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Q&A on the S&L Mess

by Murray N. Rothbard

Q. When is a tax not a tax?

A. When it's a "fee." It was only a question of time before we would discover what form of creative semantics President Bush would use to wiggle out of his "read my lips" pledge (bolstered by the Darman "walks like a duck" corollary) never ever to raise taxes. Unfortunately, it took only a couple of weeks to discover the answer. No, it wasn't "revenue enhancement" or "equity" or "closing of loopholes" this time; it was the good old chestnut, the "fee."

When Secretary of the Treasury Brady came up with the ill-fated "fee" proposal for all bank depositors to bail out the failed, insolvent S&L industry, President Bush likened it to the user fee the federal government charges for people to enter Yellowstone Park. But the federal government—unfortunately— *owns* Yellowstone and, as its owner, may arguably charge a fee for its use without it being labeled a "tax" (although even here problems can be raised since the government does not have the same philosophical or economic status as would a private owner). But on what basis can a "fee" be levied on someone's use of his own money to deposit in an allegedly private savings and loan bank? To *whom*, and for *what*?

No, in the heartwarming firestorm of protest that arose, from the general public, and from all politicians and political observers, it was clear that to everyone except the Bush Administration, that the proposed levy on savers looked, talked, and waddled very much like a tax-duck.

Q. When is insurance not insurance?

A. When you are trying to "insure" an industry that is already bankrupt. Sometimes, the tax that is supposedly not a tax is called, not a "fee" but an "insurance premium." When the barrage of public protest virtually sank the "fee" on savers, the Bush Administration began to backpedal and to shift its proposal to a levy on other banks that are not yet officially insolvent, this new tax on banks to be termed a higher "insurance premium."

But there are far more problems here than creative semantics. The very concept of "insurance" is fallacious. To "insure" a fractional-reserve banking system, whether it be the deposits of commercial banks, or of savings and loan banks, is absurd and impossible. It is very much like "insuring" the *Titanic* after it hit the iceberg.

"Insurance" is only an appropriate term and a feasible con-

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The Meaning of the Pay Defeat

by Llewellyn H. Rockwell, Jr.

Big government and its allies thought the fix was in. A faceless bipartisan commission, chaired by an establishment icon, would meet in secret. It would recommend a 51% payraise for Congressmen, top bureaucrats, and judges, to go into effect unless vetoed by the president or one house of Congress.

Republicans and Democrats; Presidents Reagan and Bush; House and Senate Leaders; ABC, CBS, and NBC; the *New York Times*, the *Wall Street Journal*, and the *Washington Post*; heads of big corporations and labor unions; liberals, moderates, and neoconservatives like George Will and Thomas Sowell—

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cept when there are certain near-measurable risks that can be pooled over large numbers of cases: fire, accident, disease, etc. But an entrepreneurial firm or industry cannot be "insured," since the entrepreneur is undertaking the sort of risks that precisely cannot be measured or pooled, and hence cannot be insured against.

All the more is this true for an industry that is inherently and philosophically bankrupt anyway: fractional-reserve banking. Fractional-reserve S&L banking is pyramided dangerously on top of the fractional-reserve commercial banking system. The S&Ls use their deposits in commercial banks as their own reserves. Fractional-reserve banks are philosophically bankrupt because they are engaged in a gigantic con-game: pretending that your deposits are there to be redeemed at any time you wish, while actually lending them out to earn interest.

It is *because* fractional-reserves are a giant con that these banks rely almost totally on public "confidence," and that is why President Bush rushed to assure S&L depositors that their money is safe and that they should not be worried.

The entire industry rests on gulling the public, and making them think that their money is safe and that everything is OK; fractional-reserve banking is the only industry in the country that can and will collapse as soon as that "confidence" falls apart. Once the public realizes that the whole industry is a scam, the jig is up, and it goes crashing down; in short, the whole operation is done with mirrors, and falls apart once the public finds out the score.

