Ideas on Liberty
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The Economic Foundation of Freedom

by Howard Buffett

A clear understanding of the economic foundation of freedom and its ramifications is required by the person who strives to be an effective disciple of human liberty.

In a material sense, the economic achievements of American freedom in the last 150 years present the greatest phenomena of all history. In this relatively short period, our freedom has released and channeled human energy of such potential that an entirely new and hitherto undreamed-of world has been created.

What explains all this?

Some people have asserted that Americans are a superior race, smarter than any previous people. Not so. I have never seen or heard any evidence to indicate that Americans are an intellectual aristocracy. Perhaps it was our fortune to descend from superior pioneer stock. I don't know. In any event such a superiority, if it existed, cannot begin to explain the fantastic material achievements of this nation in the last 150 years.

Some would have you believe that the natural resources of America were the decisive factor. Not so. Other lands are as rich or richer in natural resources. South America and Mexico are examples.

Nor has the human situation changed during this period. People are the same, and the earth is the same size and constitution as it was when Socrates was holding forth in Athens.

Here, for the first time in human history, human energy was freed from arbitrary authority. Here for the first time man was able to make and carry out business ventures individually, or in relationships with others, unrestrained by unjust man-created obstacles. In America, men like Edison, Ford, Alexander Bell, and others, were free to invent and produce new products without being blocked by political authority.

Here in America man was on his own, to make the most of whatever intellect, tools, and resources he could assemble by his own personal efforts.

Human energy works efficiently to supply human needs and satisfy human desires only when and where and precisely to the extent men know they are free.

For the first time in history, that freedom was affirmed and spelled out in the Constitution of the United States. Americans were henceforth to be unrestrained by political considerations.

But this elimination of political restraint was but a part of the change from the previous economic climate. Equally important was that, for the first time in history, men

The late Howard Buffett was a U.S. representative from Nebraska (1943–1949 and 1951–1953). This article, condensed from a lecture at Midland College in Fremont, Nebraska, is reprinted from The Freeman: Ideas on Liberty, *December 1956. For more information on Buffett see Joseph R. Stromberg, "Howard Homan Buffett: Old Rightist Extraordinaire" at www.antiwar.com/stromberg/s042401.html.*

had a government organized on the principle that a basic purpose of government was to enable the individual to receive and enjoy the full fruits of his own labor.

Heretofore, from the Pharaohs on down to King George III, government in greater or lesser degree operated on the theory that people were subjects, that their person, their current production, and their property belonged to the rulers. The Constitution rejected that theory in toto.

This revolutionary concept can best be understood by an examination of the alternative ideas concerning production and its distribution.

The right of a person to the product of his own labor is the foundation of economic liberty, declares Dr. F. A. Harper, in his scholarly essay, *Liberty: A Path to Its Recovery*. He points out that "the question at issue is how to distinguish between what is mine and what is thine."

There are three ways to handle this problem:

1. Each person may have whatever he can grab.
2. Some person other than he who produces the goods and services decides who shall have the right of possession or use.
3. Each person may be allowed to keep whatever he produces.

These three methods cover all the possibilities; there are no others.

When the economic situation is reduced to these three clear-cut alternatives, the problem of achieving justice does not seem too difficult.

The first method of operation, under which each person can have whatever he can grab, is obviously unjust and impossible. It would return us to the jungle law that "might makes right." Moreover, it would soon reduce individual economic effort to the absolute minimum required for existence. Certainly there is no reason in trying to produce wealth beyond immediate needs if one could expect to be deprived of it at any moment.

So the first method can be rejected outright.

The second method of handling economic production would provide that someone other than the person who produces goods and services shall decide who shall have their possession or use. This method of determining the rights of possession is practiced in every authoritarian society. It allows those who hold the coercive power of government to confiscate the fruits of any producer's labor.

To accept this theory, you must hold two strange concepts: (1) that a nonproducer is better qualified to judge the correct use of what you have produced than you are; (2) that a nonproducer has a right to seize the fruits of your labor.

The late Justice Oliver Wendell Holmes once declared that someone must exercise command of the disposition of goods and services that have been produced, and that he knew of no better way of finding the fit man than the competition of the market place.

