
FUTURE OF FREEDOM

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Be bold — and mighty forces will come to your aid.

— Basil King

FUTURE OF FREEDOM

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The Future of Freedom Foundation is a nonprofit educational foundation whose mission is to advance liberty and the libertarian philosophy by providing an uncompromising moral, philosophical, and economic case for individual liberty, free markets, private property, and limited government.

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<i>Tyranny and the Homelessness Problem</i>	2
Jacob G. Hornberger	
<i>Buy a Bible, Become a Terror Suspect</i>	9
James Bovard	
<i>Fiscal Insanity</i>	16
Laurence M. Vance	
<i>The Political Economy of Natural versus Contrived Inequalities</i>	25
Richard M. Ebeling	
<i>“Who Will Build the Roads?” Part 2</i>	38
Wendy McElroy	

Tyranny and the Homelessness Problem

by *Jacob G. Hornberger*



I grew up in Laredo, Texas, which was the poorest city in the United States based on per capita income. The poverty in Laredo was so extensive that people in some parts of town actually lived in shacks. Yet, there was never a homelessness problem in Laredo. Yes, people lived in dilapidated housing, but at least they had a place to live.

Today, there is a gigantic homelessness problem in cities across America, but those cities have a much higher standard of living than Laredo had back in the 1950s and 1960s. How is it that Laredo had no homelessness, while many American cities today are besieged by homelessness?

The answer lies in government central planning and government economic intervention, specifically with respect to zoning laws and

what also became known as urban renewal. Moreover, to a larger extent, the homelessness problem is rooted in the welfare-state way of life that America adopted in the twentieth century. Indeed, the homelessness problem is a testament to the failure of the “war on poverty” that underlies America’s welfare-state way of life.

After the adoption of the Constitution, Americans lived without zoning — and, for that matter, socialism — for more than 125 years. Consider, for example, the American way of life in, say, 1890–1910: no income tax, IRS, Social Security, Medicare, Medicaid, welfare, minimum-wage laws, (few) economic regulations, immigration controls, drug laws, zoning laws, public (i.e., government) schooling systems, Federal Reserve, paper money, Pentagon, CIA, NSA, foreign military bases, foreign wars, foreign aid, state-sponsored assassinations, torture, indefinite detention, and mass secret surveillance. Needless to say, it was quite a different way of life than that to which Americans are accustomed to today.

In the late 1800s and early 1900s, however, Americans began clamoring for a different way of life, one that would entail the opposite of all those things listed above.

From 1913, when the federal income tax and the Federal Reserve were established, through the 1930s, when Social Security was adopted, through the 1940s, when the federal government was converted to a national-security state, and through the 1960s, when Medicare and Medicaid were enacted, the United States experienced one of the most gigantic transformations in history — one in which the welfare-warfare state became the nation's governing system.

The advent of zoning

Included in this transformation was the concept of zoning, a political scheme in which public officials centrally plan the development of cities and communities using the coercive powers of government. The first zoning laws in the United States came into existence in the early part of the twentieth century and gradually expanded across the country.

In 1926, the constitutionality of zoning reached the U.S. Supreme Court in the case of *Village of Euclid v. Ambler Realty Co.* In a 6-3 decision, the court upheld zoning, a decision that would ultimately have a tremendous impact on American cities. If only that decision had gone the other way, there is little doubt

that American cities would not be experiencing a gigantic homelessness problem today.

With zoning, public officials used the coercive powers of government to centrally plan their communities, with the aim of preserving nice-looking (i.e., higher value) homes and businesses within the city limits. They figured that zoning provided a perfect means of eliminating poverty inside the community while, at the same time, preserving home values of the middle class and well-to-do.

With zoning, public officials used the coercive powers of government to centrally plan their communities.

For example, let's assume that in 1950 a particular neighborhood was filled with very nice \$100,000 homes. Without zoning, an entrepreneur could purchase several vacant lots in the neighborhood and install a mobile-home park, which would enable poorer people to move into the neighborhood.

The homeowners didn't like that because the mobile-home park would lower the values of their homes. So, rather than purchase the vacant lots themselves with their own money, homeowners resorted

to zoning laws. City officials would simply enact a zoning law that prohibited mobile-home parks from being built in that particular part of town or any part of town. Home values were preserved, but the poor were suddenly deprived of low-cost housing in that part of town or, very possibly, depending on the zoning law, anywhere else in town.

It is worth noting as well that zoning is based on the principle of central planning, which is one of the core principles of socialism. As the libertarian economist Ludwig von Mises pointed out, socialist central planning inevitably results in what he called “planned chaos.” Such chaos doesn’t occur in what Nobel Prize winning libertarian economist Friedrich Hayek called the “spontaneous order,” which comes about through the voluntary actions of people in a genuine free-market, private-property society.

Keep in mind that zoning is totally different from a privately developed subdivision, where a private landowner places restrictions on the types of houses that can be built within the subdivision. It’s his property, and therefore he has the right to develop it any way he wants. With zoning, the government imposes its central plan on property that is subject to being developed

by anyone. In other words, when a person purchases a home inside a city, he knows that there is a risk that someone might build something not to his liking next door. To obviate that risk, he runs to the government for help in preserving his home value rather than simply moving to a more expensive, privately developed subdivision where he doesn’t run that risk.

Home values were preserved but the poor were suddenly deprived of low-cost housing.

When I returned to Laredo to practice law in 1975, one of my law firm’s clients was a man whose business was building and providing low-cost housing for people. He would go into Mexico and buy low-cost materials and supplies to build his apartments, which would enable him to charge low rental rates. He would rent his facilities on a daily, weekly, monthly, or annual basis. His apartments were always clean, orderly, and peaceful. He always had a very high occupancy rate. Our client was making a lot of money from his rentals, but at the same time he was providing an invaluable service to the poor. He was a perfect example of how the profit motive in a free market can end up

servicing others, in this case by providing housing for the poor.

Whenever one finds a homelessness problem today, I guarantee you that one will also find zoning in that particular city or community. When cities were adopting zoning, they figured that this would be an easy way to get rid of poverty. Poverty would simply be zoned out of existence. As with all other socialist or interventionist schemes, the zoning scheme failed to work and, in fact, produced the adverse consequence of homelessness.

If zoning were repealed, people would be free to move into low-cost housing, like mobile-home parks or large dwellings that could house many occupants. The poor would no longer be zoned out of the community.

The minimum wage and income tax

There is another factor to consider: minimum-wage laws. As with zoning, people began clamoring for this particular intervention in the late 1800s and early 1900s. Without a law requiring payment of a minimum wage, they said, employers would end up paying workers only a subsistence wage. It was a nonsensical notion, given that wage rates in a free market are determined by the laws of supply and demand. For

example, if there is a scarcity of labor and a high demand for labor, wage rates will soar far higher than subsistence levels and oftentimes higher than the minimum wage imposed by the government.

The zoning scheme failed to work and, in fact, produced the adverse consequence of homelessness.

Today, the minimum wage prices many homeless people out of the labor market. That's because employers place a value on their labor that is less than the legally established minimum wage, which means they cannot get a job, and will therefore never have the money to move into low-cost housing. The result is that they are forced to go on welfare, sleep on the streets, or move into some government housing facility.

Let's imagine we repeal the minimum wage and zoning laws. Now a homeless person can get a job at, say, \$5 an hour and move into a very low-cost mobile home park. Sure, he will be operating at survival levels, but at least now, he has a sense of self-worth. Slowly, over time, he is able to work his way toward a higher economic level. Zoning and the minimum-wage law preclude that from happening.

Consider the much larger issue of income taxation, which Americans lived without for more than 125 years. For more than a century, everyone, including the poor, could keep everything they earned. Imagine if that were the case today. The poor could get a job at \$5 an hour and more rapidly accumulate a nest egg that would enable them to climb the economic ladder. It is not a coincidence that in the late 1800s, millions of penniless immigrants were fleeing the European and Asian societies of government economic control and planning, and the high taxes that came with them, to come to America, where government played an almost non-existent role in economic planning.

