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HENRY HAZLITT

Our 40-YEAR Inflation

A CASUAL READER of the newspapers and of our weekly periodicals might be excused for getting the impression that our American inflation is something that suddenly broke out in the last two or three years. Indeed, most of the editors of these periodicals seem themselves to have that impression. When told that our inflation has been going on for some forty years, their response is usually one of incredulity.

A large number of them do recognize that our inflation is at least nine or ten years old. They could hardly help doing so, because the official figures issued each month of wholesale and consumer prices are stated as a percentage of prices in 1967. Thus the consumer price index for June of 1976 was 170.1. That was 0.5 per cent higher than in the preceding month and 5.9 per cent higher than in June of the year before. This means that consumer prices were 70 per cent higher than in 1967, a shocking increase for a nine-year period. The annual increases in consumer prices ranged from 3.38 per cent between 1971 and 1972 to more than 11 per cent between 1973 and 1974. The overall tendency for the period was for an accelerating rate. The purchasing power of the dollar at the end of the

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Henry Hazlitt, noted economist, author, editor, reviewer and columnist, is well known to readers of the *New York Times, Newsweek, The Freeman, Barron's, Human Events* and many others. Best known of his books are *Economics in One Lesson, The Failure of the "New Economics," The Foundations of Morality,* and *What You Should Know About Inflation.*

Chart A

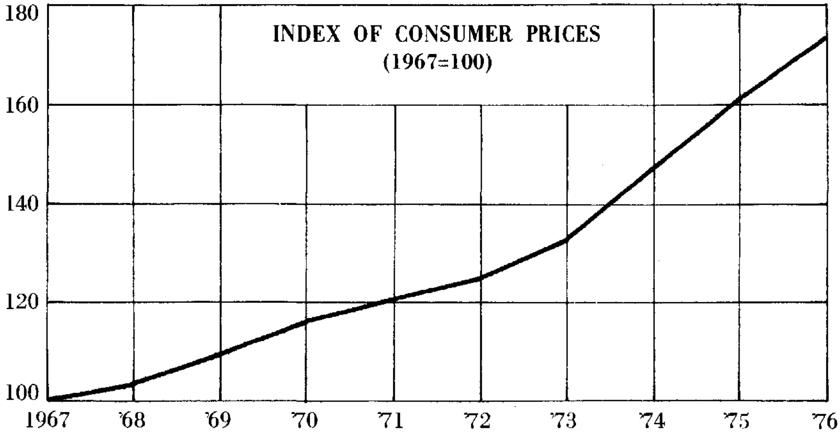


Table A

Year	*Money Stock (M_2)*	*Consumer Price Index*	*Purchasing Power of the Consumer Dollar*
1967	100.0	100.0	100.0
1968	108.9	104.2	96.0
1969	116.2	109.8	91.1
1970	121.0	116.3	86.0
1971	135.0	121.2	82.5
1972	149.3	125.3	79.8
1973	163.6	133.1	75.1
1974	177.4	147.7	67.6
1975	191.0	161.2	62.0
1976	218.7e	173.9e	57.5e

e Estimated from data through June.

period was equivalent to only about 57 cents compared with just nine years before.

Starting in 1933

But the inflation may be dated from as early as 1933. It was in March of that year that the United States went off the gold standard. And it was in January of 1934 that the new irredeemable dollar was devalued to 59.06 per cent of the weight in gold into which it had previously been convertible. By 1934, the average of wholesale prices had increased 14 per cent over 1933; and by 1937, 31 per cent.

But consumer prices in 1933 were almost 25 per cent below those of 1929. Nearly everybody at the time wanted to see them restored toward that level. So it may be regarded as unfair to begin our inflationary count with that year. Yet even when we turn to a table beginning in 1940, we find that consumer prices as of 1976 are 314 per cent higher than then, and that the 1976 dollar has a purchasing power of only 24 cents compared with the 1940 dollar.

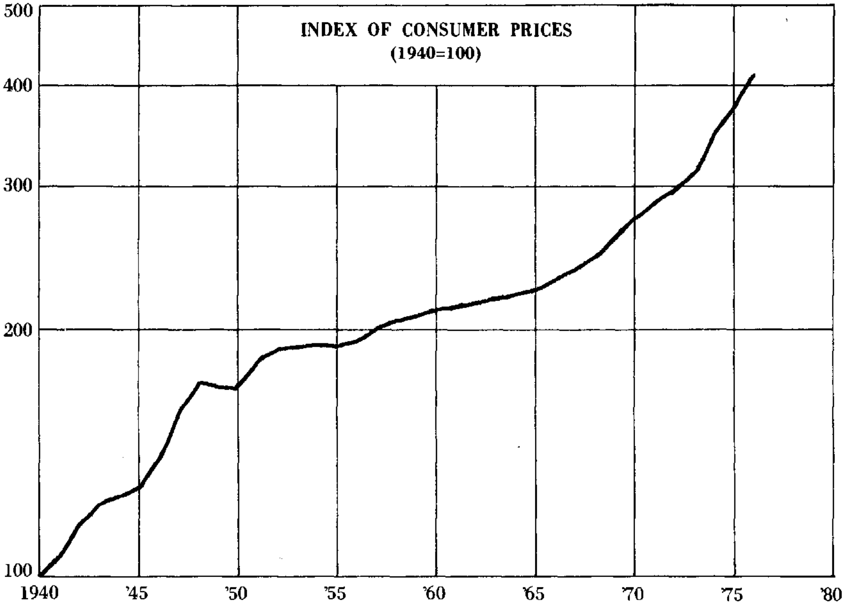
These results are presented herewith for each year in two tables and three charts. I am indebted to the American Institute for Economic Research at Great Barrington, Massachusetts for compiling the tables and drawing the charts at my request.

The figures tell their own graphic story, but there are one or two details that deserve special notice. In the thirty-six-year period the nation's money stock has increased about thirteen times, yet consumer prices have increased only a little more than four times. Even in the last nine of those years the money stock increased 119 per cent and consumer prices only 74 per cent. This is not what the crude quantity theory of money would have predicted, but there are three broad explanations:

Measurement Is Arbitrary

First, measuring the increase in the stock of money and credit is to some extent an arbitrary procedure. Some monetary economists prefer to measure it in terms of what is called M-1. This is the amount of currency outside the banks plus demand deposits of commercial banks. The accompanying tables measure the money stock in terms of M-2, which is the amount of currency outside the banks plus both the demand and time deposits of commercial banks. M-1, in other words, measures merely the more active media of purchase, while M-2 includes some of the less active. I have used it because most individuals and corporations who hold time deposits tend to think of them as ready cash when they are considering what purchases they

Chart B



can afford to make in the immediate or near future. But in recent years time deposits have grown at a much faster rate than demand deposits. So if one uses M-2 as one's measuring stick, one gets a much faster rate of increase in the monetary stock than by using M-1. (The latter has increased only eight times since 1940.)

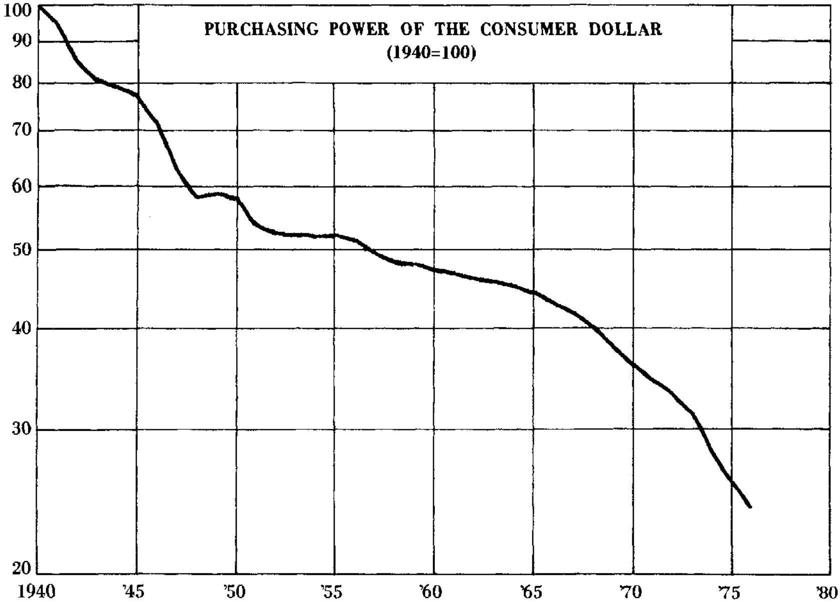
Rising Productivity

Second, one very important reason why prices have not gone up as fast as the monetary stock is that both overall production and production per capita have risen steadily almost year by year. With the constant increase in capital investment—in the number, quality, and efficiency of machines—both overall productivity and productivity per worker have risen, which means that real costs of production have gone down.

Delayed Reactions

The third explanation has to do with subjective reactions to increases in the money stock. Sta-

Chart C



tistical comparisons in numerous countries and inflations have shown that, when an inflation is in its early stages, or has been comparatively mild, prices tend not to rise as fast as the money stock is increased. The fundamental reason is that most people regard the inflation as an accidental or unplanned occurrence not likely to be continued or repeated. When an inflation is continued or accelerated, however, this opinion can change, and change suddenly and dramatically. The result is that prices start to rise much faster than the stock of money is increased.

The great danger today is that what has been happening from 1939 to 1976—to prices as compared with the rate of money issue—may have given a false sense of security to our official monetary managers as well as to most commentators in the press. The enormous increase in the American money stock over the past thirty-five to forty years must be regarded as a potential time bomb. It is too late for continued complacency.

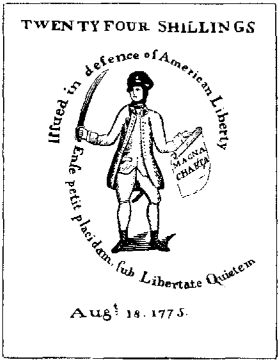
Table B

Year	*Money Stock (M_2)*	*Consumer Price Index*	*Purchasing Power of the Consumer Dollar*
1940	100.0	100.0	100.0
1941	113.2	105.1	95.1
1942	128.9	116.4	85.9
1943	162.9	123.6	80.9
1944	193.5	125.6	79.6
1945	229.4	128.5	77.8
1946	251.3	139.3	71.7
1947	264.5	159.4	62.7
1948	268.3	171.7	58.2
1949	267.2	170.1	58.8
1950	273.2	171.7	58.2
1951	283.3	185.5	53.9
1952	298.7	189.5	52.7
1953	310.1	191.0	52.4
1954	321.0	191.8	52.1
1955	332.8	191.2	52.3
1956	338.6	194.1	51.5
1957	347.5	200.8	49.8
1958	364.3	206.4	48.5
1959	381.3	207.6	48.2
1960	385.1	211.3	47.3
1961	405.3	213.5	46.8
1962	428.7	216.0	46.3
1963	456.4	218.6	45.7
1964	485.0	221.5	45.1
1965	523.9	225.2	44.4
1966	564.6	231.8	43.1
1967	607.9	238.3	42.0
1968	662.2	248.4	40.3
1969	706.3	261.7	38.2
1970	735.4	277.3	36.1
1971	820.8	288.9	34.6
1972	907.4	298.6	33.5
1973	994.8	317.2	31.6
1974	1,078.5	352.5	28.4
1975	1,160.9	384.2	26.0
1976	1,329.2e	414.3e	24.1e

e Estimated from data through June.

ELGIN GROSECLOSE

Fiat and the Founding Fathers



A Massachusetts treasury note of 1775

IN THIS BICENTENNIAL YEAR, it is paradoxical that with all the reverence being addressed to the Constitution by the courts, Congress, and presidential aspirants, no one has come forward to challenge the Constitutionality of our money system.

The importance of such a re-examination is emphasized by a recent Yankelovich survey reporting that the issue of greatest concern among voters was inflation (53 per cent). Inflation is obviously a problem which has eluded the skill of our money managers, working under prevailing monetary theory, and has defied the edicts of Congress to resolve.

Elgin Groseclose, head of Groseclose, Williams & Associates, financial and investment consultants of Washington, D.C., serves also as executive director of the Institute for Monetary Research, Inc. He is author of *Money and Man* (1934), the 4th edition of which, with revisions and additions by the author, has just been published by the University of Oklahoma Press.

On August 17, 1787, the Constitutional Convention, sitting as a Committee of the Whole, discussed a draft article defining the powers of Congress under the projected new Constitution. A portion of the draft read, "Congress shall have power . . . to coin money, emit bills of credit, regulate the value thereof. . ."

Gouverneur Morris, delegate from Pennsylvania, highly regarded as a financier, an associate of Robert Morris, who had been largely responsible for the successful financing of the Revolution, rose to propose an amendment. The amendment, as James Madison recorded in his *Notes on the Constitutional Convention,* the principal record of the proceedings, was to strike the words "emit bills of credit." In 1787 language, bills of credit were synonymous with paper money.

"In no country of Europe," a delegate noted, "is paper money legal tender, but only gold and silver coin." He had no need to recall the flagrant paper money emissions of the first Continental Congress, which by 1781 had totaled an estimated $200 million, an enormous sum for the times, and which had fallen to a discount of 99 per cent before Robert Morris stopped their emission.

There was little debate. The offending language was removed by almost unanimous vote. It was clearly the intention of the framers of the Constitution that paper should not be allowed as legal tender in the new Union. To reinforce this conviction, the Convention enacted a provision forbidding the member states of the Union to emit paper money (bills of credit) or to declare as legal tender anything but gold and silver coin.

In 1831, Albert Gallatin, who had served Jefferson and Madison as Secretary of the Treasury (1801-1814) declared that "it necessarily follows that nothing but gold and silver coin can be made legal tender," and Daniel Webster in a speech in the Senate, in 1836, proclaimed, "Most unquestionably there is no legal tender, and there can be no legal tender in this country but gold and silver. . ."

While the idea was already being debated that the supply of money should correspond to the needs of trade and some political economists argued that sovereign states could declare their paper money legal tender, the framers of the Constitution held to the view that money should consist of something substantial, and that if paper were issued as an expedient it should always be representative of, and redeemable in, coin.

