruption. And inevitably this was to play right into the hands of demagogues like Adolf Hitler. It is no coincidence that he made his first bid for power at the height of the inflation; in the beerhall putsch of November 8, 1923. Historians and economists, therefore, are in general agreement that the inflation can be given much credit for the rise of Hitler. For although he did not come to actual power for another decade, the putdown of the putsch supplied the Nazis with many martyrs to aggrieve, and it was during his subsequent prison term that Hilter wrote *Mein Kampf*. Thus, as early as 1937, Lionel Robbins could declare emphatically that "Hilter is the foster-child of the inflation."[11]

The Current Problem

All this is not so say that we can expect another Hitler here in the United States. But, to this very day, the origin of inflation is still the same: government deficits financed through monetization. For too many years, the American government has believed that it can have occasional wars and an expensive social program at home and pay for it all by simply increasing the debt limit. Today we are discovering that there really is a limit to debt. The double-digit inflation we are experiencing is therefore only a logical consequence of past policies. And if we want to stop it, the solution is the same as it was in 1923. The government must learn to live within its means and halt its abuse of the power to issue currency. The failure to do so may be catastrophic, just as it was for Germany.

– FOOTNOTES –

1 Thomas Mann, "Inflation: The Witches' Sabbath," *Encounter* (February, 1975) p. 63. This lecture was originally given in 1942.

2 Ludwig von Mises, *The Theory of Money and Credit* (New Haven: Yale University Press, 1953) pp. 418-419. This book was written in 1913 and Mises used the word inflation to mean an increase in the quantity of money; see p. 240.

3 Michael A. Heilperin, *Aspects of the Pathology of Money* (London: Michael Joseph, 1968) p. 143.

4 Frank D. Graham, *Exchange, Prices, and Production in Hyperinflation: Germany, 1920-1923* (Princeton: Princeton University Press, 1930) p. 67.

5 *The Nightmare German Inflation* (Princeton, N.J.: Scientific Market Analysis, 1970) p. 2.

6 Dr. Hjalmar Schacht, *The Stabilization of the Mark* (London: George Allen & Unwin, 1927) p. 55.

7 Costantino Bresciani-Turroni, *The Economics of Inflation* (London: George Allen & Unwin, 1937) p. 93.

8 Mann, *op. cit.*, p. 61.

9 See the interview with Stinnes in Fritz K. Ringer, ed., *The German Inflation of 1923* (New York: Oxford University Press, 1969) pp. 90-93.

10 John Maynard Keynes, *The Economic Consequences of the Peace* (New York: Harcourt, Brace and Howe, 1920) pp. 235-237.

11 Forward to Bresciani-Turroni, *op. cit.*, p. 5. He had expressed the same idea even earlier in his *The Great Depression* (London: Macmillan, 1934) p. 57: "The Nazi propaganda, hitherto confined to the worst elements of the ex-military and ex-criminal classes and to a handful of the less responsible students, was beginning to make itself felt in high politics. The German middle classes, bereft of their property during the inflation, their minds besodden with the turgid anti-rationalism which in that part of the world has for many decades passed as profundity, were apt soil for such teaching."

IDEAS ON LIBERTY

The Totalitarian Trap

WHEN IN FACT government supplies most everything we need, then we find that we cannot get anything we need except from government; and we are trapped.

J. KESNER KAHN

PERCY L. GREAVES, JR.

Does Government Spending Bring Prosperity?

MANY LEADERS in high places now promise us that our government will never again permit poverty and depression to devastate our land. They propose more government spending as a cure for every economic evil. And millions of people believe that such a program will work.

The underlying philosophy behind political spending is not new. Similar ideas have appeared throughout all history. They came to full flower shortly after the economic collapse of 1929, when unbalanced budgets were generally accepted as necessary economic measures for relieving those in distress. You could not let innocent people starve, could you?

People pointed to idle factories, unemployed workers and their unsatisfied wants. All we need to do, they said, is to get the government to start priming the pump. A little government spending would provide the would-be workers with the wherewithal to buy the things they desperately need. This would encourage businessmen to put the unemployed to work in the idle factories. This solution sounded so simple, and its political appeal was apparent. So we tried it.

People just plumb forgot all that economists had ever taught. Many desperate persons reached for whatever share they could get of the apparent prosperity that followed. Until war changed the picture, the price they paid was chronic unemployment by the millions. Are we now asking for a repeat performance?

