

THE FreeMarket

LUDWIG VON MISES INSTITUTE

VOLUME 8, NUMBER 6

JUNE 1990

Mrs. Thatcher's Poll Tax

BY MURRAY N. ROTHBARD

Riots in the streets; protest against a hated government; cops arresting protesters. A familiar story these days. But suddenly we find that the protests are directed, not against a hated Communist tyranny in Eastern Europe, but against Mrs. Thatcher's regime in Britain, a supposed paragon of liberty and the free market. What's going on here? Are anti-government demonstrators always, by definition, heroic freedom-fighters in Eastern Europe, but only crazed anarchists and alienated punks in the West?

The anti-government riots in London at the end of March were, it must be noted, anti-tax riots, and surely a movement in opposition to taxation can't be all bad. But wasn't the protest movement at bottom an envy-ridden call for soaking the rich, and hostility to the new Thatcher tax a protest against its abstention from egalitarian leveling?

Not really. There is no ques-

tion that the new Thatcher "community charge" was a bold and fascinating experiment. Local government councils, in many cases havens of left-wing Labour power, have been engaging in runaway spending in recent years. As in the case of American local governments, basic local

revenue in Great Britain has been derived from the property tax ("rates" in Britain) which are levied proportionately on the value of property.

Whereas in the United States, conservative economists tend to hail proportionate taxation (es-

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Tax Revolts of the Great Depression

BY DAVID T. BEITO

The United States owes its birth in part to a tax strike, yet tax rebellion has not been a favorite topic of American historians. Remarkably few studies deal with the politics of taxation—much less tax revolt—after the Whiskey Rebellion of the 1790s. Yet in studying them we find that America has a long and noble history of anti-big-government thought and action, especially during the early years of the Great Depression.

Between 1932 and 1934, seven states put into place overall limitations on the general property

tax. Several dozen won enactment at the local level. In addition, every state and hundreds of counties witnessed the formation of taxpayer's leagues. Measured by number of organizations, the tax revolt of the 1930s makes those of the 1970s and 1980s look puny.

Even amidst the relative prosperity of the 1920s, taxpayers showed signs of cracking under the mounting pressure. Throughout the 1920s, the general property tax accounted for over 90% of taxes levied by all cities over 30,000 in population.

As the decade wound down, the real estate component of the tax yielded an ever-mounting percentage of total collections. Since real property could not be effectively hidden from their purview, the assessor and collector did not have to engage in costly and unpopular detective work. And taxpayers could not conceal their taxable real estate from the authorities. When real-estate taxpayers, either by choice or necessity, lapsed into arrears, their delinquency became apparent for all to see.

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Taxpayers in Revolt: 1990

From the President



BY LLEWELLYN H.
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In the U.S., with most Republicans and Democrats united in bipartisan scamship against the taxpayers, only one thing gets the politicians' attention: tax revolt. And—despite little national publicity—local rebellions are scaring the wallets off our rulers from Massachusetts to California.

Michigan voters have dumped Democratic Gov. Jim Blanchard's new education taxes. And the Massachusetts legislature ditched Democratic Gov. Michael Dukakis's swansong call for \$1 billion in new taxes.

In Detroit, for the first time ever, the people turned down demands for more school taxes. In New Jersey, voters are rejecting school taxes at an historic rate. And in Houston, city councilmen face ouster in the next election because of their pro-tax stand.

More and more Americans are fuming about taxes. And who could blame them? The phrase "government services" has become a joke.

Commentators call the District of Columbia "third world." Residents wish it were that good. The streets are a network of potholes held together by an occasional strip of asphalt; the police play dice and cards while criminals run free; the teachers are barely literate; the ambulance drivers can't read maps; and the DMV makes motorists dream of car bombs.

The late 1970s tax revolt passed the District by, but today's zooming taxes have angered property owners. One group is tying the bureaucracy in knots with mass appeals on new assessments. Another is urging class-action suits against city tax assessors.