From this accepted principle, built into the foundation of the American political system, modern practice has so far diverged that money today consists of neither gold nor silver coin, but only a degraded alloy together with a vast amount of paper money irredeemable in any metal. John Law, the Scottish financier who became Comptroller General of France, in a disastrous experiment tried to make paper money representative of the wealth of France. What circulates today as money is not evidence of wealth but paradoxically the very opposite, the absence of wealth, that is to say, debt, which is no more than a pious hope for later possession of wealth.

"Freeing up the Money Supply"

How did this revolution occur?

During the Civil War Congress, as a war measure, authorized the issuance of circulating notes declared to be legal tender. The action was stoutly debated and, while it was eventually approved by the Supreme Court, the principle continued to govern that paper money, unless fully redeemable in lawful money, that is gold or silver coin, was allowable only as a recourse of national emergency. It was not until the Federal Reserve Act in 1913 that the view became authoritative that circulating notes could be issued against evidences of debt. Until 1934 such notes could be regarded, in a sense, as representative of metal, since they were redeemable in gold, but thereafter irredeemable by U.S. citizens, and they were never full legal tender until 1965. After 1971, they became completely inconvertible in metal. At present the circulating media of this country consist of some $9 billion in degraded coin and $77 billion of Federal Reserve notes, plus a small amount of other notes.

Source of Inflation

The consequences of this revolution will be discussed later. For a moment let us look at the intellectual atmosphere in which it was nurtured. As a consequence of a sudden collapse of credit in 1907, leading to what has been called a money panic, the Federal Reserve System came into being with the object of adjusting the supply of money to finance the seasonal trade of a then mainly agricultural economy. This limited concept of "flexible currency" was soon expanded under the necessities of World War I when the Federal Reserve notes and credit were used to finance the government.

In 1923, the Federal Reserve managers concluded that the System's power should be used in the interest of a stable price level, under the theory that as the production of goods rises the money supply must also rise at comparable rate to provide business with the means of payment. The theory flew in the face of the fact that a prime purpose of technology is to make goods more abundant, and presumably cheaper in order to be more widely distributed. It also overlooked the fact that the technology of money was being improved, through banking and credit procedures, so that a given supply of money could serve a greater volume of transactions.

Nevertheless, the theory became a justification for a steady expansion of the money supply, some economists advocating a regular, mathematical rise in the money supply regardless of the rate of physical growth. So embedded, in fact, has the idea become that both the Democratic presidential candidate Gov. Carter and such a conservative Republican as Secretary of the Treasury William Simon, have indicated that they regard a monetary inflation of three per cent annually as normal.

The use of debt money created by the Federal Reserve was further expanded by the Employment Act of

1946, by which the Federal government assumed responsibility for providing employment opportunities for all.

Purchasing Power Theory of Money

In discharging its responsibilities under the Employment Act of 1946, the managers of the System undertook a still deeper intrusion of Federal authority into management of the economy. Heretofore money had been considered to consist only of the official circulating media. The System now undertook to redefine money not in terms of its substance but of its attributes. Money was purchasing power, and since bank deposits were a form of purchasing power, the System now began to treat money as the sum of the circulation plus demand deposits. This purchasing power was called M_1 to distinguish it from the official circulation, known as M. The Federal Reserve is able to influence the amount of such purchasing power by its authority over the reserves which member banks of the System must carry.

It now became apparent that there were other forms of purchasing power besides that represented by circulating notes and coin and demand deposits, and to extend its authority over the economy the System developed the concept of M_2 consisting of circulating media and demand deposits (M_1) plus savings bank deposits, since a savings bank deposit can obviously be converted on notice to purchasing power by means of a withdrawal or transfer to a checking account.

The Insubstantiality of Money

What is universal about all these forms of money—M, M_1 , M_2—is that they are forms of debt rather than substance. Bank deposits represent the bank's liabilities to depositors, secured in turn by various liabilities of others to the banks, plus a minute amount of physical assets. The liabilities consist of loan obligations of bank customers and investments, which in turn consist principally of debt instruments, that is, corporate bonds and U.S. Treasury obligations, and deposits at the Federal Reserve Bank, which in turn are obligations of that institution. The bank may also hold a small amount of physical assets, consisting of bank premises and furnishings, and real estate acquired in liquidation of foreclosed loans, and in course of sale. The bank may also hold a small amount of cash, but this cash, consisting of Federal Reserve notes and coin is again in form of obligation, unless coin is considered a physical asset to the extent of the market value of the metal contained.

The consequences of this transferring the concept of money from substance to purchasing power is to enter an uncharted realm of theory, in which the power of government to intervene in individual affairs is open to unlimited expansion. The idea of a government of limited or delegated powers disappears. Thus, the question of the extent to which credit cards are a form of money now engages the attention of the System managers, since credit cards are a form of purchasing power.

But there are other forms more elusive. Thus, if A, a grocer, gives his doctor a note of hand for services rendered, the note represents purchasing power in that A thereby acquired services without equivalent goods or services in payment. If the doctor in turn returns the note to A in payment of merchandise, he has used purchasing power that has escaped the statistics of the Federal Reserve. In short, any good or service that has exchange value is a form of purchasing power, and to put all this purchasing power under the control of the Federal Reserve is to give that agency a control or influence over the livelihood activities of the country, the extent of which is yet to be tested.

The Consequences of the New Money

We may now examine briefly the consequences of this departure from the monetary views of the Founding Fathers. In only 15 years, 1960-1975, the Federal Reserve notes in circulation more than doubled, from \$27½ billion to \$77 billion, and coin in circulation from \$2½ billion to \$9 billion. In the same interval the purchasing power fostered by the System in the form of demand deposits, so-called M_1, increased from \$141 billion to \$295 billion.

The flooding of the country with such an immense amount of new purchasing power had its inevitable effect on prices, with the index for consumer commodities doubling from 88 to 167.

The virus of inflation, feeding on the lush growth of paper money, was not limited to this country, but has become a world-wide plague, a disease carried by the U.S. dollar and the American doctrine of central banking into every corner of the planet. Utilizing a device first developed and approved by the Genoa Conference of 1922, that the debts of a rich country could be counted as the assets of a poor, impecunious governments set up central banks with power to issue notes against U.S. Treasury obligations. Since the Federal Reserve notes and deposits were until 1971 redeemable in gold, such obligations were treated as the equivalent of gold.

Regrettably, the practice proved its own undoing. At the end of World War II the U.S. Treasury held about \$25 billion in gold (at \$35 an ounce), but U.S. fiscal recklessness, inordinate foreign aid expenditures, and excessive credit issues domestically, led the shrewder foreign governments to convert some of their U.S. Treasury debt into gold, until by 1968 the U.S. stock had diminished to less than $11 billion (at $35 an ounce). The accelerating weakness of the dollar in the succeeding years required the Treasury to put restraints on the outflow, and in 1971 redemption ceased altogether. The consequence has been a world-wide currency debacle with exchanges unstable and great banks in bankruptcy from foreign exchange losses.

Consequences—Mathematical and Moral

Space does not permit an examination of the economic and social consequences of continued inflation of prices from the issue of fiat purchasing power, and they are too evident in the mounting unrest and dissatisfaction with the political system to require description. It is necessary only to add that the unwillingness of governments to deal decisively with inflation is a leading cause of the disintegration of U.S.-European political influence in world affairs.

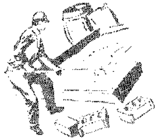
The reason for this political impotence lies at a deeper level than the economy. It goes profoundly to the realm of morals. Money is rightly called the life blood of commerce. When the blood is corrupt the whole body is diseased. There is an essential corruption and moral debility in a monetary system that permits a government to spend and distribute largess obtained without taxation, by a process so simple as a bookkeeping entry or the operation of a printing press, thereby to create purchasing power that enters the market in competition with purchasing power gained through the efforts of human labor and ingenuity.

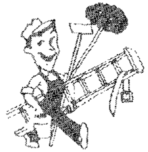
Alexander del Mar quotes Antoninus Augustus: "Money had more to do with the distemper of the Roman empire than the Huns or the Vandals," and the system of fiat money into which this country has fallen, in violation of the Constitution, may be the distemper to which this country may soon succumb.

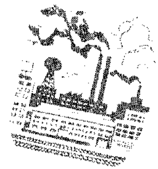
IDEAS ON LIBERTY

James Madison

THAT IS NOT A JUST GOVERNMENT, nor is property secure under it, where the property which a man has in his personal safety and personal liberty is violated by arbitrary seizures of one class of citizens for the service of the rest.

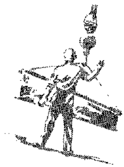






How Many Servants Can You Afford?

BERTEL M. SPARKS



THE TITLE for this paper began as, "How Many Servants Do You Want?" As that question was put to a few people chosen at random, a rather uniform pattern of responses began to appear. Almost everyone who was asked replied that he would like to have all the servants he could get, all he could afford, or other words substantially to that effect. No effort was made to assure the selection of a scientifically accurate sample, nor is there any claim that the answers received are characteristic of the population as a whole.

But regardless of how those points are resolved, it does appear a bit useless to consider the number of servants one might like to have without giving thought to the costs and conditions upon which the servants might be obtained. It was with that in mind that the title was changed to, "How Many Servants Can You Afford?" By putting the question in that form, it is intended to call for some consideration to the alternatives to having servants as well as an evaluation of the reasons justifying the choice concerning the number of servants a particular person might find desirable or appropriate for his situation.

For the purpose of this discussion, a servant might be a slave who is being held in bondage against his will, an employee who is working under a freely negotiated contract with his employer, a business partner sharing reciprocal rights and obligations with another, a sup-

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plier who is furnishing merchandise at a price the customer is willing to pay, or a party to any one of numerous other economic relations that human beings might enter into.

Serving Each Other

It should be noted that in each of these relationships the party being served is also providing some kind of service to the servant. The General Motors Corporation is serving the customer when it sells him an automobile; the customer is serving General Motors when he pays the price. Business partners are serving each other when they join together to pursue a joint venture. An employee is serving the employer by the service he performs; the employer is serving the employee when he pays the wages. Even the slave who is being compelled to work against his will is being served by the master when the master provides the slave with food, clothing, and shelter. Thus it is that every master is also a servant and every servant is also a master. It is a reciprocal relationship in which nobody is getting anything for nothing, and nobody is giving up anything without getting something in return.

But ever since Adam and Eve partook of the forbidden fruit in the Garden of Eden, the human animal has had a tendency to search for ways of obtaining something for nothing. It is an effort to get all the services possible while giving as little as possible. It is the impulse to say, "Yes, I want all the servants I can get—provided they don't cost anything." And while some particular human beings might successfully deny that they have any such impulse, the fact remains that it is present in the vast majority of us.

And that impulse, that desire to get something for nothing, becomes an effective tool in the hands of the political interventionist. It enables one who is an interventionist or statist candidate to win votes by promising to supply the things the voter wants. He promises tariff laws that will relieve the businessman from the burden of foreign competition, higher wages to the laborer, financial security for the elderly, lower rent for tenants, urban renewal funds for the cities, higher subsidies for the farmers, food stamps and rent subsidies for the lower income groups, and guaranteed education and ideal medical care for everybody. The voter's attention is so much centered upon the apparent attractiveness of the things being promised that he tends to forget that the office seeker making the promises doesn't have any of these things to give. Neither will he have any of them after he gets into office. The only way the office holder can obtain any of the items promised is to seize the earnings of one special interest group and distribute those earnings to another such group.

Promises and Payments

But the things promised, at least some of them, do show up in the hands of the promisees; and the promisees continue to give their votes to the candidate making the biggest promises. One candidate promises to get sufficient Federal funds for urban transportation to maintain the artificially low-priced subway ride in New York City. Another promises sufficient funds to guarantee Kansas wheat farmers more income for less wheat than the open market is willing to give. Both candidates win. They meet in the cloak room on Capitol Hill, confess their sins to each other, and each one pledges to help the other deliver on his promise.

As the farmer collects the higher price for his wheat and the New Yorker enjoys his subsidized subway ride, each of them takes pride in the fine representative he has in Washington. As the farmer and the subway rider see it, each representative has just demonstrated that free servants are available, and that the honest citizen can get something for nothing—if he will vote for the right candidate. The New Yorker fails to see that his own taxes have been increased in order to pay the Kansas farmer to cut down on his wheat production so the farmer can get a higher price for what he sells; so the New Yorker will have to pay a higher price for his bread. In like manner, the farmer doesn't seem to realize that his taxes have been increased in order to subsidize the urban transportation system, so the city dweller can enjoy a higher standard of living while lowering his own level of production; so the farmer will have the dubious privilege of paying higher prices for the tools and machinery he has to buy. The farmer and the subway rider are expropriating each other's productive capacity and paying a handsome royalty to an unruly bureaucracy for the privilege of doing it. In the market place that would be called plundering; in the political arena it is known as social progress.

The wheat farmers and the subway riders are not the only special interest groups in our society. There are numerous others and they are all competing for attention. The skillful politician is the one who succeeds in identifying the special interest group or groups that can be used to put together a winning margin in his constituency. And for this purpose, the group need not be a majority or anything even close to a majority.

Throughout most of the political history of the United States we have had two major political parties, the voters being in approximately equal division between them. A shift of only a few percentage points is usually enough to win an election. If any one candidate can avoid upsetting that balance and at the same time find some special interest group to whom he can make enough promises to win an almost unanimous support from that group, he can usually be assured of election even though the special interest group is comparatively small. Once that politician is in office, he is in a position to use the powers of government to plunder other citizens for the special advantage of his particular group. The immediate temptation of the competing politician is to seek the votes of some other special interest groups by promising his brand of special privileges to them.

Competing for Favors

As the competition for votes increases, each candidate finds it necessary to broaden his base. He must make more promises to more people. As these promises are fulfilled, more and more people find it advantageous to lower their own level of production so they can qualify for larger appropriations from the public till. Direct payments to farmers for producing less is an example of this. So are rent subsidies and food stamps for the lower income groups and government loans or grants to failing businesses. The loan or grant to a failing business falls within this category because in its essence it is a financial reward for being an unproductive enterprise. At the other end of the scale some of the less-skilled members of society learn that it is more profitable to them to cease production altogether and rely upon the relief rolls for everything.