Most people seem to forget that

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the government can pay out only what it borrows or collects in taxes. They also forget one of the most elementary facts of a free economy —men who will not accept going wage rates must remain unemployed. Likewise, they fail to understand the real causes of depressions. A logical examination of pertinent data would show them that it was Federal Reserve money manipulation that brought on the depression we all deplore. We Americans truly need to know some very simple economic facts.

No free man works, buys or sells unless he fully believes that such action will bring him greater satisfaction than he could enjoy if he did not take that action. This means that in a free economy no man ever takes a job at any wage unless he believes he is better off working at that wage than he would be if he did not take it. Likewise, no employer ever employs a man at any wage unless the employer feels that he will better his situation by employing that man at that wage. So, in a free economy, employees and employers believe that they have the best available terms. When they feel otherwise, they shift jobs or employees.

In the same vein, no woman ever buys a dress unless she believes that dress will bring her more satisfaction than any other use she could make of the same amount of money. On the other side of the transaction, no storekeeper ever sells a dress unless he places a higher value on the money he receives than he does on the dress he sells. As a result of the sale, both buyer and seller are happier.

Thus, in a free economy, every freely made transaction benefits all participants. Consequently, any interference with freely made transactions must result in a decrease in the satisfaction and happiness of all persons concerned. An economy that is free from restricting regulations thus permits its people to enjoy the greatest happiness they are capable of producing.

The Proper Sphere of Government

However, in order to enjoy the full pleasures of prosperity, it is necessary for peaceful people to be protected from all robbers, thieves and fraudulent schemers who seek something for nothing at the expense of their fellow-men. For this protective purpose, men have instituted governments. Governments, like all valuable assets, have a price. This price is collected in some form of taxes. Reasonable taxes are a legitimate expense for all protected persons, property and production.

Taxes are like insurance premiums. In fact, a good government might be called a form of life, fraud and robbery insurance. It is as necessary for modern society as accident insurance is for every car driver of moderate means. Without it, the risk of living, owning property and driving might well involve financial risks that only a few could afford. Good governments permit people to pursue their pleasures and production while protected from the rascals who would infringe on their rights by force or fraud. Taxes paid for this protection are an investment which permits men to pursue their personal satisfaction and prosperity as each one sees fit.

When governments spend money for other than protective purposes, they must first get that additional money. They can only get such funds by one or more of three different methods. They can amass such funds by collecting more ordinary taxes, borrowing from private savers, or simply printing the extra money they want to spend. Most modern governments use all three methods. Can such government spending increase the transactions and satisfactions of individuals and, thus, the happiness and prosperity of the people as a whole?

Hidden Costs

A most common economic error is the failure to see or realize the complete price of what one buys. People are too apt to reach for something they want now, without weighing the costs they cannot visualize at the moment. Many fail to realize that more beer and merriment today may well mean no bread or meat tomorrow.

So it is with government spending. We see the results of government spending all around us. Government services are sold at bargain rates below cost. The bureaucrats are good steady customers, and the subsidy receivers spend money more freely than those who earn it. But many do not see the complete price. They do not see the schools, homes, hospitals and factories that could have been erected if the same funds had been left in private hands. They do not see that present bureaucrats could be private citizens producing goods not now available, and that such an increase in marketable goods would tend to reduce all prices and thus increase the satisfactions and living standards of every buyer. They do not see the taxes that creep into the prices of every loaf of bread and pair of shoes, placing the prices of such necessities beyond the reach of the most needy.

When the government raises the money it spends by borrowing savings or taxing its citizens, it merely transfers spending power from private owners and to political spenders in power. This creates no new wealth. It reduces the amount private citizens can spend while increasing the amount government can spend. With less money in their pockets and bank accounts, private individuals and corporations must reduce the amounts they spend or invest. Assuming prices and wages remain the same, they must buy fewer goods and employ fewer workers on private payrolls producing what people want most.

Money spent by governments cannot create any more jobs or produce any more wealth than it can when spent by private persons. In fact, it creates less, because both the tax collectors and tax spenders must be paid a commission. Their labors add nothing to the wealth of society. The shift of the money from private citizens to political spenders must result in fewer productive jobs, and thus a smaller amount of goods and higher prices than if the money had been left in private hands.