Urban renewal and public works

There is another interventionist phenomenon that is worth mentioning — urban renewal, which conceptually was much like zoning. Beginning in the 1950s, this became an extremely popular means by which public officials removed “blight” or poverty from American cities. With urban renewal, public officials would condemn “blighted” areas with the power of eminent domain, force all the poor people out of that area, destroy it, and then construct things like public parks

or public highways. The idea was to “beautify” the city by legislating poverty out of existence. Zoning would then be used to reinforce what urban renewal had accomplished — that is, no more housing for the poor in that part of town.

With urban renewal, public officials would condemn “blighted” areas with the power of eminent domain.

But that “blight” consisted of real homes and real neighborhoods for the poor. That was all they could afford. The homes and neighborhoods may have seemed “blighted” to public officials and to the well-to-do in the city, but they were everything to the people living there. In many instances, they chose to stay there and simply save their money, with the aim of having the money to later send their children to college. What some considered “blight” were vibrant neighborhoods containing grocery stores and other retail shops that the poor could access without having to drive a long distance.

It is impossible to measure the suffering that urban renewal inflicted on the poor in cities all across America, especially blacks. In fact, in many instances, urban renewal

was a modern-day Jim Crow program, one in which public officials could easily rid neighborhoods of blacks. They just seized their homes with eminent domain, paid them a minimal amount of money, and forced them to move elsewhere. Of course, eminent domain didn't cover moving expenses, which oftentimes were exorbitant if people were required to move to another community. Moreover, it is impossible to measure the emotional toll on people who lost the dynamics of the neighborhood in which they had often lived for most, if not all, of their lives.

**The Interstate Highway System
was used to destroy poorer
neighborhoods in many American
cities.**

Later, urban renewal meant taking people's privately owned property to give it to wealthy developers, with the aim of replacing the poor areas with higher-valued residential or commercial establishments. This practice was upheld by the U.S. Supreme Court in the famous 2005 case of *Kelo v. City of New London*.

Another related interventionist program that came into existence was public works, such as highways, parks, and parkways. The Interstate

Highway System, the biggest public-works project in American history, was a classic example. It was used to destroy poorer neighborhoods in many American cities, particularly neighborhoods populated by blacks. As with urban renewal, public officials would condemn the poorer parts of town through which the highway would usually be located, give the residents a bit of money, and tell them that they had to go elsewhere to find housing. It was a brutal system that inflicted untold suffering on the poor. For that matter, it did the same with many middle-class families whose livelihoods depended on businesses located on the old highways that traversed America before the interstate highways came along.

The welfare state and war on poverty

Clearly, modern-day Americans are so wedded to the welfare-state way of life that they are unwilling to abandon what is the root cause of homelessness and poverty in America. To solve the homelessness problem that their system has produced, they instead call for more interventionism to solve the problem, such as government-owned homeless shelters and welfare payments. Some communities, preferring not to have to incur the burden

of such programs, are now making homelessness a criminal offense. They are hoping that by doing so, the homeless will simply move elsewhere and become homeless in another community. In one community, public officials decided to bus homeless people to other parts of the state and were surprised to learn that some of them simply returned. Apparently, the officials assumed that homeless people were like cattle. If they were moved elsewhere, they would stay elsewhere.

The issue of homelessness has now reached the U.S. Supreme Court in the case of *Grants Pass v. Johnson*. During oral arguments in the case held in April 2024, Supreme Court Justice Ketanji Brown Jackson observed, “So if you can’t sleep, you can’t live, and therefore by prohibiting sleeping, the city is basically saying you cannot live in Grants Pass.” Justice Sonia Sotomayor asked, “Where are they supposed to sleep? Are they supposed to kill themselves not sleeping?” Chief Justice John Roberts pointed to the standard welfare-state an-

swer: “The solution, of course, is to build shelter to provide shelter for those who are otherwise harmless,” while also pointing out that “municipalities have competing priorities.”

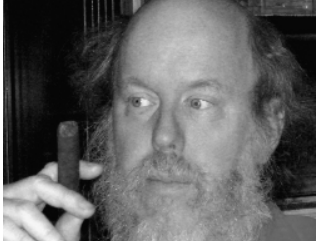
Ultimately, the real solution is for Americans to do some serious soul-searching and finally acknowledge that welfare-statism and economic interventionism have proven to be a disaster, especially for the poor. Restoring the sound principles of economic liberty, free markets, and voluntary charity to our land is not only the key to ending homelessness but also to ending poverty in general.

Jacob G. Hornberger is founder and president of The Future of Freedom Foundation.

NEXT MONTH:
**“Right-Wing Obtuseness
on Immigration”**
by Jacob G. Hornberger

Buy a Bible, Become a Terror Suspect

by James Bovard



Americans are familiar with the Miranda warning that anything that arrestees say can be used against them in a court of law. But the Biden administration secretly created a new tripwire: Anything you purchase can be used against you. And if you didn't want to be categorized as a "lone wolf" potential terrorist, you never should have bought that Bass Pro hat.

Federal agencies have long kept an eye on suspicious purchases by Americans considered potential troublemakers. Flash back 50 years, and the feds likely tracked buyers of *The Anarchist Cookbook* (1971), a book chockful of bad advice that caused boneheaded hippie bomb makers to blow themselves up.

But the federal surveillance net has vastly increased since the 1970s. Nowadays, the feds are flagging

people who purchase Bibles and "other media containing extremist views," according to a report by the House Judiciary Committee.

Technology is propelling new threats to freedom. A March 2024 report by the House Judiciary Committee noted that "the decline of cash and the rise of digital payments and e-commerce platforms.... As a result, these financial institutions often act as arms of federal law enforcement as they work in coordination with federal law enforcement to identify what transactions and other information is 'suspicious' enough to be reported." Greater computer resources make it vastly cheaper to store dirt on practically any private citizen.

The January 6 protests

After the January 6 Capitol clash in 2021, the Biden administration targeted average Americans as if they were would-be terrorists. The Treasury Department's Financial Crimes Enforcement Network (FinCEN) bloated its definitions of "suspicious behavior," warning banks to track "'extremism' indicators that include 'transportation charges, such as bus tickets, rental cars, or plane tickets, for travel to areas with no apparent purpose,' or 'the purchase of books (including religious

texts),” the House Judiciary Committee announced in a January report. As Fox News reported, FinCEN “distributed materials to financial institutions that outlined ‘typologies’ of ‘various persons of interest’ and provided the banks with ‘suggested search terms and Merchant Category Codes for identifying transactions on behalf of federal law enforcement.’”

In Washington, anyone who doesn't worship government is considered an extremist.

If you bought a gun or ammo since 2021, Team Biden bureaucrats may have automatically classified you as a “potential active shooter.” Or maybe your purchases triggered “Lone Actor/Homegrown Violent Extremism Indicators.” Are people who majored in theater in college but never got starring roles more likely to be classified as “lone actors?” The feds also warn of “Lone Wolves.” How does a “Lone Actor” become a “Lone Wolfe?” [sic] Is this only a problem during full moons, or what?

FinCEN encouraged banks to use terms such as “TRUMP” and “MAGA” for “identifying transactions on behalf of federal law enforcement,” according to the House

Judiciary Committee. Committee chairman Rep. Jim Jordan (R-OH) complained: “This kind of pervasive financial surveillance ... raises serious doubts about FinCEN’s respect for fundamental civil liberties.” The House Committee is therefore demanding information on “federal law enforcement’s mass accumulation and use of Americans’ private information without legal process; FinCEN’s protocols, if any, to safeguard Americans’ privacy and constitutional rights in the receipt and use of such information.”

Defining “extremism”

Much of the absurdity begins with entitling bureaucrats to arbitrarily define “extremism.” In Washington, anyone who doesn’t worship government is considered an extremist. Why else would the official list of potential alarm signals include people who shopped at Cabela’s or Dick’s Sporting Goods? The Treasury Department formally admitted in February that FinCEN “began shortly after January 6” to track suspicious activity that “included terms such as ‘antifa,’ ‘MAGA,’ ‘Trump,’ ‘Biden,’ ‘Kamala,’ ‘Schumer,’ and ‘Pelosi.’”