As this contest between candidates is accelerated and each candidate makes more and more promises to more and more people, society tends to become fragmented into competing groups. In such an atmosphere there is a tendency to neglect the basic rights, especially the right to equal protection, which the American Constitution guarantees to every human being simply because he or she is a human being. Emphasis is shifted away from the rights of individuals and toward the supposed rights of competing groups where each group is representing a particular special interest of some kind. The individual tends to be ignored or else he becomes swallowed up in the melee of oratory about the rights of farmers, the rights of business, the rights of women, the rights of teachers, the rights of minority races, the rights of the elderly, the rights of the young, and so on without end.

Justifying Failure

As each of the competing groups tries to justify its claim to financial assistance from the government, it bases that claim on its own failure to meet minimum production standards. The failure might have been the result of poor management by the failing party or it might have been the result of a natural disaster or other unforeseen event beyond the control of the individual or individuals concerned. But regardless of the reason, the economic expectations of some special interest group have not been met, and the government is called upon to supply the shortage. That is to say, the government is called upon to supply some "free" services. Unfortunately, the government has nothing to give to any special group except what it expropriates through taxation or otherwise from some other group.

The contest becomes a contest between producers and nonproducers with the government aligned on the side of the nonproducers. This result has nothing to do with whether government officials are honest or dishonest, wise or stupid. They are mere agents administering a system which the citizens, acting in their capacity as voters, have demanded. It is a system that includes in its own mechanism the seeds of its own destruction. The marginal producer, whether he is a laborer or a manager, cannot avoid seeing the advantages of allowing himself to fall below the survival line, cease his contributions to those who are still farther below, and qualify for a claim upon his government, and through his government upon his more successful competitors, for his own support. And each individual or business enterprise that takes that step will automatically draw the producer who is only slightly higher on the economic scale just a little closer to that same survival line. Eventually all are pulled below it and are faced with the necessity of beginning over again without any prosperous neighbors upon whom they can call for help and without any backlog of capital they can use as a starting point.

How many servants can you afford? Not many, if the servants are government agents offering their services "free." Their cost is too high. Being a system based upon rewards to nonproducers and penalties for producers, the system's ultimate end is the destruction of both rival groups and itself as well. Servants who are voted into their jobs upon their promises to give something for nothing are too expensive in a world of scarce resources. That which "free" servants give to one must be seized from another. And since the method of seizure is such that it tends to discourage production, there are fewer and fewer goods available to be seized.

The Exchange Economy

But if human existence is to be maintained in any form other than in its most primitive state, there must be servants. There must be some form of sharing of benefits and burdens. If each individual must retreat to a state of nature and procure his own food, shelter, and other provisions with his own hands, he will be lucky to find time to rear his young, to say nothing of accumulating any of what are now referred to as the amenities of civilization. This is true regardless of the skills or abilities the individual citizen might possess. His economic development cannot advance very far unless there is some sharing of responsibilities, some division of labor.

Our hypothetical citizen of that primitive society might be an especially skilled shoemaker. He might even be the best shoemaker of his generation. But if he has to raise his own vegetables, catch his own game, make all his own clothing, and do all the other things that are going to be done toward his own preservation, he will have very little time left for shoemaking.

If he happens to have a neighbor whose talents lie in the direction of the hunt and the catching of game, the two of them might work out an arrangement whereby one is to procure and supply the skins while the other makes the shoes. As each neighbor pursues the particular trade for which his skills and inclinations are best adapted, each one of them will be able to have better shoes with less effort. They might even divide the meat that accumulates as a by-product of their shoe business and improve their eating habits. The division of labor will have begun and each of the two participants will have discovered that he is better off than he was before. Each one is a servant of the other and each one is being served by the other. It is a willing exchange that is serving to enhance the material well-being of both parties to the transaction. Just when and how that development occurred is lost to antiquity. But that it or some similar development did occur at some time appears to be a virtual certainty. And as soon as that step was taken, the idea that a trade which results in a gain to one party is necessarily a loss to the other was exploded and a new industrial era was born. Both the shoemaker and the hunter benefited from their trading with each other. Each one gave up a commodity of which he was in long supply, and each one received an item of which he was in short supply. The balance of trade was maintained.

But before such an exchange economy could operate very satisfactorily, a few other conditions had to be met. The shoemaker needed some assurance that his store of skins could be protected while they were waiting to be manufactured into shoes, and that his store of shoes could be protected after they had been made and while they were waiting for trade. He also needed some assurance that his contracts would be honored and that he would be able to walk around outside his shop without being murdered or exposed to other kinds of physical violence.

To meet this need, governments were established whose function it was to prevent murder, stealing, and other forms of violence, as well as to restrain deceit, perjury, the breaking of contracts, and similar forms of antisocial behavior. To enable the government to carry out these functions, it was given the exclusive right to use force upon other human beings. The government became a kind of organized self-defense through which the citizens managed to shield themselves from the necessity of providing their own individual self-defense.

A Considered Risk

In delegating the exclusive right to use force to the government, humanity took a dangerous step. It was dangerous because it clothed government with the power to use its newly acquired force to impose tyranny, or even slavery, upon its citizens. And when such a power is present in any people anywhere, there is also present a risk that the power might be exercised. While the risk involved in delegating that kind of power to any government is always high, the value of having a government clothed with such a power is also high so long as the government can be confined to its proper function of keeping the peace, protecting private property, and enforcing contracts that have been voluntarily entered into. Humanity chose to assume the risk.

With the protection afforded by an apparently responsible government, the shoemaker and the hunter were ready to continue their convenient trading arrangement with confidence in spite of the high-risk burden they were carrying. It can well be imagined that such an ingenious pair of fellows as these soon located a third neighbor who preferred the growing of fruits and vegetables to either catching game or making shoes. A three-way arrangement was worked out to the mutual advantage of all three participants. As each member of the trio pursued his own chosen occupation, the three of them were able to enjoy better shoes and more meat and vegetables with less effort than was possible as long as each one was left to the elementary pursuit of all his own needs. There was more time to think, to plan, and to make better tools which resulted in still further improvements in the standard of living for all participants.

The Economy Develops

As soon as the advantages of this limited division of labor were felt, other entrepreneurs began to follow the example set by the three hypothetical industrial pioneers. Other specialties were developed. Each newcomer who entered the field soon learned that there was only one way by which he could gain anything from the arrangement. That way was to produce something that somebody else wanted and offer that item in exchange for something sought by the offerer. No one was offering goods or services "free." It was a voluntary, exchange economy that presented a drastic contrast to the hostile economy of our present era in which each business or occupational group is calling upon government to apply force to compel other producers to share their wealth with the disgruntled party without regard to whether the disgruntled party has anything to offer in exchange.

As the trading community expanded, the three original entrepreneurs were probably amazed at their own success. As the shoemaker's skills became more refined, he found himself making more shoes than could possibly be worn by himself, his family, and his immediate associates. His production was improving in both quantity and quality. By using the excess shoes in trade, he was able to procure his groceries, his trousers, his home, and even his medical care. Other artisans had entered the toolmaking business and were offering to supply the shoemaker with a new and improved line of tools in exchange for some of his shoes. More advanced specialization was on its way. The shoemaker soon found that it was more profitable for him to completely abandon all work except shoemaking. Other things he needed were being offered to him in exchange for his efficiently produced, high quality shoes.

Each artisan, farmer, laborer, manager, or whatever soon learned that when he devoted his attentions to the particular trade that was most adaptable to his particular interests and abilities, he could maintain a higher standard of efficiency than was otherwise possible. With each one concentrating on the thing he did best, the aggregate productivity was elevated. With each member of the community free to trade his surplus commodities for other commodities of which he was in short supply, each one was in a position to elevate his personal standard of living for the mutual benefit of all. To say that each one was acting as a servant of someone else and each one was being served by someone else would be a gross understatement. The truth is that each one was being served by numerous others, not all of whom could ever be identified; and each one was serving an equally large and equally undefinable group who were out there somewhere and who were unknown to the party or parties rendering the service.

Spreading Competition

Have another look at the shoemaker. It is obvious that he is being served by the suppliers of raw materials, food, clothing, and other commodities that are being traded directly for shoes. But is that all? What about the would-be suppliers who would like to trade their goods for shoes but haven't succeeded in doing so? Their problem seems to be that there is a limit to the amount of food the shoemaker can eat or the number of pairs of trousers he can wear. A competing supplier tries to offer a better quality of goods for the quantity of shoes he wants or else he offers a larger quantity of goods of the same quality the shoemaker is accustomed to receiving.

Whether the new competitor will succeed in his efforts can never be known until after he has tried. But even if he never makes a sale, he is likely to become one of those hidden or unknown servants of the shoemaker. His presence in the market place with his attempt to make a sale is likely to put sufficient pressure on the old suppliers to cause them to improve their own offerings. The shoemaker is likely to get better food and better trousers even though he continues to trade with the same suppliers. The competitor who failed as a trader will have succeeded in bringing about that indirect result. Unwittingly, he became the shoemaker's servant in a way he had not anticipated.

As the trading community expanded and competition became a more significant factor to be reckoned with, other forces were at work all along the line. Other toolmakers were competing for an opportunity to get their shoes by furnishing the shoemaker with more and better tools for his trade. Since the shoemaker was free to obtain his tools wherever he wished, he tended to do business with the artisan who could give him the best service at the lowest possible cost. The result was that he soon had a vast array of servants competing with each other to determine who could provide the best tools at the lowest cost to the shoemaker.

As better tools at lower cost became available, the shoemaker's cost of production declined. He was faced with the choice of either lowering the price of his shoes or else leaving the door open for a competitor who might acquire the more efficient tools and place a competing line of shoes on the market at a price designed to undersell the original producer. Whichever route was taken, the resulting advantage was to the people who wore shoes. Now whose servants were all those competing toolmakers, some of whom actually supplied tools to the shoemaker and some of whom didn't? They were at least the servants of all people who wore shoes.

The fact is that the services of the toolmakers extended well beyond the wearers of shoes. As the cost of shoes declined, the wearers of shoes were left with more resources to devote toward improvements in the production of food, clothing, housing, education, recreation, or whatever else they happened to desire. The toolmakers were servants of all these people.

But what happened to the toolmakers who failed to sell anything to the shoemakers? There was no set pattern. Some of them discovered that they were unsuited for the toolmaking trade. They entered other occupations. Most of them probably made only minor adjustments in their designs and made tools for the clothesmakers, the farmers, the hunters, the tanners of hides, or anyone else who might have been in need of tools or machinery. Their competition with other toolmakers taught them the art of adaptability.

Result: The Free Market

What emerged was a system of cooperation through competition. It was the free market. It was a system in which there was no possibility of gain for anyone without his offering some good or service that others wanted. It was a system where a gain was guaranteed for everyone who did make such an offering. Free trade means the absence of coercion. And in the absence of coercion, no one is likely to consciously give up the goods or services under his control unless he intends to make a gift or else he gives up the good or service he has in order to get something he wants more. There can be no exchange unless each party to the transaction receives something which he subjectively values more than he values the things he gives. Each party is necessarily the servant of the other. And as long as individual choices are left unhindered in the market place, trade necessarily remains in balance. Shortages are avoided. No computer has yet been invented that is capable of keeping an economy in such perfect harmony as is accomplished automatically in an unhindered market.

Thus far all our discussion of the developing market system has been approached in terms of a barter exchange. Emphasis has been upon the exchange of goods a trader has but wants less for the things he does not have but wants more. No doubt that is the way it all began. But industrial progress cannot advance very far on the economic scale until there is a medium of exchange. Some of the transactions already described would probably not have taken place had there not been a medium of exchange to assist the transaction.

A farmer who was specializing in potatoes might have found that the shoemaker was already supplied with potatoes and therefore not interested in giving up a pair of shoes for any quantity of that commodity. The farmer might have traded his potatoes for some other commodity, maybe corn, tobacco, whiskey, a precious metal, or some other item, that was comparatively imperishable and had a fairly uniform value throughout the community. He then traded that commodity, or a portion of it, to the shoemaker for a pair of shoes. The shoemaker might or might not have been interested in consuming the corn, tobacco, or whatever the medium was, but he had confidence that it would be acceptable in trade for merchandise he did want. He had discovered a commodity that was convenient as a medium for facilitating an indirect exchange and also convenient as a store of value for future use.

The story of just how a medium of exchange was developed and how it operates is a fascinating one, but it is sufficient for present purposes to say that it did come and that an industrial economy was developed. After several generations and many transitional steps, the lonely shoemaker became the Amalgamated International Shoe Company and the toolmaker became the Consolidated Machine and Foundry Corporation. Both companies were surrounded by other industrial giants of comparable magnitude. Each enterprise was out seeking the greatest gain possible for itself. In such a world as that, how many servants can you afford? How many are already available? Look and see!

Johnny's Servants

Have a look at a man named Johnny who is an individual in a remote section of the United States in the 20th century. He does not own any stock in any corporation, has only a grade school education, and is employed as an unskilled laborer in a small textile plant which, with its 65 employees, is the only industrial enterprise within 50 miles of where Johnny lives. How many servants can Johnny afford?

It has already been observed that in the government-regulated economy where government is in the business of seizing from the producers to reward nonproducers, servants are pretty expensive and pretty self-destructive. This is especially true of a fellow like Johnny who still has enough pride to continue to work, even at what are probably comparatively low wages. He prefers even that to accepting government aid. By continuing to work, he is paying taxes to support some of his nonworking neighbors who have already given up the struggle.

What would be Johnny's chances in a free market? How many servants could an insignificant fellow like him afford in that setting? How many servants is the market providing him already? First of all, the textile company is serving him by furnishing him a job. Needless to say, Johnny is also serving the textile company by furnishing his labor. That's the way it is in the free market; everyone who is receiving service is also giving service.

It is in the economic interest of the textile company to get as much work as possible from Johnny while paying him as little as possible. But even in that isolated community there are limits to how low the wages can be reduced. The lower limits are not controlled by the textile company either. About 125 miles away there is an automobile assembly plant that is in need of workers and is paying about twice the wage scale being offered by the textile company. Johnny likes his home and doesn't want to move to the larger city, but he can go there if he chooses to do so. The automobile company is serving Johnny by keeping his wages as high as they are even if Johnny never sees the inside of the assembly plant. Johnny can continue to live with dignity in his home town.