In Chicago, the tax revolt is fed by fury not only at higher taxes, but at lush government salaries. For example, the head of what is probably the worst public school system in America makes \$250,000 in pay and perks.

Although New Hampshire's total tax burden is the lowest in America, its per capita property taxes are almost double the national average.

To fight this, taxpayers are trying to roll back the boom in education spending. In Manchester, one anti-tax group ran a full-page ad about school boondoggles and bureaucrats, and afterwards, more than 4,000 furious citizens crowded into a local high school for a budget hearing. The result: massive layoffs in the school loafocracy.

"We're probably going to be the first generation to leave our kids worse off than our parents left us," whined the head of the

ponents are "insatiable." We must focus, he said, on all the government "extravagance."

In Fairfax, Virginia, where property taxes have increased up to 50% this year, Citizens on Sensible Taxation has collected enough signatures for a referendum to change Fairfax's form of government. The goal: to throw out the entire Board of Supervisors. The government has tried every trick to derail the anti-tax plan, but this has only increased public anger. And a sob story in *The Washington Post* on "embattled but brave" Fairfax tax collectors had the same effect.

Much of the trouble in Fairfax is caused by higher property-tax

Only one thing gets the politicians' attention: tax revolt. And—despite little national publicity—local rebellions are scaring the wallets off our rulers from Massachusetts to California.

New Hampshire Municipal Association, forgetting that one of the benefits for previous generations was lower government school spending and interference. The head of the New Hampshire teachers union complained that low taxes have become "a matter of theology." Damn right, and taxpayers don't want to be sent to Hell in a government handbasket.

As the chairman of the Board of Selectmen in Dover put it, "The attitude of people is, 'Government is bad, government is not efficient, and the only way to control government is to cut down on expenses.'" In neighboring Massachusetts, the head of the big Taxpayers Association in ultra-liberal Newton said tax pro-

assessments, which are tax hikes incognito. But regardless of the assessment, the tax itself is wrong. If the government can seize your house because you don't pay its extortions, then you don't really own your home.

As these revolts spread, watch for taxpayers to become more and more confrontational. If everyone from animal rightsers to the "homeless" can milk billions from the taxpayers with these tactics, then the people who pay the bills are bound to try the same thing.

Government is supposed to rest upon the consent of the governed, but the legions of tax eaters have made this a joke. We have no choice but to put them on a starvation diet. ◀

Mrs. Thatcher's Poll Tax

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pecially on incomes) as ideal and "neutral" to the market, the Thatcherites have apparently understood the fallacy of this position. On the market, people do *not* pay for goods and services in proportion to their incomes.

David Rockefeller does *not* have to pay \$1000 for a loaf of bread for which the rest of us pay \$1.50. On the contrary, on the market there is a strong tendency for a good to be priced the same throughout the market; one good, one price. It would be far more neutral to the market, indeed, for everyone to pay, not the same tax in proportion to his income, but the same tax as everyone else, period. Everyone's tax should therefore be equal. Furthermore, since democracy is based on the concept of one man, one vote, it would seem no more than fitting to have a principle of one man, one tax. Equal voting, equal taxation.

The concept of an equal tax per head is called the "poll tax," and Mrs. Thatcher decided to bring the local councils to heel by legislating the abolition of the local rates, and replacing them with an equal poll tax per adult, calling it euphemistically a "community charge." At least on the local level, then, soaking the rich has been replaced by an equal tax.

But there are several deep flaws in the new tax. In the first place, it is still not neutral to the market, since—a crucial difference—market prices are paid voluntarily by the consumer purchasing the good or service, whereas the "charge" is levied coercively on each person, even if the value of the "service" of government to that person is far less than one's charge, or is even negative.

Not only that: but a poll tax is a charge levied on a person's very existence, and the person must often be hunted down at great expense to be forced to pay the tax. Charging a man for his very existence seems to imply that the government owns all of its sub-

jects, body and soul.