Congressman Jordan is also pursuing the FBI’s role in arm-twisting the Bank of America.

Jordan's committee learned that FBI officials "made contact with and provided Bank of America with specific search query terms, indicating that it was 'interested in all financial relationships' of BoA customers transacting in Washington D.C. and customers who had made 'ANY historical purchase' of a firearm, or who had purchased a hotel, Airbnb, or airline travel within a given date range." Buy a gun, go to Washington 10 years later, get a federal dossier for the rest of your life! Jordan complained that the federal government "urged large financial institutions to comb through the private transactions of their customers for suspicious charges on the basis of protected political and religious expression."

Will Team Biden seek to make scoffing at politicians a federal offense?

As a March 2024 follow-up report from the House Judiciary Committee noted, FinCEN carried out similar meetings with Barclays, Charles Schwab, HSBC, Paypal, Western Union, Wells Fargo, Citibank, JPMorgan, and Chase "geared toward discussing options for financial institutions to share customer information voluntarily

with federal law enforcement outside of normal legal processes."

The FBI shared one report with financial institutions that asserted that Americans "who expressed opposition to firearm regulations, open borders, COVID-19 lockdowns, vaccine mandates, and the 'deep state' may be potential domestic terrorists." Federal agencies used that report "to commandeer financial institutions' databases and ask the financial institutions to conduct sweeping searches of individuals not suspected of committing any crimes. Federal law enforcement agencies warned that "the purchase of books (including religious texts) and subscriptions to other media containing extremist views," could be evidence of "Homegrown Violent Extremism." The committee declared that the evidence from federal agencies "show a pattern of financial surveillance aimed at millions of Americans who hold conservative viewpoints or simply exercise their Second Amendment rights."

The House Judiciary Committee is also probing the FBI's role in vacuuming up information on private citizens beyond targeting banks. Rep. Jordan complained that the FBI "prepared an official report that broadly characterized certain

political beliefs as indicative of domestic violent extremism.” Will Team Biden seek to make scoffing at politicians a federal offense? Jordan is seeking sworn testimony about the FBI’s “mass accumulation and use of Americans’ private information without legal process.”

Financial surveillance

The latest revelations are another leap toward total financial surveillance. Prudent citizens should react to this news as if they saw a convicted burglar prowling outside their house taking too many photographs. Federal financial agencies have a record of secretly conspiring to cripple or destroy individuals or industries they despise. Federal regulations confer vast discretion to bureaucrats which they have not hesitated to abuse in the past.

During the Obama administration, the Federal Deposit Insurance Corporation (FDIC) and the Justice Department launched Operation Choke Point, supposedly to “choke” illegal businesses’ access to financial services. But the target list was stretched to include attempts to destroy financial access for porn stars, coin dealers, online tobacco companies, and other targets.

Federal threats swayed banks to blindsides thousands of their busi-

ness customers. Cigar sellers and manufacturers were clobbered as collateral victims. A *Daily Beast* story headlined “The Banks’ War on Porn” reported that “hundreds of current and former porn stars” received “curt letters of account termination without further explanation” from their banks. A top FDIC official insisted that the agency’s letters to Congress on the crackdown “always mention pornography when discussing payday lenders and other industries, in an effort to convey a ‘good picture regarding the unsavory nature of the businesses at issue,’” according to a 2014 congressional report.

Federal threats swayed banks to blindsides thousands of their business customers.

For some federal regulators and prosecutors, guns were even worse than smut. The FDIC notified banks to “prohibit” payment processing for firearms merchants” and described “loans to firearms dealers as ‘undesirable,’” according to the congressional report. Banks were advised by one private regulatory compliance service: “Arms and Ammunition Dealers are identified as higher risk businesses because they have a higher risk of being as-

sociated with terrorism and terrorist acts.” The National Rifle Association complained that banks were “refusing to do business with legitimate law-abiding companies in the firearm industry ... without regard to the specific company’s credit, criminal or financial history.” Hundreds of firearms and ammo companies saw their bank accounts frozen or terminated. Representative Sean Duffy (R-WI) complained that federal officials were “weaponizing government to meet their ideological beliefs.” Representative Blaine Luetkemeyer (R-MO) declared, “Unelected bureaucrats at the Department of Justice, the FDIC and other agencies set out to kill legal businesses by starving them of access to financial institutions.”

Emails from FDIC officials showed they were “scheming to influence banks’ decisions on who to do business ... [to ensure] banks ‘get the message’ about the businesses the regulators don’t like, and pressuring banks to cut credit or close those accounts, effectively discouraging entire industries,” according to an analysis published by the Daily Signal. Former FDIC chief William Isaac declared: “Operating without legal authority and guided by a political agenda, unelected of-

ficials at the DOJ are discouraging banks from providing basic banking services — deposit accounts, payments processing services, and payroll accounts — to lawful businesses simply because they don’t like them. Bankers are being cowed into submission by an oppressive regulatory regime.” American Bankers Association president Frank Keating complained: “The government is compelling banks to deny service to unpopular but perfectly legal industries by threatening penalties.” Operation Choke Point was terminated by the Trump administration, but legions of laws and regulations that could permit federal agencies to deny due process to politically disfavored businesses remain on the books.

Emails from FDIC officials showed they were “scheming to influence banks’ decisions on who to do business.”

Canada exemplifies how quickly a democracy can exploit financial tools to become authoritarian. The Canadian government used emergency decrees to freeze the bank accounts of anyone suspected of being tied to COVID “Freedom Convoy” protests in 2022. Politicians used financial levers to seek to cripple any

opposition from truckers or anyone else. A Canadian court later ruled that the Trudeau regime had illegally abused emergency powers, but that did not repair the damage the decrees inflicted.

An American kleptocracy

The latest revelations bolster suspicions that the United States is becoming a kleptocracy. Ten million dollars in wire transfers arrive in Biden family bank accounts from squirrely foreigners, and nobody is permitted to raise an eyebrow. Busloads of members of Congress have gotten rich from crooked insider trading in the stock market. Federal investigators ignore those scandals and instead hound hapless individuals suspected of buying too many boxes of .22 ammo for target practice. While FinCEN fretted about sales of Goretex camouflage vests, the feds slow-walked investigations of alleged bribes (including gold bars) received by the chairman of the Senate Foreign Affairs Committee, Sen. Bob Menendez (D-NJ).

U.S. money-laundering regulations are designed to shroud crimes by American politicians. Federal agencies require banks to take far more precautions when handling financial transactions involving “politically exposed persons” —

which includes almost all foreign politicians, their family members, friends, associates, and anyone else likely to take the money and run. But as a 2020 federal regulatory notice declared, federal banking agencies “do not interpret the term ‘politically exposed persons’ to include U.S. public officials.”

Congress decided there is no need to audit your tax dollars after they are forwarded to Kyiv.

At the same time that federal agencies are acting as if they have a divine right to know how every citizen spends every dollar, don't expect Uncle Sam to come clean on where your tax dollars go. Are you concerned about the \$100 billion in U.S. government money that has been sent to the Ukraine government? Don't worry — Congress decided there is no need to audit your tax dollars after they are forwarded to Kyiv. Are you concerned whether your tax payments are financing Deep State surveillance operations targeting yourself, your neighbors, and even your in-laws? Congress signed off on dropping an Iron Curtain around the budgets of federal intelligence agencies long ago. The only thing that citizens are entitled to is a rote assertion that any gov-

ernment expenditures are “for your own good.”

The biggest folly is to expect the government to be reasonable after it launches crazy surveillance schemes. Will we ever we learn how far Team Biden has gone in playing Trivial Pursuit by stockpiling vast amounts of data on American citizens? Citizens cannot submit to endless illicit intrusions without forfeiting their right to any remaining privacy.

