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Joseph R. Peden, Publisher

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## MAYAGUEZ, BY JINGO

And so President Ford has seized his heaven-sent opportunity to flex the muscles of U. S. imperialism and his own macho muscles as Commander-in-Chief. Boy, we showed teeny Cambodia, didn't we? After losing a disastrous and chronic war in Southeast Asia, we showed that we've got the Marines, by jingo, and the bombs, by God, and we can blast them! We dropped more bombs than ever before in history in Vietnam, and it didn't do us any good, but give us a specific target, like one ship, and wow!

Or was the opportunity really heaven-sent, or was there a more sinister, man-made force involved? Was this, perhaps, another fraud like the Pueblo and Gulf-of-Tonkin capers, provoked or engineered by the U. S. to give imperialism a show of strength, and to unify the country — even the half-hearted peaceniks in Congress — behind a policy of bluster, jingoism, and violence? "Senior American officials" have already been reported as saying that the administration saw the Mayaguez incident as "an opportunity for the United States to demonstrate it will remain in Asia following the Indochina deoacles." Of course, Ford and his stooge Ron Nessen deny this, but who in his right mind believes them?

In the course of his hysterical response to the Mayaguez incident, Ford managed to violate a host of treaties and agreements, and to commit multiple aggression — as well as to bring about the deaths of a hundred American Marines and numbers of Cambodians. In his haste to jump the gun and not wait for ordinary diplomacy to run its course, our "commander-in-chief" (a) took off from Okinawa without asking Japanese permission, thereby violating our agreement with Japan; (b) landed 1,100 Marines in Thailand against the express desire of the Thai, thereby violating our agreement with them and aggressing against Thai territory; (c) invaded a Cambodian island, bombed a few ships and perhaps sunk them, and killed an unknown number of Cambodians, and (d) after the deed was done, gratuitously flexed some more muscles by bombing the Cambodian mainland, for good measure so to speak. All this was done, moreover, after the Cambodians had agreed to release the ship and its crew, and in direct violation of several American laws absolutely prohibiting the use of American military force in Southeast Asia. Ford deserves impeachment on the latter ground alone, but of course there is no chance of that, with even the supposed peace forces in Congress rushing to hail the our newly "decisive" President. The violations of law are supposedly made to be superseded by the much-trumpeted "constitutional" powers of the Commander-in-Chief, which have been interpreted to provide a virtual blank check for Presidential commitments and actions in military affairs.

In addition to the numerous violations of law, treaty, and right committed by the Ford adventure in gunboat diplomacy, another vital point has been generally overlooked: namely that, according to well-accepted principles of international law, the Cambodians were right! The American contention that the Malaguez was sailing on the high seas, in "international waters", is an outright lie; even the Ford administration concedes that the Mayaguez was captured only eight miles from the Cambodian island of Poulo Wai; the Cambodians themselves say three

miles, but no matter. Eight miles is enough to destroy the American case. For Cambodia has, for many years, claimed 12 miles as its territorial limit from its shores. The 12-mile limit was maintained, not only by the Sihanouk regime, but also by the American-supported Lon Nol clique. Furthermore, the 1975 Geneva conference on the Law of the Sea reached a general, tentative agreement on 12 miles as the territorial limit of each State, and the United States has openly supported this 12-mile agreement. And so, by the standards of the U. S. itself as well as by the Geneva agreements, the Mayaguez was invading Cambodian waters, and Cambodia had every right, under international law, to seize the ship and its crew for invading its territory. Far from Cambodia's action being that of "piracy", as the Ford administration charged, it was Ford and his Marines and bombers who were the pirates.

Furthermore, the Cambodians were certainly justified in being suspicious of the Mayaguez. The ship was reported in the U. S. press to be an "unarmed" merchantman; actually, it was under charter to the U. S. military. The Cambodian charge that "this ship came to violate our waters, conduct espionage and provoke incidents to create pretexts or mislead the opinion of the world people . . ." certainly has the ring of plausibility, and deserves careful investigation.

A clinching argument against the Ford adventure is the very different treatment that the Nixon-Ford administration has been handing out to the Ecuadorians. Ecuador has been claiming a territorial limit of, not 12 but 200 miles, out to sea, and has been seizing private fishing vessels and arresting their crew; and in the case of Ecuador, there seems to be no possibility of the ships being covers for CIA military or espionage operations. And yet, we have heard no hysterical denunciations of Ecuador, there have been no midnight bombings of Ecuador, nor commando landings by Marines to free the crews of the fishing vessels. When it came to Ecuador, the patient processes of diplomacy were allowed to work. Why the double standard, if all Ford was interested in was protection of American persons and property?

The general reaction in America was as disheartening as one might expect. The evil Kissinger boasted that "the President's stroke demonstrated that a great power leads not so much by its words as by its actions, that initiative creates its own consensus." In short, the old trick of conning the public to rally behind a war-making President. Unfortunately, it worked once more. The Conservatives were as bloodthirsty as one might expect. Senator Buckley called immediately for massive bombing of Cambodia and he got most of what he wanted; Senator Jesse Helms bumbled that "I am proud of him (Ford) today". The chicken-hearted liberals, with a few honorable exceptions such as Senator Nelson (D., Wisc.) tagged along in the new, but hopefully short-lived, "consensus". Perhaps the most egregious statement was that of the always insufferable Arthur Schlesinger, Jr., who exulted that Ford's action "represents a much needed and timely affirmation of the freedom of the seas." It is high time, indeed, to re-evaluate the hoary "freedom of the seas" doctrine. For centuries it was used by the English imperialists

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# Peasants And Revolution: A Review Essay

By Joseph R. Stromberg\*

Reviewing Carroll Quigley's *Tragedy and Hope* in the June 1974 issue of *Books for Libertarians*, John Hospers remarked on Quigley's view that income redistribution would solve nothing in Latin America unless people there learn to use excess incomes "constructively." This attitude, which surely reflects some obtuseness, is quite widespread. One finds libertarians, e.g. the able economist Henry Hazlitt, who write of land reform as if it were communism. All we need, it seems, is "a good business climate" in Free World Despotism X, Y or Z, and, drip, drip, drip, prosperity will trickle down to the masses — someday.

At a time when libertarians need reminding of the radicalism of their *Weltanschauung*,\* it is heartening to find a book on the agrarian question which thoroughly discredits the status quo and confirms one's fondest prejudices in favor of change. Ernest Feder's *The Rape of the Peasantry: Latin America's Landholding System* (Garden City, NY, 1971) is such a book. Granting that mere "income inequality is not per se unjust," Professor Feder delineates the unnatural concentration of land in the Americas and the corresponding destitution of the peasantry. Since the data is incomplete in this area, Feder deliberately errs on the conservative side throughout the book. Hence, the actual Latin American situation is probably much worse than the book indicates.