The second deep flaw is bound up with the problem of coercion. It is certainly heroic of Mrs. Thatcher to want to scrap the property tax in behalf of an equal tax. But she seems to have missed the major point of the equal tax, one that gives it its unique charm. For the truly great thing about an equal tax is that in order to make it payable, it has to be drastically *reduced* from the levels before the equality was imposed.

Assume, for example, that our present federal tax was suddenly shifted to become an equal tax for each person. This would mean that the average person, and particularly the low-income person, would suddenly find himself paying enormously more per year in

No wonder there are riots in the streets!

taxes—about \$5,000. So the great charm of equal taxation is that it would necessarily force the government to lower drastically its levels of tax and spending. Thus, if the U.S. government instituted, say, a universal and equal tax of \$10 per year, confining it to the magnificent sum of \$2 billion annually, we would all live quite well with the new tax, and no egalitarian would bother about protesting its failure to soak the rich.

But instead of drastically lowering the amount of local taxation, Mrs. Thatcher imposed no such limits, and left the total spending and tax levels, as before, to the local councils. These local councils, Conservative as well as Labour, proceeded to

raise their tax levels substantially, so that the average British citizen is being forced to pay approximately one-third more in local taxes. No wonder there are riots in the streets! The only puzzle is that the riots aren't more severe.

In short, the great thing about equal taxation is using it as a club to force an enormous lowering of taxes. To *increase* tax levels after they become equal is absurd: an open invitation for tax evasion and revolution. In Scotland, where the equal tax had already gone into effect, there are no penalties for non-payment and an estimated one-third of citizens have refused to pay. In England, where payment is enforced, the situation is rougher. In either case, it is no wonder that the popularity of the Thatcher regime has fallen to an all-time low. The Thatcher people are now talking about placing caps on local tax rates, but capping is scarcely enough: drastic reductions are a political and economic necessity, if the poll tax is to be retained.

Unfortunately, the local tax case is characteristic of the Thatcher regime. Thatcherism is all too similar to Reaganism: free-market rhetoric masking statist content. While Thatcher has engaged in some privatization, the percentage of government spending and taxation to GNP has increased over the course of her regime, and monetary inflation has now led to a severe price inflation.

Basic discontent, then, has risen, and the increase in local tax levels has come as the vital last straw. It seems to me that a *minimum* criterion for a regime receiving the accolade of "pro-free-market" would require it to cut total spending, cut overall tax rates, and revenues, and put a stop to its own inflationary creation of money. Even by this surely modest yardstick, no British or American administration in decades has come close to qualifying. ◀

Tax Revolts of the Great Depression

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Teaching the Free Market to Lithuania. The deputy prime minister of Lithuania and six other officials received an intensive briefing in free-market economics at a Mises Institute seminar, after which they junked the Keynesian advice they'd gotten at Harvard. Teaching at our Fertig Student Center were Joe Cobb of the Joint Economic Committee; Ed Hudgins of the Heritage Foundation; David Meiselman of Virginia Tech; Richard Hite and Jeff Tucker of the Mises Institute; Roy Cordato of IRET; Sheldon Richman of IHS; constitutional lawyer Edwin Vieira; syndicated columnist Doug Bandow; Yuri Maltsev of ICDP; and Alex Tabarrok of George Mason.

The 1929 crash introduced many Americans—who had hitherto taken matters of public finance for granted—to the painful realities of an unprecedented tax burden. From 1930 to 1933, the tax load on the American people increased more than it had during the entire decade of the 1920s. Not even during World War I had taxes taken such a large percentage of the national income. Taxes at the local level more than doubled and state taxes surged even faster.

Motivated by some combination of willful rebellion and economic impoverishment, tax delinquency ballooned steadily after 1930. For the first time in decades, local and state officials had to confront organized and far-ranging tax revolts.

The tax rebels of the early 1930s wanted to put constraints on government. They distrusted politicians, bureaucrats, and municipal-bond holders. They feared that government would protect entrenched special interests, retard economic recovery, and sap individual autonomy. They argued that government could best fight the depression by deflating to the same level as the economy. Many resisters even blamed excessive taxes and spending for causing the depression in the first place.