The whole point of "insurance," then, is not to insure, but to swindle the public into placing their confidence where it does not belong. A few years ago, private deposit insurance fell apart in Ohio and Maryland because one or two big banks failed, and the public started to take their money out (which was not there) because their confidence was shaken. And now that one-third of the S&L industry is *officially* bankrupt—and yet allowed to continue operations—and the Federal Savings and Loan Insurance Corporation (FSLIC) is officially bankrupt as well, the tottering banking system is left with the Federal Deposit Insurance Corporation (FDIC). The FDIC, which "insures" commercial banks, is still officially solvent. It is only in better shape than its sister FSLIC, however, because everyone perceives that behind the FDIC stands the unlimited power of the Federal Reserve to print money.

Q. Why did deregulation fail in the case of the S&Ls? Doesn't this violate the rule that free enterprise always works better than regulation?

A. The S&L industry is no free-market industry. It was virtually created, cartelized, and subsidized by the federal government. Formerly the small "building and loan" industry in the 1920s, the thrifts were totally transformed into the government-created and cartelized S&L industry by legislation of the early New Deal. The industry was organized under Federal Home Loan Banks and governed by a Federal Home Loan Board, which cartelized the industry, poured in reserves, and inflated the nation's money supply by generating subsidized cheap credit and mortgages to the nation's housing and real-estate industry.

FSLIC was the Federal Home Board's form of "insurance" subsidy to the industry. Furthermore, the S&Ls persuaded the Federal Reserve to cartelize the industry still further by imposing low maximum interest rates that they would have to pay their gulled and hapless depositors. Since the average person, from the 1930s through the 1970s, had few other outlets for their savings than the S&Ls, their savings were coercively channeled into low-interest deposits, guaranteeing the S&Ls a hefty profit as they loaned out the money for higher-interest mortgages. In this way, the exploited depositors were left out in the cold to see their assets decimated by continuing inflation.

The dam burst in the late 1970s, however, with the invention of the money-market mutual fund, which allowed the fleeced S&L depositors to take out their money in droves and put it into the market-interest funds. The thrifts began to go bankrupt, and they were forced to clamor for elimination of the cartelized low rates to depositors, otherwise they would have gone under from money-market fund competition. But then, in order to compete with the high-yield funds, the S&Ls had to get out of low-yield mortgages, and go into swinging, speculative, and high-risk assets.

The federal government obliged by "deregulating" the assets and loans of the S&Ls. But, of course, this was phony deregulation, since the FSLIC continued to guarantee the S&Ls' liabilities: their deposits. An industry that finds its assets unregulated while its liabilities are guaranteed by the federal government may be, in the short-run, at least, in a happy position; but it can in no sense be called an example of a free-enterprise industry. As a result of nearly a decade of wild speculative loans, official S&L bankruptcy has now piled up, to

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the tune of *at least* $100 billion.

Q. How will the federal government get the funds to bail out the S&Ls and FSLIC, and, down the road, the FDIC?

A. There are three ways the federal government can bail out the S&Ls: increasing taxes, borrowing, or printing money and handing it over. It has already floated the lead balloon of raising "fees" on the depositing public, which is not only an outrageous tax on the public to bail out their own exploiters, but is *also* a massive tax on savings, which will decrease our relatively low amount of savings still further. On borrowing, it faces the much ballyhooed Gramm-Rudman obstacle, so the government is borrowing to bail out the S&Ls by floating special bonds that would not *count* in the federal budget. An example of creative accounting: if you want to balance a budget, spend money and don't *count* it in the budget!

Q. So why doesn't the Fed simply print the money and give it to the S&Ls?

A. It could easily do so, and the perception of the Fed's unlimited power to print provides the crucial support for the entire system. But there is a grave problem. Suppose that the ultimate bailout were $200 billion. After much hullaballoo and crisis management, the Fed simply printed $200 billion and handed it over to the S&L depositors, in the course of liquidating the thrifts. This *in itself* would not be inflationary, since the $200 billion of increased currency would only replace $200 billion in disappeared S&L deposits. But the big catch is the next step.

Murray N. Rothbard

In a genuine free-market economy, no one may exploit anyone else in order to acquire an ironclad guarantee against loss.

