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Bank Crisis!

BY MURRAY N. ROTHBARD

There has been a veritable revolution in the attitude of the nation's economists, as well as the public, toward our banking system. Ever since 1933, it was a stern dogma—a virtual article of faith—among economic textbooks, financial writers, and all establishment economists from Keynesians to Milton Friedman, that our commercial banking system was super-safe. Because of the wise establishment of the Federal Deposit Insurance Corporation in 1933, that dread scourge—the bank run—was a thing of the reactionary past. Depositors are now safe because the FDIC “insures,” that is, guarantees, all bank deposits. Those of us who kept warning that the banking system was inherently unsound and even insolvent were considered nuts and crackpots, not in tune with the new dispensation.

But since the collapse of the S&Ls, a catastrophe destined to cost the taxpayers between a half-



trillion and a trillion-and-a half dollars, this Pollyanna attitude has changed. It is true that by liquidating the Federal Savings and Loan Insurance Corporation into the FDIC, the Establish-

ment has fallen back on the FDIC, its last line of defense, but the old assurance is gone. All the pundits and moguls are clearly whistling past the graveyard.

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Rockwell's Thirty-Day Plan

BY LLEWELLYN H. ROCKWELL, JR.

When Eastern Europe broke free in 1989, we all realized just how little thought had been given to the transition from socialism to capitalism. Mises had told us the collapse was coming, and we should have been prepared.

As America comes to resemble a command economy, we need a transition plan here too. Yuri Maltsev proposed a “One-Day Plan” for the U.S.S.R. We’re not in that bad a shape (yet), so we could do it in 30 days.

DAY ONE: The federal income tax is abolished and April

15th is declared a national holiday. The 40% reduction in federal revenues is matched by a 40% cut in spending. The budget is still almost twice as big as Jimmy Carter’s.

DAY TWO: All other federal taxes are abolished, including the corporate income tax, the capital gains tax, the gasoline tax, “sin” taxes, excise taxes, etc. Businesses boom, and the few legitimate federal functions are funded with an inexpensive head tax. People who choose not to vote need not pay it. (Note: this was a mainstream view in the 19th century.)

DAY THREE: The federal government sells all its land, freeing up tens of millions of acres for development, mining, farming, forestry, oil drilling, private parks, etc. The government uses the revenue to pay off the national debt and other liabilities.

DAY FOUR: The minimum wage is reduced to zero, creating jobs for ex-federal bureaucrats at their market wage. All pro-union laws and regulations are scrapped. The jobless rate falls dramatically.

DAY FIVE: The Bureau of

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Bank Crisis!

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In 1985, however, the bank-run—supposedly consigned to bad memories and old movies on television—was back in force, replete with all the old phenomena: night-long lines waiting for the bank to open, mendacious assurances by the bank's directors that the bank was safe and everyone should go home, insistence by the public on getting their money out of the bank, and subsequent rapid collapse. As in 1932-33, the governors of the respective states closed down the banks to prevent them from having to pay their sworn debts.

The bank runs began with S&Ls in Ohio and then Maryland that were insured by private insurers. Runs returned again this January among Rhode Island credit unions that were "insured" by private firms. And a few days later, the Bank of New England, after announcing severe losses that rendered it insolvent, experienced massive bank runs up to billions of dollars, during which period Chairman Lawrence K. Fish rushed around to different branches falsely assuring customers that their money was safe. Finally, to save the bank the FDIC took it over and is in the highly expensive process of bailing it out.

A fascinating phenomenon appeared in these modern as well as the older bank runs: when one "unsound" bank was subjected to a fatal run, this had a domino effect on all the other banks in the area, so that they were brought low and annihilated by bank runs. As a befuddled Paul Samuelson, Mr. Establishment Economics, admitted to the *Wall Street Journal* after this recent bout, "I didn't think I'd live to see again the day when there are actually bank runs. And when good banks have runs on them because some unlucky and bad banks fail..., we're back in a time warp."

A time warp indeed: just as the fall of Communism in Eastern

Europe has put us back to 1945 or even 1914, banks are once again at risk.

What is the reason for this crisis? We all know that the real estate collapse is bringing down the value of bank assets. But there is no "run" on real estate. Values simply fall, which is hardly the same thing as everyone failing and going insolvent. Even if bank loans are faulty and asset values come down, there is no need on that ground for all banks in a region to fail.