Pattern of Production Changed

Political spending also changes the whole pattern of the nation's productive forces. If the government spends its money by giving out subsidies to one privileged group, the productive facilities of the country are then partially directed toward satisfying the desires of that group instead of the desires of those who originally earned the money. Many workers and investors must shift from producing goods and services for customers who earn their money, to producing goods and services for those who first receive the dollars distributed during the government's spending spree.

Then, too, much government spending is not based on the economic principle of getting the most for the least. This permits political spenders to grant privileges to their friends. Such political plums provide more satisfaction and prosperity for nonproducers at the expense of producers. The net result must always be a reduction in the production of wealth. Any such reduction in the quantity of goods and services available in the market tends to raise all prices and thus reduce the satisfactions and living standards of every buyer in that market. So spending to help one group, laudable as it may seem, does not, and cannot, create general prosperity.

Diversion to War

If the government spending is for war or defense, then some of the nation's investors and workers must go to work producing munitions and military supplies. All the savings and workers so engaged are withdrawn from industries satisfying the private needs and wants of individual consumers. The end result, of course, is a reduction in the satisfaction of the needs and desires of all those who prefer consumer goods over war goods. The nation may have full employment, but individuals must certainly get along with fewer consumer goods. Such lower personal satisfactions have never been considered greater prosperity.

The only reason men and factories are ever unemployed is that they will not produce what consumers want most at prices consumers can and will pay. Both men and factories can always be employed, if they will accept market wages and prices. When they consider these too low and rely on government to pay higher than market wages and prices with funds obtained from private citizens, the immediate result must always be unemployment or lower wages for those formerly engaged in satisfying the desires of those whose money the government now spends. Unless supported in idleness, these workers will soon gravitate to those industries or pursuits that benefit most from the increased government spending. Their competition will bring wages down to market levels, and then no workers will any longer benefit from the increased government spending.

Any switch of money from private owners to political spenders can only result in a redirection of the nation's productive forces and temporary gains for those who first receive the government orders or subsidies. In the end, a readjustment of the nation's productive forces will become necessary. During the interim, total human satisfactions will be reduced and the general welfare will suffer.

Danger of Depression?

The question now asked is whether a substantial reduction in present government spending would create a depression. Under the present restrictive labor and monetary laws, the painful readjustment might well be long and severe. Under a free economy, with free market wages and interest rates, the necessary readjustment could be quickly made and soon everyone would be enjoying a much higher living standard.

If the government reduces both taxes and spending, it will leave more money in private hands. This money then can, and will, employ more people at higher real wages to make more of what people want most. The nation's productive forces would be redirected toward satisfying the wants of productive persons, rather than satisfying those who were the recipients of government expenditures. In a free market economy, every worker and investor tends to seek those outlets which will produce what consumers want most, as indicated by the wages and prices consumers will pay. So workers and investors now engaged in satisfying political spending would soon find more profitable outlets satisfying the increased spending of private producers. Everyone would soon have more. That is not a depression. That is prosperity.

Results of Inflation

In cases where the government prints the money, either directly or indirectly, by first printing bonds and then issuing new money with only its own bonds as security, the result is inflation. Inflation is a tax on everyone who owns or is owed a dollar. Its effects are more hidden than those of other taxes. Another important difference is that inflation transfers economic wealth from one group of people to another group, as well as from private citizens to their government. The inflation tax is a boon to all who owe dollars and a burden on all who are owed dollars. It changes the values of every contract that specifies a future payment in dollars. It reduces the value of the money involved. This is a temporary boon to the payer but, in effect, a tax on the recipient.

Under such inflationary conditions, wise businessmen become hesitant about signing long-term contracts, so necessary for our present-day complicated production system. Government inflationary spending thus places an additional damper on prosperity, over and above all drawbacks and redirection of productive forces brought about by government spending of funds amassed by taxes or bond sales.

Those who first receive the newly printed money are able to buy a part of the nation's production without having made any contribution. They must profit at the expense of all those who have contributed to the total production offered on the market place. Since the rewards of productive contributors are less, some will retire or reduce their future contributions to the market. Production will be further reduced by the fact that some of the printed money recipients are supported in nonproductive pursuits. Total production must, therefore, be lower. This means there will be less for everyone who spends dollars in the market place.

Taxes which raise prices or curtail private spending cannot increase total human satisfaction. Increased taxes reduce the voluntary transactions of a free people and thus reduce their total satisfactions. Contrariwise, any reduction in government spending and taxing will increase the individual transactions of a free people and thus their individual satisfactions and prosperity.