If the public then takes this cash, and redeposits it in the commercial banking system, as they probably would, the banks would then enjoy an increase of $200 billion in reserves, which would then generate an immediate and enormously inflationary increase of about $2 trillion in the money supply. Therein lies the rub.

Q. What's the solution to the S&L mess?

A. What the government *should* do, if it had the guts, is to 'fess up that the S&Ls are broke, that its own "insurance" fund is broke, and therefore, that since the government has no money which it does not take from the taxpayer, that the S&Ls should be allowed to go under and the mass of their depositors to lose their nonexistent funds.

In a genuine free-market economy, no one may exploit anyone else in order to acquire an ironclad guarantee against loss.

The depositors must be allowed to go under along with the S&Ls. The momentary pain will be more than offset by the salutary lessons these depositors will have learned: don't trust the government, and don't trust fractional-reserve banking. One hopes that the depositors in fractional-reserve commercial banks will profit from this example and get their money out posthaste.

All the commentators prate that the government "has to" borrow or tax the funds to pay off the S&L depositors. There is no "has to" about it; we live in a world of free will and free choice.

Eventually, the only way to avoid similar messes is to scrap the current inflationist and cartelized system and move to a regime of truly sound money. That means a dollar defined as, and redeemable in, a specified weight of gold coin, and a banking system that keeps its cash or gold reserves 100% of its demand liabilities. ■

The Key to Sound Money

by Edwin Vieira, Jr.

Every thinking American knows that our country lacks "sound money" and "honest banking." And there is no shortage of good books that explain the economic, political, and moral justifications for free-market money, and catalogue the objectives all Americans committed to monetary freedom should strive to achieve. These include a return to silver and gold coinage, an end to central banking and fraudulent fractional-reserve banking schemes, and so on.

Confusion arises, however, as to *how* we can restore sound money and honest banking. A recurrent theme seems to be that government is responsible for irredeemable fiat currency, the inherently fraudulent Federal Reserve System, abusive legal-tender laws, and the other paraphernalia of the present system. One author, for example, tells us that "sound money" and "honest banking" are "not impossible; they are merely illegal." This kind of thinking assumes a great deal: specifically, that whatever those in temporary control of public offices may do is "the law." But nothing could be further from the truth.

Strictly speaking, the "government" of the United States (or of any state or locality) is a kind of "legal fiction." It is not the individuals elected or appointed to office, the physical buildings they occupy, or the actions they take per se. Rather, the government, rightly understood, is the actions duly elected or appointed officials take consistent with the Constitution. If an action is inconsistent with the Constitution, it is unlawful and nongovernmental by definition. Such an unconstitutional action may be defined as "usurpation" or "tyranny," but never as a truly governmental function. Simply put, our government has no authority to act outside of or against the Constitution; and when public officials do so, they are not acting as agents of

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government, but as lawbreakers or outlaws.

For that reason, before we assume that sound money and honest banking are illegal today, we had better first determine what the constitutional powers of government are with respect to money and banking, and whether the present system has any constitutional validity. When we do this, we immediately see that, if sound money and honest banking are illegal today (in the sense that public officials say they are), it is not because the Founding Fathers licensed government in the Constitution to foist unsound money, monopolistic central banking, and chronic inflation upon the American people. To the contrary, the United States now suffers from the ravages of a monetary system based on irredeemable, legal-tender Federal Reserve notes and unlimited central-bank credit expansion precisely because, during the past century, every branch of the national government has neglected to enforce, or knowingly violated, the Constitution in the monetary and banking fields.

Themselves eye-witnesses to the economically catastrophic inflation that followed emission of the paper Continental currency during the War of Independence, the Founding Fathers carefully structured the Constitution to prevent the repetition of such a calamity. They established as the nation's money a parallel system of silver and gold coinage, based on the silver dollar as the unit of account; outlawed any form of legal tender other than silver and gold coin; and deprived the government of the abusive power to issue paper money of any kind.

Under the Constitution as written every objective of a sound monetary system that free-market economists recommend is not only attainable but also mandated.