Put more pointedly, why does this domino process affect only banks, and not real estate, publishing, oil, or any other industry that may get into trouble? Why are what Samuelson and other economists call "good" banks so all-fired vulnerable, and then in what sense are they really "good"?

The answer is that the "bad" banks are vulnerable to the familiar charges: they made reckless loans, or they overinvested in Brazilian bonds, or their managers were crooks. In any case, their poor loans put their assets into shaky shape or made them actually insolvent. The "good" banks committed none of these sins; their loans were sensible. And yet, they too, can fall to a run almost as readily as the bad banks. Clearly, the "good" banks are in reality only slightly less unsound than the bad ones.

There must be something about all banks—commercial, savings, S&L, and credit union—which make them inherently unsound. And that something is very simple although almost never mentioned: fractional-reserve banking. All these forms of banks issue deposits that are contractually redeemable at par upon the demand of the depositor. Only if all the deposits were backed 100% by cash at all times (or, what is the equivalent nowadays, by a demand deposit of the bank at the Fed which is redeemable in cash on demand)

can the banks fulfill these contractual obligations.

Instead of this sound, non-inflationary policy of 100% reserves, all of these banks are both allowed and encouraged by government policy to keep reserves that are only a fraction of their deposits, ranging from 10% for commercial banks to only a couple of percent for the other banking forms. This means that commercial banks inflate the money supply tenfold over their reserves—a policy that results in our system of permanent inflation, periodic boom-bust cycles, and bank runs when the public begins to realize the inherent insolvency of the entire banking system.

That is why, unlike any other industry, the continued existence of the banking system rests so heavily on "public confidence," and why the Establishment feels it has to issue statements that it would have to admit privately were bald lies. It is also why economists and financial writers from all parts of the ideological spectrum rushed to say that the FDIC "had to" bail out all the depositors of the Bank of New England, not just those who were "insured" up to \$100,000 per deposit account. The FDIC had to perform this bailout, everyone said, because "otherwise the financial system would collapse." That is, everyone would find out that the entire fractional-reserve system is held together by lies, smoke and mirrors, that is, by the conning of the Establishment.

Once the public found out that their money *is not* in the banks, and that the FDIC has no money either, the banking system would quickly collapse. Indeed, even financial writers are worried since the FDIC has less than 0.7% of deposits they "insure," estimated soon to be only 0.2% of deposits. Amusingly enough, the "safe" level is held to be 1.5%! The banking system, in short, is a house of cards, the FDIC as well

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Banking is not a legitimate industry so long as it continues to be fractional-reserve.

as the banks themselves.

Many free-market advocates wonder: why is it that I am a champion of free markets, privatization, and de-regulation everywhere else, but not in the banking system? The answer should now be clear: Banking is not a legitimate industry, providing legitimate service, so long as it continues to be a system of fractional-reserve banking: that is, the fraudulent making of contracts that it is impossible to honor. Private deposit insurance—the proposal of the “free-banking” advocates—is patently absurd. Private deposit insurance agencies are the first to collapse, since everyone *knows* they haven’t got the money. Besides, the “free bankers” don’t answer the question why, if banking is as legitimate as every other industry, it *needs* this sort of “insurance”?

What other industry tries to insure itself?

The only reason the FDIC is still standing while the FSLIC and private insurance companies have collapsed, is because the people believe that, even though it technically doesn’t have the money, if push came to shove, the Federal Reserve would simply *print* the cash and *give it* to the FDIC. The FDIC in turn would give it to the banks, not even burdening the taxpayer as the government has done in the recent bailouts. After all, isn’t the FDIC backed by “full faith and credit” of the federal government, whatever that may mean?

Yes, the FDIC *could*, in the last analysis, print all the cash and give it to the banks, under cover of some emergency decree or statute. But...there’s a hitch. If it

does so, this means that all the trillion or so dollars of bank deposits could be turned into cash. The problem, however, is that if the cash is redeposited in the banks, their reserves would increase by that hypothetical trillion, and the banks could then multiply new money immediately by ten-to-twenty trillion, depending upon their reserve requirements. And that, of course, would be unbelievably inflationary, and would hurl us immediately into 1923 German-style hyper-inflation. And that is why no one in the Establishment wants to discuss this ultimate fail-safe solution. It is also why it would be far better to suffer a one-shot deflationary contraction of the fraudulent fractional-reserve banking system, and go back to a sound system of 100% reserves. ◀

Rockwell's Thirty-Day Plan

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Labor Statistics, like the rest of the Labor Department, is sent to that *big hiring hall* in the sky. Without detailed economic statistics, future economic planners will be blind and deaf.