The Way to Prosperity

Government spending is an expense or burden on total production and human satisfaction. Government taxes are personal economic sacrifices and should be paid only for the protection of life and private property. When taxes are so limited, they are an aid and stimulant to total production and human satisfaction. When they are collected to help some at the expense of others, they are a brake on both production and human satisfaction. Any reduction in government taxes and spending increases the goods and satisfactions available for all those who have dollars of their own to spend.

Competition in the service of consumers is the one and only sure way to produce a prosperity permanently spiraling upward. All political spending for purposes beyond the protection of life and property are a snare and a delusion. They discourage wealth production both by decreasing the rewards of productive workers and by supporting others in idleness or nonproductive pursuits. In order to keep up the appearances of prosperity, government spending must be constantly increased, with an ever-increasing share of total production going to the nonproductive. If these constantly increased expenditures are not stopped in time, the result will be a runaway inflation like that which took place in Germany in 1923. Government budgets balanced by inflationary spending can but bring a national headache, for which the only permanent cure is the intelligent use of our God-given freedom.

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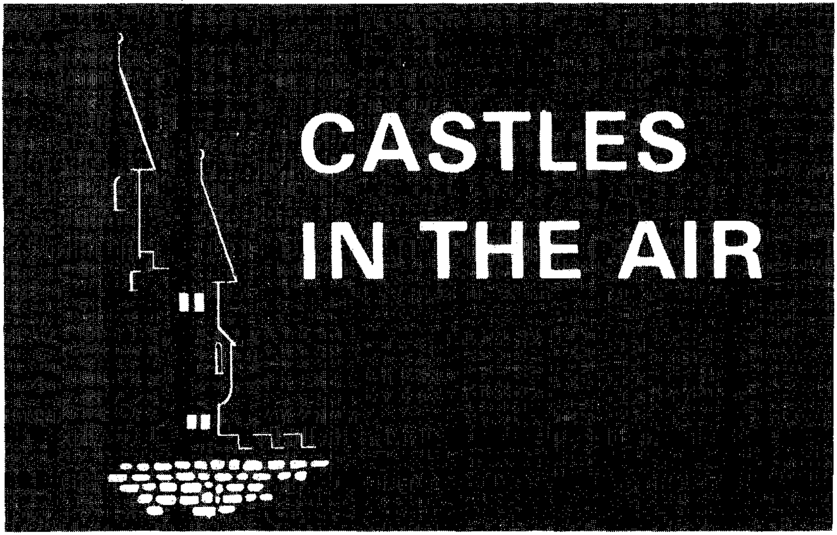
IDEAS ON LIBERTY

The Reason for Morality

WE IMPOSE MORAL RULES upon each other, and then come to see the necessity of abiding strictly by them ourselves, because we recognize the overriding necessity of preserving these rules inviolate, if each of us is to live in peace and security, and to be free to pursue his own purposes. In brief, if we are to minimize conflict and to maximize social cooperation, we must be able to *trust* each other, and we can do so only in a society in which each of us can be depended on to act always and inflexibly on principle.

HENRY HAZLITT



SOMEWHERE IN SANTAYANA, I forget where, there is a remarkable passage about all the powers and the pressures in the universe that keep jockeying, as it were, for position to get in the clear on that inside rail. Fecundity and inventiveness need channels. Leonard Read, who is as near an approximation to a saintly character as anyone could find, has lived his life as a channel clearer. He never exploits his own personality. But his new book CASTLES IN THE AIR (Foundation for Economic Education), is as redolent of a unique personality as a well-tended hope chest is of camphor balls.

Leonard Read's economic theory is solidly based on Carl Menger and Ludwig von Mises, but the curious thing about most of the Read essays is the profusion of non-economic names that are used to make economic points. In an essay on the division of labor Read quotes Thoreau and Alfred Lord Tennyson, not Adam Smith. He doesn't mention John Kenneth Galbraith when he is writing about the "bold-faced and flagrant lies" that are part and parcel of a price-controlled economy. Instead, he invokes Shakespeare.

When he is writing about the individual's drive to improve himself, the substantiating quotations are from C. S. Lewis, Heraclitus, and the German psychologist Fritz Kunkel. In staking out the limits of government power Read uses Woodrow Wilson and Immanuel Kant to make his points, and his trust in the individual as a self-starter is bolstered by references to William Butler Yeats, Joaquin Miller, Benjamin Franklin and Arnold Toynbee.