Johnny gets his shoes from the local retail store which gets them from the Amalgamated International Shoe Company. As an individual, Johnny is not very important to Amalgamated. He is only one customer. But if Amalgamated raises its prices or fails to give satisfactory service, there are at least a half-dozen other shoe companies watching for an opportunity to sell shoes to Johnny. The only way any one of them can make a sale to Johnny is by offering him a better shoe at a lower price than Amalgamated is offering. And if any one of them is able to make Johnny a better offer, Johnny will grab it; and so will a lot of other Johnnies who are out there somewhere. When that happens, Amalgamated will be in a difficulty it would prefer not to face.

Although Johnny as an individual customer might not be important to Amalgamated, Johnny plus all the other Johnnies, most of whom are unknown to each other, constitute the real market Amalgamated will have to satisfy if it remains in business. The result is that Johnny has the services of all the competing shoe companies who are competing with each other for better ways to make shoes for Johnny at a lower price. In their efforts to get business for themselves, they are helping to keep prices down and quality up at Amalgamated.

What has been said about Johnny's job and his shoes is true of his groceries, his automobile, his clothing, and all other goods and services for which he has any desire. The whole world is striving to give him more of the things he wants at lower prices than he is now paying. They are not striving toward that end because of any moral goodness they might have nor because of any special love they have for Johnny. They are striving to please him because that is their only route to their own economic survival.

Coercion or Freedom?

How many servants can you afford? If all depends upon whether you live in a coercive, regulated economy or in a place where the free market is permitted. In the coercive economy where production is penalized and nonproduction is rewarded, your servants are quite expensive and in diminishing supply. By their very nature, all of them will eventually disappear because the group receiving the rewards will necessarily outlast the producing group from whom the rewards are being seized.

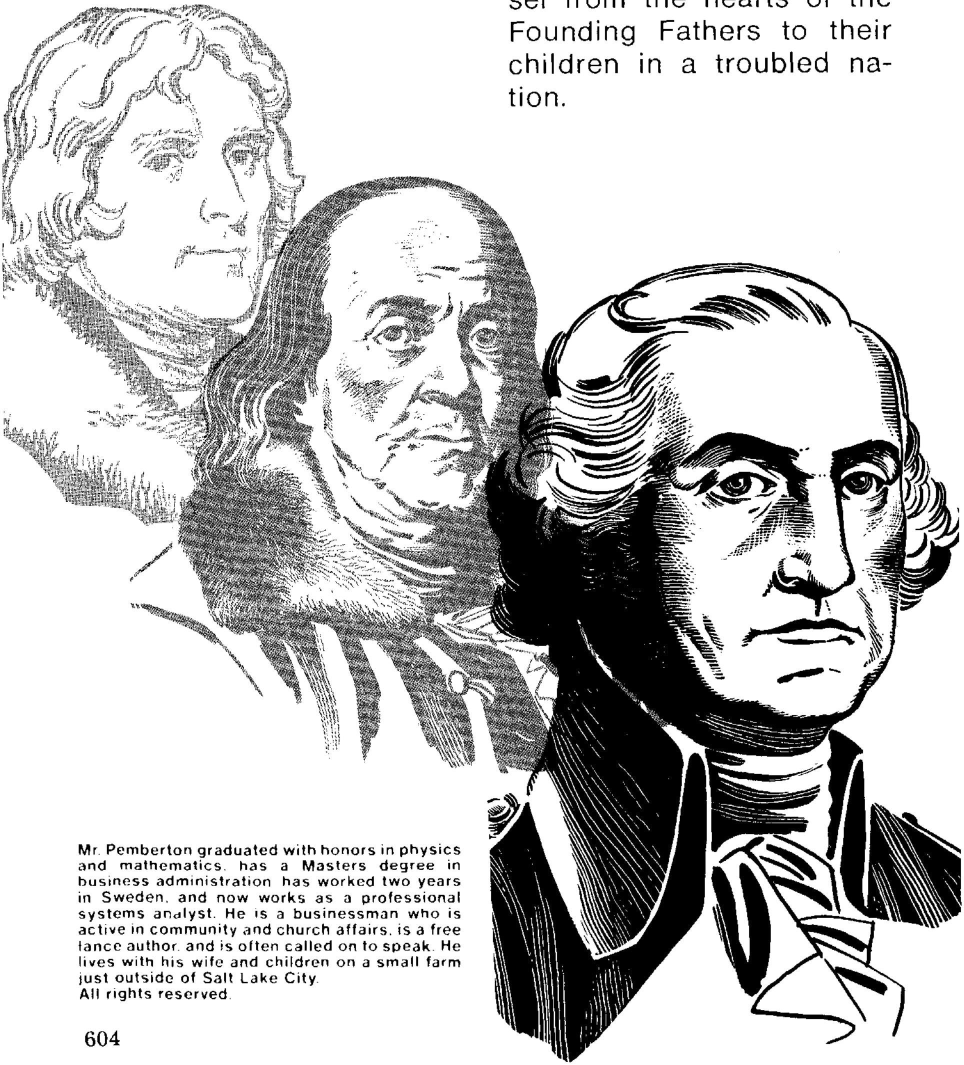
On the other hand, the free market is characterized by an absence of coercion in the economic field. Without coercion there is no way for anyone to enhance his own material well-being except by offering for sale a good or service at a price someone else is willing to pay. Since the only way to improve one's own well-being is by offering better service, the only competition possible is a competition for excellence. Since it is competition for excellence in service to each other, it is a competition that is synonymous with cooperation.

When the individual takes an honest view of his personal well-being, he is likely to find that in so far as the free market prevails, the whole world is competing for the privilege of serving him better. At that point the question is not, "How many servants can he afford?" The question is, "How many servants can he afford to be without?" How long can he afford to allow the coercive power of his government to continue to set roadblocks in the way of the servants otherwise available to him?

A NEW MESSAGE

JACKSON PEMBERTON

Words of courage and counsel from the hearts of the Founding Fathers to their children in a troubled nation.



Mr. Pemberton graduated with honors in physics and mathematics, has a Masters degree in business administration has worked two years in Sweden, and now works as a professional systems analyst. He is a businessman who is active in community and church affairs, is a free lance author, and is often called on to speak. He lives with his wife and children on a small farm just outside of Salt Lake City.

VI. On Political Philosophy

This continues a series of articles in which the author draws upon the extensive collection of the thoughts of the Founding Fathers and lets them speak to us relative to the problems we face in the United States today.

ONE OF THE DILEMMAS of the Convention was the need to grant the government authority sufficient to insure domestic tranquility and yet give the people enough control of the government to protect their rights. The solution to the difficulty lay in a careful balance between anarchy (where there is complete freedom but none of the controls required for the safety of rights) and despotism (where there is complete control and no rights).

The establishment of that balance is the victory of the Constitution, and its maintenance is the desire of every thoughtful and upright citizen. The people are unified upon this point, but only a few recognize the depth and import of our religious declaration of that political philosophy which secured our liberty; that "all men are created equal, that they are endowed by their Creator with certain unalienable rights, that among these are life, liberty, and the pursuit of happiness."

You have been told that religious and political philosophies are two distinct matters. This misconception, disguised as separation of church and state, is being used to impose a religion upon you unawares because it comes as a political philosophy and by political means. But in a world without objective proofs of any man's faith, one doctrine is as much a religion as another. In this discussion I wish to clarify the irresolvable conflict between the founding philosophy of the government which we gave you, and that which is coming to being under the careful planning of those so eager to govern.

Freedom of conscience requires that government never dictate the doctrine or the practice of religion, but a government devoid of moral principle is a wanton, capricious, and consuming monster. Therefore, separation of church and state is a necessity while separation of religion and politics is a pattern for destruction. It is a narrow distinction with broad implications, for a political philosophy always springs from some concept of man.

If we accept the current propaganda that under freedom of religion, government must not infer anything about man which might be considered religious, then we might as well say that man is nothing. It is philosophical paralysis, for we have said that we must not consider the nature of man while we fashion his government. With that sort of absurdity we can form ships without bottoms, policies without principles, and governments suited to the ambitions of aristocracy.

Or, if we place our confidence in the theory that man is only a smart ape (a fact for some, an opinion for others, and a hoax to the rest), we have said that there is nothing sacred about man or his rights. This is a basic tenet of the religion of Humanism, the modern version of the ancient fraud that "might makes right," for it postulates that the capacities of the human body and the size of its brain is the justification for man's dominion of the earth. A pattern for tyranny; for while it purports to liberate man from the supposed "shackles" of Christianity, it declares that the authority to rule is established by the superiority of the intellect.

Thus Humanism lays the foundation for a political philosophy which, for all its beautiful phrases of freedom and fulfillment, gives the scepter of power to the most subtle, ruthless, and despicable. It is the antithesis of all you call good, and a frustration of the noble destiny of man.

If man is monkey, or less, there is no anchor for his politics, and although we may say that the good of society shall determine right and wrong, who shall say what is good for society? Furthermore, since there is no final Judge, who is to care? There are no absolutes; all is a mass of relative expediencies. Deceit becomes the servant of the politician, treachery is his gain, and conspiracy is the king of all.

Such are the consequences of the Humanist priestcraft published under the dubious title of "freedom from religion." And Humanism is but the modern name for the doctrines of Communism, whose adherents, as we should expect, surpass all others in their massive crimes of extortion, murder, and unrelenting tyranny.

Clearly, we are considering more than a mere philosophical question: it is also a question of morality, for under one system definite crimes derive from irrefutable rights, while under the others all is uncertain and subject to the wavering opinions of those who decide what is "consonant with social progress." Life, death, and all activities between are fair game for the hunters of power. And what is worse, as they impose their religion many succumb to the temptation to abandon fixed moral principle, and the resulting erosion of personal integrity justifies increased oppression. Thus we see that the struggle for morality is the very substance of liberty. They are inseparable.

But the godless philosophies have an alternative, and it is not without actual glory; for if we affirm that man is a creation of the Almighty, a child to the Father of Lights, there is suddenly a great equality among men, there are sacred rights, a reverence for life and a respect for death, a striving for dignity and a yearning for excellence. With those ennobling principles come restraints upon government and upon the behavior of a man toward his neighbor: an uplifting framework securing the rights of man.

It is not surprising after thousands of years and as many governments, that a consideration of political philosophy should finally be couched as the most fundamental questions that can enter the human mind: Is there a God? Who is man? You must answer, and your answers must find expression in the control of your government, for if you refuse the self-appointed gods of your day will happily continue to impose their answers upon you.

They will draw you a picture of a "great people liberated from the blindness of faith in a dead god, free to do whatsoever may be their fancy [so long as it is in harmony with social responsibility], and blessed with equality [of an enforced uniformity]." They proclaim man the center of the universe, the being superior to all others, and then in the midst of that unmitigated pomposity they declare the grand contradiction that man is but a complicated physical mechanism reacting to its world, and that free will is superstition! What profound and abysmal folly! Their religion employs all the lovely words of progress, intelligence, equality and liberty, but denies the source of them all. Freedom without free will? Their sophistry confounds their reason!

I would rather turn your attention to more pleasant subjects, but so many have believed its flattering phrases and not seen the conflict with their own better opinion that I feel it necessary to say a bit more.

There are doubtless many reasons for the confusion of the adherents to these philosophies, but surely one of them is their disdain for the traditional code of personal conduct. They have perceived the principles of a good character as fetters instead of guides, and long to give their feelings greater freedom (which is to say they wish to put their minds in greater submission to their passions). They find humility too humiliating, rules too binding, and faith too demeaning. They seem to require a foolish sort of independence, and like a runaway youth they flee the standards of strength and happiness.

But I am too harsh, for most of those who promote these defective doctrines only parrot the soothing tones of their like-opinioned friends, and have not the mind to root out the basis of the sophistries they delight to cast in the changing lights of their endless books.[1] I shall not condemn them all, for I cannot know their hearts; moreover, the evil fruits of their theories are condemnation enough.

But in those books you may find the methods they have used to rationalize their misconceptions. Many of their arguments are based upon great abstractions by which they leave the world of reality and discover intriguing theories about things which do not exist. I will give you examples.

First, they accuse institutions for the errors of people. There is much said of the failings of the home and family, and of free enterprise and the Constitution. They say that those instruments of the nation's success can no longer cope with its problems. Has the home failed, or have parents left the commitment they made when they married and invited children to share their house? Has free enterprise faltered, or have people circumscribed the liberty required for its proficiency? Has the Constitution slipped, or have politicians abandoned its ordained function? Is the error with the institutions or with the people? And to illustrate my point I ask: If a man violate a law, is the proper remedy a repeal of the law? They have left reality and called good evil.

Second, they transfer the rights and powers of individuals to their society and use the mistaken concept to place the citizen in subjection to his society. But society is only an abstraction and has no self-existence, and can therefore possess no rights or powers except by delegation or usurpation. To base political principles upon so-called "rights of society" is to attribute an intrinsic reality to society and to leap from firm reason into a mysticism which leads to oppression.

We contended with the belief in the divine right of kings, the false notion that the one is superior to the others. Now they advance the

[1] I trust you are aware that your federal government has created and widely published these demoralizing books as school texts for pupils of all ages.

more subtle pretext that the others are sovereign above the one. Both are false, for human rights are individual rights and that is the beginning and the end of the matter.

Now I must say a few words regarding philosophies which are near relatives with Humanism and rampant in your world. These are Socialism and Communism. You must be aware that they are based upon the same political philosophy, the chief difference being that the latter is the ruthless and murderous outgrowth of the former—the natural result of the aristocracy obtaining control of all life and property. And the Communists openly declare Socialism as the bridge to their "utopia."

The leaders of these philosophies seek power and their disciples have not learned the lessons of history. In their eagerness for universal prosperity they have ignored the basic facts of human nature, for they suppose that if man is placed in a "great society" he will as if by magic become a great being. But if you will ask them to produce one instance of the correctness of their theory you and they will both be edified by the lack of example in all human existence.

I am well aware that you do not enjoy my putting Socialism and Communism together, for you have been instructed that there is a difference, but for each difference you will find more similarities. They are both founded upon the principle of usurpation which gives the state power to withdraw the rights of man and thus places government in a higher order of creation than its creator. They both place an aristocracy over the people. They violate property rights and destroy personal initiative by controlling one's property against his will. Thus they both lower the economic well-being of the citizen, for if initiative be curtailed so is production. A government may promise but only people can produce.