According to Feder, poverty, unemployment and productivity so low that agricultural countries import food are all rooted in "latifundismo," or feudal land monopoly, dating from the Spanish conquest. The landed elite and their political henchmen exploit the peasants and maintain an agrarian reserve army of cheap and docile labor by means of one-sided sharecropping contracts, punitive evictions, feudal labor dues, fraud,

inflation (which devours small savings), and ultimately armed violence by "vigilantes"\* or the national army. (See Chapters 9-15.)

Small wonder, then, that the peasants display self-hatred and unambitious behavior which supposedly proves their stupidity. As Feder puts it, "they are forcefully shut off from the market mechanism." The problem is hardly one of "scarce" land or even technological backwardness. Feder argues persuasively that the monopoly of good land creates gross inefficiency, waste, mismanagement and low productivity on the latifundia. A cluster of built-in disincentives discourage the peasants, who gain nothing from harder work. The large estates resemble islands of socialist "calculational chaos" (though Feder does not use this term), except that collective farmers probably eat better — provided they love Brezhnev. Far from reflecting economies of scale, the politically based latifundia are so overexpanded that often as much as one third of the work force is required to boss the other demoralized two thirds.

By contrast, poor people are actually capable of great economic rationality and capital accumulation. Feder finds that the small sector of family farms is much more land-intensive and productive than the better capitalized estate sector. Given the irrationalities of the feudal sector and the destitution of people who could be productive, Feder argues for land reform on grounds of simple justice. Against the charge that reform violates property, he properly replies that it actually "aim(s) at an expansion of private property." For libertarians, both Lockean natural

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in the way that Ford-Schlesinger are using it now: to justify any and all encroachments by U. S. (English) vessels anywhere on the liquid surface of the globe. In the deeper philosophical sense, "freedom of the seas" really means "ocean communism", i.e. a state of no-property in the ocean. While the ocean used to be a super-abundant resource, it is no longer so, particularly in the North Atlantic and along the continental shelves; the ocean is in these places a scarce resource, and it has been substantially kept out of productive use because "ocean communism" has been able to prevent private property in parts of the ocean. As a result, the ocean is under-utilized in the same way that land was in the centuries before private property was allowed in land. Only hunting and gathering (of fish, minerals) is allowed in the oceans now, just as only hunting and gathering was feasible in the days before private landed property. It was only private property in land that made agriculture (the transformation of the land by human energy) possible, thereby enormously increasing land productivity; and only private property in parts of the ocean will eventually make "aquaculture" feasible, and lead to a vast and mighty boom of resources and production in the vast ocean storehouse.

To return to the Mayaguez adventure, it points up several important lessons. One is a need to press forward with an isolationist and anti-imperialist foreign policy; it is clear that even the supposedly "anti-war" liberals, let alone everyone else, have not learned the real lessons of our debacle in Southeast Asia. Second is the need to press on with a call for the U. S. to get out of Asia; specifically, to get our troops completely out of their remaining bases in South Korea, Thailand, Japan, and Okinawa. At the very least, that would force Ford to take more time before his next plunge into war and violence. Moreover, it would keep us out of the next possible tinder-spot, South Korea, where the dictatorship of President Park Chung Hee has managed to alienate severely the bulk of the South Korean population. Third, it would be helpful to have a constitutional amendment stripping the President of his beloved "commander-in-chief" status. During the pre-Articles of Confederation days of the Revolutionary war (which we did, after all, manage to win), the

Commander-in-Chief, George Washington, was strictly under the control of Congress, which appointed and could have fired him at will. Why not return to this sort of status, where at least Congress would have to deliberate a bit before plunging into war? It would scarcely be a panacea in itself, but it would at least strip the President of his principal excuse and weapon in his personal making of war.

FLASH! As we go to press, we find that the U. S. Coast Guard has just seized an unarmed Polish fishing ship, the Kalmar, charged with "violating U. S. territorial waters" off Monterey, California. (The San Francisco Examiner, May 18). The ship was hauled into San Francisco and its captain and crew arrested. The only high crime of the Kalmar was to fish at a point slightly over 10 miles from U. S. shores. The Coast Guard explained that, while the U. S. formally maintains a 3-mile limit as its territorial waters, it has international agreements that have established a 12-mile limit as its "contiguous fishing zone".

Coming so soon after the Mayaguez incident, the Coast Guard was "concerned" that the parallels would be inevitable: how does the seizure of the Kalmar differ from that of the Mayaguez? The Coast Guard's attempt to find a difference was both pathetic and revealing: "This was simply a violation of the U. S. contiguous fishing zone . . . It is a recognized international situation (recognized by the Soviets and us) . . . The Mayaguez was just a happenstance of Cambodia." In short, the Soviets (and Poles?) recognize our 12-mile limit and usually don't interfere with it, but we don't give a hang about the Cambodian's 12-mile limit. There is the much-vaunted U. S. "respect for international law" and "freedom of the seas."

In truth, there is only one difference between the Kalmar and Mayaguez incidents: that the Kalmar was an innocent, productive fishing vessel, while the Mayaguez might well have been an espionage ship and a deliberate provocation to the Cambodians. The hypocrisy of U. S. foreign policy has never been more clearly exposed. Alright, President Ford, Senator Buckley, Senator Helms, and Arthur Schlesinger, Jr.: should Poland now bomb California and land commandoes in San Francisco to free the kidnapped Poles? And if not, why not? □

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law arguments and utilitarian considerations make land reform imperative.

Feder sees spontaneous peasant "land invasions" (usually suppressed) as a hopeful sign. He exposes token official "reform," financed in part by the Alliance for Progress, as marginal and deliberately irrelevant. (Bureaucratic rakeoff ran up to 50% of the funds.) A final chapter is devoted to the danger of "technocratic reform" from above. Feder hopes real "reformers" prevail. Knowing what we know about liberal reformism, libertarians should put their hopes on armed peasants and wish them good theory to guide their practice.

**Parasitism and Subversion: The Case of Latin America** (New York, 1966) is a broadly focused work by Stanislaw Andreski, an unorthodox sociologist who deals with the land question and much more. The author sets out to account for the chief structural uniformities of Latin American societies. Where generalization fails for the whole continent, the book becomes classificatory as well. But iniformities abound, and Andreski presents a convincing survey of them.

Andreski believes that most of Latin America's troubles stem from an inherited pattern of parasitism, or what we might call statist exploitation. Interestingly, he derives his conception of parasitism from the *Traite de Legislation* (1826), the major work of the French sociologist Charles Comte, whose importance as libertarian theorist has been discovered by Leonard Liggio. Parasitism, which severs work from reward, is a necessarily strong barrier to social progress.