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and the author of the ebook Freedom Frauds: Hard Lessons in American Liberty, published by FFF, his new book, Last Rights: The Death of American Liberty, and nine other books.

NEXT MONTH:
“Police Have the Right to Lie and Slander”
by James Bovard

Governments have no right to interfere with the pursuits of individuals, as guaranteed by those general laws, by offering encouragements and granting privileges to any particular class of industry, or any select bodies of men, inasmuch as all classes of industry and all men are equally important to the general welfare, and equally entitled to protection.

— William Leggett

Fiscal Insanity

by *Laurence M. Vance*



Created in 1973, the Republican Study Committee (RSC) serves as the conservative caucus of House Republicans. Its purpose is “to bring like-minded House members together to promote a strong, principled legislative agenda that will limit government, strengthen our national defense, boost America’s economy, preserve traditional values and balance our budget.” The RSC “ensures that conservatives have a powerful voice on every issue coming before the House, whether it is the economy, health care, defense, social safety net reform, or Washington’s dangerous, out-of-control spending.” The RSC even has a libertarian-esque view on the proper role of government: “We believe that the appropriate role of a limited government is to protect liberty, opportunity, and security, and that it is

the responsibility of this generation to preserve them for the next. We believe that more government is the problem, not the solution, for the toughest issues facing our nation.”

Since 1995, the RSC has proposed an alternative federal budget, and this year is no different. On March 20, the RSC unveiled its fiscal year 2025 budget proposal, which is “made up of 285 individual bills and initiatives from 192 Members.” Titled “Fiscal Sanity to Save America,” the RSC budget “is a thorough plan to address our federal spending problem and start paying down our debts.” The budget “balances in just seven years, cuts spending by \$17.1 trillion over ten years, and reduces taxes on Americans by \$4.2 trillion over ten years.”

According to RSC Budget and Spending Task Force Chair Rep. Ben Cline: “Decades of Washington’s reckless spending habits have left the American People to foot the bill through high inflation and rising costs, and we cannot continue down this irresponsible path. The RSC budget proposes responsible, common-sense policy that bolsters the American economy, lowers inflation, slashes wasteful spending, and reverses the harmful, regressive, wasteful, and unnecessary policies that are crushing hard-

working families.” The RSC budget defunds Biden’s “woke agenda,” addresses “high gas prices” and “the tumor-like growth of the federal bureaucracy,” “promotes American energy dominance and growth while defending American values and freedoms,” expands Health Savings Accounts, builds the border wall, “protects Social Security and Medicare,” unleashes American energy production, makes the Tax Cuts and Jobs Act permanent, and reins in “the administrative state that is growing increasingly more invasive and costly to citizens all across the country.”

Now, there is no doubt in anyone’s mind that the RSC budget will never be enacted. The Republicans have a slim majority in the House, and the Democrats control the Senate. And of course, President Biden would certainly veto any Republican budget proposals. But what about the budget itself? Is it a “good” budget? Is it a “conservative” budget? Is it a balanced budget? Is it a budget characterized by “fiscal sanity?”

The budget process

The Constitution does not mention a federal budget. It simply says in Article I, Section 8, that “The Congress shall have Power To lay and collect Taxes, Duties, Imposts

and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States; but all Duties, Imposts and Excises shall be uniform throughout the United States.” Another relevant paragraph is found in Article I, Section 9: “No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law; and a regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time.”

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According to the Budget and Accounting Act of 1921, federal agencies are required to submit their budget requests to the president for review and for him to then submit a consolidated budget request to Congress for the upcoming fiscal year (Oct. 1–Sept. 30) by the first Monday in February prior to the start of the new fiscal year. The president’s budget provides Congress with recommended spending levels for all government agencies.

According to the Congressional Budget and Impoundment Control Act of 1974, within six weeks after

the president submits his budget, 12 congressional subcommittees are required to submit their “views and estimates” of federal spending and revenues to the House and Senate budget committees, who then hold hearings and then draft and report a concurrent resolution on the budget. Action on the concurrent resolution is supposed to be completed by April 15. It is only then that twelve regular appropriation bills for discretionary spending are able to be enacted and sent to the president for his signature. Although the Budget Act requires Congress to consider budget plans covering at least five years, the current practice is that budget plans cover 10 years. If Congress fails to pass the necessary appropriations bills by the start of the new fiscal year, which is usually what happens, a series of continuing resolutions or an omnibus bill is passed to fund the federal government for a certain period of time in order to avert a government shutdown.

Biden's budget

Days after delivering his State of the Union address, President Biden released his \$7.3 trillion fiscal year 2025 budget. The budget “details the President’s vision to protect and build on his Administration’s prog-

ress by continuing to lower costs for working families, protect and strengthen Social Security and Medicare, invest in America and the American people to make sure the middle class has a fair shot and we leave no one behind, and reduce the deficit by cracking down on fraud, cutting wasteful spending, and making the wealthy and corporations pay their fair share.”

According to the budget “Fact Sheets,” the president’s budget:

- Lowers costs for the American people.
- Cuts the deficit by \$3 trillion over 10 years.
- Protects and strengthens Social Security and Medicare.
- Cuts wasteful spending on big pharma, big oil, and other special interests, cracks down on systemic fraud, and makes programs more cost effective.
- Cuts taxes for working families and makes big corporations and the wealthy pay their fair share.
- Advances President Biden’s unity agenda.
- Tackles crime, keeps Americans safe at home.
- Cuts housing costs, boosts supply, and expands access to affordable housing.

- Protects and increases access to quality, affordable healthcare.
- Creates opportunity, advances equity.
- Creates good-paying clean jobs, cuts energy costs, and delivers on the president's ambitious climate agenda.
- Secures our border, combats fentanyl trafficking, and calls on congress to enact critical immigration reform.
- Confronts global challenges and defends democracy.
- Improves customer experience to better serve the American people.
- Delivers on his commitment to tribal nations and native communities.

What doesn't the president's budget promise that the federal government will do?

Just how does the president's budget lower costs for the American people? The federal government doesn't sell goods and services to the American people. It turns out that the budget lowers costs by increasing subsidies to the American people for healthcare, prescription drugs, child care, early childhood education, home ownership, rent, food, college tuition, energy, water,

Internet access, and student loans. And just how will these increased subsidies be paid for? Specific proposals in the president's budget include raising the corporate tax rate, denying deductions for all compensation over \$1 million paid to any employee of a C-corporation, quadrupling the stock buybacks tax from 1 to 4 percent, imposing a 25 percent minimum tax on the wealthiest 0.01 percent, restoring the top marginal tax rate from 37 to 39.6 percent, raising the tax rate on capital gains and dividends on households making over \$1 million, and "modestly" increasing the Medicare tax rate by raising tax rates on earned and unearned income from 3.8 to 5 percent for those with incomes over \$400,000.

RSC fiscal sanity

As mentioned earlier, the RSC budget is titled "Fiscal Sanity to Save America." There is no question that America is in dire financial straits. The federal government now spends over \$7 trillion each fiscal year and regularly has budget deficits of over a trillion dollars each year. The national debt now exceeds \$34 trillion. The interest on the national debt is approaching a staggering \$700 billion each fiscal year. Within 10 years, the Social Se-

curity and Medicare trust funds will not be able to pay the full amount of scheduled benefits. According to the “Financial Report of the United States Government,” which was released by the Bureau of the Fiscal Service in February, over the next 75 years, the unfunded obligations of the federal government (the difference between the present value of projected noninterest spending and the present value of total receipts over the same period) total \$79.5 trillion. So, as the report bluntly states: “The current fiscal path is unsustainable.”

The RSC budget contains 11 sections:

1. Ensuring Liberty through Deregulation.
2. Creating Opportunity Through Tax Reform.
3. Opportunity through Empowerment and Self-Sufficiency.
4. Providing for the Common Defense.
5. Protecting Conservative Values.
6. Personalized and Affordable Healthcare.
7. Saving Medicare.
8. Make Social Security Solvent Again.
9. Budget Process Reform.