DAY SIX: The Department of Commerce is abolished. Big business has to make its own way in the world, without subsidies and privileges at the expense of its competitors and customers.

DAY SEVEN: The plug is pulled on the Department of Energy. Oil and gas prices plummet.

DAY EIGHT: All regulatory agencies, from the Interstate Commerce Commission to the Federal Trade Commission, are deep-sixed. Competition is legalized.

DAY NINE: HUD is squashed like a bug. There’s a building boom in cheap, private apartments.

DAY TEN: The interstate highways reopen as private businesses. Road entrepreneurs price travel according to consumer demand. Using modern technology, drivers get bills once a

month. Credit risks—and drunks and dangerous drivers—are not allowed on the road. Non-drivers no longer subsidize car owners.

DAY ELEVEN: Government welfare is wiped out. Bums work or starve. The deserving poor find a cornucopia of private services designed to make them independent. Private charity explodes, as the American people, already the most generous in the world, find their incomes almost doubled, thanks to the tax cuts.

DAY TWELVE: The Federal Reserve closes its open-market operations and stops protecting the banking industry from competition. But banks can now engage in all the non-bank financial activities previously forbidden to them. The business cycle, which is caused by monetary expansion through the credit markets, is liquidated.

DAY THIRTEEN: Federal deposit insurance is scrapped. All insured deposits are redeemed from federal assets, which include the personal assets of high-level government employ-

ees. The threat of bank runs forces banks to keep 100% reserves for their demand deposits, and prudent reserves on all other accounts. There are no more inherently bankrupt banks propped up by the government, at taxpayer expense, and no more bail outs.

DAY FOURTEEN: The shaky fiat dollar is defined in terms of gold, with the ratio determined by dividing the government’s gold stock by all existing dollars on that day.

DAY FIFTEEN: The federal government sells National and Dulles airports to the highest bidder, and stops all subsidies to other socialist airports around the country. All constraints on airline prices and service cease. It costs more to fly during peak hours than off-peak, but overall, air travel drops in price.

DAY SIXTEEN: All government regulations that create and sustain cartels are abolished, including those for the post office, telephones, television, radio, and

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cable TV. Prices plummet, and a host of new and unforeseen services becomes available.

DAY SEVENTEEN: Centrally planned agriculture, as imposed by Hoover and Roosevelt, is repealed: there are no more subsidies, payments-in-kind, marketing orders, low-interest loans, etc. Farm prices drop. Entrepreneurial farmers get rich. Welfare farmers go into another line of work. The poor eat like kings.

DAY EIGHTEEN: The Justice Department shuts its anti-trust division. Companies, big and small, are free to merge—up, down, or sideways. Stockholders can buy any other company, or sell their stock to anyone else. Marginal producers can no longer battle their competitors

with bureaucratic weapons.

DAY NINETEEN: The Department of Education flunks the constitutionality test, and is kicked out. Private charities set up remedial reading and writing programs for the former bureaucrats. Federally subsidized sex education and other anti-family programs go out of business. Local school districts become responsive to parents or close, pressured by a fast-growing private school sector (which many more parents can now afford).

DAY TWENTY: All federal monuments are sold, in some cases to non-profit groups based on the Mt. Vernon Ladies Association, which owns and runs George Washington's home. The VFW buys the Vietnam memo-

rial. There is much bidding for the Jefferson and Washington monuments. Nobody wants FDR's, so it's torn down and the land sold to a farmer. (With the federal government cut back to its constitutional size, much of Washington reverts to productive uses like agriculture, as in late 18th century.)

DAY TWENTY-ONE: The computerized financial and political dossier maintained by the government on every American is erased. The public wanders through the federal offices to make sure, in a reprise of the East Berliners' visits to Stasi headquarters.