An important form of parasitism is land monopoly, which restricts production and impoverishes the masses. (On this subject Andreski differs little from Feder.) Direct political appropriation of wealth by Latin American police, customs inspectors and the like is "enormous" according to Andreski. Although conditions vary from country to country, high tariffs, state loans, the license-and-bribery syndrome, government contracts, and even tax-farming (in Peru) contribute to the popular view that all governments are "merely bands of thieves." (Hear, hear!) In Mexico, where state intervention is most extensive, pay-offs are naturally highest. Everywhere taxation falls mainly on the poorer classes. Militarism also wastes needed resources. Conscription exists in Latin America mainly to justify the bloated officer corps. Since Latin armies are too large for internal policing and too small for war, they are really huge bureaucracies which often intervene directly in politics. Their normal care, plus what they rake off when running a country, make their upkeep "the most important form of parasitism in Latin America."

Latin America is thus cursed with "parasitic involution of capitalism," which Andreski defines as "the tendency to seek profits and alter market conditions by political means in the widest sense." Accordingly, the continent suffers from "hypertrophy of bureaucracy." The middle classes mainly consist of bureaucrats and frustrated holders of diplomas who want state jobs. Many of them are drawn to state socialism and nationalization of foreign firms because of the Mandarin employment that would be created thereby. Parasitic appropriation of wealth, constricted markets (given peasant poverty), uneconomic welfare legislation to buy off the urban poor, and rapid inflation make for permanent economic stagnation. This condition in turn fosters permanent political instability. In general, the superimposing of democratic constitutions on seigniorial, feudal economies has led to "constitutional oligarchy" or outright repression. Mexico is unique in having a stable bureaucratic regime.

A few more of Andreski's conclusions are worth mentioning. In a region of high infant mortality the richer classes outbreed the poor. This has "whitened" the population. Although darker features correspond to poorer status, Andreski finds that racism is not the problem. A poor, defenseless person will be exploited regardless of color! In the realm of Latin values, disdain for work, a legacy of slavery, promotes parasitism, just as capricious and authoritarian child-rearing fosters *machismo* and irresponsible aggression in males. Further, economic parasitism reinforces the anticommmercial bias of the culture, aiding communist movements. Andreski believes US imperialism has played a somewhat minor role in Latin difficulties — chiefly one of propping up local dictators. (Unhappily, he accepts the Pollyanna theory of JFK, the brush-fire-war imperialist.) On the other hand, he is mildly revisionist on the Cuban Revolution: Cuba is no more totalitarian than many a Free World

despotism and Castro is personally honest — unlike most Latin leaders. (He does foresee bureaucratic degeneration in Cuba, however.) All in all, Parasitism and Subversion is an excellent place to begin the study of statist culture in its extreme form.

David Mitrany's *Marx Against the Peasant: A Study in Social Dogmatism* (Chapel Hill, 1951) is a unique study of the great political paradox of the twentieth century. All successful modern-day revolutions have been made by peasant masses and have been opposed by orthodox Marxists. Leninists, including Maoists, have coopted, led, and in varying degrees betrayed these peasant revolutions. Mitrany treats both Marxian dogma on agriculture and the practical response of the peasant to their plight, showing how communist practice based on dogma clashed head-on with peasant practice (and emergent theory) based on experience.

Marx's agrarian dogma derived from his belief in large-scale production. Small peasant proprietors were doomed to succumb to historical laws of accumulation. Peasants were dull and reactionary and the proletarian revolution would properly put them into huge farm brigades and curb their petty-bourgeois "property-owner fanaticism." So ran Marx's theory. As an urban Westerner, Marx generalized from western European experience; but even there, after 1895, statistics revealed the unexpected persistence of small farms. As Mitrany notes, the large estates in the West, partly destroyed wherever the antifederal French Revolution reached, had never been the result of free competition but were political creations. Marx's inferences were therefore quite unwarranted.

In preindustrial eastern Europe, including Russia, the role of politics was clear. There the politically powerful landed elite created enormous latifundia "in recent times." To capitalize on new markets for cereals in the West, the lords dispossessed the peasants, retaining them as cheap labor. When World War I broke the power of the landed ruling class, the peasant masses rose up everywhere (with the exception of Hungary) and divided the great estates. Unable to do much else, the "liberal" semiparliamentary successor regimes in these countries "gave" the peasants the land. This revolutionary breakthrough, Mitrany states, finished the emancipatory process begun in France. The difference was that where peasants made the revolution they took all the land, whereas in the earlier western reforms urban liberals tended to preserve large estates and only freed the serfs to become landless workers.

In Russia, the Bolsheviks "led" the revolution, conceding land to the peasantry. After the failure of agricultural levies, Lenin "retreated" to the New Economic Policy, "a reversion to individualism." Mitrany believes the NEP was solely a tactic and curiously ignores Bukharin's role as a defender of the NEP free market and the "worker-peasant" alliance. In any event, after 1928, forced-draft industrialization proceeded under Stalin with all the murder and violence necessary to make the state the new landlord.

Outside Russia, peasant revolutionaries created peasant parties to protect their gains, and "peasantist" ideology flourished. It was too late, however, for their enemies regrouped everywhere under a program of neomercantilism or state capitalism. Like Preobrazhensky, Trotsky, and Stalin, the bourgeois "liberal" industrialists and politicians believed in building heavy industry on the backs of the masses. Indirect taxes, high tariffs, and subsidies put the burden on the people. The peasant parties responded with a relatively libertarian program for development which looked to the parallel evolution of agriculture and light industry.

I cannot summarize here Mitrany's interesting discussion of peasantist ideology. He does call attention to the similar views of Proudhon. He cites evidence that family farms can survive or even outcompete large enterprises in a free market. Hence, there was nothing utopian about the peasantist program. In addition, peasantism, reflecting real love of the land, was a force for peace, since such love and murderous nationalism have nothing in common.

Unfortunately, the peasants' organization and ideology lagged behind their seizure of the land. Their political opponents, generally including the socialists, crushed the peasant movement, overriding liberal constitutional forms. After World War II, with Communist parties thrust into power, development followed Stalinist lines. Everywhere, however, peasant resistance forced compromise. In Yugoslavia collectivization was virtually abandoned. A Yugoslav politician (quoted by Mitrany) asks what can you do with people who regarded five centuries of Turkish rule as "a stop-gap?"

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# Hobbes And Liberalism

By Bill Evers\*

Hobbes is often counted by modern political theorists as a liberal, and often as a liberal whose views reflect the needs of an entrepreneurial, market-oriented capitalism.<sup>1</sup>

This argument has two prongs. One is the contention that Hobbes's society had already become bourgeois and that his theory was meant to provide stable ground rules for existing capitalist competition. The second is that Hobbes's theory provides an ideological basis for liberal society — the society of property, individual rights, and the market.