10. Other Mandatory Spending.

11. Discretionary Spending.

I have read all eleven sections so you don't have to.

The first section rightly points out that the American people are overregulated, rails against new regulations adopted under the Biden administration, and puts forth many deregulation and regulatory reform proposals.

The second section points out the new taxes enacted by the Biden administration, recommends making the individual tax code provisions of President Trump's Tax Cuts and Jobs Act (TCJA) permanent, and introduces many pro-growth tax reforms.

The third section extolls limiting access to welfare programs to U.S. citizens and removing marriage penalties; improving, consolidating, and reforming welfare programs; fighting fraud in welfare programs; and increasing welfare work requirements.

The fourth section criticizes North Korea, China, and Iran while calling for assistance to Ukraine, Israel, and Taiwan; and, of course, increased “defense” spending. The fifth section calls for federal legislation to restrict abortion, protect

gun rights, fix U.S. immigration policy, and ensure that faith-based institutions can participate in government programs and the provision of government services.

The RSC budget, like Biden's budget, can only be characterized as fiscal insanity.

The sixth section proposes reforms to Medicaid and the Children's Health Insurance Program (CHIP). The seventh section puts forth proposals to reform and save Medicare to protect seniors from benefit cuts. The eighth section calls for reforms to the Social Security program, including changing the benefit formula, raising the retirement age, and gradually moving toward a flat benefit.

The ninth section promotes a balanced budget amendment to the Constitution and limiting federal spending to a percentage of potential GDP. The tenth section aims to reduce other mandatory spending (mandatory spending other than Social Security, Medicare, and Medicaid) by \$2.6 trillion over the next 10 years by eliminating, or reducing the funding of, certain federal programs like the National Sheep Industry Improvement Center.

The eleventh section aims to cut

\$3.3 trillion in nondefense discretionary (NDD) spending over the next 10 years by eliminating, or reducing the funding of certain federal programs like the USDA Catfish Inspection Program.

Fiscal insanity

There is nothing fiscally sane about the RSC budget. The RSC budget, like Biden's budget, can only be characterized as fiscal insanity. True, many of the recommendations would roll back or rescind some of the bad policies of the Biden administration, but rolling back the government to pre-Biden levels is hardly fiscal sanity to save America. The RSC budget is a budget for a vast welfare state — just as every federal budget for the last 50 years. It is a budget to reform the welfare state.

The food-stamp program is not eliminated but instead is just converted “into a discretionary block grant to the states based on rates of unemployment, poverty, and the length of time beneficiaries receive aid.” Funding for Supplemental Security Income (SSI), Medicaid, and child-nutrition programs would likewise be changed to block grants to the states. The RSC budget saves and strengthens Medicare and Social Security — the two largest and

most expensive items in the federal budget. Instead of eliminating the refundable Earned Income Tax Credit (EITC) and Child Tax Credit (CTC), the RSC budget seeks to lower the improper payment rates.

The RSC budget does not call for eliminating a single notable federal department or agency. Instead, agencies should “include a 100-word, plain-language summary of a proposed rule in a notice of rule-making,” agencies should issue “monthly disclosures” about “the rules they expect to finalize or propose in a given year,” and agencies should “choose the least costly method of regulation available to them.” The RSC budget does not contain any proposals to get the federal government out of education or healthcare. It is a fiscally insane \$5.686 trillion budget with a \$768 billion deficit.

Real fiscal sanity

It wasn't that long ago (1987) that the entire budget of the federal government was “only” \$1 trillion. It didn't reach the \$2 trillion mark until 2002. The national debt didn't exceed \$1 trillion dollars until 1982 and \$2 trillion until 1986. For several years now, the yearly budget deficits alone have been between \$1 and \$2 trillion. Truly, as the “Finan-

cial Report of the United States Government” states: “The current fiscal path is unsustainable.”

What should the federal budget look like? What should the budget actually do? How large should the budget be? What should be included in the budget? Should the budget be balanced? Should the budget be binding on future Congresses? What kind of a budget would provide real fiscal sanity to save America? From a constitutional, limited government, fiscal-sanity perspective, there are a number of things that should characterize the federal budget.

The RSC budget does not call for eliminating a single notable federal department or agency.

The federal budget should be balanced. It should be balanced for the fiscal year it covers, not balanced in seven or 10 years. Proposing a future balanced budget based on uncertain projections is just kicking the can down the road. No future Congress is obligated to follow the budget enacted by the current Congress. Balancing the budget does not take a balanced-budget amendment, it just takes congressional willpower. The federal government currently violates the

Constitution in thousands of ways. Why should anyone think that the federal government would suddenly follow the Constitution if it contained a balanced-budget amendment. And it should be remembered that a balanced budget does not in and of itself rein in the profligate spending of Congress. Biden's \$7.3 trillion budget is an abomination, whether it is balanced or not.

The federal budget should not increase taxes. Americans are burdened with income taxes, estate and gift taxes, excise taxes, capital gains taxes, Medicare taxes, and Social Security taxes. And this is in addition to what they pay on the state and local level. According to the Treasury Department, Americans paid a whopping \$4.44 trillion in taxes to the federal government in fiscal year 2023. The federal budget should actually cut taxes instead of just avoiding tax hikes. It should actually lower taxes instead of just closing loopholes and shifting the tax burden. And it should actually eliminate taxes instead of just reforming the tax code.

The federal budget should not empower the government to transfer income from one American to another. The main thing that the federal government spends money on is income-transfer programs. As

explained by the late Walter Williams, economist at George Mason University:

Tragically, two-thirds to three-quarters of the federal budget can be described as Congress taking the rightful earnings of one American to give to another American — using one American to serve another. Such acts include farm subsidies, business bailouts, Social Security, Medicare, Medicaid, food stamps, welfare, and many other programs.

We don't need entitlement reform; we need entitlement elimination.

The federal budget should not empower the government to transfer income from one American to another.

The federal budget should be small. In *Federalist* No. 45, James Madison, the “father of the Constitution,” explained about the Constitution: “The powers delegated by the proposed Constitution to the Federal Government, are few and defined. Those which are to remain in the State Governments are numerous and indefinite.” Yet, the fed-

eral budget is greater than the combined budgets of all 50 states. This is even worse than it seems since federal funding makes up about a third of state budgets.

Most of all, the federal budget should be constitutional. The case can easily be made that over 90 percent of spending authorized by the federal budget is not authorized by the Constitution. This includes things like foreign aid, art and culture subsidies, the drug war, job-training programs, education, Amtrak, welfare, public broadcasting, airline security, unemployment compensation, space exploration, science and research grants, farm subsidies, housing, and welfare. This means that whole departments and agencies of the federal government should be eliminated lock, stock, and barrel. This would include the Departments of Agriculture, Education, Energy, Health and Human Services, Housing and Urban Development, Transportation, and Labor as well as independent agencies of the federal government like the FTC, the FCC, the EPA, OSHA, the Export-Import Bank, the SBA, the CPSC, the EEOC, the TVA, the CFTC, the NEA, the NEH, the SEC, the NSF, and USAID — just to name a few.

These characteristics of the federal budget are the antidote to the fiscal insanity of the RSC budget. Ideally, there would be no income taxation at all and a very minimal federal budget. If all the illegitimate agencies and programs of the federal government were eliminated, there would be no need for income taxation and a federal budget in its current form. Americans lived without income taxation for more than 100 years, and the constitutional functions of the federal government were still adequately funded without all of the budget chicanery that now takes place every year.