DAY TWENTY-TWO: Equal rights are granted to all Americans, even members of non-victim groups. There is no

Mikhail Gorbachev: Communist

BY YURI MALTSEV

Last fall in Moscow, a demonstrator carried a sign reading, "Ceausescu, Take Off Your Gorbachev Mask!" Now he has. But to those of us with eyes to see, the mask was transparent. Gorbachev has always been a Communist who "reformed" only in an attempt to preserve the Soviet Communist Party and the socialist system.

Gorbachev comes from a peasant family in South Russia, where he witnessed firsthand the malnutrition and even starvation of socialism. His grandfather was murdered in Stalin's purges, so he also knows the brutality of Communist politics, which he chose to make his life's work.

How could a man who clawed his way to the top of the Communist Party not be a devoted Bolshevik? As in a mafia family, when you rise in the Party you must demonstrate again and again that you are loyal to the gang, and have no conscience about the crimes you are asked to commit. During his long political ascent, Gorbachev had to pass more than 100 such tests.

Gorbachev is different from his predecessors. For one thing,

he is smarter and smoother. He is also the first with a university education: masters degrees in law and agriculture. Given Soviet education, which is probably why his first act on acceding to power was to further wreck the agricultural distribution system.

While a graduate student in agricultural college, he was also chief of the local Communist Party. He is still remembered for having demanded that his professors teach and "test" him at Party headquarters instead of in the classroom.

Gorbachev was a protege of Yuri Andropov, who made him secretary of agriculture. Andropov, of course, was one of the most vicious Soviet dictators. As ambassador to Hungary, he ordered the bloody invasion of that country in 1956. While head of the KGB, he helped send tens of thousands to the Gulag.

Later, Gorbachev became secretary of ideology under Chernenko, before becoming general secretary. Given the dire circumstances he faced, Gorbachev had to reform. Yet a reformist Communist is not much better than an orthodox one. What would we

think of a "reformist Nazi"?

Like all socialists, Gorbachev is also an economic ignoramus. In my observations of him while working for the Soviet government, I never saw one flash of economic insight, nor even the desire to learn about economics. He thinks like a Communist: issue orders and demand obedience.

Since taking power, Gorbachev has destroyed what little market activity existed in the Soviet Union, further devastated the already miserable lives of the public, presided over appalling violence against Lithuania, Latvia, Georgia, and other republics, and supported the worst of the old-guard Communists. Yet only recently has the Western media become even slightly skeptical about him.

Gorbachev is not the first Soviet politician to use reforms to maintain power. As a result of Lenin's thorough-going socialism, the entire population was starving. In response, he initiated the New Economic Policy, a far better plan than Gorbachev's, which actually allowed markets and private property. But as his-

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Foreign pol-
iticians have
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affirmative action, no quotas, no set-asides, no public accommodations laws. Private property and freedom of association are fully restored.

DAY TWENTY-THREE: The EPA is cleaned out, with all "clean air" and similar big-government laws repealed. Ten thousand lawyers leap from their balconies. Private property is established in air and water. Americans harmed by pollution are free to sue the polluters, who are no longer protected by the federal government.

DAY TWENTY-FOUR: Americans are given complete freedom of contract, restoring rationality to malpractice and product liability law.

DAY TWENTY-FIVE: Government scrambles for more as-

sets to sell (i.e., the National Zoo, also known as Washington, D.C.) to pay off the liabilities of the privatized Social Security system.

DAY TWENTY-SIX: Porno artists have to earn their own livings, as the National Endowment for the Arts tries to raise its budget through sidewalk painting sales.

DAY TWENTY-SEVEN: Foreign aid is outlawed as unconstitutional, unjust, and uneconomic. Foreign politicians have to steal their own money. The World Bank, IMF, and United Nations close their super-luxurious doors.

DAY TWENTY-EIGHT: The American people are given the unrestricted right to keep and bear arms.

DAY TWENTY-NINE: The Defense Department is re-oriented towards defense. American troops come home from all around the world. We adopt a policy of armed neutrality, remembering the Founding Fathers' teaching that we could not have an empire abroad and a constitutional republic at home.

DAY THIRTY: All tariffs, quotas, and trade agreements are put through the shredder. Americans can trade with anyone in the world, without barriers or subsidies. Japanese car prices drop an immediate 25%.