The first contention is an empirical claim about the character of the society in which Hobbes lived. Recent studies have shown, however, that the institutions of liberal society were not dominant in Hobbes's time (and are not dominant in the society that he describes in his books), and so it is not fruitful to pursue this prong of the argument here.<sup>2</sup>

Instead, we will take up the second prong of the argument, which contends that Hobbes's theory was designed to sustain and was plausibly capable of sustaining a liberal society. We will scrutinize the claim that Hobbes's theory was a doctrine of political individualism.<sup>3</sup>

Some problems of method come immediately to the fore. For example, "the market" itself is an abstract term that we use to designate the exchange by individuals of property titles. Because of the interdependence of the concepts involved, before one can adequately discuss whether the market is a prevalent institution in a society, one must first consider the nature and extent of individual self-ownership, of individual rights to property, and of governmental power.

Such inquiry into the character of rights and of governmental power is necessary because these matters are inextricably wrapped up in what we mean by a "liberal society." It is not enough to know that in some society children are permitted to trade baseball cards, to call this trading "the market", and then to call the whole society "liberal." When we talk about a liberal society, therefore, we are very much concerned with the structure of rights.

## Hobbes's Doctrine

Hobbes viewed property as a useful violence-reducing mechanism that only existed because it was defined and authorized by the absolute sovereign.<sup>4</sup> There has been some scholarly discussion which questions this sort of summary of Hobbes's property theory. This discussion has explored the possibility that Hobbes, like the Levellers and Locke, might have believed in property rights that antedate the institution of government.<sup>5</sup>

In several versions of his political thought, Hobbes contended that patriarchs and slaveholders would have control over some persons and possessions in the state of nature.<sup>6</sup> These patriarchs and slaveholders would be small-scale sovereigns in their own little kingdoms, all within the overall insecurity of the state of nature. In early versions of his theory, Hobbes also speaks of incorporating, as is, these successful patriarchal and servile holdings into the new social compact that establishes the state. For example, an unused draft of his *Elements of Law* included: "Men entering in peace, retain what they have acquired."<sup>7</sup>

Hobbes decreases the possible strength that such a state-of-nature, family-sized unit might have from one version of his theory to the next. By the writing of *Leviathan*, the family group, when it confronts the sovereign power, is like a small band of soldiers that when surprised by an army must lay down its arms and beg to be spared.<sup>8</sup>

These patriarchal and servile holdings in the state of nature were property in the sense that they were effectively controlled by their owners. But they were not property in the sense of being derived from some principle of just original acquisition (as found in the writings of the Levellers and later in Locke). Nor were they property in the sense of being rights integrated into a non-contradictory network of rights and capable of being protected by legitimate force. Nor were they property in the sense of being rights that others outside the family were morally obliged to observe. Even as he is still talking about possessions and the transfer of possessions within the state of nature, Hobbes is saying that the laws of this state of nature oblige only in the court of conscience.<sup>9</sup>

Because this theory of property in the state of nature is radically different from the liberal view of the Levellers and Locke, it seems

extravagant to say, as Lopata does, that Hobbes's early property doctrine contained the "seeds of a right of revolution," and that Hobbes's experience in the Civil War caused him to alter his doctrine.<sup>10</sup> There does not seem to be any radical break in Hobbes's property theory. Even in his late work, the *Dialogue on the Common Laws of England*, Hobbes speaks of possession in the state of nature when he describes how landlords obtain their holdings.<sup>11</sup>

We may safely say that Hobbes in all his writings believes that the sovereign (or a small-scale sovereign, the head of the family) determines all property relations. He also believes in all his writings, even those written before the Civil War, that the claim of an absolute right to property is subversive of orderly society.<sup>12</sup> The radical-liberal Levellers, in contrast, maintained that an absolute right to property was the only secure foundation of an orderly and just society.

In sum, we may say that Hobbes has a consistently legal positivist view of property rights, emphasizing the command of the sovereign.<sup>13</sup> Indeed, some of Hobbes's contemporary liberal critics like George Lawson and John Whitehall attacked him on precisely this point.<sup>14</sup>

Whitehall, for example, says that Hobbes's assignment of the property of the people to the sovereign will lead the people to rise up against the Hobbesian state and try to overthrow it, "that they may have something to be called their own."<sup>15</sup> Furthermore, Whitehall asserts, according to Hobbes's view it would have been perfectly all right for Cromwell's New Model Army to have seized "all the property of the people of England" in 1651, when — depending on your point of view — either England had collapsed into a state of nature or the Army had become sovereign.<sup>16</sup>

Locke himself, though less radical a liberal than others, notes that giving the sovereign absolute power, leaves the sovereign in a state of war vis a vis his subjects. Now the individual subject, whenever his property in his person or goods is invaded at the command of the sovereign, is defenseless in the face of a ruler who wields the only armed might in the society. Men in a non-governmental condition would be idiots to turn over absolute authority and all weapons to some Jones family. "This is to think that men are so foolish that they take care to avoid what mischiefs may be done them by polecats, or foxes, but are content, nay think it safety, to be devoured by lions."<sup>17</sup>

Further examination of Hobbes's arguments will give us additional reasons to believe that Hobbes's contemporary liberal critics had a more accurate view of the character of his proposals than do present-day political theorists who call Hobbes a liberal. Additional insight can be gained by looking at Hobbes's discussion of conquest, servitude, and the somewhat related matter of contracts agreed to under duress.

During the Civil War period, the radical-liberal Levellers denied that a conqueror or his heirs (either the recent conqueror Cromwell or the Stuarts as heirs of the Normans) had any claim upon the obedience of the people.<sup>18</sup> The liberal Levellers argued that only a government which secured man's natural rights in his own person and in his goods was legitimate. In contrast, Hobbes, an absolute monarchist and a defender of the Stuart cause, taught that a subject is obliged to obey a conqueror.<sup>19</sup>

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## Peasants And Revolution —

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You can do what peasants everywhere have asked for a very long time: Clear the ways and let them alone . . . but clear the ways!

\*Now that numerous trendy conservatives are swiping our hard-won label.

•Mr. Stromberg is a doctoral candidate in history at the University of Florida, and assistant editor of *News of the Nation*.

\*We might say "local bullies and bad gentry." □

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Indeed, he basically equates the situation of someone who is enslaved in a state of nature by a stronger person, with the situation of a subject who adheres to a sovereign in international war, or via the social compact institution of a government, or in any other way.