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NEXT MONTH:
**“Libertarianism vs.
Microlibertarianism”**
by Laurence M. Vance

The Political Economy of Natural versus Contrived Inequalities

by Richard M. Ebeling



To discuss the political economy of natural versus contrived inequalities requires some explanation of what is meant by “natural,” “contrived,” and “inequalities.” The use of the word “natural” has had a long, if sometimes controversial, history in economics over the last two and half centuries. When using this term, the French Physiocrats in the eighteenth century meant that along with the physical “natural” order that demonstrated structure, pattern, and forms of self-regulation, the same was discernable in the social world. François Quesnay (1694–1774) who was a physician to the king of France, said that the interdependent self-regulation observable between the organs of the

human body had its parallel among the interconnected sectors in the social system of division of labor. This led him to devise his famous *Tableau Economique* (1758), which every beginning economics student learns in some version in the depiction of the circular flow diagram. For Quesnay and the other Physiocrats, if government does not attempt to interfere with or control the economic system, it will ensure an adaptive coordination far superior to any regulating political hand.

The same idea is seen among the Scottish Moral Philosophers of the second half of the eighteenth century. Adam Smith (1723–1790), for example, spoke of a “natural” order in at least two senses. There is the “system of natural liberty” that “naturally” (spontaneously) takes form when governments perform a set of essential but limited functions, the most important ones being: policing, courts, and national defense. These ensure that each member of the society is secure in his individual rights to life, liberty, and honestly acquired property through voluntary trade with other individuals for mutual benefit.

Natural liberty and the natural price

Given this institutional arrangement, each member of a society can

improve his own circumstances in the system of division of labor only by applying his personal knowledge, talents, and the resources under his ownership to producing goods and services that others may be willing to take in exchange for what they desire, because they either cannot manufacture such things themselves or not at a cost as low as their neighbors can. Hence, without central command or control, each individual, as if by an “invisible hand,” will be guided in his own self-interest to serve the ends of others — “society” in general — though it was not his intention and is often far better in its outcome than when someone purposely tries to do good for society. It is most dangerous when the planner has what Hayek called “the fatal conceit” that he is wise and knowledgeable enough to successfully do so. Such an institutional order enables a “natural system of liberty” to exist and function better than when the “man of system” — the social engineer — tries to directly design society and its human patterns.

But Adam Smith and his fellow Scottish philosophers David Hume and Adam Ferguson were also adamant that such a natural system was, itself, an unplanned, evolutionary outgrowth of untold gener-

ations of human interactions that generated sustainable institutional arrangements that improved the human condition. Indeed, it was only in retrospect that later generations could turn their inquiring eyes to the past and attempt to trace out and understand the cultural and economic processes that through time resulted in the existing social order, an emerging order that could never be fully understood or significantly imagined by those living centuries earlier, even though their own actions and interactions were slowly helping to bring it about.

The other “natural” element in this economic system was the idea of the “natural” price.

The other “natural” element in this economic system, as Adam Smith saw it, was the idea of the “natural” price, which was the price toward which the buying and selling of any commodity would settle in the long run, reflecting the demand for the good on the one hand and the costs of its production on the other. Now, of course, in the eyes of the classical economists, the long-run cost of any particular good was ultimately a reflection of the quantity of labor that had gone

into its manufacture. In the short run, fluctuations in the demand for or availability of the good would bring about deviations in that price, but the long-run price is the one around which any short-run movements gravitated.

More generally, the “natural” price was the open, competitive market price established by the existing configurations of supply and demand, and in this sense, both the short-run and long-run prices of marketable goods were “natural.” They were the prices that were chosen in a free competitive market without any direct or noticeable indirect effect of governmental interference with the overall economic processes at work, other than securing those institutional preconditions of safeguarded life, liberty, and honestly acquired property for all members of society.

Natural and contrived scarcities

The use of the word “contrived” does not seem to have been frequently used by the classical economists in the particular way I am suggesting, though the phenomena was completely known and analyzed by them. That is, government interference with the working of the “natural” competitive forces of the market. I take its use from the Brit-

ish economist William H. Hutt (1899–1988), who made the distinction between “natural” and “contrived” scarcities in a series of articles that he wrote in the 1930s.

The “natural” price was the open, competitive market price.

Hutt emphasized that at any moment in time and over any given period of time, there are certain “natural” scarcities. That is, given the desired ends and goals individuals would like to attain, there are certain inescapable limits to what extent they may be able to achieve them, since there are only so many available means that are useful and usable for their attainment.

Assuming a completely unhampered, competitive free market, those means will be allocated to their competing uses reflecting the degree of importance those individuals have for the finished consumer goods, as expressed in the prices they are willing to pay on the market for others to supply them. This does not deny that, over time, savings, investment, capital formation, and innovation can successfully increase the quantities of the goods consumers want, thus reducing their absolute and relative scarcities. Nonetheless, the scarcities of

the means at any given time in this process limit the abilities to supply what is wanted.

What drives this in a free-market process, Hutt said, is the existence of “consumers’ sovereignty;” a phrase, it seems, that he may have coined or at least greatly popularized in his book *Economists and the Public* (1936). In their role as consumers, individuals are at liberty to spend their earned incomes in any manner they desire. At the same time, no one may attempt to earn incomes on the supply-side of the market other than by devising ways of producing and offering for sale what others want. Since free-market relationships are based on mutual consent and voluntary exchange, each one in their producer role must direct his activities to try to successfully supply what others desire so they may then reenter the market as consumers to purchase the things they want from some of the very same people they have been serving.

While the total supply of all desired goods and services in their relative amounts are limited by these natural scarcities on a free market, government intervention can bring about situations of contrived *scarcities* or *contrived plentitudes*. Government price controls,

restrictions, protections, or prohibitions may result in a smaller quantity — a contrived scarcity — of a good or service being available on the market in comparison to the amount that producers and suppliers would have competitively offered if not for government intervention. Or government price controls, subsidies, “bounties,” regulations, or commands may result in a larger quantity — a contrived plentitude — of a good or service being available on the market than would have been the case if not for government intervention.

What drives this in a free-market process is the existence of “consumers’ sovereignty.”

Either way, both contrived scarcities and contrived plentitudes infringe upon “consumers’ sovereignty;” that is, a pattern of resource use and finished goods different from the relative structure of prices, wages, and production that would have tended to prevail if guided solely or far more consistently with the configuration of consumer demands on a free market. (See my book *Austrian Economics and Public Policy* [2016], chap. 27.)

Natural inequalities among people

This, now, gets us to the idea of natural and contrived inequalities. Of course, this requires a clarification or defining of what is meant by inequalities among people. Any discussion of this, especially when inescapably brief and inexact as it must be in the context of a short essay, raises a wide variety of controversies and ambiguities. This is particularly the case when it refers to personal, social, economic, or political inequalities and the overlaps that occur between them.

The primary meaning of human inequality may be taken as the most inescapable one: each of us has been born to particular parents from whom we inherit a set of distinct genetic and biological features. Siblings are not interchangeable in spite of the “natural” connection through the same parents; this includes biological twins, each of whom possesses certain distinct characteristics, even if they are not easily distinguishable to the observer’s eye. It has also been discovered that in the study of families that whether a child is first-, second-, or third-born often influences their developmental and personality traits.

These inequalities that may emerge due to which family you

have been born in, and when, can be taken as inescapable parts of the “natural order” of things regardless of how much parents and other close relatives try to treat siblings “the same” when they are growing up.

In addition, home environments can greatly differ, with some parents emphasizing reading and studying, while other households give less importance to this in cultivating certain habits and interests in the younger members of the family. But even if books, music, and the arts are part of the home setting, it does not mean that all or even any of the children will be sufficiently inspired to develop certain habits of mind. Many parents who try to do so often end up disappointed and frustrated because of the interests and life-choices their children end up making.

Home environments can greatly differ.

We are also not born into the same political circumstances. Being born and raised in a family in, say, Sudan or Afghanistan or North Korea will often result in a variety of inequalities of situations and outcomes between that individual and someone born and raised in, say,

Finland, France, Germany, or the United States. It was a tragic mistake on your part if you had unwisely chosen a parent who was sent to the Gulag in Stalin's Russia, with you then being marked for life as "a member of the family of an enemy of the people."