You have been remiss to ignore the parallels of these philosophies. All Socialism wants to become Communism is a successful despot.

Humanism, Socialism, and Communism all propose that for man to be truly free, he must be freed from the mundane toils of life, free to forget the "creature needs," and free to realize his highest spiritual potentials for charity and human progress: that the proper role of government is to thus "liberate" man. But although the words make a happy sound in your ears, these principles are self-negating.

Man requires the difficulties of earning his bread in the sweat of his brow as a school of experience to teach him wisdom in the affairs of his physical life before he can begin to comprehend the principles of his spiritual life; the lower order being after the pattern of the higher. For, as the majestic poplar has its roots in the muck, so man, to reach the heights of his divine potential, must build his life upon the dirt and toil of physical and mental struggle.

Any system which denies him that opportunity to attend the elementary schools of life, by withholding the challenges of his physical welfare, thrusts him into a university of life where he is inadequate and must fail. Without the wisdom born of success in the temporal affairs of life, how shall man even begin to contend with the less obvious but more profound challenges of character?

Nay, if you wish to lift man, you must allow him to live in the truth, and not place him in an artificial society where his needs are supplied by government. He must live in the real world where only work produces, only toil brings blessings, and only true character brings security. He must be free to lift himself and to serve his needy neighbor by his own charity.

Is it not a universal observation that great men are, with but few if any exceptions, the product of toil and adversity; the greatest seeming to come through the severest tests? Leisure begets no honor; and honest work begets no fools. But if a man has not learned to work, he has not learned to give. If a man has not learned to give, he has not learned nobleness. If he has not learned nobleness, no laws can adequately restrain his abuses. Therein lie the keys to the destiny of man. They may be turned to his honor or his hurt, to his desire or his destruction.

There is also the true cause of your rising crime and perversion. There is the cause of your slackening productivity. There is the source of your sliding morality, your declining arts and your silly music.

I see that you must struggle somewhat to comprehend all these things. Let me encourage you; the more you struggle in your minds the less you will strive in your streets. Now some will call me an alarmist, but I make no excuse. Have I not seen the tyranny of a government grown proud on the stolen rights and riches of the people? Do I not see the same again; crowding and smothering your liberty and your enterprise?

If I am an alarmist so be it! I am constrained to speak the truth in your ears. The political philosophy of the nation is at stake, and it is for you to decide who you are and which philosophy you will require for your government.

If men derive their rights from the Creator then their rights are inherent and must be kept inviolate, but if you accept their source in any other instrumentality, their very existence is in jeopardy and any man of eager hand and lazy character may trample upon them without remorse for himself or rebuke from you. It is in the nature of the issue that either the one philosophy or the other will gain the upper hand. Each generation, and perhaps especially yours must answer Mr. Jefferson's question: "Can the liberties of a nation be thought secure when we have removed their only firm basis, a conviction in the minds of the people that these liberties are the gift of God?"

Next: VII. On Amendment XVII

How We Lose Freedom

IDEAS ON LIBERTY

FEW OF US seem to want to keep government out of our personal affairs and responsibilities. Many of us seem to favor various types of government-guaranteed and compulsory "security." We *say* that we want personal freedom, but we *demand* government housing, government price controls, government-guaranteed jobs and wages. We *boast* that we are responsible persons, but we *vote* for candidates who promise us special privileges, government pensions, government subsidies, and government electricity.

Such schemes are directly contrary to the spirit of the Bill of Rights. Our heritage is being lost more through weakness than through deliberate design. The Bill of Rights still shines in all its splendor, but many of us are looking in another direction. Many of us are drifting back to that old concept of government that our forefathers feared and rejected. Many of us are now looking to government for security. Many of us are no longer willing to accept individual responsibility for our own welfare. Yet personal freedom cannot exist without individual responsibility.

DEAN RUSSELL, "The Bill of Rights"

A Bicentennial Prayer

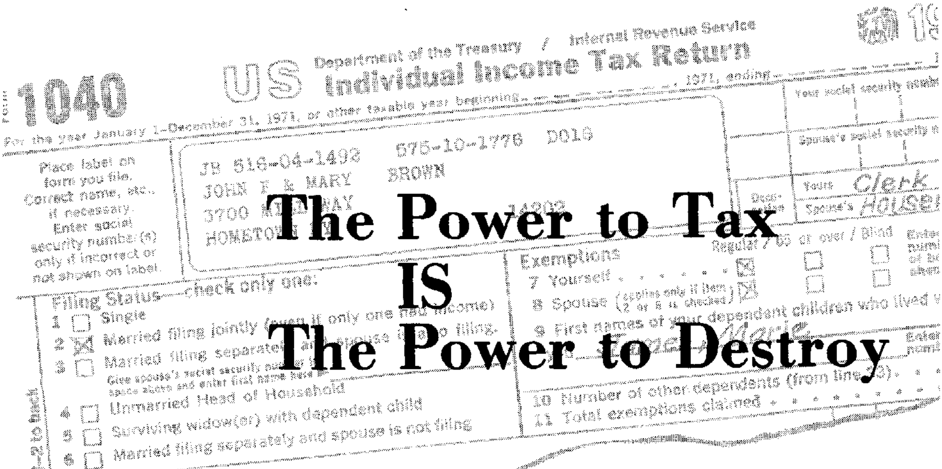
MARY SENNHOLZ

Almighty God, as we stand here on the two hundredth anniversary of our beloved country, we are forever thankful
for the great benefits of our being, our lives, health, and liberty,
for our inalienable rights bestowed by Thee and duties prescribed by Thy moral law,
for our Founding Fathers who showed us the way,
for the concepts of our Constitution, the basic law under Thee,
and for the great material comforts with which we are blessed.
We gratefully acknowledge our origin and destiny in Thee.

Give us, we pray, the power to discern right from wrong, and to perceive
that Thy eternal laws can be reversed neither by political nor social institutions,
that Thy Commandments cannot be revoked by majority vote,
that coercion, theft and covetousness are forever restricted by Thee;
and that we are accountable to Thee for our words and deeds, alone or together.

O Lord, make us an instrument of Thy order,
Where there is lawlessness, reveal Thy eternal laws,
Where there is conflict, give us harmony,
Where there is envy, let us praise,
Where there is covetousness, make us generous,
Where there is corruption, give us integrity,
Where there is tyranny, give us Thy freedom, and
Where there is apathy, give us Thy concern for the good of man, so that we may live and die faithful to Thy laws and Thy glory.
Amen

Mrs. Sennholz compiled and edited the series of essays *On Freedom and Free Enterprise* in honor of Ludwig von Mises (1956) and the Grove City College publication of *Faith and Freedom*, a biographical sketch of John Howard Pew (1975).



The Power to Tax IS The Power to Destroy

CLARENCE B. CARSON

CHIEF JUSTICE JOHN MARSHALL was at his axiomatic best in the Supreme Court opinion set forth in *McCulloch v. Maryland*. He propounded several interesting and profound axioms in that decision. The strange thing about these axioms is that they have been permitted to remain in the limited context in which he found use for them rather than being given general application. This is strange because axioms are, by nature, universal in extent and everywhere applicable, if they are true. Moreover, these axioms have been given added weight in the United States by being embedded in and used to buttress a unanimous Supreme Court decision which still stands.

The axioms in question are stated and appealed to in several ways in the course of the opinion. The most direct statement of them is contained in the following clauses: "That the power to tax involves the power to destroy; that the power to destroy may defeat and render useless the power to create. . . ." The implications of the axioms had already been laid down a few sentences earlier:

> These are, 1. That a power to create implies a power to preserve. 2. That a power to destroy, if wielded by a different hand, is hostile to, and incompatible with, these powers to create and preserve. 3. That where this repugnancy exists, that authority which is supreme must control, not yield to that over which it is supreme. . . .

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Before proceeding to the broader application of these principles, or axioms, it is in order first to explain the context within which they were employed by Chief Justice Marshall. The Court had before it a case arising out of a law passed by a state. In 1818, the Maryland legislature had enacted a statute levying a tax on all bank notes issued in Maryland by banks not chartered by the state. A branch of the Bank of the United States, a bank incorporated under the laws of the United States, was located in Baltimore. A man named McCulloch, cashier at the bank, refused to pay the tax on bank notes (currency) issued. The case came to the Supreme Court in 1819.

Two issues were taken up and decided by the Court. The first need not much concern us here. Suffice it to say that it involved the question of whether the United States government was authorized by the Constitution to create such a corporation and that the Court, following the reasoning which Alexander Hamilton had originally used to justify the chartering of a United States bank, held that it was. The other issue was the one which called forth the above axioms in resolving it. The issue was this: Could a state tax an instrument of the United States government created in pursuance of constitutionally permissible objects? The Court held, in as absolute terms as could be employed, that no state could tax an instrument of the United States government.

Chief Justice Marshall did not, then, restrict himself in writing the opinion to the simple question of whether or not Maryland could tax bank notes issued by the United States Bank. Instead, he explored the whole question of the taxation of any creation of the United States government by any state. Some of this exploration is both interesting and relevant to the even broader issues to be taken up in this article. Before quoting further from the decision, however, something else needs to be got out of the way.

Universal Application?

It is my contention that the axioms and principles set forth in support of this decision, if correct, *apply to all taxation.* That is, the power to tax any one by any government involves the power to destroy and that this power of government by taxation to destroy can defeat and render useless the power of individuals to create and preserve what they have created. Superficially, the conclusion—that the states could not tax the Federal government at all—appears either to rule out all taxation by governments or not to apply to governments in relation to individuals.

It is tempting, of course, to apply

the conclusion literally and rule out all taxation, but it is a temptation that should be resisted. The case for taxation by governments is almost, if not quite, as good as the case for government itself. In theory, governments might be supported by voluntary contributions. In practice, however, the voluntariness of the contributions would always be suspect. Government relies on coercion to carry out its edicts, and there should be no doubt that if it depended on "voluntary" support it would extend its protection mainly, or only, to its benefactors. Moreover, it is unlikely that the power of government could ever be restrained from such confiscations as would enable it to meet its bills. Justice requires that all who can should pay for government. Taxation is probably the only means of achieving this result, or approximating it. In any case, the necessity for taxation is so universally accepted that it should be presumed to be the correct approach in the absence of conclusive proof to the contrary.

It does not follow, however, that Marshall's strictures about the power to tax do not apply to governments in their relations to individuals. Not only are they applicable, but they apply even more emphatically as between governments and individuals than between states and the Federal government. If the power of a state to tax the Federal government could destroy the instrumentality taxed, how much more readily could government taxation destroy relatively helpless individuals? There is nothing in logic to prevent the application of the axioms to individuals as well.

On close examination, it comes out that Chief Justice Marshall did not base the *absolute prohibition* of state taxation of instruments of the Federal government on the axioms he adduced in *McCulloch v. Maryland.* Instead, he based the prohibition on the relationship between state governments and the Federal government, a relationship which lacks the *proper limits* on the power to be exercised. It had apparently been argued that the Court should have confidence that the state would not abuse the power of taxation. Marshall rejected this line of reasoning:

> ...But all inconsistencies are to be reconciled by the magic of the word CONFIDENCE. Taxation, it is said, does not necessarily and unavoidably destroy. To carry it to the excess of destruction would be an abuse, to presume which would banish that confidence which is essential to all government.
>
> But is this a case of confidence? Would the people of any one State trust those of another with a power to control the most insignificant operations of their State government? We know they would not. Why, then, should we suppose that the

people of any one State should be willing to trust those of another with a power to control the operations of a government to which they have confided their most important and most valuable interests? In the legislature of the Union alone, are all represented. The legislature of the Union alone, therefore, can be trusted by the people with the power of controlling measures which concern all, in the confidence that it will not be abused. This, then, is not a case of confidence, and we must consider it as it really is.

Marshall proceeds to point out that if a state can tax one operation of the Federal government, it may tax any of them.

If the States may tax one instrument employed by the government in the execution of its powers, they may tax any and every other instrument. They may tax the mail; they may tax the mint; they may tax patent rights; they may tax the papers of the custom-house; they may tax judicial process; they may tax all the means employed by the government, to an excess which would defeat the ends of government. . . .

Granted that if states could tax one instrument they could tax others. Perhaps, too, such taxation could be used to defeat the ends of government. Strangely, however, Marshall goes on to argue that the Federal government could tax instruments of the states, and that power, so far as his argument had advanced, could be used to destroy the states or their instrumentalities. The difference, he said, is this:

The people of all the states have created the general government, and have conferred upon it the general power of taxation. The people of all the States, and the States themselves, are represented in Congress, and, by their representatives exercise this power. When they tax the chartered institutions of the States, they tax their constituents; and these taxes must be uniform. But when a State taxes the operations of the government of the United States, it acts upon institutions created, not by their own constituents, but by people over whom they claim no control. . . .

The crux of Marshall's argument for prohibiting state taxation of the Federal government, then, was that state taxation lacked the proper base and limits. A part of the people could, at least in theory, be taxing the whole people. If states could levy taxes on the Federal government, there would be no requirement of uniformity. One state might, for example, levy a 5 per cent tax on notes of the United States Bank, another 10 per cent, another 50 per cent, and so on.

An Outgrowth of the System

The reason for the *absolute prohibition* of such taxation was accidental, not essential. That is, it did not arise from the nature of government or of taxation but from peculiar, hence, accidental, features of the federal system of government. The Court's decision in this case, of course, was concerned with ruling upon acts occurring within this system, and constitutional historians have usually held that Marshall was concerned with asserting the supremacy of the United States government. Be that as it may, it is not my purpose here to enter upon the question of the merits of the decision or of the particular arguments advanced in support of it. These have been brought up only to show that the absolute prohibitions against the taxation involved arose from peculiar arrangements and not from the axioms which were earlier cited. In short, they were brought up in order to get them out of the way so as to give the axioms the examination they warrant and suggest their implications.

The only reason for not applying the axioms—"That the power to tax involves the power to destroy; that the power to destroy may defeat and render useless the power to create"—to government taxation of individuals, then, would be that they are not valid. It is not difficult to test their validity as axioms. It involves only determining whether in the nature of things they are necessarily true. Clearly enough, the power to tax does involve the power to destroy. The power to tax entails the power to take up to 100 per cent of the income from any undertaking. No undertaking, no matter how well it is financed, can survive indefinitely if all its income is drained away in taxes. Hence, any and every human undertaking, short of breathing, can be destroyed by taxation.