As an example of a compact, Hobbes points to the situation of a captured man who is not kept constantly in chains. This privilege granted by his master that the slave not always be in chains, according to Hobbes, sets up a voluntary compact under which the slave is obliged to obey the absolute will of his master (who is here very like the governmental sovereign.) The slave is said by Hobbes to be enjoying a condition of liberty because he is not always in shackles and thus has some liberty of motion.<sup>20</sup>

The historian David Brion Davis zeroes in on the relationship of Hobbes's doctrine on slavery to his doctrine on the state when he writes:

"There is no inherent reason that slavery should be incompatible with the ideal of a functional or utilitarian state. Indeed, for later champions of individual liberty, like William Lloyd Garrison and Mikhail Bakunin, all states were founded on the principle of slavery. For Thomas Hobbes, slavery was an inevitable part of the logic of power; the bondsman had no cause for complaint when he was provided with sustenance and security in exchange for being governed . . ."<sup>21</sup>

This model of slave-making resembled in many respects Hobbes's concept of the social compact. Hobbes stated quite explicitly that the only difference between the free subject and the 'servant' was that one served the city and the other served a fellow subject."<sup>22</sup>

Hobbes makes the claim that the social compact and acquiescence in slavery are voluntary because he rejects the liberal doctrine that contracts made under duress are null and void.<sup>23</sup> Hobbes argues that a promise to pay ransom to a kidnapper or highwayman is a binding contract. This allows validity for the formation of governments by way of or in the face of threats against the people. It should be noted, however, that most moralists among Hobbes's contemporaries, as well as Locke later on, rejected the validity of contracts made under duress.<sup>24</sup>

In addition, Hobbes's equivocal and confusing usage of such terms as "voluntary" and "liberty" facilitates the cloaking of illiberal acts in the rhetoric of liberalism.<sup>25</sup> Since volition for Hobbes simply refers to a morally inconsequential part of the process of deliberation, and since all human acts have costs and inconveniences, situations which involve the coercion of some persons by others can be designated as voluntary relationships by Hobbes. In utilitarian fashion, he sees no radical dichotomy between coerced and uncoerced human activity. Similarly, since liberty for Hobbes refers to the absence of chains, if the kidnapper or the sovereign does not put you in chains or try to kill you, you are still free.

Considering Hobbes's concepts of property, individual rights, contract, and sovereignty, it is difficult to term him an ideological liberal. Looking at his views on economic policy, we find additional confirmation that he is not a liberal. Hobbes favored sumptuary laws,<sup>26</sup> import licenses,<sup>27</sup> military conscription in emergencies,<sup>28</sup> compulsory poor relief,<sup>29</sup> and laws to encourage and subsidize fishing, farming, navigation skills, and education.<sup>30</sup> He believed in the unlimited right of the sovereign to tax the people.<sup>31</sup> He bitterly opposed wage labor in manufacturing industries.<sup>32</sup> While hardly the economic program of an advanced state socialist, neither is it a liberal program like that of the Levellers or that of Herbert Spencer.

In conclusion, it seems untenable to claim that Hobbes is a liberal. He differs drastically with the liberal political tradition on essential doctrinal matters, and for this reason was opposed to and opposed by the liberals of his own time.

### Notes

1. For example, Laurence Berns writes: "To the extent that modern liberalism teaches that all social and political obligations are derived from and in the service of the individual rights of man, Hobbes may be regarded as the founder of modern liberalism." Laurence Berns,

- "Thomas Hobbes," in Leo Strauss and Joseph Cropsey, eds., *History of Political Philosophy* (Chicago: Rand McNally, 1972), p. 375. See also Leo Strauss, *Natural Right and History* (Chicago: University of Chicago Press, 1953), pp.181-82; C. B. Macpherson, "Hobbes: The Political Obligation of the Market," in *The Political Theory of Possessive Individualism* (London: Oxford University Press, 1962), pp.9-106; and C.B. Macpherson, "Natural Rights in Hobbes and Locke," and "Hobbes's Bourgeois Man," in *Democratic Theory* (London: Oxford University Press, 1973), pp.224-37 and 238-50.
2. Peter Laslett, "Market Society and Political Theory," *Historical Journal*, vol.7, no.1 (1964), pp.150-82; William Letwin, "The Economic Foundations of Hobbes's Politics," in Maurice Cranston and Richard S. Peters, eds., *Hobbes and Rousseau* (Garden City, L.I.: Doubleday, 1972), pp.143-64; and Keith Thomas, "The Social Origins of Hobbes's Political Thought," in Keith Brown, ed., *Hobbes Studies* (Cambridge, Mass.: Harvard University Press, 1965), pp.185-236.
3. Hobbes makes the individual the basic unit of political analysis throughout his writings, but this is not sufficient ground for calling him a proponent of political individualism. Hobbes was also an early adherent of a version of the subjective theory of value in political economy. See *Elements of Law*, in Richard S. Peters, ed., *Body, Man, and Citizen* (New York: Collier, 1962), p.291; *De Cive*, chap.3, art.6, in *English Works* (1841; Scientia Verlag Aalen, 1966), vol.2, p.34; *Leviathan* (Oxford: Basil Blackwell, n.d.), chap.10, p.57. Again, this view in economic science does not make Hobbes an individualist in his assessment of proper political institutions. Cf. Macpherson, *Possessive Individualism*, pp.37-39, 63; "Hobbes's Bourgeois Man," p.242.
4. On property as a violence-reducing mechanism, see *De Cive*, pp.vii. For a modern restatement of the Hobbesian position, see James M. Buchanan, "Before Public Choice," in Gordon Tullock, ed., *Explorations in the Theory of Anarchy* (Blacksburg, Va.: Center for the Study of Public Choice, 1973).  
On the role of the sovereign in defining property rights, see *Elements*, p.342; *De Cive*, chap.6, art.15, p.84; *Lev.*, chap.24, pp.161-62; *Dialogue on the Common Law of England*, in E.W., vol.6, pp.29-30.
5. M. M. Goldsmith, *Hobbes's Science of Politics* (New York: Columbia University Press, 1966), p.199; Benjamin B. Lopata, "Property Theory in Hobbes," *Political Theory*, vol.1, no.2 (May 1973), pp.203-18.
6. *Elements*, pp.295-97; *De Cive*, chap.6, art.15, p.84n; chap.8, art.1, p.109; art.8, p.112; *Lev.*, chap.17, p.109; chap.20, pp.129-36.
7. Goldsmith, p.199n.
8. *Lev.*, pp.133-34.
9. *De Cive*, chap.3, art.18, p.41; art.27, pp.45-46; chap.5, art.1, pp.63-64.
10. Lopata, p.211.
11. *Dialogue*, p.147.
12. *Elements*, p.371; *De Cive*, chap.12, art.7, p.157; *Lev.*, chap.29, p.213; chap.30, p.224; *Behemoth*, in E.W., vol.6, pp.168-69. Hobbes considered natural rights liberalism a major cause of the Civil War.
13. Compare Hobbes's property theory to the similar legal positivist view of Cromwell's son-in-law, Henry Ireton, See G.P. Gooch, *English Democratic Ideas in the Seventeenth Century* (New York: Harper, 1959), p.138; H.N. Brailsford, *The Levellers and the English Revolution* (Stanford, Calif.: Stanford University Press, 1961), p.281; Macpherson, *Possessive Individualism*, p.139.
14. On the property theory of Locke's precursor Lawson, see John Bowle, *Hobbes and His Critics* (London: Jonathan Cape, 1951), p.99.
15. Bowle, p.177.
16. Bowle, pp.178.
17. John Locke, *Two Treatises of Government*, rev. ed. (New York: Mentor, 1965), *Second Treatise*, pars. 91-93, pp.370-72. The lions and foxes quotation is on p.372. Laslett contends that Locke is criticizing not Hobbes but Filmer in these passages. For Hobbes's reply to Locke's sort of argument, see *Dialogue*, pp.10-11, 20-21. For Locke's contention that tyranny is worse than the state of nature, see *Second Treatise*, par.225, pp.463-64.
18. Christopher Hill, *Puritanism and Revolution* (New York, Schocken, 1964) pp.75-82.
19. On the property rights acquired by conquerors, see *Lev.*, chap.24, p.163; *Dialogue*, p.149. On the parallels between Hobbes's doctrine of conquest and the obligation of the Cromwellian de facto theorists, see the writings of Quentin Skinner.