Indeed, under the Constitution as written, and as the Founders and their immediate descendant unerringly applied it until the Civil War, every objective of a sound monetary system that free-market economists recommend is not only attainable, but also mandated.

Rightly understood, the Constitution authorizes—and, indeed, requires—the government to mint silver and gold coins denominated only by weight and fineness, but denies it any power to emit paper money (Article I, Sec. 8, cls. 2 and 5; Article I, Sec. 10, cl. 1). It denies the government any power to enact legal-tender laws (except for "gold and silver Coin"), or laws preventing specific performance of private contracts (Article I, Sec. 8, cl. 5; Article I, Sec. 10, cl. 1; Amendments V and XIV). It permits private banks to issue their own nonfraudulent monetary notes, and deal honestly in deposits denominated in silver, gold, or foreign currencies (Article I, Sec. 8, cl. 3; Amendments IX and X). It permits free entry into private banking, throughout the United States (Article I, Sec. I, cl. 3; Article IV, Sec. 2, cl. 1; Amendments V, IX, X and XIV). It outlaws any governmentally sponsored banking-monopoly or banking cartel, such as the present-day Federal Reserve System (Amendments V and XIV). And it disables the government from levying discriminatory taxes on privately issued money (Amendments V and XIV).

Thus, in the most fundamental sense, the United States needs no reform law, or restoration law, to return to sound money. For the necessary law already exists, in the Constitution itself. What stands in the way of monetary freedom—and of all forms of individual freedom that our Constitution guarantees under the phrase "the Blessing of Liberty"—is not law, but lawlessness. In a free society, government must be fully subject to the constraint of law—to constitutional limitations on its powers. Where public officials disregard these limitations, they render their own acts illegitimate, immoral, and unworthy of popular allegiance.

Therefore, sound money and free banking are not illegal in the contemporary United States; for what the Constitution guarantees, no congressional statute, presidential order, or court decision can lawfully nullify, set aside, overrule, or condemn to obsolescence. Yet, history teaches the sad lesson that "public servants" will impose upon the citizenry as much tyranny as the people are willing to bear. So, ultimately, what freedoms the Constitution guarantees—in the monetary field as in every other—are only those freedoms that the American people force their elected and appointed officials to respect.

Money and banking are in the best condition when they enjoy the greatest degree of liberty. But money and banking are no different or separable from all other aspects of a free society. And no society can be free, in any aspect, where its laws do not recognize the value of freedom, where its public officials do not enforce the preconditions for freedom, and where its people do not exercise the vigilance in defense of freedom that led our forbears first to take up the sword to wrest their liberties from the clutches of tyrants, and then to take up the pen to secure those liberties in the fundamental law of the Constitution.

This country will enjoy a rebirth of monetary freedom if and when it experiences a revitalization of constitutionalism, in the broadest sense: namely, the recognition that there are inherent, ineluctable limits on governmental action beyond which lie economic, political, social, and moral disaster. When that day comes, the people will know where to look for the legal formula necessary to restore sound money and honest banking—to the Constitution, where it has always been, and is now, for those with eyes to see. ■

Eugen von Boehm-Bawerk: A Centenary Salute

by Richard M. Ebeling

In the 118 years since its founding, the Austrian School of Economics has changed the face of economic theory and policy. Beginning with Carl Menger in 1871, the Austrians overthrew the centuries-old labor theory of value and replaced it with the theory of marginal utility. They demonstrated that everything observable in the market—prices and costs, profits and losses, supply and demand—originates in the choices and actions of individuals.

From this elementary beginning, the Austrian economists constructed a revolutionary theory of markets and prices, interest and rent, money and capital. And after reforming economic theory, they turned to economic policy. They proved that government regulations and interventions invariably disrupt the market. With the works of Ludwig von Mises, the Austrians proved that socialism could not work. Eliminating private ownership of the means of production destroys the one tool that enables entrepreneurs and decision-makers to use resources efficiently.