In just 30 exhilarating days, we have established the outlines of free market. Radical? Maybe so. Me, I can't wait until Month Two. ◀

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theory was
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torian Alec Nove points out, Lenin "kept stubbornly on the course of all-round nationalization, centralization, the elimination of money, and above all, the maintenance of [grain seizure]. There was no pressure on him from his colleagues to change this policy. Events, rather than the central committee, provided a potent means of persuasion."

Gorbachev tried other means to save Communism before adopting his temporary, and watered-down, NEP. As chief ideologue of the KGB Philip Bobkov, recently said, "The KGB understood very well, back in 1985, that the USSR would not be able to make further progress without *perestroika*."

Gorbachev's original theory was that the socialist system was sound, but the people were not. They were drunk, lazy, and earning "dishonest incomes." He wanted to "restructure people's thinking" in line with "socialist ethics."

First he announced an anti-alcohol campaign. Enforcers sought out people with alcohol on their breath and hauled them into the police station. When the

police stations became too crowded, the cops would drive people 15 miles out of town at night and dump them, even in the middle of winter. We would see armies of "drunks" trekking 15 miles back to town.

More than 90% of liquor stores were closed, and almost instantaneously, sugar, flour, aftershave, and window cleaner disappeared from the shelves. Using these products, moonshiners vastly increased their output, and as many as 55,000 died from drinking it.

Meanwhile, Gorbachev and the other Party bureaucrats—who said the dead deserved their fate—got Western liquor delivered to their homes from Party stores.

But revenues from alcohol had been a major source of income for the state, and these revenues dropped off. Moreover, Gorbachev now learned what previous dictators had instinctively understood: it is easier to govern a population of drunks. So Gorbachev reversed himself and ordered a massive increase in alcohol production, to be sold even in bakeries.

To make up the deficit he had caused, he also ordered the central bank to increase the supply of high-powered money by 20% a year. The result was more inflation and greater shortages.

Then Gorbachev began a new campaign—against "dishonest income." Like Stalin and Khrushchev before him, he declared all non-official income to be evil. But not a single person in Soviet Union is "untainted" by unofficial economic activity, so anyone could be targeted.

Party bureaucrats bulldozed thousands of private gardens. "Illicit" farmers' markets were shut-down. Bureaucrats cracked down on currency exchanges and unofficial transportation. The penalty for renting out an apartment was to have your home confiscated.

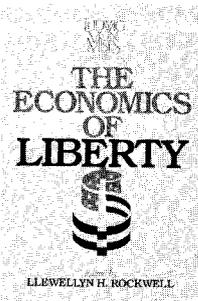
Bureaucrats also instituted certification. To get one, you had to prove that what you were selling had been approved before. But, as usual, the certificates were sold for bribes. Even after Chernobyl, you could bribe a bureaucrat to have your contaminated food declared radiation free.

Price controls in cooperative

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Mikhail Gorbachev: Communist

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Is this the best introduction to free-market economics? Its 75 hard-hitting essays on government and the economy, many from the *Free Market*, cover all the hot issues now being debated on the campus and in Congress.

This beautifully bound, 400-page, large-format paperback edited by Lew Rockwell features some of the best writers on the American Right; among them: Murray Rothbard, Joe Sobran, Tom Bethell, Bill Murchison, Robert Higgs, Doug Bandow, Walter Block, Jim Bovard, Jim Grant, Bill Kauffman, Sheldon Richman, and Pat Buchanan, as well as Lew himself.

For reference, for students, for friends—*The Economics of Liberty* is it. \$17, including postage and handling. For full-time students it's \$3, provided a copy of the student ID is enclosed.

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markets were strictly enforced; prices had to be the same as in state stores. That means, for example, the unrealistic four rubles a kilo for beef. As an economist, my first thought was, "Oh no, all beef will disappear from the market." But when I went to the market in Kazan, farmers were selling a 4-ruble-kilo: attached to a small piece of beef was a dinosaur-sized bone.

Things were different for rabbit meat. It was impossible to find a rabbit bone heavy enough, so rabbit meat disappeared.

The campaign against dishonest income made the unofficial economy even more unofficial, and therefore less efficient. Customers had to pay higher prices because of the risk premium.

There were more bribes and a transfer of power to the Gorbachev mafia. Soviet bureaucrats are always pleased when new laws are passed; they can extract more bribes. And in the first year, 150,000 people went to prison for dishonest incomes, including 24,000 top bureaucrats. These—by no coincidence, enemies of the Gorbachev gang—were promptly replaced with his followers.