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# Say's Law Revisited

By Richard M. Ebeling\*

Following the 1936 publication of John Maynard Keynes' *The General Theory of Employment, Interest and Money*, an intellectual deluge occurred that silenced almost all critical opinion. The movements of Macro-economic aggregates and the forces determining the nature of "effective demand" became the focal points of academic concern among economists.

Courageous was the individual who chose to move against the tide and question the "laws" of the New Economics. Professor W. H. Hutt, following John Stuart Mill's dictum that "No one can be a great thinker who does not recognize that as a thinker it is his first duty to follow his intellect to whatever conclusions it may lead," has been one of those courageous souls.

For fifty years, he has not only defended the much disparaged "orthodox" Micro-economic approach, but added clarity and depth in his expositions, as well. Whether it be his critical analysis of compulsory unionism in the free society, *The Theory of Collective Bargaining* (1931) and *The Strike-Threat System* (1973) or his devastating critique of Keynesian economics, *The Theory of Idle Resources* (1939) and *Keynesianism-Retrospect and Prospect* (1963), his pen has always searched out the "inner contradictions" of incorrect theory that passes as the foundation of contemporary economic thought.

Now, in his latest book, *A Rehabilitation of Say's Law* (Ohio University Press: Athens, 1974) \$8.00, Professor Hutt has again returned to the attack. He postulates that, correctly understood, Say's Law "is indispensable for an understanding of the true genesis of depression and of prosperity without inflation; that attempts at dynamic treatment of the economic system which ignore it are worthless . . ."

The present definition of Say's Law, that "supply creates its own demand," was coined by Keynes in *The General Theory* and is a distortion of the true meaning of the Law. Rather, what Say was attempting to formulate was the most obvious fact that "the source of demand for any particular input or output produced is the flow of inputs and outputs of all the things which do not compete with it; for some part of that flow is destined to be exchanged for it." Thus, what we exchange are goods and services for goods and services. And that which we choose not to keep for ourselves out of our own production will be traded away for what we value more highly.

When the Keynesian theorist refers to excess aggregate supply and the weakness of "effective demand" to purchase that supply, he is looking through the wrong end of the telescope. There could not be an "aggregate" excess of supply unless there was a super-abundance of all inputs and outputs such that they had no value (and, thus, would not be an economic good); what this does mean is that certain goods may be in relatively greater abundance than other goods that are in shorter supply. What is preventing their purchase is not "ineffective demand" on the part of purchasers, but ineffective pricing on the part of suppliers for the market to be "cleared." For, in Hutt's words, "no one can purchase unless someone else sells . . . every act of selling and buying requires that the would-be seller price his product to permit the sale and that the would-be buyer offer a price which the seller accepts." If saving-preferences rise, demand for consumer goods will decrease and demand for capital goods will increase. Price relationships will shift, with the consumer offering a smaller supply of goods and services for consumer goods and a greater supply of goods and services for capital goods.

Indeed, it is in the unwillingness of resource owners to price their products or services at levels commensurate with consumer demand that Professor Hutt finds the cause of prolonged depressions. "Disco-ordination in one sector of the economy will, if there are price rigidities in other sectors, bring about these successively aggravating reactions, one decline in the flow of services inducing another." Whenever "inappropriate pricing" results in the withholding of supplies, this will limit the demand for other goods and services the would-be supplier would have purchased.

Interestingly, Hutt develops an alternative to the accepted Keynesian theory of the Multiplier. In fact, it proves that, contrary to what Keynes believed, his theory depends on the validity of Say's Law. Since the

problem is disequilibrium pricing, the lowering of any price to its market-clearing level "will tend to initiate a positive 'real multiplier' effect — a cumulative rise in activity and real income . . ." The Keynesian notion of government-induced expenditures is really only a means of getting the release of withheld supplies (at prices acceptable to the supplier), so they, in turn, can generate demand at price levels high enough to entice the release of other withheld supplies. Thus, whether it is monetarists talking about an "adequate money supply" or Keynesians referring to an "adequate rate of spending," they are "really envisioning the process under which 'supplies' (and hence 'demands') withheld through pricing can be restored" by unanticipated inflation.

In a series of important chapters, Professor Hutt dissects some of the most prominent post-Keynesians such as Harry Johnson, Leland Yeager, Robert Clower and Axel Leijonhufvud. All, in one form or another, fall under a veil of "money illusion." For them, the use of money somehow changes the nature of the market experience. For instance, an increase in the demand for money held may place a dampener on the "effective demand" for finished output, thus, acting as a depressant on the economy. But this, says Hutt, is failing to see that money like any asset or commodity has a value in being held as well as traded. "An increase in the relative demand for money simply means that the aggregate real value of money rises relatively to the aggregate real value of non-money." Adjustments in the price relationships would still enable the market to "clear." We "do not say that some portion of the demand for rye is 'ineffective' because some former purchasers of it demand wheat instead."

