

# BOOKS

## Adam Smith's Marketplace of Life

by James R. Otteson

Cambridge University Press • 2002 • 338 pages  
• \$70.00 hardcover; \$26.00 paperback

Reviewed by Robert Batemarco

One of the puzzles confronting students of the history of economic thought is the apparent inconsistency of the two masterworks of Adam Smith: *The Theory of Moral Sentiments* and *An Inquiry into the Nature and Causes of the Wealth of Nations*. In the former, Smith gives an account of how benevolence plays a central role in shaping individuals' moral sensibilities, while in the latter he contends that economic prosperity can prevail with nary a trace of benevolence.

James Otteson, associate professor of philosophy at the University of Alabama, did not find conventional explanations of this disparity satisfactory. Where most students of this issue tried to explain why *The Wealth of Nations* differed from *The Theory of Moral Sentiments*, Otteson looked for what in the latter was the same as in the former. In *Adam Smith's Marketplace of Life*, his willingness to think outside the box led him to identify the common framework that integrates both these works in their parallel adjustment processes.

In the economic order, most readers of *Ideas on Liberty* are more than familiar with Smith's notion that prices are guides to mutually beneficial exchanges and desirable allocations of resources. His vision of automatic adjustment is central to modern economics. In the moral realm, he used a parallel construction to explain people's moral judgments.

Otteson sees Smith starting from the premise that people have an innate desire for their sentiments to correspond with those of others, which he calls "mutual sympathy of sentiments." To accomplish this, people must judge their own actions the way a fair-

minded observer with no vested interest in the outcome of those actions would. This is Smith's imaginary "impartial spectator." Following the dictates of this "impartial spectator" is a kind of adjustment mechanism driving us toward a moral consensus in much the same way that following the price system permits markets to clear—the better known "Invisible Hand."

Smith sees this "impartial spectator" as able to permit us to strike a balance between benevolence and self-interest against a backdrop of justice. Whereas justice is the prerequisite for any kind of ordered society and is thus always commanded by the impartial spectator, benevolence, which goes beyond justice, is only called for contingently. As Otteson puts it, "Smith argued that the impartial spectator approves of an ascending degree of benevolence towards others in direct relation to our knowledge of and familiarity with them." According to this "familiarity principle," behavior consistent with the letter of the law that would be quite proper in dealing with strangers would be scandalous if applied to family and friends.

Since we conduct most of our economic transactions with strangers or near-strangers, the premises set forth in *The Theory of Moral Sentiments* lead directly to the conclusion that self-interest properly trumps benevolence in the economic realm depicted in *The Wealth of Nations*. Thus the two books, rather than contradicting each other, share a common core. Otteson's original contribution is to have identified that core and how Smith saw it playing out in the moral realm.

In making this contribution, he displays virtuoso scholarship. Otteson assiduously examines the points of view of others who have studied this issue without ever letting the reader lose sight of his own argument. Moreover, for nearly every question this thought-provoking work raised in the mind of this reader, the author provided a satisfying answer within a couple of pages. To top it off, Otteson spells out what makes his inquiry more than a mere exploration of arcane issues—namely, that it gives us compelling "reasons to spread

human freedom as widely as possible.”

Not only will Smith scholars find much food for thought in these pages, but the newcomer to the works of Adam Smith will not leave the table intellectually undernourished. The author lets his arguments build systematically, almost in the manner of a programmed text, and provides recaps of his main points that leave no room for confusion. If Professor Otteson teaches the way he writes, his students at the University of Alabama are getting more than their money’s worth.