In 1932, journalist Anne O'Hare McCormick observed: "Wherever you go you run into mass meetings called to protest against taxes. That is nothing

new, of course, but opposition has seldom been so spontaneous, so universal, so determined. The nearest thing to a political revolution in the country is the tax revolt. For the first time in a generation taxpayers are wrought up to the point of willingness to give up public services. 'We'll do without county agents,' they say, 'We'll give up the public health service. We can no longer pay the cost of government.'"

Tax strikes were not just limited to big cities. "Farmers," *The New Republic* observed, "are in fact revolting against this burden in many parts of the country. They are doing so by direct action—they are not paying their taxes. The authorities are, in many of these cases, not trying to collect. That is why armed resistance has not followed." In late 1931, a mass meeting of tax protesters in Freeborn County, Minnesota, demanded the abolition of the county agent, county nurse, weed inspector, and home demonstration agents, in addition to a 20% salary reduction for all government employees. In neighboring Faribault County, a protest gathering of 2,000 taxpayers voiced almost identical demands.

Proponents of tax reduction frequently linked their efforts to a general hostility toward governmental paternalism. The president of the Wisconsin Taxpayers' Alliance lamented, "Instead of simply protecting the citizen in the enjoyment of the natural right to live and to follow his vocation unhindered, government is now telling him how he must live, and is, regardless of his wishes, charting the path which he must follow."

William B. Munro, a former president of the American Political Science Association, framed the issue in succinct terms. "The loudest protests today are not being directed...against the proposal to tax this or that, but

against the idea of levying any new taxes at all. 'I buy less food, less tobacco, less recreation,' says the man who still holds his job, 'and I would like to buy less government.'"

J.M. Setten, an unschooled farmer from Bloomington, Illinois, penned a radical and revolutionary indictment of political authority in a letter to Governor Henry Horner. "A tax strike is brewing," he wrote. "In some states at taxes sales the people bought their property for 50 cents with shot guns. Politicians only understand the language of bombs and bullets." He denounced the "racketts" like public health, welfare, and conservation, which "should be abolished." He predicted that the state tax league, then contemplating a tax strike, "will become the most powerful organization in the U.S.A. as WE taxpayers have all the money to back us. The goose that lays the golden eggs is dead and turnips are not giving blood any more.... The schools are just a graft and rackett for jobs, keeping lobbyists at Wash. and Springfield at 10,000.00 a year to have unjust laws passed against us."

Many resisters saw receivers of government funds as a "tax-spender" (or "tax-eater") class. They opposed government's expansion beyond providing courts, police, and national defense. The *Washington Taxpayer* predicted that unless taxpayers take action, "some group of tax spenders, better organized and more versed in political pressure, will get the ears of the candidates and formulate their program which will always be for more money and more government." It warned that "every effort to affect a reduction" will be met "with stubborn opposition from those selfish individuals and organized groups who prey upon the government."

Resistors also held coherent



“The courageous patriots are those who will ...stand four square—and refuse to pay—thereby, by passive and active resistance, force an early correction before we are all sunk.”

views of economics. Ashton C. Shallenberger argued in the American Taxpayers' League's *Handbook on Taxation* (1932), “No nation ever can or did make itself prosperous by taxation. Taxes prey upon national wealth and industry. Governments do not produce wealth. They consume it.”

The tax strike was the most serious weapon of resistance. Although taken seriously, and threatened often—in Milwaukee, Detroit, Newark, Trenton, Houston, Boston, Memphis, and New York City—it rarely took hold.

One place where it did was Chicago. From 1930 to 1933, Chicago was the scene of one of the largest illegal tax boycotts in American history. At its pinnacle, the Association of Real Estate Taxpayers (ARET) had a paid membership of 30,000 and a budget of \$600,000. In 1931, the city treasurer disclosed that only 55% of the total tax levies, an all-time low, had been collected prior to the penalty date. Much of this was due to ARET's efforts.