But some critics contend that even if the money wage-rate was the "correct" one, that the "excess" supply of labor still wouldn't be absorbed. This is part of Leijonhufvud's argument. In a case of barter where an over-seeing auctioneer could view the marginal values of different factors, supply would equal demand. But the contention is that because of faulty communications and market signals, business firms will fail to hire labor even if only labor's marginal product is being asked for. In who's eyes, asks Hutt, is that value of the marginal product? To an

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## Hobbes And Liberalism —

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20. De Cive, chap.8, art.1-9, pp.108-13; Lev., chap.20, pp.132-34.
21. David Brion Davis, *The Problem of Slavery in the Age of Revolution, 1770-1823* (Ithaca, N.Y.: Cornell University Press, 1975), p.263.
22. David Brion Davis, *The Problem of Slavery in Western Culture* (Ithaca, N.Y.: Cornell University Press, 1966), p.117.
23. Elements, p.286; De Cive, chap.2, art.16, pp.23-24; Lev., chap.14, p.91.
24. Thomas, p.233.
25. On Hobbes's equivocal concept of liberty, see J. Roland Pennock, "Hobbes's Confusing 'Clarity' — The Case of 'Liberty' ", in Brown, pp.101-16, esp. p.105; John Plamenatz, *Man and Society* (New York: McGraw-Hill, 1963), vol.1, p.139.
26. Elements, p.381; De Cive, chap.13, art.14, p.178; Lev., chap.24, p.163; chap.30, p.226; Thomas, p.228.
27. Lev., chap.24, pp.163-64.
28. Lev., chap.21, p.143.
29. Lev., chap.30, p.227.
30. De Cive, chap.13, art.14, p.177.
31. Elements, p.342; Lev., chap.30, pp.162-63; Behemoth, pp.168-69; Dialogue, pp.29-30, 154.
32. Behemoth, pp.320-21.

\*Mr. Evers is a doctoral candidate in political science at Stanford University.

# Libertarian Ripoff Of The Month Dept.

A couple of years ago a friend of mine was visiting California for a scholarly conference. There he ran into a fellow who had in his possession a rare copy of an unpublished manuscript of someone on whom my friend was engaged in writing a doctoral dissertation. The fellow told my friend that if he gave him \$30 he would soon ship him a xerox of the manuscript. My friend was highly skeptical, but the call of dissertation — it is always heady and so my friend forked over the \$30, fully expecting that this would be the last he would ever hear of either the \$30 or the manuscript. Much was his astonishment when, a few weeks later, the promised xerox arrived in the mail. My friend was agog. "Jesus," he told me, "that was the first time I ever had business dealings with a libertarian that I wasn't ripped off."

An exaggerated estimate, perhaps: but certainly an understandable one. There used to be a highly naive view widespread in the libertarian movement, that because someone was a libertarian, and therefore respected property rights, that one could always rely on libertarians to be honest and rational in their business dealings. Hah! I daresay that there are few ideological movements in recent times that have been beset by more frauds, shysters, and bunco artists than the libertarian movement. Why this should be so we will try to explore below.

The latest libertarian ripoff is on a massive scale and one that has, furthermore, hit the public headlines. Last fall I began to hear breathless comments about a new "libertarian car" (what the hell, one might have asked, is a libertarian car?) that a formidable, neo-Randian lady was in the process of building in California. The lady was going to set Detroit on its ear. The car was going to be made of some kind of new "Rearden metal", it would be a three-wheeler that would go 70 miles on a gallon of gas, and would sell for less than \$2,000. Wow! And, what's more (nudge, nudge) the lady's company was called "Twentieth Century Motors" (get it?).

The lady — Mrs. G. Elizabeth Carmichael — was indeed a heroine straight out of a Randian novel (albeit a bit earthier.) She gave interviews in which she proclaimed that she gave all the orders and made all the decisions in her company, and that her subordinate executives were simply yes-men carrying out her orders. She held forth with a parody of a Commodore Vanderbilt-Rand speech, announcing that she didn't "give a s - - t about the public", that all she cared about was Liz Carmichael, and for that reason she was going to produce a car, the Dale, that would "knock the hell" out of Detroit. As a *Newsweek* story reported afterwards, "A visitor to her Encino (Calif.) office recalls her as a big, stocky woman, at least 6 feet tall, thrusting out a large, beefy hand with pink nails and saying in a low, husky voice: 'I am a genius.'" (*Newsweek*, Mar. 3, 1975). Plenty of "self-esteem" there! Scorning her subordinate executives, she declared that she had "more b - - s than all of them put together." Yes, truly a tough tycoon in the heroic mould.

Liz Carmichael's financial methods were, to say the least, unorthodox, as she sold shares in her company to "countless" numbers of people. One gimmick that she used: she would take out Situation Wanted ads in the newspapers, and when the applicant applied for a job in Twentieth Century Motors, he wouldn't get the job, but she would manage to sell him shares of stock. (Unorthodox, slightly shady financing. but unorthodox means "heroic" and innovative, right?)

The lady was flying high. Liz Carmichael claimed to have raised \$30 million and swore that she would be producing 88,000 Dales by the end of 1975. But by early 1975, the shades of night began to close in. The highly respected *Road and Track* magazine analyzed the proclaimed car, and subjected it to a withering critique, pointing out, for example, that its supposed 40 h.p. engine was considerably smaller than that of many motorcycles. No wonder it would get 70 miles per gallon! But would it get any speed on the road? More formidably, various arms of the law began to zero in on Twentieth Century Motors. In late January, the firm's P.R. man, an ex-convict, was shot to death by another ex-con employee in the company's offices. Investigations ensued. In early February, top officers of the firm were arrested, charged with conspiring to commit theft by selling dealerships and options based on false claims. Shortly afterward,

a judge placed the company in receivership, and the sheriff of Dallas (where Liz Carmichael had moved the company) went looking for our entrepreneur. Liz skipped town, and there is now a warrant out for her arrest. And no one seems to know how much money was taken in, or where the money is (presumably with Liz Carmichael.) And presumably there isn't any workable car either.

It soon turned out that nobody knew who Liz Carmichael was. The town where she claimed she was born never heard of her, and there was no record of her in the colleges she claimed to have attended. Her social-security number and driver's license turned out to be fakes, and the earliest record anyone had of her was in 1971, when she was wanted for passing a bad check. There also seemed to be no record of the five children that had been living with her.

An even more bizarre note appeared when the police searched Mrs. Carmichael's home, and found a substantial amount of curious clothing: including wigs, a waist cincher, and a crotch suppressor — standard transvestite fare. As a reporter for the *San Francisco Chronicle* wittily concluded: it might turn out that Liz Carmichael's boast that she had more b - - s than all of her male executives put together was the only true statement "she" ever made.