Perhaps most importantly, the Austrians also overthrew the ancient fallacy that money was the creation of government. Menger showed that money exists apart from government; it arose in the free market to overcome the inconveniences of barter. Mises also developed the Austrian theory of the business cycle, which proves that inflations and depressions are not an inherent weakness in the market economy, but the result of government manipulation and control of the banking system.

But between Carl Menger and Ludwig von Mises there stands a man without whom there might not have been an "Austrian School": Eugen von Boehm-Bawerk (1851-1914). He was a student of Menger's work and Mises's great teacher, but too often overlooked in the history of thought.

While pursuing his graduate studies in Germany, Boehm-Bawerk came across Menger's writings. There he found what he was later to call the "open sesame" to all the mysteries of value, prices, and the market process. In 1881, Boehm-Bawerk was appointed professor of economics at the University of Innsbruck. It was there, in the Austrian Alps, that he developed Menger's ideas and made them world-famous as the Austrian theory of economics.

In 1884, he began his monumental *Capital and Interest*, which critically evaluated every significant economic contribution from ancient times to the last half of the 19th century. His masterpiece, *The Positive Theory of Capital*, published 100 years ago this year (and now Part II of *Capital and Interest*), contains his entire conception of economics and the nature of production and exchange in a market economy. And it served as the outline for much of what Austrian economics would expand upon in the 20th century.

He showed that all the phenomena of the market can be traced back to human action, that is, the choices and decisions of the individuals, each pursuing their own purposes and plans. Interest, Boehm-Bawerk demonstrated, is the market-generated price of time, an exchange of goods between the present and the future. And by allocating goods for the future, entrepreneurs create capital. The process of production proceeds through a series of increasingly intricate and time-consuming steps, bound together by market prices that connect every corner of the economy.

With his theories, Boehm-Bawerk set the stage for Ludwig von Mises's theory of the business cycle. Interest, as the price of time, is determined by supply and demand. When government manipulates this price through monetary expansion, it disrupts the market for savings and investments and gives entrepreneurs faulty signals. This results in misallocations of labor and capital. It also leads to an economic downturn, once monetary expansion ceases to sustain the imbalance between savings and investment.

Eugen von Boehm-Bawerk in his uniform as finance minister of the Austro-Hungarian Empire.

Boehm-Bawerk did more than develop much of the theoretical framework of the Austrian economics; he also applied his theories in policy. In the 1890s, Boehm-Bawerk was vice-chairman of the committee that established an Austro-Hungarian gold standard, which put a brake on credit expansion. He served three times as finance minister of the Empire, the last time from 1900 to 1904. As finance minister, he strongly opposed public spending projects, frequently arguing with the Emperor at cabinet meetings, and insisting that the government's budget be kept tight and in balance. And he forcefully and contemptuously opposed special-interest groups that wanted increased government spending for themselves.

On August 27, 1914, just days after the outbreak of the First World War, Boehm-Bawerk died. But his death did not silence his voice, because in December 1914, his last essay appeared, "Control or Economic Law?". It was a brilliant attack on those who denied the laws of economics and believed that government intervention and regulation could shape the market to any desired end. He demonstrated that government actions can distort the market and arbitrarily benefit some at the expense of others, but even governments cannot legislate away scarcity or make valuable the useless.

Reviewing the 1959 English translation of Boehm-Bawerk's three-volume edition of *Capital and Interest*, Ludwig von Mises

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The Dangers of "National Service"

by Sheldon L. Richman

One of the most talked about pieces of legislation these days is the bill, sponsored by Sen. Sam Nunn (D-GA), that would set up a so-called national-service program. The Nunn bill would induce young people into military or civilian service by promising vouchers worth $10,000-$12,000 for every year of service. The vouchers could be used for college tuition or a downpayment on a house.

As currently planned, the program would be voluntary. No one would have to participate. But Nunn would also end existing student-aid programs (in itself a good idea), making national service more of a necessity for poor people than for the affluent.