Political equality and individual inequalities

For most of the last 250 years, questions concerning political and economic equality and inequality have consistently dominated discussions, first in the Europe and North America of the eighteenth and nineteenth centuries, and since then virtually everywhere else around the world. Over most of human history, political inequality was taken for granted. From ancient times onward, there were masters and slaves; lords of the manor and those tied to the land he owned; kings with their circle of aristocrats and a much larger number of commoners subservient to them.

Over most of human history, political inequality was taken for granted.

The idea of political equality is a relatively new historical phenomenon. The ideas of equality before

the law and an equal right to vote by all citizens of a country have become taken for granted only over the last few generations compared to all of human history. With the rise of political democracy, those holding elected political office came to be seen as the agents of and not the master over the citizenry. In the modern Western world, this often arose from a deep Christian faith among many that all of humanity are children of God, made in his image, and all equal in His eyes. No one can read the arguments and pleas of the growing number of advocates of the anti-slavery movement in Great Britain and the abolitionist cause in America in the eighteenth and nineteenth centuries without seeing the religious basis and conviction of many that all men are created equal by their Creator and endowed with a common right to their individual life and liberty. All human beings are the children of God, with distinguishing physical or other characteristics that God bestowed on them, but they remained equal and equally valuable in His eyes.

But while it was taken for granted that each person should have recognized and secured equal rights to life and liberty before the law, there was little presumption that

this meant equalities of conditions or outcomes. In America, especially, it was taken for granted that those equal rights provided an equality of opportunity for each person to try his hand in applying his abilities, skills, talents, and experience as he saw fit in the ways he considered best, with no guarantee of success or outcomes similar to any other. Indeed, equal rights were presumed to imply a wide spectrum of unequal social and financial results.

The American experience of equal freedom and unequal outcomes

For instance, the Italian historian and classical liberal Guglielmo Ferrero (1871–1942) traveled widely in the United States in the 1890s and wrote about his impressions of the country, its people, and its open institutions in a chapter of his book *Militarism* (1899). He did not assert that America was a perfect society, an unblemished Utopia; far from it, and he gave examples to demonstrate these imperfections in American society. Nonetheless, America was a land of freedom and vibrant opportunity for a large majority:

In the United States ... the extreme freedom and ease of the individual, not handicapped

as we [Europeans] are in changing occupations, habits, social caste, received ideals, and social axioms by a social tradition, become almost sacred; the innumerable opportunities in the midst of such constant material and intellectual change for the association of individual talent and energies; the prodigious rapidity with which these combinations can be formed and dissolved, the frequent return of opportunities brought about by the rapidly revolving wheel of fortune.... These conditions prevailing in America, render it easy to any ordinary intelligent and energetic man to obtain for his work remuneration which errs rather on the side of being beyond than beneath his deserts....

Thanks to the almost complete lack of intellectual protectionism — that is, of academical degrees which ensure the monopoly of certain professions — thanks, in consequence, to the lack of a government curriculum or unprofitable and obligatory studies.... Let him who can do a thing well step forward and do it, no one will question where

he learnt it; such is the degree required of an American engineer, barrister, clerk, or employee. And as the opportunities to do well are innumerable, everyone can develop the talents with which Nature has endowed him, changing occupation according to circumstances and opportunity.

Natural inequalities in the free market

I suggest that any and all relative incomes earned in such a widely free-market setting, and the differences between them, are examples of “natural inequalities” in remuneration. With legal barriers to entry eliminated in all arenas of employment, investment, and trade, all incomes earned, profits received, and wealth accumulated are based upon freedom of association and mutually agreed-upon terms of trade. Yes, people possess differing characteristics, qualities, and motives, and they all enter the arena of human association with different inherited and acquired abilities, talents, and capacities. But their respective rewards are not due to who their parents were, or what social status they were born into, or where they are from.

The consumers in the marketplace — which means all of our fel-

low human beings in their economic roles as consumers — judge us by only one essential characteristic: how well we can serve their wants and desires better and more effectively, and less expensively, than others who are also attempting to supply them with what they want as the means of purchasing what those others have for sale in their respective roles as producers.

Slavery and serfdom forced most of mankind into servitude.

Our relative incomes and their differences reflect the value and worth consumers place on the services others can render to their well-being, as represented by what they are willing and able to pay for the goods and services they buy. They do this either directly in the form of entrepreneurs who meet the demand for finished goods and services, or indirectly when those entrepreneurs estimate the value of the services individuals in their producer roles can provide in the production process to bring those goods and services to market.

The market reinforces an unprejudiced estimate and appraisal of what we are worth in the eyes of consumers because rarely do the buyers of most goods in the

marketplace know anything about the actual individual human beings who have contributed to their manufacture. The person who purchases a suit of clothes, or a pair of shoes, or box of breakfast cereal, or a paint brush to do some home improvements knows little or nothing about those who have participated in the making of the product they have bought.

Were they male or female? Were they Christian, Jew, Hindu, or atheist? Were they “straight” or “gay?” Were they political conservatives or “progressives?” Were they good, loving parents or deadbeats not paying child support? The anonymity of a complex and global competitive market process reinforces the fact that the natural inequalities of income and wealth have little or nothing to do with anything except the simpler question: who can best serve the consumers?

Government intervention and contrived inequalities

This also leads us to an understanding of what might be considered the “contrived inequalities” in society. Contrived inequalities are the result of political interference with the free, competitive decisions and outcomes of the open marketplace. For most of history, the in-

equalities of income and social positions have been contrived, that is, not based on an individual’s abilities, talents, skills, and experience in free association and trade with others. They have been based, instead, on political power and plunder. Slavery and serfdom forced most of mankind into positions imposed upon them by coercive powers who threatened physical harm if they refused to do what the ruler demanded of them. Individuals were prevented from rising out of and “above the station in life” assigned to them by those who ruled over them.

The classical-liberal era ended the constraints of many of those contrived inequalities.

The classical-liberal era that began in the eighteenth century and continued into the nineteenth century ended the constraints of many of those contrived inequalities. The repeal of domestic regulations on occupations and enterprises; the removal of many, even if not all, protectionist restrictions on international trade; the abolition of slavery and involuntary servitude; the extension of a greater equality of rights before the law for women, and religious and ethnic minorities;

reductions in and less discriminatory taxing systems; all these replaced the contrived inequalities of the past with a political and economic setting in which income-earning differences among individuals and groups in society were due to those natural inequalities among human beings when they are free from political power, plunder, and privilege.

A looser definition could be that socialism wants the intervention of the state to change the distribution of wealth.

What the twentieth century saw, however, was the return of systems of politically created contrived inequalities with the growth of the interventionist-welfare state. By the 1890s, Italian economist and classical liberal Vilfredo Pareto (1848–1923), writing about his native Italy, had distinguished between two types of socialism: *bourgeois socialism* and *proletarian socialism*.

The actual condition of civil society, as it is today, is based not on free competition and respect for private property, but on the intervention of the state. So, the governments of civilized peoples can be de-

finied as bourgeois socialist.... A looser definition could be that socialism wants the intervention of the state to change the distribution of wealth [with socialists] divided into two types: socialists, who through the intervention of the state, wish to change the distribution of income in favor of the less rich [proletarian socialism]; and the others, who, even if they are sometimes not completely conscious of what they are doing, favor the rich [bourgeois socialism].

Or as Frederic Bastiat (1801–1850) called it earlier in the nineteenth century, “legalized plunder.”

Contrived inequalities due to government favors and bureaucracy

The intervention of the state, therefore, is the locus of contrived inequalities. One of the most notorious in the history of economics has been trade protectionism. By imposing import taxes or quota restrictions, the government brings about a higher price for the affected good or commodity than would have been the case under more open and competitive international trade. This brings about greater

earned revenues and income for the sheltered domestic producer at the expense of domestic consumers who pay more for a smaller quantity and foreign sellers who otherwise would have received greater revenues and higher incomes from selling more in the protected market.

This, in turn, means that those sectors of the domestic market that would have seen greater export sales due to the greater demand with foreign income earners if they had been able to sell more in the trade protected country have lower incomes than they might have without protectionist policies. Other sectors in the protected country also have contrived increases in their revenues due to the protected manufacturers having higher incomes with which to demand more goods than they would have under freer trade conditions.