So it would seem that the second alternative, that someone other than the producer shall decide who shall enjoy the fruits of the producer's labor, is similar to the first method. One is a private seizure outside any law; the second is a public and legalized seizure, but without justice.

Private Property

Thus we come to the third method, whereby the producer has the right to the products of his own labor. It is the only economic pattern consistent with economic liberty.

Obviously if a person has exclusive rights to that which he has produced, that right is ownership. If all persons are to have the right to the product of their own labor, they are foreclosed from a claim to the product of another's labor.

If I have a right to the corn grown on my own land, certainly I have no claim on the cotton produced on another person's land. Otherwise his rights will be violated and no property is safe.

So far the right of a person to the product of his own labor would seem to be obvious. How then, have we arrived at our present situation?

Today's situation is the result of an alarming and devious governmental intervention in the economic affairs of the nation for objectives not contemplated by the men who wrote the Constitution.

Historically, in America the producer was protected by government in the enjoyment of the fruits of his labors. That protection of his property explains the glorious material progress already recounted.

Taxation Without Representation

The last 40 years have seen a gigantic expansion of political power over economic affairs by the federal government. This change is linked by many scholars to the passage of the income tax law in 1913. This law revolutionized the taxing system in two ways:

1. It gave the government new powers over the economic status of the individual. This change has curtailed the ability of the individual to achieve economic independence.
2. The part of his production taken from the producer cumulatively increases the power of the federal government proportionately with the increase in its income. This power is not created; it is simply taken away from the people by those in government.

In the 1930s a further sharp step-up in the centralization of power took place. Its scope can best be understood by quoting from the annual message to Congress by the President on January 3, 1936:

"In thirty-four months we have built up new instruments of public power. In the hands of a people's government this power is wholesome and proper. But in the hands of political puppets of an economic autocracy such power would provide shackles for the liberties of the people. . . ."

That presidential statement touched a critical issue. As he pointed out, public power "in the hands of political puppets of an economic autocracy" could "provide shackles for the liberties of the people. . . ."

But the reverse is also true. Economic power in the hands of those holding political power can also provide shackles for the liberty of the people.

The Power to Control

It would be salutary if the American people could objectively and effectively ascertain how far this increase of economic power by the government has gone. Then we would know exactly where we are in the trend away from the freedom of our ancestors. But for us at this moment it is essential to learn why the separation of economic power from political power is so important.

Students of liberty offer this explanation. Power is the instrumentality of control by men and groups of men over other men.

George Sokolsky, noted columnist, says it this way: "When human beings become dependent upon the political power of the state for their livelihood, the independence of person must disappear. It is the identification of economic power with police power that destroys the right of the individual to liberty."

The transfer of economic power into political hands takes many forms. In 1932 about 2.5 million people received a check from the government every month. Today about 20 million receive a government check every month. What is the effect on the freedom of this great segment of our people being more or less dependent on the political authorities for their daily bread? The question is not easy to answer.

Something of its import may be gained from the old rhyme that goes about like this:

> So runs the law and so the law will run
> 'til the race of men be still,
> That he who eats another's bread
> Must do the other's will.

Desire for Security

Any discussion of the status of the economic foundation of freedom is incomplete without some attention to a historic human urge—the desire for security. This intense human desire is reflected in the so-called social legislation politicians have placed on our statute books.

Will this legislation fulfill its promises? If you think so, consider this rarely mentioned fine print clause. *If the government is to guarantee you* what the consequences of your actions will be in this case, security, then the government must take control of your activities. For with responsibility—even self-arrogated responsibility—must go authority.

This means that if politicians are to supply your security, they must control your work, your spending, and your saving. Witness crop controls. In that event you have traded the reality of liberty for the promise of security.

History elsewhere indicates that government-provided security is a mighty poor mess of pottage in exchange for man's birthright of freedom. There is, I suggest, no valid reason to conclude that modern man or modern conditions have changed any of the eternal verities concerning power and liberty.