There is a grave danger that this program will be seen as uncontroversial, will quietly get through the Congress, and will be signed by President Bush. The media have been setting the public up for complacency. For example, on a recent MacNeil-Lehrer News Hour (on PBS), Nunn defended his program against three "critics." The word is in quotation marks because each began his remarks by lauding the underlying principle of national service, before taking issue with some minor details of the plan. Could the show's staff not find one *real* critic?

The national service proposal, because of its political nature, would have little to do with one's fellows and much to do with serving special political interests.

What are some of the faults with Nunn's program? The problem is deciding where to begin. The premise of the program is that young people owe something to their country. This debt, so the argument would go, cannot be discharged except by having them be at the service of the government for a year or two. The first thing to note is that a voluntary program is a weak reflection of the premise. And this is why the program would not remain voluntary for long. After some time, proponents of national service will notice that the program is filled mostly with poorer people who have no other way to get money for college or a house. The more affluent can avoid the service because the inducement doesn't work for them. This will be denounced as unfair and out of spirit with the intent of the program. Amendments to make it universal and compulsory will be proposed.

That a voluntary program is just the first step to a compulsory one is reason enough to reject the Nunn plan. But that is not all, for even if it could never become compulsory, there are reasons to reject it.

First, what of the government's promotion of "civic duty"? It directly contradicts the moral foundation of free society. In such a society the government may not promote a moral code beyond the minimum of respect for individual rights. Anything more infringes freedom of conscience. Yet under the Nunn plan the government will spend $5 billion a year (not including the cost of the vouchers) to promote the idea that young people owe a duty to the state or society.

A good case could be made that the notion of service owed to the state or society is characteristic of 1930s European despotism, but in this context it is enough to say that the government should have nothing to say about it. If people want to perform service for their communities or country, there are countless private organizations in which they can do it. But it is well beyond the scope of limited government for it to tax people in order to induce others to perform service. Any taxpayer who objects to the idea that one has unchosen obligations to others would thereby have his conscience violated. (Needless to say, a compulsory program would be an even more egregious usurpation, because the government would be claiming an ownership right to a portion of the time of its citizens. This would be temporary slavery.)

The discussion so far has given too much away to the national-service advocates, for they imply that one does not create social benefits through private market activity. That of course is absurd since to be successful in the marketplace, one must be sensitive to the needs of others. Even if one's only motivation is personal profit, one cannot help but benefit others while pursuing it. That surely should discharge any obligation to the satisfaction of the national-service advocates. The reason it doesn't is that service to society is not the same as service to the government. As we will see, the national service proposal, because of its political nature, would have little to do with one's fellows and much to do with serving special political interests.

There are specific economic problems with the Nunn plan as well. How will the government decide where to allocate the labor services it will have at its disposal? In the free market, entrepreneurs observe prices for inputs and outputs to discover worthwhile investments. They then bid for the labor needed to execute their plans. If the wages they must pay are within the constraints set by final consumer valuation of the product, the enterprise is viable. If the wages are outside those constraints, this is a signal that others are willing to bid more for the services. The wage market, in other words, provides indispensable signals for the rational allocation of labor and resources.

This system of signals would be of no interest to the administrators of the national-service program. The program would not face a profit-loss test and it couldn't go out of business, because the people who finance it—the taxpayers—could not withhold their revenue if they were displeased. So its standards for allocating labor would be different from those of entrepreneurs. What standards would it use? More than likely it would use the

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all endorsed the raise, and the commission's specious arguments for it.

The pay commission was chaired by Lloyd Cutler, a Democrat lobbyist who peddles his influence with Congress and the bureaucracy and tries cases before federal judges. The members of the commission—chosen by President Reagan, Congressmen Jim Wright and Bob Michel, and Chief Justice Rehnquist—were all government contractors or heads of companies that benefit from government regulation. From Cutler on down, they stood to benefit by making our leaders happy with the people's money.

Cutler claimed that the 51% pay raise was merely a correction for inflation since 1969. Leaving aside the question of whether the perpetrators of inflation should be immune from it, 1969— when there was another giant raise—had the highest relative salaries for federal officials in U.S. history. As all economists know, the easiest way to lie with statistics is to manipulate your base year.