The city government stood helpless in the face of the growing strike. A judge of the municipal court complained that when he paid taxes in 1931, his neighbors jeered and laughed.

The political authorities resorted to the only strategy left open to them: to persuade or shame delinquents into paying. Mayor Anton Cermak castigated delinquents as wealthy individuals who, although financially able to pay, shirked their civic duty at the expense of ordinary taxpayers. My own studies show, however, that strikers were mostly small shopkeepers and petty proprietors; skilled blue-collar workers constituted the biggest single group of ARET members.

The mayor threatened to remove police protection from the property of delinquents and deny them other city “privileges”

such as water. He urged the press to deny advertising space to ARET. As a result, two daily newspapers refused to carry their ads and two radio stations canceled their shows. To reach ordinary tax delinquents, Cermak promoted a “pay-your-taxes” campaign and the newspapers donated full pages urging citizens to pay up. Local governments distributed posters throughout the city, with slogans designed to inspire boycotts of tax delinquents, such as “Take Your Trade Where The Taxes Are Paid.”

The tax strikers were routinely accused of being anarchists. Millard J. Bilharz, a Chicago realtor and activist with ARET, replied: “Apparently you would call those anarchists who participated in that little ‘Tea Party’ quite some years ago down in Boston. They also had a ‘civic duty’ to perform in the way of paying an unjust tax to the King of England. But did they? No! And more power to them.... The courageous patriots are those who will ignore your remarks, stand four square—and refuse to pay—thereby, by passive and active resistance, force an early correction before we are all sunk.”

The strikers even forced the local Chicago government to seek a bailout from Congress. The tax strike, however, was eventually crushed through a combination of propaganda and coercion. Nevertheless, ARET had remarkable success. They managed to hold off the tax collector for two years. And they presided over what may have been the biggest concerted tax strike since the aftermath of the Revolutionary War.

But many economists, bankers, and businessmen knew that undisputed taxation was vital to big government. Pro-tax groups engaged in massive propaganda campaigns deriding tax delinquents as disloyal and unpatriotic. They created nightmare scenarios of life without

taxes. The *National Municipal Review* said “Water would cease to flow from faucets. Sewer pumps would stop... Millions of school children would roam the streets. Criminals and lunatics would break from their cells.” By 1932, a coalition of municipal reformers, academics, and government employees took to the national airwaves to sell the virtues of a far more active state with a program called “You and Your Government.”

By the end of 1933, the tax-resistance movement had largely been beaten. Having gotten some relief, many taxpayers lost enthusiasm. And civic reformers had won new allies from the segment of the business community that emphasized “good government” instead of cutting the size of government.

But what finally led to the resistors' undoing was the lack of a systematic political philosophy. They railed against high taxes, political paternalism, and grafting bureaucrats, but often fell short when it came to formulating their own proposals for retrenchment in government.

What motivated these long-quiet taxpayers to rebel? Economic motivations were central, but tax resistance was not automatically caused by economic self-interest. It was not that taxpayers adopted an anti-big-government pose when the depression cut into their incomes. Rather, the depression was only a catalyst to action. The depression forced taxpayers to think for the first time about the burden and the purposes of high taxes. To use a popular term of the period, the depression motivated taxpayers to become “tax conscious.”

The Great Depression tax revolts show that widespread resistance to big government has a powerful presence in American history, even when conventional history makes little or no mention of it. ◀

Overriding the Tax Revolt

BY SHELDON L. RICHMAN

In the schools of Kansas City, Missouri, the children learn that government in the United States is distinguished by its division of powers, both horizontally (executive, legislative, judicial) and vertically (federal, state, and local). They are also taught that the division protects the citizens' freedom and that the authority for these branches is the consent of the governed. But they are being lied to. They need look no further than their own city for evidence of that lie.

For on April 18, 1990, the U.S. Supreme Court ruled, in a 5-4 decision, that federal judges may command local governments to raise taxes to undo alleged violations of the Constitution. In a manipulation of words worthy of Orwell's characters, the court said judges could not themselves raise taxes, but could order local authorities to do so.