Counterproductive Taxation

If any human undertaking can be wiped out by taxation, it follows that taxation may "defeat and render useless the power to create." There would be no purpose in beginning undertakings if they were certain to be destroyed by taxation. The chances are good that man's ingenuity would not be completely stifled by such government action, but it would surely be rendered largely useless.

The axioms are shown to be valid by this line of reasoning, but, unhappily, they are thereby made very nearly irrelevant. One hundred per cent taxation would dry up all sources of revenue; hence, such a level of taxation would be counterproductive, as the contemporary phrase has it. Or, the government would have to proceed by the enslavement of some portion or all of the population. The evil would then be slavery, though slavery is essentially nothing more nor less than 100 per cent taxation. While the enslavement implications are not entirely irrelevant, they do tend to place anything less than 100 per cent outside the frame of the axioms.

But does the validity of the axioms depend on carrying the argument to its logical conclusion? John Marshall did not hinge his use of them on some potential extremity. He did not even explore much the question of the degree of the taxation. He was very careful to exclude the whole question of abuse, for if he had admitted its relevance he would have been drawn in a quite different direction. In point of fact, he put in his axioms to serve as a foundation and then proceeded to cover them with his edifice of Federal supremacy. Even so, if the axioms have the validity he ascribed to them, they should be valid in the absence of abuses.

All Taxes Affect Creativity

It is my contention that the axioms are valid regardless of the degree of the taxation. The power to tax involves the power to destroy whether the degree is some fraction of one per cent or 100 per cent. It is possible to demonstrate this by marginal theory. The marginal theory as it applies to degree of taxation can be stated this way: *Any level of taxation will make some undertakings unprofitable or submarginal.* In practice, any increase in taxes will drive some people out of business, prevent them from going into business, or make it difficult or impossible for them to sustain themselves by whatever they are doing. The point is of such crucial importance that it should be fleshed out with some details.

This principle of marginality applies to anyone who attempts to produce, provide, purvey, sell, or transport any good or service; it applies to farmers, manufacturers, storekeepers, teachers, artists, industrial workers, or whoever, but the effects may be most clearly seen in business enterprise. The power to preserve what has been created is essential to all constructive human undertakings. Taxation impinges on that power and at the margins always is threatening and destroying undertakings. What happens to business enterprises dramatizes the general principle.

In the first place, taxation affects when and whether a business enterprise is begun. To go into business requires a greater or lesser amount of capital, depending on its size and requirements. To gather the capital, savings must be accumulated. Probably the form of taxation with the most devastating effects on saving is inflation. Government, by increasing money supply, reduces the value of money being accumulated as savings. Indeed, the propensity to save is discouraged by inflation, and the propensity to spend is encouraged.

The progressive income tax is another deterrent to capital accumulation. The tax is often talked about as if it were devised to take from the "haves." It should be better understood, however, as taking from those who are "getting," or trying to accumulate savings. A graduated income tax does not, *per se*, tax wealth that has been accumulated in earlier times; rather, it taxes current income. It bears particularly hard on potential new enterprisers.

Capital Formation Inhibited

Social Security payments greatly inhibit capital accumulation. Individuals are forced to pay into the "fund," yet all that is paid into it is, in effect, forfeit. It cannot be drawn out for investment. It cannot be used as security for loans. No creative use may be made of all the money that goes into Social Security. Whether it will be available in old age may be questionable, but that it is generally unavailable at any other age is beyond doubt.

Even so, anyone who has managed to accumulate or borrow or persuade others to invest enough to go into business has just begun his difficulties with taxation. The man who enters business discovers all too soon, if he did not know it already, that he has a Senior Partner—government. More precisely, he has a committee of Senior Partners, composed of Federal, state, county, and, depending upon the locale, township and municipal authorities. Once he opens his doors, these Partners join the firm, so to speak, expecting him to perform special services for which they do not pay, having the first go at any profits that he makes, and besetting him with various costly requirements.

In the first place, the Senior Partners require the businessman to be a tax collector. Though he has not been a candidate for the position, though it may be alien to his nature to do such things, though the citizenry have not elected him to the post, a tax collector he is most apt to be. If he is a storekeeper or otherwise sells to consumers, there are a variety of taxes he is supposed to collect. Both the state and local governments may impose sales taxes which he has to collect. The Federal government imposes excise taxes which he has to collect on certain items. If he employs other people, he has to deduct income taxes from their paycheck. Under most conditions, he must collect the Social Security tax by way of payroll deductions. Some areas have employment taxes which he may have to collect.

In addition to the taxes which he collects from others, the businessman has taxes to pay on his own account. He must pay the fees connected with whatever licenses are required. He has to pay income taxes, if he has sufficient income, to the Federal government, and, perhaps, to other governmental divisions. Merchandise of all sorts carries with it an array of hidden taxes. If the governmentally prescribed minimum wage is in fact above what the market wage would be, the difference between the two is a tax.

The recordkeeping that must be done in order to account for all taxes which he collects and provides the basis for his own payment of taxes amounts to a tax also. Records must be kept of all taxes collected, of the gross and net income of the firm, of all expenses of operation, of goods in stock and of equipment purchased, sold, and discarded.

Occasionally newspapers carry stories of the failure of some company. Usually, it is some large corporation, such as the Penn Central Railroad. Most business failures, however, are noted only in local papers, if at all, and many of them go unremarked. A study a few years ago found that approximately one-third of all new businesses do not last a year, and about half of those that do are unable to make it through the second year.

There is no way of knowing how many of these failures are directly attributable to taxation. Some of them would no doubt have failed had there been no taxes to pay, none to collect, and no records to keep. But it is safe to say that taxes were a contributing factor in every failure and a determinative one in many, for taxation adds to the cost of doing business.

Businesses Abandoned

That the power to tax is the power to destroy can actually be viewed, then. All that is necessary to do so is to drive down almost any road. The empty stores, the abandoned filling stations, the factory no longer in operation, the rusting rails on the spur from the main track, the fading signs on the premises, are mute evidence of the destructiveness of taxation. They are the relics of someone's dream and hope. But these visible remains do not tell the whole story of the destruction wrought by taxation. That would have to include all those undertakings that might have been, but were not, were not because inflation and progressive taxation prevented the necessary amount of saving, were not because the cost of the undertaking was made prohibitive at the outset by the necessary recordkeeping, were not because failure in one undertaking forestalled expansion into other fields.

The power to tax, then, *is* the power to destroy. It is not just the power to destroy if states may tax the Federal government. It is not just the power to destroy if the Federal government may tax the states. It is not just the power to destroy if the degree is great and abusive. It is destructive wherever it falls and in whatever degree the levy may be.

The courts have never seen fit to extend to the rest of us the protection from this destruction that they have given to the Federal government. It is unlikely that they ever will. Nor is it in the least probable that any other means will ever be used to give us absolute protection from the destructiveness of taxation. As already indicated, the case for taxation is strong and probably conclusive. And, if there is taxation, it will have the effect of destroying some marginal undertakings. There is no way around it, if the reasoning and evidence adduced thus far are correct. What application, then, can be made of the principle that the power to tax is the power to destroy?

We can no more deduce the proper course of action from the axiom that the power to tax is the power to destroy than could Chief Justice Marshall in the case before him. The axiom is valid, but it provides no specific guidelines as to what course to follow. To find this, it is necessary to turn to the purpose of taxation. In turn, the purpose of taxation depends upon the purpose of government. The purpose of government is to keep the peace. The mode by which government properly does this is to use whatever force may be required to restrain and inhibit disturbers of the peace and effect just settlements among disputants who cannot otherwise reconcile their differences. The purpose of taxation is to raise the money necessary to achieve the ends of government.

The Need for Government

The maintaining of the peace by government is necessary to constructive creative efforts and preserving what is thereby produced. In short, government provides a necessary service by its efforts at maintaining the peace. The cost of that service is a proper charge against those producing and providing goods and services. They are the prime beneficiaries of it and may be expected to bear most or all of the cost. If a business cannot survive its proportionate share of the cost of this protection, it might be better thought of as a victim of its own ineffectiveness rather than of taxation. The power to tax is not only the power to destroy, then, but also a corollary of the power of government to preserve by protecting life, liberty, and property.

Nonetheless, the power to tax is an awesome power to destroy. Like fire and water, when it is tamed, confined, and limited, it serves a useful and beneficent purpose. But uncontrolled and unlimited taxation is like a wildfire or rampaging river out of its banks, destroying whatever is in its path. Chief Justice Marshall noted in his decision in *McCulloch v. Maryland* that taxation by the Federal government was limited by the uniformity requirement. So it was, until the 16th Amendment was adopted in 1913. This Amendment removed the most important of the restraints imposed by the Constitution, or so it has been interpreted by the courts. Almost simultaneously, Congress set up the Federal Reserve System and has given it increasing power over the money supply. The destructive power of taxation was let loose, and when it is combined with the taxing power of all other government units it makes it increasingly difficult to create or to preserve a worthwhile portion of what has been created.

Two kinds of taxation are so potentially destructive and unjust that they should be absolutely prohibited. One of these is taxation by way of inflation, i.e., by increasing the money supply. The power to tax by inflating is the power to destroy the value of the money. Nor is it a potential power only; every increase of the money supply by monetizing the debt—the prevailing mode of inflation—destroys the value of money in existence to some degree. Inflation is an unjust tax. It penalizes savers and creditors, for the value of the new money is subtracted from the value of money in hand or loaned out. Moreover, taxation by inflation is unreasonable, for both saving and lending are legal, honorable, and sanctioned as good by the highest authorities. No sound reason can be adduced for penalizing them.

The second kind of taxation that should be prohibited is the graduated or progressive income tax. The graduated income tax destroys incentive to produce and provide goods and services. It attacks saving and investment in just those places where they could be most readily accomplished. It is unjust because it penalizes higher earnings, earnings which in the absence of proof to the contrary are evidence of greater service by individuals and corporations.

Both taxation by inflation and by the graduated income tax lead to a vast amount of wasted energy by citizens in order to preserve what they have created. Not wasted in that they may not be successful in doing so. Not wasted, either, in that they may not be able to use effectively what they have preserved. But wasted because it is energy that could have been spent on constructive undertakings. By imposing these taxes, government shifts from primarily aiding the citizen in keeping what is his to confiscating it from him. Much of the citizen's effort, and that of numerous lawyers, tax experts, and investment counselors, is devoted to finding ways to avoid paying the taxes or losing what they have by inflation. How much better off Americans would be today if this vast amount of energy could be devoted to productive and creative efforts! Such taxation, too, tends to destroy the rapport between the governors and the governed. Confiscatory government becomes an adversary to be outwitted, not a benefactor to be aided and cherished.

At any rate, taxation must be circumscribed and limited else it will "defeat and render useless the power to create." By what principle should it be limited? There is a principle embedded in our system which provides inherent limits to all taxation. It is so basic to our political institutions that it should govern every legislator, every executive, and every judge. It precedes all our constitutions, all our laws, and all our political institutions. It brought them into existence; it sustains them; without it they are a nullity. It is nothing more nor less than this: All governments in the United States derive their just powers from the consent of the governed. This means, if it has its full meaning, that the people are superior to the government. That which creates is necessarily superior to what it creates. The government of the United States was created by the people. They are the superior; the governments are the inferior. Taxation by governments, then, is levied by inferiors upon superiors.

The Superior Authority

What rule governs the relation of the inferior power to the superior power? To answer this question, we can turn again to Chief Justice Marshall. In a section already quoted, he declared that "a power to destroy, if wielded by a different hand, is hostile to, and incompatible with, these powers to create and preserve," and that when this situation exists the "authority which is supreme must control." It would be easy to obscure this point, in fact it is regularly done by many political theorists, by having it refer to the mechanisms by which the people control the governments in the United States. It needs to be clear, however, that what we are talking about here is not government at all. The mechanisms by which people control the governments, when and if they do, are really mechanisms of the government—the inferior power here. What is at issue here is the power of creating, producing and providing goods and services and the supreme authority which must control the disposal of them.

Who is the rightful supreme authority over what has been created, produced, or provided? It is he who created, produced, or provided it. The people brought into being the governments; hence, the people are the supreme authority over them. But "the people" did not bring into being the economic goods and services which are at issue in taxation. These are brought into being by individuals, either by themselves or in co-operation with others. The supreme authority over these creations belongs to those who brought them into being, neither the people collectively, nor their political arm, the government. And, the "authority which is supreme must control."

The principle which inherently limits taxes in the United States is now before us, needing only to be stated. It is this: Taxes must be limited to a degree that will not divest the owner of control over his creations, productions, or provisions. They are his by right, and only so much of them may be taken as is necessary to protect him in his ownership of them. If the government, either by taxation or any other device, comes into control it is the control of the superior by the inferior.

There are certain corollary principles which should control taxation and help to keep it within proper limits.

●1. All taxes should be uniform. Whether levied upon income, wealth, or spending—e.g., sales taxes—a uniform rate should apply in each particular case. This is not only the just approach to taxation but also it removes the lure of redistribution by which many people approve graduated taxes.

●2. Taxes should be tied as closely as possible to the object for which the money is to be spent. The payment of a toll for the use of a road will illustrate the principle, though it is not always possible to link the taxation as closely as that to its purpose.

●3. Taxes should never be levied for any purpose other than raising revenue. If they are imposed for controlling, regulating or prohibiting something, taxes become not only destructive in character but also in intent, and are an abuse of governmental power.

●4. Government spending should be limited to that necessary to maintaining the peace and providing those services to which the use of force is necessary and proper.

All limitation of government action is a limit on spending, hence upon taxation, and those who seek precise limits would do well to concentrate their efforts on placing these on government action.

Principles only serve as limitations, of course, if they are believed and adhered to by people. There are helpful guidelines, however, to those who have in mind the limiting of government. Government, if it is to be limited, must be limited by prohibitions on it and by the weight of public opinion and the ballot.