Echoing Cutler, Congressman Tony Coelho (D-CA) warned that without a raise, there would be a continuing "exodus of judges, top-level managers, and creative Members of Congress." But 99% of the Congress ran for reelection; top bureaucrats leave only when they retire or die; and a mere .4% of federal judges go into private practice each year.

Thomas Jefferson warned against a permanent government and advocated "rotation in office." Only statists could worry about new people in Congress, the bureaucracy, or the judiciary. In fact, we need a pay *cut* to encourage turnover.

Cutler also asserted that Congress, in return for the 51%, would abolish the near-bribes called honoraria and speaking fees. But as Ralph Nader noted: at least these payoffs—reprehensible as they are—are voluntary: "The pay raise would be funded through coercion."

But it's "only $76 million" the first year, argued Cutler. "They *spill* more than that every day at the Pentagon." Seventy-six million dollars is pocket money only in Washington, of course. But $76 million would only be the beginning. The 51% raise at the top would have triggered massive increases throughout the federal bureaucracy, making Looterville on the Potomac even more of a boomtown. After the payraise, the *Washington Post* had written, look for higher prices, especially on luxury automobiles, townhouses, and antique furniture. The skids were greased, and champagne corks were popping from Georgetown to Capitol Hill.

Then the teabags hit the fan.

Letters, telegrams, and phone calls inundated Congress, along with carloads of teabags, recalling the glorious tax rebellion called the American Revolution.

Instrumental in focusing the popular opposition were America's radio talkshow hosts. Led by heroes like Ray Briem of KABC in Los Angeles, Gene Burns of WRKO in Boston, Bob Durgin of KTOK in Oklahoma City, Bob Grant of WABC in New York, Bob Lee of KSL in Salt Lake City, and Carl Wiglesworth of WOAI in San Antonio, a tidal wave of outrage swamped the Capitol. It was, worried the *New York Times*, the "greatest outpouring of anti-government sentiment in decades."

Liberal columnist David Broder called it "knuckling under to the know-nothing demagoguery of their home-town radio talk shows." Said Congressman Vic Fazio (D-CA): "We became cartoon cannon fodder for trash radio talk shows." But the people knew what was true and what was trash, and where their knuckles and cannon should be aimed.

Along with Wright, Fazio, and Coelho, the other payraise ringleaders in the House were Dick Cheney (R-WY) and Jerry Lewis (R-CA). I sat next to Lewis once at a lunch in the U.S. Capitol. He blathered about why the budget deficit should be reduced, so I asked why he had voted for all of Reagan's colossally out-of-balance budgets.

"Because everyone wants something from the government," he said. "You're no different. You want something. What do you want?" I answered: "All I want is a for-rent sign on the Capitol door."

Just as important as the payraise defeat was its broader significance. No matter how powerful and arrogant the government in Washington, it can be defeated if the people get angry enough. This victory can, in fact, be a pattern for the years

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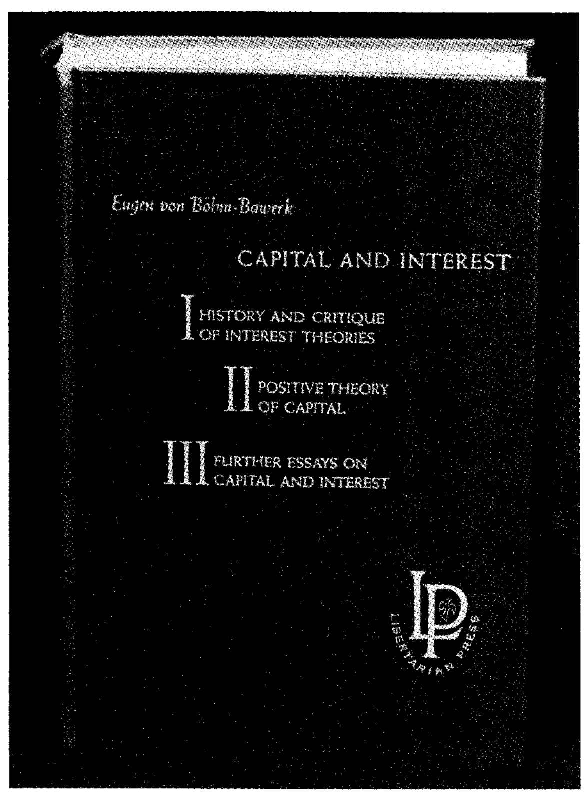

