

### **The “progressive” Herbert Hoover**

- Whereas the American economy had purged itself of previous depressions generally within a year or two, the Great Depression lingered partly because wages were held above their natural market-clearing levels. Workers could not be rearranged in light of the new circumstances because the primary method of coordination—the signals provided by accurate market prices and wages—was thwarted by Hoover and later by FDR.

### **The New Deal didn’t fix the Depression**

- The NRA was discovering it could not enforce its rules. Black markets grew up. Only the most violent police methods could procure enforcement. In Sidney Hillman’s garment industry the code authority employed enforcement police. They roamed through the garment district like storm troopers. They could enter a man’s factory, send him out, line up his employees, subject them to minute interrogation, take over his books on the instant. Night work was forbidden. Flying squadrons of these private coat-and-suit police went through the district at night, battering down doors with axes looking for men who were committing the crime of sewing together a pair of pants at night. But without these harsh methods many code authorities said there could be no compliance because the public was not back of it.
- One of the most celebrated aspects of the New Deal was the National Recovery Administration (NRA)—here was the epitome of “scientific” planning, as opposed to blind reliance on autonomous market forces. Yet according to economist Larry Reed, the NRA (often dubbed the “National Run Around” by its critics) erected a system of “government-mandated cartels” in a “fascist-style arrangement.”

### **The whole is not the sum of the parts**

- For the government is the only institution in society with the power to counterfeit—to create new money. So long as it continues to use that power, we will continue to suffer from inflation, even unto a runaway inflation that will utterly destroy the currency. At the very least, we must call upon the government to stop using that power to inflate.

### **A (government) penny spent is a penny earned**

- When a private individual spends \$1,000 on something, it is evidence that economic value has been produced. Why? Because he could have spent that \$1,000 on a wide variety of competing products—or put it to competing uses (like investing it or donating it to charity). In contrast,

when the government spends \$1 million or even \$1 billion on a project, there is no prima facie reason to believe the activity being funded is useful to anyone. Chances are, it actually makes us poorer. This is especially true if we consider the source of the government's money: hard-working taxpayers. While you and I actually have to earn our money, all the government has to do is print it and tax us.

### **LBJ's war on taxpayers**

- The problem isn't a lack of money, either; government handouts actually perpetuate poverty by creating a culture of dependency. As welfare policy expert Robert Rector put it: The welfare system that has existed for the past thirty years may best be conceptualized as a system that offered each single mother with two children a "paycheck" of combined benefits worth an average of between \$8,500 and \$15,000, depending on the state. The mother had a contract with the government. She would continue to receive her "paycheck" as long as she fulfilled two conditions: 1. She must not work. 2. She must not marry an employed male.

### **Sacrosanct Social Security**

- [T]he advocates of Social Security have good intentions. But they are wrong to assume that just because something is desirable the government should provide it. Yes, it would indeed be tragic if a brain clot or car crash suddenly left a woman widowed with several children and no means to support them. This is why capitalism developed life insurance policies. It would also be a shame if someone who worked diligently for forty years had to eat cat food upon retirement. This is why banks and mutual funds offer savings accounts and investment plans.

### **Going postal over poor service**

- The examples are legion. In the 1990s inspectors in south Maryland found 2.3 million pieces of bulk mail and 800,000 pieces of first class mail resting in tractor trailers. Because the postal service records mail as "delayed" only if it is held in the mail processing building, the tractor trailers were used so the delays would never turn up in official statistics. In 1994, in Chicago, 5.9 million pieces of forwarded mail were delayed for a month, a hundred bags of months-old mail were found in a postal truck, and 200 pounds of burned mail were discovered under a viaduct!<sup>2</sup>

### **The myth of the robber barons**

- In a genuine free market, producers cannot compel customers to purchase their products, or prevent others from competing. Ironically, the very factor needed to make a harmful and effective “conspiracy in restraint of trade” (as the antitrust laws call it) is also the factor that makes the conspiracy legal.

### **The infamous case of Standard Oil**

- John Archbold, who would later become a vice president of Standard Oil, said, “You ask me what makes Rockefeller the unquestioned leader in our group. Well, it is simple.... Rockefeller always sees a little further ahead than any of us—and then he sees around the corner.” Biographers could not find anyone—even business rivals—who could remember an instance when Rockefeller lost his temper.

### **The case against antitrust**

- If trusts hurt the consumer and must be banned, why not the process of incorporation too?