The latest chapter in the Liz Carmichael saga are A.P. dispatches for April 8 and 14. The authorities have now identified and captured "Liz Carmichael" as one Jerry Dean Michael, 47, a federal fugitive since 1962 when he jumped bail on a counterfeiting charge. The Dallas D.A.'s office, furthermore, has charged that no plans ever existed to produce the Dale car.

And so there we have it: the latest "libertarian" ripoff, and a transvestite one at that. I have no idea how many wealthy and not-so-wealthy libertarians invested in this con-game, but knowing the movement and the record of its brief history, I have a strong hunch that the number of libertarian suckers is formidable.

We return to our original question: what is there in the libertarian makeup that makes us patsies for bunco artists (the motivation of the bunco artist himself is, of course, all too clear)? I have an answer that can only be speculative, but it seems to have a good deal of persuasive power. There is in all too many libertarians the Randian-Great Man theory of history, a mind-set that holds that history is constantly being turned upside down by heroic innovators who arrive on the scene out of left field, and proceed to make millions and affect the course of the world. They arrive out of the blue, they invent some sort of "Rearden metal," and presto! the world is changed. Of course, once in a great while such innovators do arrive on the scene. But, in the first place, their inventions and innovations generally take a long while to make their way to fame and fortune. More importantly, for every Thomas Edison there are thousands of crackpot "innovators" whose new inventions don't amount to a hill of beans, or who are frauds, con-men, and ripoff artists. Reciting a list of the Great Men who Made It is terribly misleading if we forget the far more numerous list of the cranks and screwballs who didn't make it. And so, to the general gullibility of the public (best expressed in the immortal P. T. Barnum phrase, "there's a sucker born every minute") we add the Great Man mind-set of libertarians influenced by the Randian world-view.

What we desperately need, therefore, is a healthy skepticism about new and dramatic announcements of great new entrepreneurs that have just arrived on the scene. Particularly should we be skeptical of the luftmenschen with no visible credentials, who suddenly appear out of the blue to announce their great new thing. For there is a profound sense in which the mass of skeptics who grudgingly greet the news of all allegedly great innovations are right; for if it's really going to be a new "Rearden metal", it will eventually make its way in the marketplace. There is no need for libertarians to rush into the field with hooplas everytime somebody announces the greatness of their new invention or discovery. Otherwise, all we accomplish is a tragic waste of all-too-scarce libertarian resources. ■

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over-seeing auctioneer, maybe; but with imperfect knowledge it is the "prospective yield" from labor investment, from the standpoint of the entrepreneur, that will result in hiring. The wage-rates have not been lowered enough to represent the "marginal value" within the pessimistic perspective of the business firm. And "when wage offers have been sufficiently adjusted for entrepreneurs generally to accept them, each output expansion is contributing to a state of affairs in which, through dynamic reactions set going, higher marginal prospective labor products will generally emerge and higher money wage-rates will be forced by the market."

Finally, Professor Hutt discusses the claim that the pre-Keynesian "orthodoxy" had no explanation of situations of less than full employment and what cures were necessary for alleviating the depression. Hutt quotes from Lavington's 1922 book, *The Trade Cycle*, that "No entrepreneur can fully expand his output until others expand their output." And Edwin Cannan's 1933 words that "General unemployment appears when asking too much is a general phenomena." Thus, showing the validity of Say's Law that just as much as is supplied will generate an equivalent demand for non-competing resources. And in his earlier work *Politically Impossible . . . ?* (Institute of Economic Affairs, London, 1971), Hutt quoted such "leftist" spokesmen as welfare economist A. C. Pigou, who told a government committee in 1931 that lower wage-rates "would employ more people," and the Fabian socialists Sidney and Beatrice Webb, who called the Trade Union leaders "pigs" for sabotaging British employment levels by asking for excessive wage-rates.

Though Hutt doesn't mention them, of all the economists and schools of thought who would be least guilty of this Keynesian accusation, the "Austrians" would have the best record. Starting in the 1920's, they were not bedazzled by the promises of Irving Fisher's Stabilized Price Level movement. For, as Schumpeter astutely observed ". . . the Austrian way of emphasizing the behavior and decision of individuals and of defining exchange value of money with respect to individual commodities rather than with respect to a price level of one kind or another has its merits, particularly in the analysis of an inflationary process." Ludwig von Mises pointed out in 1928 that, "Exchange ratios on the market are constantly subject to change," because they are the result of the subjective valuations of market participants; and "the idea of a general state of prices, a price level, which is raised or lowered uniformly is . . . fictitious . . ." In the same year Gottfried Haberler observed that businesses are influenced by prices relevant to its particular line of production, rather

than a "price level." So, "a general index rather conceals and submerges than reveals and explains those price movements which characterize and signify the movement of the (business) cycle." Based on this type of analysis, Friedrich von Hayek predicted the coming depression in the February, 1929 *Monthly Report of the Austrian Institute for Business Cycle Research*.

When the depression struck and employment figures remained at a low level, Mises pointed out, in 1931, "that unemployment, as a long-term phenomenon, is the consequence of the policy adopted by the unions of driving wage rates up." Hayek, in the same year, stated that "absorption of the unemployed resources" could be achieved only "by the slow process of adapting the structure of production to the means available for capital purposes." Which meant flexibility in money wages and prices. And, finally, as Fritz Machlup observed in 1935, "no interest policy can succeed in stimulating production when the maladjustment in cost-price relations persists; in other words, if the costs of labor and material fail to adjust themselves, low interest rates cannot do anything for creating investment."

What Keynes was really criticizing, then, was not that the "orthodox" economists didn't have an answer to the depression problem. Rather, it was that the reigning orthodoxy offered no solution that was acceptable to trade union monopolies that did not want to cut back from the money wages of the "prosperous" 1920's. The Keynesian solution is inflation. For as Keynes explicitly admits in *The General Theory*, "a movement by employers to revise money-wage bargains downwards will be much more strongly resisted than a gradual and automatic lowering of real wages as a result of rising prices." The whole New Economics becomes summed up as a particular case of Say's Law. A case in which government monetary expansion and expenditure attempts to seduce the release of withheld supplies, at prices and wages desired by the privileged groups, so they, in turn, can demand the withheld supplies of others at higher prices.

Professor Hutt concisely and brilliantly explained the problem in the introduction to his *Theory of Idle Resources*: "Competition and capitalism are hated to-day because of their tendency to destroy poverty and privilege more rapidly than custom and the expectations established by protections can allow. We accordingly find private interests combining to curb this process and calling on the State to step in and do the same; and unless the resistance is expressed through monetary policy, the curbing takes the form of restrictions on production."

Mr. Ebeling is a student of economics at California State University at Sacramento.

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