One big question this work does not fully answer is how reliable Smith’s impartial spectator is at yielding an ethic consistent with liberty. In an age where most people have been brainwashed into believing the opportunity to feed at the government trough is a God-given right, it is doubtful that everyman’s impartial spectator would today recoil from participation in the plunder disguised by a veneer of legality, as so many would have 150 years ago. So while Otteson has solved one interesting problem, an even more important one awaits a solution. □

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## **The Great Tax Wars: Lincoln to Wilson— The Fierce Battles over Money and Power that Transformed the Nation**

by Steven R. Weisman

Simon & Schuster • 2002 • 419 pages • \$27.00

*Reviewed by Burton W. Folsom, Jr.*

**T**he *Great Tax Wars* describes the 60-year battle (from Presidents Lincoln to Wilson) that led to the permanent federal income tax. As important as the income tax is to explaining the rise of big government in the twentieth century, we have regrettably few books on why and how the income tax came into existence. Weisman’s book, therefore, is welcome even though the author’s analysis is often unsatisfying.

On the positive side, his account is infor-

mative and he sprinkles his narrative with interesting biographical sketches of key figures in the tax debate. If you’re interested in the historical battle over the constitutionality and desirability of the federal income tax, Weisman’s book covers it well. On the negative side, though, he is blinded by statist presuppositions on the role of government and never seriously questions the conventional liberal/progressive view of American history.

At least he announces his biases at the beginning. “The income tax is . . . a kind of leveler,” Weisman writes. “[I]t softened the edges of the distribution of wealth in the interest of justice and fairness—and among progressives, in the interest of maintaining a certain level of social stability.” The income tax, in Weisman’s view, is “desperately needed to underscore the idea of social justice in the distribution of rewards and sacrifice in our society.” With this framework, Weisman depicts those who favored an income tax, especially a progressive tax, as heroic and courageous; their opponents are labeled “ultraconservative” defenders of entrenched, selfish, and wealthy interests. It evidently never occurs to him that lusting after the income of individuals in order to lavish it on politically driven programs might be the quintessence of greed.

Weisman’s narrow view of tax history leads to three problems. The first is imprecise definitions. He talks constantly of the need for a “fair” income tax that targets those with the ability to pay. But as an advocate of a progressive tax, he never can say with any precision what a “fair” top rate would be—7 percent (the 1913 rate), 77 percent (the 1918 rate), or 100 percent (President Roosevelt’s advocated rate in 1942 on all income over \$25,000).

Weisman’s second problem is that he is so anxious to show a need for an income tax after the Civil War that he misses the dangers to liberty that existed when the tax was in place during the war. Weisman expresses no alarm that George Boutwell, the first commissioner of the IRS, concealed revenue, thus creating a shortfall that undermined President Grant’s case that the income tax was no longer needed. The power to tax, as

the Supreme Court insisted long before the income tax, is the power to destroy: It was only another step to Franklin Roosevelt and his use of the IRS to investigate political opponents such as Huey Long and William Randolph Hearst. The dark side of the tax bureaucracy had manifested itself long before the Sixteenth Amendment was enacted, but Weisman turns a blind eye to it.

The third problem with the book is that Weisman never views taxation as dynamic—that is, lower tax rates can yield larger revenues. He stops his story at 1920, when the top rate was over 70 percent. What that misses is the Mellon tax cuts, which during the 1920s slashed all rates by about two-thirds and resulted in sharply increased revenue from the income tax—entrepreneurs, under the lower rates, were encouraged to invent products, from radios to air conditioners.

Finally, Weisman, who is a journalist with the *New York Times*, makes a variety of historical errors. The top tax rate after the revenue act of 1932 was 63 percent, not 55 percent; the top rate after Roosevelt's tax bill of 1935 was jacked up to 79 percent, not 75 percent. Also, Albert Fall was U.S. Senator from New Mexico, not Nebraska, as Weisman insists.

*The Great Tax Wars* has some useful information on the history of a neglected subject, but readers must separate its history from its statist philosophizing. A recent and better book on the subject is W. Elliot Brownlee's *Federal Taxation in America*. □

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## Pieces of Eight

by Edwin Vieira, Jr.