### **The case for Microsoft**

- The fact is that antitrust is special-interest law. Indeed, this was the intent of the law. The antitrust laws were created precisely to be used by smaller rivals to clobber more efficient competitors. Even today, 90 percent of the cases are one firm suing another. One aspect of the Microsoft case that pleases me is that the interest-group angle has been obvious to one and all. Even the newspapers talk openly of this fact, and I think this is healthy.<sup>8</sup>
- By analogy, it is obvious that Ford should be able to “bundle” the engine and tires of its vehicles when selling them to customers. It would be ludicrous for a rival to complain that Ford was unfairly “tying” its tires to its successful engine and thus reducing competition in the tire business. If someone were to level such a complaint, we can imagine the baffled executives at Ford responding, “We feel it best serves our customers by providing an integrated product. But if anyone wants to remove the tires installed at the factory and replace them with others, he is perfectly free to do so.” The same holds for Microsoft, with the significant difference that it is far easier to download and install a rival browser than it is to change a set of tires.

**Protecting jobs?**

- In the famous words of Henry George, “What protectionism teaches us is to do to ourselves in times of peace what enemies seek to do to us in time of war.”

**Capital export is a capital idea**

- [O]ne of the primary reasons that U.S. workers produce more stuff per hour (and hence make higher wages) than workers in other countries is that American workers have access to better tools and equipment than, say, laborers in Bangladesh.

**We're from the world government and we're here to help**

- Harvard economist Dani Rodrik has challenged the standard case for free trade by analyzing various poor countries to see whether the West's help was beneficial. (For example, Rodrik points out that Vietnam is growing faster than Mexico even though the latter has participated far more in globalization.) However, Rodrik's conclusions are faulty. The problem isn't with the textbook case for free trade, but rather with the IMF welfare program. In a typical case, what happens is something like this: the government of an “underdeveloped” country, often controlled by a corrupt military dictatorship, runs its economy into the ground while piling up massive debt. At the point of bankruptcy, the regime turns to the IMF and/or World Bank, which bail out the fledgling despots from the hole they've dug. In return for the loans or aid, the rulers agree to “neo-liberal austerity reforms” such as lower tariffs, improved budget discipline, and privatized state enterprises. Not surprisingly, the benefits of the “laissez-faire” policies never materialize, and often the countries end up defaulting on their loans and plunging deeper into stagnation.

**Interest: Sooner is better than later**

- What's worse, the higher the interest rate, the more the capitalists “skim off the top” from the gross receipts each period. (This is why so many utopian writers of the nineteenth century dreamt of a world with a zero interest rate.)
- By financing the project, the capitalists nonetheless allow the construction workers to get their paychecks right away, even though their services really haven't helped anyone just yet. Loosely speaking, the interest rate is the market's measure of impatience. Rather than lending his money, a capitalist could choose to spend it on fancy cars or steak dinners in the present. The interest rate is the premium necessary to make him postpone this consumption. Looked

at the other way, borrowers will be willing to pay a higher interest rate based on how urgently they want to consume in the present.

**Futures and other derivatives: To each according to his ability...**

- forward market: a market in which participants agree today to exchange commodities or other assets for money (at the “forward price”) on a specified future date. No money changes hands until the contract maturity date.
- futures market: a market very similar to the forward market, but where changes in the futures price are “marked to market” every day, where the gainer’s account is credited and the loser’s is debited.

**A TWELVE-STEP PLAN FOR UNDERSTANDING THE FREE MARKET**

1. Admit that government “solutions” are a problem.
2. Have faith that human beings can interact peacefully, and that economic blessings are available for all.
3. Surrender to the fact that certain social ills cannot be eradicated by force or political “will.”
4. Ask yourself, “Do I want to advocate self-sufficiency and voluntary means, or do I want to look to politicians every time I don’t like something?”
5. Survey the past record of governments when it comes to economic “planning” or other alleged improvements.
6. Learn to look for the hidden costs of government intervention, rather than the superficial benefits.
7. Understand the role of market prices, and why tampering with them interferes with the job they have to perform.
8. Study history. Examine whether governments that violated private property rights stayed out of their citizens’ other affairs.
9. Before condemning a market outcome as unjust, first understand why it occurs.
10. Study other “spontaneous” social institutions, such as language and science, where no one is “in charge” and yet the outcome is quite orderly.
11. When politicians propose a new program, remember how much they said it would cost at the outset. Compare that number to the actual amount spent.

12. Go through the newspaper and discover how government meddling causes or exacerbates the conflict in virtually every story.