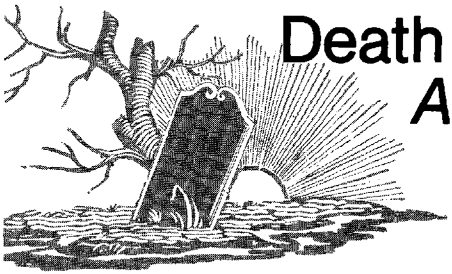
A Congressman once gained a considerable reputation by asking this question after each spending proposal came before the House: "But where is the money to come from to pay for it?" It was, and is, a good question. The axiom that the power to tax is the power to destroy suggests an additional question. Namely, "Who and what is to be destroyed by the taxes to pay for it?" What businesses will fail because of the increased taxation? What services can no longer be offered because of the increased taxation? Whose property is to be confiscated to pay for it? How much of savings are to be subtly seized by the inflation? How many jobs will not be provided because there was no investment to pay for the tools to put men to work productively? What creative energies will be diverted or unreleased because of the taxes to pay for it?

There is no end of laudable objects for which money might be spent. Even children, especially children, are fertile sources of all sorts of spending proposals. In our day, every interest group in the country probably has on its agenda a goodly number of proposals for government spending. Certainly, politicians and bureaucrats bring forth an endless array of notions for spending taxpayers' money. There are so many goodies to be had if only government would unloose the purse strings and spend, and spend.

Children are so prolific with their spending proposals because their eyes are only on the goodies to be attained, not on the labor, hardship, and even deprivation on which their unwise spending would depend. Many politicians today treat the American people as if they were children, pointing them continually to the goodies to be provided and remaining silent about the price to be paid. They spend and spend to elect and elect, as a New Deal politician was reported to have said. They do something else at the same time: They tax and tax to destroy and destroy. Do they intend the destruction? It hardly matters, for the power to tax is the power to destroy, and there can be no government spending without the taxes to pay for it.

Thomas Jefferson once said that what was wanted was "a wise and frugal Government, which . . . shall not take from the mouth of labor the bread it has earned." Apropos the axioms announced in Chief Justice Marshall's decision, it is in order to add: "a wise and frugal government which will destroy as little as possible by the taxes it imposes."

MARK SPANGLER



Death and Taxes—*A Review*

THE IDEA that economic well-being can be created by eliminating means of production is an economic absurdity. The destruction of factories, shops, warehouses, equipment, tools—in short, capital goods—benefits no one. To practice such policies would send man back to struggling for bare subsistence. In view of such obvious consequences, no one could logically advocate policies of capital consumption but rather would encourage capital accumulation. Unfortunately, logic does not always prevail; every day *taxation* destroys existing capital and reduces economic well-being. Dr. Hans Sennholz, in *Death and Taxes*, demonstrates this impact of taxation and examines especially the results of death duties.

The original role of the federal government was limited to protecting life and property from violence and aggression. Tax laws aimed simply at raising revenue for that purpose. But, as Dr. Sennholz says, "The new America that took shape in our century is a reformatory for man and society. Government has become a powerful agency of reform and redistribution.... Our present tax structure openly aims at greater equalization of income and wealth through tax rate progression." His discussion of estate tax history clearly illustrates this transformation.

The first Federal death duty began with a maximum rate of one-

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half per cent and lasted between 1797 and 1802 to aid in financing the national debt and the defense program. An estate tax was also used during the emergencies of the Civil War and the Spanish-American War, and the maximum rate was five per cent. However, in 1916 the death duty came to stay, taxing estates at a maximum rate of ten per cent. This maximum rate has been increased on occasion and presently stands at *seventy-seven per cent.* Yet, this rate hardly provides enough funds to operate the federal government for half a week. Certainly the objective of estate taxation is no longer to raise revenue but to redistribute wealth. In the name of social and economic equality, income and wealth are taxed at steeply progressive rates.

Dr. Sennholz concludes that progressive estate and income taxes do not achieve their purpose but actually "aggravate the economic inequality" they are supposed to alleviate. In other words, the government's endeavors to eliminate economic inequality have only made matters worse. To support his conclusion, he points to the nature of wealth and income in a market economy. Insofar as the market is allowed to operate, income and wealth are derived only by producing goods and services for consumers. The greatest income accrues to the most efficient producers, who then can acquire additional capital assets and expand operations, income, and wealth. Their estates consist mainly of capital employed in economic production. "A millionaire's fortune does not consist of idle luxuries, but of factories, machines, and equipment that produce for the people, give employment, and yield wages."

By increasing the flow of goods and services, the efficient enterpriser raises the real income of other members of society. In addition, he accumulates capital which in turn increases labor productivity. The fundamental determinant of labor productivity is the amount of capital that a worker uses. As capital per worker increases, his productivity and income increase. To have the most efficient producer manage capital and provide for its formation is in the direct interest of all workers. Any act which destroys and consumes capital must necessarily reduce the productivity and wages of workers.[1]

Inasmuch as the income and capital acquired through production make up the fortunes of successful enterprisers, progressive taxation penalizes the most competent producers and amounts to a tax on efficiency and production. Professor Sennholz warns that progressive

[1] See also Dr. Sennholz's "Capital Consumption," *The Freeman*, May, 1976, pp. 282-299.

income taxes, by aiming to expropriate increasing profits, actually restrain three important economic activities.

A portion of profits is "managerial remuneration," which is earned by a proprietor or partner. "That part of a businessman's income which is earned through his own labor is a kind of wage or salary, and as such totally unrelated to economic profits."

A second component of profits is ordinary interest, which is a return on capital. People value their present cash more highly than a claim to future cash in the same amount. Consequently, to induce a cashholder to forgo present consumption and convert his cash into capital which will return his investment only in the future, a premium must be paid. No interest payment means no capital.

The third and remaining part of profits is pure or economic profit. By trying to anticipate changing economic conditions and adapting production accordingly, enterprisers either suffer losses or earn profits. These profits (or losses) result from the risk associated with the uncertainty of the future. Whenever these economic profits are denied, no enterpriser will assume the risk of trying to adapt to future conditions; economic progress ceases.

Progressive taxation of income penalizes the most efficient management, the accumulation of capital, and the ability of enterprisers to meet future economic needs. Means of production are employed less effectively, the supply of capital dissipates, and the economy stagnates. A society which supports progressive tax rates is doing away with its most productive activities. Is that any way to run an economy?

Supporters of progressive taxation may concede the uneconomical nature of progressive income taxes, yet may advocate progressive estate taxation: graduated death duties cannot harm a deceased person or penalize the heirs, who benefit no matter how much they inherit. Such shallow analysis avoids all economic issues. Hans Sennholz devotes most of *Death and Taxes* to showing that progressive estate taxes beget the same economic destruction as do progressive income taxes.

"The creator of a taxable estate gives thought and effort to the impact of the levy that may greatly impair his life's work, ... and may make adjustments in his actions while he is still alive." A progressive death tax may push a person with exceptional productivity into early retirement. He may prefer leisure to work, because the additions to his estate will be taxed at increasing rates. Society loses the proficient producer. Moreover, "death-tax considerations cause him to be consumption-oriented. Many estate owners are tempted to convert their productive assets that yield income into consumptive assets for their own enjoyment." The estate taxpayer does not increase his capital assets but consumes his substance before the tax collector can get it. Graduated estate taxes retard capital formation and thereby productivity and wages. Furthermore, the estate tax's "potential victims cannot be expected to stand by when their economic accomplishments are to be seized and distributed." The affected estate owner will direct his energies to tax-avoidance instead of productive management.

When the estate owner finally passes on, the estate taxes result in pure capital consumption. Because the bulk of an estate formed under a free market is in productive assets, an estate tax is foremost a levy on capital. "Death duties do not immediately and visibly destroy such capital equipment as steel mills, railroads, or refineries. But they force the heirs or owners to sell all or part of the taxed estate in order to raise the cash needed for the tax payment. This cash is liquid capital that is consumed by government visibly and noisily." Clearly, estate taxes do consume capital and oppress its efficient management, and must necessarily reduce labor productivity, wages, and living standards.

Recall that government's purpose in imposing progressive estate and income taxes is to reduce economic inequality. *Death and Taxes* shows these policies have the entirely opposite effect: "Taxes imposed on the rich are taxes on economic production. They consume the very capital that creates jobs.... To advocate higher taxes on the rich, most of whom are highly productive businessmen and investors, is to expropriate the very means of capital investment that afford jobs and better living conditions for the poor.... This is why, contrary to popular belief, *progressive death duties do not diminish economic inequality; they are powerful instruments for creating it.*... With every dollar of net (capital) consumption the worker's productivity must decline, as must his wages and living conditions.... The rich man, however, may manage through talent, industry, or thrift to preserve... comfortable living conditions." The government has only nourished what it has set out to erase.

Death and Taxes clearly exemplifies one of the important lessons of the late Professor Ludwig von Mises: "Interference with the market... may in the short run attain ends aimed at by the government. But in the long run such measures always result in a state of affairs which—from the viewpoint of the government—is more unsatisfactory than the previous state they were intended to alter."[2] Such measures disregard economic laws. Progressive estate and income taxation disregards the economic principle which Dr. Sennholz states as, "*Economic and social inequality is inversely related to economic productivity, income, and wealth.* Inequality tends to grow with declining labor productivity; it tends to diminish with rising labor productivity."

As if graduated taxes were not damaging enough, government compounds their results by promoting inflation—expanding the money supply. As Professor Sennholz explains, inflation causes prices to rise and expropriates purchasing power from moneyholders. Inflation redistributes wealth and income, consumes capital, and pushes taxpayers into higher and higher brackets.

Death and Taxes concludes with a particularly enlightening chapter. Hans Sennholz has analyzed recent estate tax alternatives and reform proposals. This reading dispels all wonder as to why progressive estate and income taxes flourish. The proposals of the various individuals and organizations amount to little more than new methods or details of expropriating the estates. Many presentations are merely pleas for exemptions, privileges, and favored treatment. The alternatives disregard economic principles. No mention was made of the economic ruin caused by estate taxation. Moreover, no proponent even questioned the *morality* of the government's taxing the life's work of one person more heavily than another. What moral right does the government have in confiscating *any part* of a decedent's estate?

A fight for tax relief based on political favoritism only advances the redistributive society, which uses estate taxes for its ends. The question of estate taxes, indeed any taxes, must rest on economic and moral principles. *Death and Taxes* exposes the futility of the estate tax. Dr. Sennholz has presented economic and moral principles which call for the summary abolition of estate taxation.

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[2] Ludwig von Mises, *Bureaucracy* (New Rochelle: Arlington House, 1969), p. 84.

A Heartening Message from Youth

JOHN A. DAVENPORT

EVER SINCE Lewis Franklin Powell, Jr., now a Justice of the Supreme Court, wrote his famous memorandum on the dangers in which the private enterprise system finds itself, businessmen and their acolytes have been bestirring themselves to improve their public image. As public opinion polls still show, however, these efforts have not been overly successful. And as Irving Kristol has pointed out, one has the uneasy feeling that while defenders of enterprise have been winning the battles they have bit by bit been losing the war. One reason offered by Kristol is that champions of capitalism have all too often tended to think in terms of economic efficiency, whereas modern and younger critics of capitalism have pitched their attack on its political and ethical defects. Capitalism, in short, still lacks a comprehensive and comprehensible moral philosophy.

In this situation it is news, and good news of the first order, that there is a rising generation of young academic thinkers who understand that capitalism is something more than an "incredible bread machine," important as that is, and who have the wit and learning to articulate a deeper faith.

Confirmation of this new and immensely hopeful development is to be found in a slim volume of essays titled *Free Enterprise—An Imperative*, published in 1975.[1] As

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[1] Available at $2.00 from the Herbert Hoover Presidential Library Association, Box 359, West Branch, Iowa 52358.

might be expected, the book received little notice from the Liberal press, but it should be on the desk of every businessman who has been suffering under the barbs of his Galbraithian, Naderite, and Marxist critics. For it contains the work of nine young authors who have obviously taken the measures of the detractors of the free market, and have in their different ways shown that capitalism, whatever its defects, does have philosophic credentials of the first order.

A Vulnerable Doctrine

In explicating these credentials it is noteworthy that only one of the young essayists relies heavily on the venerable but highly vulnerable doctrine of Utilitarianism as developed by Jeremy Bentham and other neo-classical economists. For it is precisely the association of capitalism with utility and material progress which has turned off a whole generation of youth from perceiving the free market's deeper contribution to our civilization. Its basic contribution is that it promotes and buttresses freedom or personal self-determination, which as pointed out by Verna Harrison, a student of philosophy and theology at The University of Oxford, "is a precondition for any morality whatever." This is true from the point of view of orthodox Christianity, which allows man to choose between good and evil, or from a Kantian perspective which makes the free will central to its ethical system.

In viewing freedom both as a value in itself, and as a precondition of realizing other ends and values, the essayists are careful to guard against claiming too much or too little for capitalism. As Alan Stockman, a twenty-five-year-old graduate of Ohio State University, puts it: "No economic system can automatically guarantee a good society [meaning that individuals will necessarily choose the right ends], but some may have effects on people's values and behaviors which make the achievement of a desirable society more difficult."

Where government owns the means of production or "plans" all economic activity, it is obvious that freedom is constricted, and that coercion by the state flourishes. By contrast the market system of economy expands the options of man, the consumer, and man, the bread-winner and producer, since in effect each has a role in voting as to what shall be produced and in what quantities—a vote that is denied under any system of collectivism. Similarly, private ownership of the means of production, and the sanctity of private property, reinforce, and indeed are the preconditions of the maintenance of higher political liberties, including freedom of the press and freedom of inquiry. This does not insure that all of man's choices will be good. The point is that without freedom of choice, and the diminution so far as possible of coercion, the good can never be realized.

The second test of an economic system is how far it engenders order and social collaboration, and here the detractors of capitalism have obviously sought to confuse discourse. The doctrine of *laissez faire* is equated to dog-eat-dog or to just plain chaos, whereas the fact is that by definition the market *requires* collaboration. As pointed out by most of the essayists, it is impossible to earn a living in a market economy without producing in the form of goods or work *something which another person wants.* Seller and buyer are thus bound together in a collaborative effort as are workers who, each seeking his own reward, collaborate in the output of a farm or factory. This is the underlying wisdom of Adam Smith's doctrine of the "invisible hand" which leads man "to promote an end which was no part of his intention," but which may be of benefit to society as a whole.