Sheridan Books • 2002 • 1,666 pages (two vols.) • \$49.95

*Reviewed by George C. Leef*

**T**ake out your wallet and examine the rectangular pieces of greenish paper in it. You'll probably first think "money,"

then "dollars." Looking closely, you see the words "Federal Reserve Note" and "legal tender." You have perfect confidence that you can exchange the pieces of paper for valuable goods and services. Whether those paper bills have any constitutional validity certainly does not cross your mind. The government prints the stuff, so it must be legit, right?

If, however, you have read Edwin Vieira's monumental work on our monetary system, you would look quite differently on the money in your wallet. With remarkable breadth and depth of scholarship, lawyer and constitutional expert Vieira has given us a treatise on, as the subtitle of this two-volume work says, "The monetary powers and disabilities of the United States Constitution." First published in 1983, this is a second, expanded edition, beautifully printed and bound. The author has woven together constitutional provisions, statutes, court decisions, and his own sharp legal analysis into an encyclopedic work on our monetary system that should be the starting point for anyone with an interest in the chasm between the system we now have and that which the Constitution ordained.

What is the Constitution's definition of a "dollar?" For Vieira, that is the essential first question. The answer, under Article I, Section 9, Clause 1, is that it is a coin containing 371.25 grains of fine silver. How odd that seems. But that was the weight of the most widely circulated coin in the colonies and early United States. The coin was the Spanish milled dollar, commonly known as a "Piece of Eight"—hence the title of the work. Vieira writes that silver coins of 371.25 grains are the lawful foundation of our monetary system, "not any gold coin or base-metallic coin, let alone any paper currency, be it the first legal-tender United States notes (the "Greenbacks"), the later National Bank Notes, or today's Federal Reserve Notes. And, the Constitution never having been amended in this particular since 1788, that meaning remains legally controlling today."

Or at least it should be. What Vieira subsequently shows is that the Constitution's

monetary strictures (like its strictures in so many other areas) have been evaded and destroyed by politicians and that the Supreme Court has chosen to turn a blind eye to the monetary shenanigans of Congress. The surprising conclusion of *Pieces of Eight* is that there is *no legal authority* for our present system of irredeemable fiat currency. Vieira maintains that “To introduce the FRN (federal reserve note) as a new paper currency in 1913, the government had to tie it by a right of redemption to the circulating money of that day, gold coin. And then, to transmogrify the FRN into a currency fit for limitless inflation, the government had to cut that tie to gold (and silver as well). . . . If the FRNs were not ‘dollars’ when they explicitly promised to pay in gold, they did not magically become ‘dollars’ when they stopped promising to pay in anything at all, and statutorily can be redeemed in nothing better than base-metallic coin.”

Inflation. There’s the key. The Constitution gave the United States a monetary system under which money could be coined by the government, but not created out of thin air. Once they had been freed from the Constitution’s restraints, politicians were able to spend money without the unpopular need to levy taxes. Furthermore, absent the monetary mismanagement of our central bank—the Federal Reserve—our economy would have been spared the boom-and-bust cycles that we have endured at its clumsy hands. In the court of history, those who planned and acquiesced in the destruction of the Constitution’s monetary framework have much to answer for.

There is no part of this fascinating story that Vieira doesn’t cover in penetrating detail. The precise meaning of the relevant constitutional provisions, the several Coinage Acts of the early 1800s, the First and Second Banks of the United States, the Supreme Court’s blunder in sustaining the constitutionality of legal tender U.S. notes, the institution of the Federal Reserve, Franklin Roosevelt’s gold seizure, the severing of the final ties to redeemability in gold and silver—all that and far more is covered in these volumes.

People who fancy themselves as “realists” might snicker and say, “So what? We can’t go back to an antique system with people carrying around silver dollars to make their purchases.” Vieira’s task here is not to set forth the ways in which our monetary system could have evolved to suit modern commercial needs without destroying the constitutional base, but other scholars have done so. The problem is not that a modern economy is impossible without government monetary control, but that the politicians will fight like mad to keep the power they have taken illegitimately.