One of the most notorious interventions in the history of economics has been trade protectionism.

The other clear instance of such contrived inequalities is the product of government bureaucracies. Taxation reduces the “natural” relative incomes that private individuals would have earned from free-

market transactions in satisfying the demands of others in the marketplace. This contrived reduction in the incomes of these individuals in the private sector means that their standards of living are lowered due to the fact that this government “taking” diminishes the types and the quantities of goods and services they would have purchased if not for the degree of compulsory taxation.

Beneficiaries of contrived inequalities in Washington, D.C.

At the same time, the other side of this process is that the contrived reduction in some people’s incomes from taxation results in the contrived increase in the incomes of those who are employed in government positions of one type or another. It is not too much of an unrealistic assumption to presume that those who apply and accept employment in the government sector do so because such positions in the bureaucratic labyrinth offered net gains in salary and job security than what they thought they could earn in the private sector.

From a relative income perspective, why would they have chosen a government employment and career track if not for the expectation that their private-sector alternatives

represented lower opportunity costs than a job in the government? (This sets aside those who might be willing to forego a higher private-sector income because of a personal preference for having the position to run and restrict other people's lives through the authority of government power.)

But in addition, there is the indirect contrived income inequalities that follow from the taxes extracted and the incomes received by those manning the government's bureaucracies. One merely has to think about Washington, D.C. Here are apartment complexes generating income for landlords, along with restaurants, cafes, clothing stores, supermarkets and convenience stores, places of nighttime entertainment, and many other business establishments catering to the demands of all the government employees living off other people's money. All the profits earned and incomes received have raised the income shares of those employed in working for and serving the needs of "the servants of the people."

If Washington, D.C., were not the national capital of the country, with hundreds of government bureaus, agencies, and departments employing around 300,000 people in the greater D.C. area (Washing-

ton and adjacent Maryland and Virginia), would there be as many businesses located there with comparable incomes earned? The chances are the answer is, No. Hence, many in the greater Washington, D.C., area have higher relative incomes than a good number of them likely would have earned if the federal government were closer to the far more limited functions and smaller size under the original Constitution.

**Many in the greater
Washington, D.C., area have
higher relative incomes.**

The same logic applies to government taxation and borrowing that enables a redistribution of incomes and wealth away from many in society due to the taxes they pay, and the relatively higher incomes received by others resulting from farm price supports and subsidies for selected businesses and industries, along with defense contractors, many of whom receive anywhere between 50 and 100 percent of their profits and incomes from producing military materiel in the widest sense for the government.

We might add to this the 10,000 registered lobbyists in Washington hired by individuals, businesses,

and interest groups to influence legislation in directions favorable for those who employ them. If the federal government did not have the political power and taxing and borrowing authority to spend over \$6 trillion in the current 2024 fiscal year, the relative incomes of many of these lobbyists would likely be lower, along with all those other private-sector recipients of the billions of dollars spent each year due to the lobbying processes.

All of these are examples of contrived inequalities, that is, differences in profits made and incomes earned that are products of government spending, regulating, controlling, restricting, and privileging. If not for this, the social and income inequalities in society would more reflect the “natural” inequalities that come from natural differences between human beings and the market valuations of each and everyone’s worth in directly and indirectly bringing desired goods and services to the market to satisfy the desires of others, based on peaceful,

voluntary exchanges that represent agreed-upon mutual gains from trade.

This article is based on a paper delivered at the annual meeting of the Association of Private Enterprise Education, held in Las Vegas, Nevada, April 9, 2024, for a session on “Inequality: The ‘Dangerous’ Concern of New Generations.”

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NEXT MONTH:
**“The Liberal Ideal for Peace
and Against War”**
by Richard M. Ebeling

“Who Will Build the Roads?” Part 2

by Wendy McElroy



The *United States Pharmacopeia* is updated and published to this day. The organization has remained a privately funded nonprofit for over two centuries, but it does now currently cooperate closely with the Food and Drug Administration (FDA). It is interesting to note, however, that it took the government 86 years longer than the USP to address the same issues of drug quality through passage of the Pure Food and Drug Act (PFDA) in 1906. The FDA itself was established in 1930 by renaming a related federal agency. When the government finally took notice, it adopted the USP wholesale.

The FDA

At this point, a question should arise. Can the private USP simply replace the governmental FDA?

The answer hinges on the purpose of standardizing food and drug information. Two separable purposes are education and enforcement. If the purpose is to provide information so people can make better choices on how to self-medicate, then the USP filled this role long ago. A Cato Institute white paper entitled “Drug Reformation: End Government’s Power to Require Prescriptions” by Jeffrey A. Singer and Michael F. Cannon offers a fascinating insight. The PFDA “codified the privately created USP and defined a drug as ‘adulterated’ if it failed to meet the USP’s standards. Those provisions had little apparent effect, as the USP was already the widely recognized standard of practice.” In short, the free market had already solved a social problem for which the government passed laws many years later. Of course, government assumes the credit for this solution as evidenced by the fact that very few people have heard of the USP while everyone knows about the FDA.

On the other hand, if the purpose of standards is to enforce them by law, whatever the wishes of consumers, then the USP cannot replace the PFDA. It might have been possible in 1906, when both shared a respect for self-medication. Singer

and Cannon explain, “Rather than infringe on the right to self-medicate or limit medical autonomy, the PFDA attempted to provide more information to consumers and physicians.... The PFDA also defined the crime of ‘misbranding,’ stating that a drug was misbranded if it contained alcohol, opium, cocaine, or any other dangerous or potentially addictive substance *and* failed to list those ingredients (and their proportional inclusion) on the product label.” Arguably, the laws against “misbranding” were simply laws against fraud.

The current FDA’s mission is law enforcement and regulation.

The authority wielded by the current FDA has expanded vastly, however, and its main mission is no longer information; its mission is law enforcement and regulation. Moreover, additional “purity” legislation, such as the Food, Drug, and Cosmetics Act (FDCA) of 1938, have been passed and embedded into society. The FDCA is largely responsible for federally mandated prescription practices that persist to this day.

In short, there has been a dramatic mission drift from the PFDA’s original respect for people making

their own informed choices toward enforcing government authority upon them. This loss of personal freedom is an underestimated cost of government involvement in public goods, like healthcare: there is inevitable drift from utility to authority.

The superiority of the free market

Privatizing as many functions of the economy as quickly possible may be the most pressing economic goal of our day. From roads to education, from pharmaceuticals to banking, from communication to travel ... the superiority of the free market over government control needs to be demonstrated with reason and real-world examples. Three of the most powerful ways are to present the superior utility and superior morality of the principles underlying the free market and to offer a proof of concept in as many cases as possible. A proof of concept is especially important because no evidence of a theory is stronger than pointing to historical examples of it having once functioned and flourished. Or how it is flourishing now.

Superior utility

The most basic reason why freedom has superior utility is clearly

stated in an article entitled “Who Should Decide What Goes into a Can of Tomatoes? Food Laws from a Voluntary Perspective” by co-founder of the Voluntaryist movement Carl Watner. Watner writes from the perspective of Misesian praxeology — the study of human action:

We do not maintain that market solutions would solve all of humanity’s problems, but neither can we assume that because markets and other social mechanisms produce imperfect results that a central monopolistic authority will produce better ones. “Markets are desirable not because they lead smoothly to improved knowledge and better coordination, but because they provide a process for learning

from our mistakes and the incentives to correct them.” As voluntaryists, we conclude from examining human nature, human incentives, and human history that a stateless society would not be perfect but would be more moral and practical.

Wendy McElroy is an author for The Future of Freedom Foundation, a fellow of the Independent Institute, and the author of The Reasonable Woman: A Guide to Intellectual Survival (Prometheus Books, 1998).

NEXT MONTH:
“Who Will Build the Roads?”
Part 3”
by Wendy McElroy

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