The case is ominous in every respect. The Kansas City schools were once racially segregated by law, but later they became heavily black because whites moved to the suburbs. Federal Judge Russell G. Clark in 1986 ordered improvements in the facilities and curriculum to attract white suburbanites back to the city schools. The magnet-school plan, which would cost more than \$600 million, called for the installation of air-conditioning and 15 microcomputers in every classroom, a planetarium, a broadcasting system, swimming pools, a 25-acre farm, a model United Nations wired for translation, movie edit-

ing and screening rooms, and a temperature-controlled art gallery. Judge Clark ordered the state to pay 75% of the bill, and the school district the rest.

But the state and school district could not raise the money because under state law, a tax increase has to be approved by the voters and they refused to approve it. In 1987 Judge Clark ordered the school district's property tax roughly doubled and imposed an income-tax surcharge. A year later, the federal appeals court struck down the surcharge, but let the property-tax hike stand.

The Supreme Court declined to review Judge Clark's plan, focusing exclusively on the tax increase. Writing for the majority, Justice Byron R. White said that the judge's direct imposition of higher taxes was an "abuse of discretion." But White added: "Before taking such a drastic step, the district court was obliged to assure itself that no permissible alternative would have accomplished the required task." In other words, had the school district refused to comply with the judge, he would have been justified in raising the tax himself.

But there was no chance of the school district's defying the judge. The school board was in favor of higher taxes all along. When the board president, Julia Hill, heard the ruling, she said, "I'm delighted."

Thus, this was not a dispute between two levels of government, but rather between the taxpayers and all government. This should surprise no one. When did a taxing authority ever support the people's right to reject a tax?

Justice White seemed unbothered that the judge's order overrode a state statute giving the voters final say over tax increases. "To hold otherwise would fail to take account of the obligations of local government...to fulfill the

requirements that the Constitution imposes on them." It was clear, he said, "that a local government with taxing authority may be ordered to levy taxes in excess of the limit set by state statute where there is reason based in the Constitution for not observing the statutory limitation." If anyone needed decisive evidence that the separation and dispersion of power has become a fairy tale used to pacify the citizenry, here it is.

The minority (Kennedy, Scalia, O'Connor, and Rehnquist) condemned this as an "expansion of power in the federal judiciary beyond all precedent." It envisioned "judicial taxation" for prisons, hospitals, and other government facilities.

This bodeful case also jeopardizes the prospects of a successful tax revolt. Whenever the taxpayers go too far in rolling back taxes, the authorities can argue in the courts that they are being kept from carrying out their constitutional duties and ask to have the tax-limits superseded.

The ruling also illustrates the flaw in government-controlled education. If educating children is regarded as a responsibility of government, there is no principled way to draw the line.

Everything bears on education: television, movies, billboards, breakfast-cereal boxes, not to mention how parents run their homes. Why shouldn't the state, once granted the power to oversee the education of children, not concern itself with all these things?

And if it is valuable for children to go to school with children of other races and religions, then of course the state, which has assumed responsibility for the well-being of children, logically ought to assure that schools are arranged in the proper racial and religious composition. Anything less would make it remiss in its duties. Once the legitimacy of this is granted, it is no great leap

Teaching the Free Market to Eastern Europe.

Joseph Sobran (left) of *National Review* and Hans-Hermann Hoppe (right) of UNLV participated in the Mises Institute's conference on desocializing the East Bloc, along with Murray N. Rothbard of the UNLV; Krzysztof Ostaszewski of the University of Louisville; Yuri Maltsev of the International Center for Development Policy; Kestutis Baltramaitis of the Lithuanian Republic's Council of Ministers; and Gottfried Haberler of the American Enterprise Institute.



to begin to see parental control as a needless impediment. Furthermore, the taxpayers' unwillingness to finance what the government regards as proper also must not be allowed to stand in the way. Thus *Missouri v. Jenkins* flows from the premise that government should run education.