In his book, *The Promises Men Live By*, Harry Scherman, organizer and long-time president of the Book-of-the-Month Club, has set out a course of action that deserves the attention of Americans concerned about the future of their country. Here is his suggestion:

> If, as an individual, you really have some concern about the best way to change our present world to a better one, not a bad principle is to identify the enemy.
>
> It should not be true, but unfortunately it is, that your immediate enemies remain, as they always have been, your rulers—your government. At all times, it is a wise thing to suspect both their intellectual honesty and their intelligence in economic matters.
>
> Nothing can be lost, everything can be gained, by doing so. Make them prove themselves in these respects, and be utterly ruthless in your judgment.
>
> When they seem most plausible, in your particular interests, it is not a bad course to suspect their economic intelligence the most. They are, in these days, the managers of a highly complex world.
>
> You have placed them in this management, and you acquiesce in it. But, unfortunately, they give not the slightest indication of being any more capable in handling the affairs of masses of men than rulers have been all through history. . . .

Scherman's challenge closes with a plea that citizens make a vigorous and untiring effort to understand the economics of the world we live in. Without that understanding the citizen has no competence to judge the actions of his rulers, which also means he is unable to vote competently.

Without intellectual competence the citizen is controlled by his emotions. People controlled by their emotions in political matters have always been, and are today, easy prey for tyrants. □

BOOKS

Rethinking the Great Depression: A New View of Its Causes and Consequences

by Gene Smiley

Ivan R. Dee • 2002 • 169 pages • $24.95

Reviewed by George C. Leef

Recently, I found myself in an e-mail argument with a friend who is intelligent and well-educated—but not in economics. I had made the point that the best macroeconomic policy is one of government nonintervention, since we will get the optimal use of resources merely by leaving people free to pursue their self-interest. He replied that he saw a flaw in my argument, namely, that we suffer through periodic recessions and depressions. Yes, we do have them, I replied, but stunned him with the argument that all such episodes stem from bad government policy, not any inherent problem in the market system. He'd never heard that before.

Erroneous economic beliefs are everywhere, and one of them is that "markets are prone to recession." Scholars have been mounting an attack against it for many years. The most recent contribution to the literature is Gene Smiley's *Rethinking the Great Depression: A New View of Its Causes and Consequences*. Smiley, a professor of economics at Marquette University, has written a readable account of the Great Depression that pins the blame for its origin and duration on the blundering of government officials.

If the view propounded by Smiley is not entirely new—his sources show that the government-as-culprit view has been around for decades—his book does a splendid job of distilling earlier analyses into an account that will leave apologists for federal economic management looking for places to hide.

Smiley challenges the conventional thinking right away: "The Great Depression is often said to demonstrate the instability of market economies and the need for government oversight and direction. The evidence can no longer support such assumptions. Government efforts to control and direct the gold standard for national purposes brought on the depression. Once it began, government actions . . . caused it to be much longer and much more severe." The old belief that the New Deal was needed to "prime the pump" of the faltering free market is about to take a pounding.

Some common, erroneous notions are quickly dispatched. For example, many people have been led to believe that the stock-market crash was the crucial event, a crash brought on by the "irrational exuberance" of the 1920s (as Alan Greenspan described a subsequent boom). Smiley points out that the stock market rose hand-in-hand with rising corporate profitability and that margin lending, often singled out as the culprit, had little or nothing to do with the rise of the market. "Margin requirements," he writes, "were no lower in the late twenties than in the early twenties or in previous decades."

The stock market didn't cause the economic debacle. Smiley argues that the onus falls on the federal government's monetary policies. The chain of events is complicated, but the book explains in clear, jargon-free English that when the major European nations returned to the gold standard after World War I, they did so at exchange rates that prevailed before the war and its inflation. The resulting economic turbulence led to the adoption of a different system, the gold exchange standard, which obligated only the United States and Great Britain to exchange their currencies for gold. "Inexorably," Smiley writes, "the gold exchange standard began leading to deflation and economic contraction as countries sought to strengthen or maintain their monetary gold reserves."

Deflation of the U.S. money supply burst the economic balloon. Business activity began to slow and many banks experienced trouble, some failing. The Hoover adminis-