Book of the Month: the massive, hardbound Capital and Interest, *Eugen von Boehm-Bawerk's 1,200-page masterpiece, is available for $45, including U.S. postage and handling. U.S. funds only, please. See order form for other books by this giant of Austrian economics.*

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usual bureaucratic standards that we observe in other government programs. Blind to the signals that indicate the consumers' preference for resources, the bureaucrats assigning personnel would favor projects that can further their careers and prestige. For example, we could expect to see an inclination to favor organization in the districts of congressmen who sit on the committee that approves the budget of the national-service program. Not every choice would be that obvious, but the principle underlying the program's decisions would be the same.

While the government program would be assigning people to jobs without regard to market signals, those people would be unavailable to entrepreneurs trying to satisfy consumers. The smaller labor pool would lead to higher wages, which in turn would make some enterprises uneconomical. Consumers would thus face fewer choices and higher prices.

Proponents of national service will surely object that the people in the program would perform needed services. But before we can say that a service is needed, we must see what the market says about it. There are many ways to provide a given service; the only way to know how to provide it is to let the price system work. A national-service program would circumvent the price system.

Such a program would shift responsibility for many social problems away from the source, the government.

On the program's own terms, there are nagging questions. Why are young people the target? If people owe service because of the benefits they have gotten from society, it would seem that older people, who have collected more benefits than the young, have a greater obligation. Yet the program ignores this. Moreover, time off for national service would seem to be a greater hardship on young people, who are eager to set out on their own and begin their careers, than people already established in their work. Could it be that despite their rhetoric about the opportunity to serve, this is just another way for adults to control "kids"?

Perhaps a more serious indictment of such a program is that it would shift responsibility for many social problems away from their source, the government. The people who promote national service say that the poor would be helped by it. But this country has a permanent underclass because of countless regulations and restrictions—licensing, the minimum wage, rent control, to name a few—put in place by the same government that now is said to be able to help the poor by instilling the dogma of national service in America's young people. ■

Pay Defeat...from page 7

ahead. But people must be educated, interested, and energetic enough to make their views felt. Eternal vigilance is indeed the price of liberty.

Having worked in the House of Representatives, I can testify that nothing galvanizes a Congressman like a whiff of popular opposition. And the prospect of defeat can make him do anything—even defend the free market.

That's why the neoconservative effort—led by the *Wall Street Journal*—to shift even more power from the legislative to the executive branch is so dangerous.

Tyranny always comes from a runaway executive, not a runaway legislature. And the Founders of our country, familiar with the dictatorships of history, hobbled the executive with legislative fetters.

No one short of a David Rockefeller can influence the judiciary or the presidency. But as the pay raise showed, Congress is eminently influenceable by average Americans.

That is why those of us who care about limiting government— and about the Constitution—must oppose all attempts to strengthen the imperial executive against the legislature. It will be to a chastened and cleansed House and Senate that an aroused people can look to restrain omnipotent government. ■

Boehm-Bawerk Salute...from page 5

reminded his readers that "there is no better method to introduce a man to economic problems than that provided by the books of the greatest economists. And certainly Boehm-Bawerk is one of the greatest of them. His voluminous treatise is the royal road to an understanding of the fundamental political issues of our age."

Mises was aware that a "book of the size and profundity of *Capital and Interest* is not easy to read." "But," he assured the reader, "the effort upon it pays very well. It will stimulate the reader to look upon political problems not from the point of view of the superficial slogans resorted to in election campaigns but with full awareness of their meaning and their consequences for the survival of our civilization."

On its 100th birthday, Boehm-Bawerk's work stands as an even greater classic than when Ludwig von Mises wrote these words more than a quarter of a century ago. ■

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