There is talk in Congress of spot remedies to reverse this case. A constitutional amendment may be introduced. Congress by a simple majority could also deny

the Supreme Court jurisdiction in such cases.

But something more drastic is needed. The government's near-monopoly on education must be broken by allowing parents to withdraw their support for the state schools and spend their money on private, market-sensitive schools. More broadly, we must oppose the politics of outcome, that is, the doctrine that the government should aim for particular socioeconomic results and use any means to achieve

them. If we value liberty, we cannot countenance the use of coercion except to maintain a framework of rights in which people are free to do the best they can. This is the rule of law, which just died another death at the hands of the Supreme Court.

The plaintiffs in *Missouri v. Jenkins* have hailed the decision as a victory for civil rights. But any purported rights that require dictatorship by the judiciary are bogus, and have no place in a free society. ◀

Are Mules Smarter than Politicians?

BY LAWRENCE W. REED

When it comes to the Great Depression, old myths never die; they just show up in college textbooks. With only an occasional exception, it is there you will find, decked out in arrogant academic splendor, the fable that the free-market economy caused the Great Depression.

The Great Depression was not the country's first depression, though it proved to be the longest. But like all the others, before and since, it was caused by government manipulation of the money supply. Government ballooned the quantity of money and credit in the economy. A boom resulted, followed later by the painful day of reckoning.

The Austrian School of economics has long observed the close relationship between money supply and economic activity. When government expands the money and credit, interest rates at first fall. Businesses invest the "easy money" in new production projects and a boom takes place in capital goods. As the boom matures, business costs rise, interest rates readjust upward, and profits are squeezed. The easy money effects thus wear off and the monetary authorities, fearing price inflation, may even contract the money supply. In any event, just altering its growth to a lower track is usually enough to blow over the house of cards.

That basic outline applies to the events of the 1920s as well as to all the earlier boom-bust experiences in our history. The fingerprints on the door to the Great Depression belong to the money monster of the century: the Federal Reserve System.

The definitive study of the Fed's inflationary actions prior to 1929 can be found in Murray N. Rothbard's classic *America's Great Depression*. In meticulous detail, Rothbard traces the easy money policy which bloated the supply of unbacked dollars by more than 60% from mid-1921 to mid-1929.

During the 1920s, the monetary authorities were actively manipulating the economy, partly to stimulate an artificial boom at home, and partly to assist the Bank of England in its professed desire to maintain pre-war exchange rates.

The flood of money drove interest rates down, pushed the stock market to dizzy heights, and gave birth to "the Roaring Twenties." The economy was having a party, the Federal Reserve was spiking the punch, and everybody was having a good time.

Interestingly, a relatively stable "price level" in the 1920s masked the money inflation. A burst of technological advancement and entrepreneurial discoveries of cheaper ways of producing goods offset much of the Fed's inflationary impact on prices (with the

notable exceptions of stocks and Florida land). Nonetheless, the Fed fostered distortions and malinvestments that would sooner or later have to be corrected.

In early 1929, the Federal Reserve took the punch away. It choked off the monetary growth. For the next three years, it presided over a money supply which actually shrank by 35%. The deflation that followed the inflation wrenched the economy from tremendous boom to colossal bust.

With the change in Fed policy, the economy was a brand-new ballgame. When the masses of investors sensed it, the stampede was underway. Note that the stock crash was a symptom, not a cause, of the Great Depression. It rose and fell in almost direct synchronization with what the boys at the Fed were doing.

If this depression had been like previous ones, the hard times would have ended in a year or two, but that was not to be, thanks to ten years of incredible political bungling.

President Herbert Hoover did his part to trample the free market. He jawboned businessmen to keep wage rates high in the face of falling prices, creating unemployment. He adopted deficit spending as a deliberate policy. He spent billions on public works boondoggles and created a Reconstruction Finance Corporation to prop up shaky big busi-

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Are Mules Smarter than Politicians?

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nesses and thus prevent a quick and orderly adjustment in the economy. And he championed the nation's first federal welfare legislation.