*Pieces of Eight* is an indispensable work for anyone who believes in upholding the Constitution. □

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## **Terrorism and Tyranny: Trampling Freedom, Justice, and Peace to Rid the World of Evil**

by James Bovard

Palgrave Macmillan • 2003 • 440 pages  
• \$26.95

*Reviewed by Richard M. Ebeling*

**W**ars have always seen a growth in state power. Under the appeal of “national security” and “wartime emergency,” individual liberties have been abridged or abolished, property rights have been weakened or abrogated, accumulated wealth has been heavily taxed or confiscated, and freedom of enterprise and trade have been severely constrained or completely placed under government control and planning.

Most tragically, the young men of society have been sent into battle, often under illusions of national glory and a false sense of patriotism. Many of these young men do not return home; others return with wounds that leave them and their families ruined and scarred for life.

Court historians soon fill the pages of their books with versions of the war that present the political leaders of their country

as Olympian-like gods, selfless beings who only thought and acted for “the good of the nation.” Every loss of personal freedom, every abridgment of economic liberty, and every expansion of government power is rationalized away as having been necessary and indeed essential for the national interest during that time of crisis.

And when many of these freedoms are not fully restored when the wartime emergency ends, those same apologists for political power then babble on about “new times” and “changing circumstances” and a “less simple world” that cannot afford the “luxury” of human liberty to the same extent it existed in “days gone by.” In the meantime, freedom has been lost and government has grown in power and control.

Before these court historians and apologists for state power can completely dominate the shelves in the bookstores, James Bovard has waded in to challenge the rationales for the most recent losses of freedom and to show the consequences. His new book, *Terrorism and Tyranny*, is like his many other exposés of government power and corruption: clear, dispassionate, factual, and heavily documented. He is the Joe Friday of political analysis: Just the facts, ma’am. And the facts will make your blood boil.

Bovard begins by summarizing the extent to which the government’s own foreign-policy and security incompetence set the stage for the tragic events of September 11, 2001. To cover up their own failures and create an image of “doing something,” government investigative agencies, even before the dust had cleared where the Trade Towers once stood, undertook dragnets through Arab-American communities. Hundreds of people were rounded up and held for months without charges and without access to lawyers or family members; some were physically abused. Virtually all were found to have had no contacts or connections with suspected terrorists.

The USA Patriot Act, Bovard explains, was rushed through Congress with little critical thought about the extent to which it danger-

ously added to government’s intrusive powers. The result of this and related legislation: greater wiretapping discretion, increased asset-forfeiture authority, expanded privacy and property invasions, and reduced citizen recourse to fight these violations of freedom. And as always, Bovard makes these abstractions come alive with numerous examples of how many ordinary, innocent people have been victimized in the spider’s web of these new controls.

He also offers an insightful and valuable analysis of the U. S. government’s conception of “terrorism.” In essence, it amounts to any attempt, by any group, for any reason, to take up arms against the existing government in any country in the world. But the problem is that in many parts of our world, governments are not democratic and are often in the hands of corrupt tyrants and violators of personal and economic liberty. Thus by the Bush Administration’s definition of terrorism, all the American Founding Fathers should be considered “terrorists” since they took up arms against the “legitimate” British government.

Bovard also effectively discusses what he calls the “bastardizing of freedom.” In the wake of 9/11, the U.S. government wrapped everything it did in an a version of George Orwell’s “newspeak.” Political control became personal freedom; government intrusiveness became security in one’s person and property; violations of the writ of habeas corpus became protection of civil liberty; and trampling on constitutional restraints became preserving the American way of life.

Bovard does not deny the need for government to protect us from violent invaders, and he strongly believes that those responsible for the events of 9/11 should be brought to justice. But he is deeply concerned that in the name of securing life, liberty, and property, that same government is destroying the freedoms it is supposed to protect. What will we have gained if the “war on terrorism” costs us what made America great? □

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