The Wisdom of the Market

The doctrine, much vilified in our day by the critics of enterprise, is in fact highly relevant precisely because the modern world is so complex, and because the knowledge of any one man is by definition limited. The socialist planner assumes that the government bureaucrat is not only omnipotent but *omniscient.* In fact such omniscience does not exist. Indeed a third and potent argument for the enterprise system lies precisely in recognition of this fact. As Roger Michener, a young instructor at The University of Chicago, puts it: "It is because every individual knows so little, and, in particular, because we know hardly ever *who* knows best, that we trust to independent and competitive efforts for the emergence of what we shall want when we see it."

So the market economy *is* grounded in certain facts and requirements of human nature itself. But is it a just system? Here the argument is more complicated precisely because such an economy distributes its rewards and emoluments not according to the needs or merits of individual workers but according to the needs and requirements of consumers and employers who bid directly or indirectly for the worker's services. The wages paid to a ditch digger are relatively low because the potential supply of ditch diggers is large, whereas demand for this kind of work may be relatively small. The reward of a doctor or lawyer is high because there are relatively few men of such specialized training in relation to demand.

Granted that the law of supply and demand leads to increased and efficient production and use of available resources, does this really create a fair and a just distribution of income and satisfactions in the body politic? Or, as Marxians claim, does it lead to the exploitation of the masses by the classes—the men and women of superior ability?

It is the merit of the young essayists of this symposium that they do not attempt to shove this oldest question of philosophy and ethics under the rug but to meet it head on. In the process, as might be expected, they come up with different answers.

Equality and Justice

Justice, according to Plato, is the "giving to each man his due." Taking off from this definition of justice, essayist Karl Keating points out that the just society will always be in opposition to an egalitarian society since men are obviously endowed by nature (and inheritance) with widely different capacities. "Enforced equality," he writes, "means a violation of the dignity of men, for when we try to enforce something that is incapable of fruition, we necessarily violate nature and do violence to ourselves." Having disposed of egalitarianism, he then argues that capitalism produces justice because it takes account of man's true nature and condition since it allows each man to use his talents and his property as he sees fit and hence "allows him to follow his own inclinations in attempting to become a more humane man."

Others in the symposium are not quite so sure of the justness of the market's decisions. John H. Beck, who holds degrees in both economics and mathematics, emphasizes that income distribution in a market economy may or may not accord with merit and skills, and that in some cases entrepreneurial profits may come from just plain luck. Still, he shrewdly points out that incomes are the resultant of prices. Prices in their turn are the essential means of communication between consumer and producer as to what is wanted and what should be produced. If we tamper with the price system we shall be left without guide or rudder as to how production and hence incomes should flow.

In a brilliant essay, David Kelley, assistant professor of philosophy at Vassar College, carries this essentiality of the market one step further in examining Marx's famous proposal of "from each according to his ability, to each according to his need." For how does the Marxian really determine need?

In posing this question Kelley points out that in his early writings at least Marx made the egregious mistake of completely separating the "spiritual value" of work from the hard business of earning a living by producing what other people want. On this assumption, man works or should work only to satisfy his inner ego or Self. But, writes Kelley, this injunction really boils down to the mindless injunction of "Do your own thing"—the battle cry, it should be noted, of the New Left as it emerged in America in the late sixties. Such subjectivism will not do. Critical to man's happiness is "a sense of self-esteem," and one source of self-esteem lies precisely in entering into the productive process of a society. (Note the difference in attitude of a boy who gets his first job as compared to one who remains unemployed or only works for fun!)

Sums up Kelley: "The best way to alienate man would be to force him to live in a perfect communist society, where he can have no idea whose efforts are holding him in existence, while he tries vainly to express a self he has had no way of acquiring."

This is a difficult thought but nevertheless a profound one which makes hash of those who deride the market system as inhumane on grounds that it disregards the higher nature of man. The truth of the matter is that while the market-profit economy may not render perfect justice, however such justice be defined, it comes closer than any alternative system for allowing men to be just in their dealings with one another. It cannot, as noted in the beginning, produce good men, but it can by fostering freedom allow men to be good. And in an imperfect world, that is quite an accomplishment.

It is also quite an accomplishment that the young authors, whose writings are here under review, have been able to see through the pretenses of those who would write off capitalism as a defunct economic system in favor of leading us into some Utopia of their own choosing. The best in this case, as in many others, is the enemy of the good.

The distinction of *Free Enterprise—An Imperative* is that its authors have winnowed the chaff from the wheat in our political thinking, that in stressing the virtues of capitalism they have not neglected its shortcomings, and that they have in one small volume brought philosophy to bear in its ultimate defense. What more can one want of serious academics? What more can one want of the coming generation?

Herbert Hoover:

President of the United States

THE DEMOCRATS, not content with defeating Herbert Hoover in 1932, campaigned more or less successfully against him for a generation. Well, as Chesterton once said, any stigma will do to beat a dogma. Hoover, through the "smear" campaign instituted by Charles Michelson, the publicity director for a victory-hungry Democratic National Committee, had been identified in the public mind with what was then being trumpeted as the outmoded doctrine of Rugged Individualism, which made him Mr. Dogma personified.

But if Hoover had not been a handy devil to beat about the ears (or horns), the "liberals" would have found someone else. The point is that the counter-dogma of Let-the-State-Do-It was riding high. The Fabian campaign to put collectivism over on a one-bite-at-a-time basis had done its work in the schools and the opinion magazines (*The Nation*, the *New Republic*), and, in the post-1929 atmosphere, no proponent of classical liberalism could have stayed for long in the White House.

Indeed, no less a person than Murray Rothbard, a shrewd analyst, has indicated that Herbert Hoover himself was so well aware of the power of the Fabian drift that he was intimidated by it. In his uncompromising way Rothbard has condemned Hoover for "anticipating" the New Deal. Hoover created the Farm Board to help circumvent the workings of the free market in agriculture. He also allowed the Reconstruction Finance Corporation to come into being. I remember Isabel Paterson's response to the creation of the RFC. "If J. P. Morgan can have his dole," she said, "then nobody can keep the voters out of the trough. What's fair for one is fair for all."

And so it turned out after March of 1933. But Hoover, even though he had temporized with his own basic philosophy as the social pressures mounted, fought a rather gallant battle to save a traditional America. Edgar Eugene Robinson and Vaughn Bornet, in a comprehensive account of a single four-year White House term, *Herbert Hoover: President of the United States* (Hoover Institution Press, Stanford University, $12.95), present a purposeful individual doing the best he could under a snowballing succession of terrifying handicaps.

This is a most lucid book, though its very fairness makes it unexciting. Hoover took office in 1929 with some clear-cut ideas of what a President should do. He wanted to take the tariff out of politics. He wanted to keep the government out of business. At the same time he proposed to be a Teddy Roosevelt conservationist in handling the wealth in the public domain. He hoped that farmers could be brought to solve their own problems with the help, but not the subsidy, of the government. And he had ideas of international cooperation that were calculated to keep the peace without running the risk of entrapment through ill-considered economic embargoes or "sanctions."

A Party Divided

Hoover believed in party government, but the joker in the deck was that Republican "unity" was a mirage even in the Coolidge years. The western insurgents—"sons of the wild jackass"—were always ready to follow Fighting Bob La Follette of Wisconsin or George Norris of Nebraska off the reservation. Hoover, a Californian, should have been able to get along with the westerners, but Senator Borah of Idaho had stereotyped Hoover as an "easterner" at heart. This was a travesty, for Hoover did not agree with the Pennsylvania Grundys on the tariff. And Hoover was sympathetic with Borah's rural America when it came to supporting Prohibition as long as it was the law of the land.

Where Hoover disagreed with the Norrises and the Borahs was on the subject of compromising rural individualism by invoking State subsidies of all kinds. Hoover was willing to dam a river (as part of the public domain), but he was against using the State to market electric power. And he wanted no truck with export debentures to help farmers get rid of surplus crops.

In 1931 Hoover wrote to a friend that "if you could sit in the middle of the Government and see the tools with which we have to work and the disasters which confront us at all times in the use of these tools, you would not want us to extend the area of government but rather to keep the government as nearly as we can in its greatest function—the safeguarding of human rights." These were brave words. In 1931 they seemed anachronistic to a growing majority, and nothing that Hoover could do had the slightest effect on the political impasse that followed the mid-term 1930 elections. The Democrats had a majority in the House of Representatives. In the Senate, the Republicans still had a margin—but the sons of the wild jackass might just as well have been Democrats.

From Bad to Worse

Everything broke badly for Hoover. To get his theory of a "flexible" tariff considered he felt he had to temporize with the high Smoot-Hawley rates, which meant that flexibility would have to start from impossible peaks. He could have vetoed the final Smoot-Hawley, or "Grundy," tariff bill, as hundreds of economists urged him to do. But he thought the times required a settlement of the issue. Robinson and Bornet let him off charitably by remarking that "henceforth, tariff policy was numbed by economic uncertainty and would inevitably come to be blamed for contributing to that uncertainty."

The tariff, which encouraged the world drift to economic nationalism, was a premonition of things to come. Hoover was right when he saw things getting better in the U.S. But after the stormy local American financial waters had been calmed by his declaration of an international debt moratorium, things kept breaking badly abroad. The "post-war" period ended when the Japanese invaded Manchuria.

In spite of everything, the economic indices in the Summer of 1932 foretold the breaking of depression. But the voters, bemused by a dreadful three years, couldn't catch up with reality in time for November of 1932. They wanted a different man with a more pragmatic way of doing things, and they found him in Franklin D. Roosevelt. The joker here is that FDR found such Hoover-created or Hoover-tolerated mechanisms as the Farm Board and the RFC made to his hand.

In All Fairness

In being fair to Hoover as a President, Robinson and Bornet are playing fair with the present. Hoover's central philosophy is no longer the laughable thing it was when John Dewey was proclaiming that "President Hoover's constant appeal to self-reliance, enterprise, private initiative, is simply puerile; it is a voice from the grave in which human hopes and happiness are buried." Today, with inflation strangling a dozen economies around the world, it is the constant appeal to socialism that is burying our hopes and happiness.

So, Hoover is justified when our present Secretary of the Treasury William E. Simon says, in a notable essay contributed to a book titled *The Ethical Basis of Economic Freedom* (American Viewpoint, Chapel Hill, N.C., $12.50), that our home-grown enemies of a free society "have never asked themselves why a country like the Soviet Union, with some of the largest, richest tracts of grainland in the world, but with a government-owned-and-run agricultural system, cannot even feed its own people without turning to American farmers who own their own land, make their own economic decisions, and feed not only their own people, but millions of others as well."

Incidentally, Mr. Simon echoes Herbert Hoover when he says that a successful free enterprise requires a sound ethical base. Simon has a lovely quotation from Benjamin Franklin: "If the rascals knew the advantages of virtue, they would become honest men out of rascality." This would have pleased the Hoover who, in 1931, spoke of "the wrongs and cruelties that take place through greed and selfishness."

After forty years of government-promoted greed and selfishness that has outdone any recorded capitalistic iniquity, we are ready for Hoover's ideas of an ethical free market. It is good that Robinson and Bornet have brought the thirty-first President of the U.S. out of limbo.

►PHILIP MAZZEI: *Jefferson's "Zealous Whig"* by Sister Margherita Marchione. (New York: American Institute of Italian Studies, 1975, 8 East 69th St., New York City 10021) **352 pp., $9.95 cloth, $5.95 paper.**

Reviewed by Haven Bradford Gow.

ONE OF THE UNSUNG HEROES of the American Revolution was Philip Mazzei, whose writings provided moral and intellectual sustenance to the colonists in their struggle for independence. Mazzei was born in Italy in 1730, received a degree in surgery, but decided to move to London, where he organized a firm devoted to the importation of cheese, wine, and olive oil. Here he met Thomas Adams and Benjamin Franklin, who pleaded with him to come to America.

Mazzei headed for Virginia in 1773, and it was in Virginia that Mazzei, during 1774-1775, one year before the publication of Thomas Paine's *Common Sense*, wrote a series of newspaper articles under the pseudonym "Furioso" for *The Virginia Gazette*. "All men are by nature equally free and independent," wrote Mazzei. "Such equality is necessary in order to create a free government. All men must be equal to each other in natural law."

Like Jefferson, Mazzei was an ardent admirer of the French "philosophes," and shared their commitment to equality. He was a firm advocate of the belief that every citizen has an equal right to the benefits and honors of his society, and should not be deprived of these benefits and privileges except for some crime. To deprive a citizen of his equal right to the privileges and honors of his society, contends Mazzei, is "an obvious injustice" that should "horrify anyone convinced that *all men are born equally free and independent.*" Here he makes the pernicious and common error of confusing "born" and "created."

According to Mazzei, the Declaration was based on the "great truth" that "all men are *born* equally free and independent"; but Mazzei's contention, it seems to me, is wide of the mark. For the Declaration does not say that "all men are *born* equally free and independent"; it affirms that "all men are *created* equal, that they are endowed by their Creator with certain unalienable rights, among these are Life, Liberty and the pursuit of Happiness." One hesitates to criticize so well-intentioned a person as Mazzei, but one would like to ask him what he means by "equality" and by "equally"? What does he mean by "free and independent"? Are men "equally free and independent" because they share a common nature? Or because they are "equal in the eyes of God"? And it is obviously untrue to say of people living under a dictator that they are all "born equally free and independent."

Mazzei worked to eliminate every barrier that might prevent any person from participating fully in the life of his society. He opposed slavery, championed the rights of women, and contended against those who would limit voting to the rich. He argued, for example, that we often find good parents, who though owning no property, have acquired, through hard work and self-sacrifice, the means of educating their children, thus making them capable of holding leadership roles in society. Would it not be unjust, asks Mazzei, to deprive such persons of the right to vote? Would it not be unjust to exclude such persons from leadership positions in society? Indeed, observes Mazzei, riches and property often "dazzle and hide defects in those who possess them, while poverty encumbers him whose extraordinary merit is not publicized."

America is deeply indebted to the intellectual contributions made by men of other nations, one of whom was Philip Mazzei, whose life and work is worthy of further study. Sister Margherita Marchione deserves thanks for bringing to our attention an unsung hero of the young Republic.