Hoover took the heat from opponent Franklin Roosevelt in the 1932 election for spending and taxing too much, boosting the national debt, choking off trade, and putting millions on the dole. Roosevelt accused Hoover of "reckless and extravagant" spending, of thinking "that we ought to center control of everything in Washington as rapidly as possible," and of presiding over "the greatest spending administration in peacetime in all of history." Roosevelt's running mate, John Nance Garner, charged that Hoover was "leading the country down the path of socialism."

A crowning folly of the Hoover administration was the Smoot-Hawley Tariff in June 1930. The most protectionist law in U.S. history, it virtually closed the borders to foreign goods and ignited a vicious international trade war.

When farming went to pieces, rural banks failed in record numbers, dragging down hundreds of thousands of their customers. The stock market, which had regained half the ground it had lost since the previous October, tumbled on the day Hoover signed the tariff law, and fell almost without respite for the next three years.

Then, with the economy flat on its back and millions in despair, Congress passed and Hoover signed the incredible Revenue Act of 1932, which doubled the income tax for most Americans; the top bracket went from 24% to 65%. Exemptions were lowered, the earned income credit was abolished, corporate

and estate taxes were raised, new gift, gasoline, and auto taxes were imposed, and postal rates were sharply hiked. Rothbard estimates that the combined fiscal burden of federal, state, and local governments nearly doubled during the period, rising from 16% of net private product to 29%.

Under the weight of all this government, is it any wonder that the second phase of the Great Depression saw conditions dramatically worsen?

In the first year of FDR's New Deal, he proposed spending of \$10 billion though revenues stood only at \$3 billion. He torpedoed the London Economic Conference in 1933, convened at the request of other major nations to bring down tariff rates and restore the gold standard. He secured passage of the Agricultural Adjustment Act (AAA) which levied a new tax on agriculture and used the revenue to supervise the wholesale destruction of valuable crops and cattle.

Federal agents oversaw the ugly spectacles of perfectly good fields of cotton, wheat, and corn being plowed under and healthy cattle, sheep, and pigs being slaughtered and buried in mass graves. FDR's secretary of agriculture personally gave the order to slaughter six million baby pigs before they grew to full size. Meanwhile, one of the biggest problems in plowing under cotton was convincing the mules to trample the crop; they had been trained to walk between the rows. Professor Roger Garrison wonders whether this shows that the mules were smarter than the politicians.

The National Recovery Act of 1933, passed at the behest of the corporate establishment, cartelized industry and put govern-

ment in control of production and pricing. Codes that regulated prices and terms of sale, accompanied by fines and prison terms for violators, transformed much of the American economy into a fascist-style arrangement. And the NRA was financed by new taxes on every industry it controlled. There were production codes for hair tonic, dog leashes, and even musical comedies. The NRA boosted business costs by 40%.

As if that were not enough, FDR threw thousands onto unemployment lines by enacting a minimum wage which boosted business costs further and priced the least-skilled out of the job market.

Fortunately, the "nine old men" of the Supreme Court outlawed the NRA in 1935 and the AAA in 1936. Thus freed of the burden of the worst of FDR, the economy showed signs of life, but collapsed again under the pressure of the National Labor Relations Act of 1935. It gave enough privileges to labor unions that they ballooned their membership by a factor of five. Threats, boycotts, strikes, seizure of plants, and widespread violence pushed labor productivity sharply down and unemployment dramatically up.

On the eve of World War II, 10 million Americans were jobless. FDR had pledged in 1932 to end the crisis. Almost a decade and countless interventions later, the American economy still languished in depression.

The Great Crash of 1929, and the decade of economic distress that followed, marked an explosion in the same ill that had caused them—government power. ◀

Soviet Economist Lauds Mises. Professor Yuri Maltsev, formerly of the University of Marxism-Leninism in Moscow, recently lectured for the Mises Institute at the Heritage Foundation. Ludwig von Mises was the great anti-socialist champion, said Maltsev, and so is revered by free-marketeers in communist countries.



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