Of course, there are references in CASTLES IN THE AIR to Adam Smith, von Mises, Henry Hazlitt, F. A. Hayek, Thomas Nixon Carver and W. A. Paton, all of whom qualify as first-rate economic minds. There is also one mention of John Maynard Keynes. But it is interesting that Read deals with Keynes not as the founder of an economic school but as an immoralist. Mises appears as a political philosopher and as a teacher, Hazlitt and Hayek as "ethicists of increasing influence." Just about the only economist who gets extended treatment in a Read essay as an economist is Adam Smith. But it is Smith on the nature of Providence (the "invisible hand") that gets Read going, and when one talks about Providence one is talking about "the inner nature of things."

The Art of Living

The point is that Leonard Read is more interested in the art of living than he is in the technical aspects of economic science. He wants to create character. If people believe in uncoerced choice, the economic system will take care of itself. Read's pedagogic method is to try and perfect his own understanding and behavior. If he can improve himself he is satisfied that he can be a teacher by example, not one by argument.

No one, as Leonard Read says, knows, all by himself, how to make a pencil. Yet pencils are made and sold by the gross. The market has a wisdom that does not exist in any one person. So, naturally, Leonard Read wants to let individuals follow their own bents in an uncoerced way. The man who knows something about lead will, through the working of the market, pool his knowledge and skill with those of the man who knows something about wood. The man who knows about rubber will contribute the eraser. Pencils – and virtually every other economic product – depend on the generative capacity of individuals who have no external force standing in their way.

Freedom to Grow

But, though Read obviously uses pencils and other economic goods, it is the freedom to "flow and grow" as human beings that is his primary concern. When people have creative freedom, they do more than eat well. They have a margin to spare for other things. Everyone has a vested interest in the other fellow's diversity. Reverence for differences leads to reverence for life which is made up of differences. So Leonard Read finds himself writing about the "open" human being in language which, to me, borders on the mystical. He believes that man who reveres life, with all its diversities, can actually "radiate" a feeling that will affect the plant life around him. I know that people can have rapport with birds and dogs. But plants? They depend on loving care. But do they really care about the love as long as they get water, warmth and sunlight?

Unlike Leonard Read, I wouldn't bet on the plant having perception. But, in a world of mysteries, Read could be right. The main point is the live-and-let-live quality of Read's "freedom philosophy," which, if it could be universalized, would create a world not only of happy plants but of men and women without envy.

Mr. Read's concept of civilization is the opposite of most people's. He believes that civilization represents an evolution from the complex to the simple life. When Thoreau went to Walden Pond, he had to be a master of many skills. When one had to be a Jack-of-all-trades to survive, it made for complexity. One had little time to discover one's own uniqueness. To get from Michigan to Los Angeles in the days of Leonard Read's grandfather, one had to know something about horses, hunting, Indian fighting, cooking and Heaven knows what else. But now all one has to do is to get on a plane, wearing a suit from Hongkong and shoes made in Rome. The plane's chef, a specialist, can offer you salmon 30,000 feet up from 3,000 miles away, still fresh.

The Simple Life

Read is so obviously right about civilization permitting one to lead the simple life. But our collective refusal to abide by the live-and-let-live principles piles intervention on intervention and inflation on inflation. So, in self-defense, one is forced back to the Jack-of-all-trades philosophy. The believers in a free market, in the free flow of energy, are now subscribing to economic letters that advise the purchase of Walden-like retreats far from our decaying cities. One is advised to lay in a store of dried and canned foods and to learn something about gardening and carpentry. If the inflation survival letter writers are right, the only practical insurance policy lies in the cultivation of the Jack-of-all-trades attitude.

But, of course, that won't work

for very long, either. When civilization is on a retrograde course, things won't stop at the Walden Pond point. The stone age mentality comes next in the retrogression, with the new savages from the decaying cities fanning out into the countryside to murder the Jack-of-all-trades in his Walden retreat for the sake of whatever food is in his cellar or in his garden. Even if things don't go this far, an armed dictator would be quite capable of taking you out of your retreat and putting you to work on a collective farm.

No, there is no other way than to fight it through on Leonard Read's terms. Propagation of the freedom philosophy is necessary to survival. We must put foundations under Mr. Read's castles in the air.