Next, Gorbachev initiated the campaign for "labor discipline," forcing people to show up on time and work harder.

Following the example of his mentor Andropov, Gorbachev sacked the "lazy." People absent from work during the day were fired, in a country where constant shopping is necessary for survival.

Gorbachev's final effort, pre-"market," was a campaign for "quality." The central plan had always emphasized quantity, so Gorbachev hired 150,000 Gorbachevite bureaucrats to oversee the "quality of output." Every state enterprise had a special division on quality, providing even more opportunities for bribes.

After the failure of these schemes, Gorbachev began to talk about a "planned, regulated,

socialist market." He had his paid academics find useful quotes from the 105 volumes of Marx and Lenin to support it.

Gorbachev announced huge budget cuts and sacked 600,000 bureaucrats. But his "market" consisted of new State firms, which hired 720,000 people, all Gorbachevites, at a 35% salary increase. Gorbachev's "cuts" represented a 20% increase!

Missing from Gorbachev's "market" was private property and real buying and selling.

A young man I knew from a peasant family decided, in response to Gorbachev, to raise a pig to sell. For six months, this hopeful entrepreneur was devoted to this pig. Never was a man so happy as when he took that pig to market.

That night I found him drunk, although he was not a drinker. When he arrived at the market, a health inspector had chopped off a giant piece "to look for worms." Then the police grabbed another piece. Then he had to bribe State officials to get space to sell what was left at the State-mandated price. By the end of the day, he had earned enough to buy one small bottle of vodka. This was Gorbachev's "market."

But now all talk of the market has ended, and the reformers have resigned. Gorbachev now uses "markets," a word Western reporters like, as an excuse for more repression. To this end, he ordered a totalitarian withdrawal of all 50 and 100-ruble notes from circulation, giving people only three days to turn them in. People could get in return only one-month's salary in smaller bills, and in no case more than 1,000 rubles.

Pathetic savings were wiped out, and many of the alleged exchange points had no small notes, and so gave receipts which people assume will never be redeemed. But this was necessary, says Gorbachev, to eliminate "speculation, corruption, smuggling, forgery,

unearned income," and to "normalize the monetary situation and the consumer market." Meanwhile, a bank teller confirmed that for three weeks, top bureaucrats had been depositing huge numbers of notes. Money in approved bank accounts, it turned out, had no exchange restrictions, while ordinary citizens could not withdraw more than 500 rubles a month from their accounts.

Gorbachev wanted to wipe out the only real market in the U.S.S.R., the black one. Khrushchev did the same thing in 1961, and Stalin did it in 1947. Each followed the currency exchange with economic and political crackdowns.

What he has done in the Baltics shows his true nature. The labor camps are still in operation, and Gorbachev is sentencing people to prison even for speech crimes. The public has been reduced to a collective of hunter-gatherers, barely subsisting.

"I've been told more than once that it is time to stop swearing allegiance to socialism," Gorbachev said recently. "Why should I? Socialism is my deep conviction, and I will promote it as long as I can talk and work."

As proof of this, he has now put the KGB in charge of the economy—not only to suppress the black (i.e. free) market, but to monitor management as well. Nothing like this has happened since Stalin's anti-wrecker campaign of the 1930s.

The proper U.S. policy toward the Soviet Union would allow it to collapse, while recognizing the independence of the various republics. It would not send money and food to the Party and the KGB, as George Bush has done.

Hoover bailed out Lenin, Roosevelt bailed out Stalin, Nixon bailed out Brezhnev, and Bush bails out Gorbachev. When is this terrible tradition going to end? ◀

Rethinking Vouchers

BY PAUL GOTTFRIED

On the American Right, nobody debates education vouchers. I would agree, if I could be sure they would not render private schools and culturally unreconstructed families more vulnerable to bureaucratic meddling.

There are at least two aspects of all voucher plans that could be used to advance government social engineering. One, is their perhaps inevitable form as tax credits, which the government may choose to invalidate for certain schools, if it is displeased with their curriculum or conduct. Two, is the insistence that all institutions seeking to be eligible for voucher payment be "non-discriminatory" and politically correct.

By now the victims of discrimination have been expanded to include just about everybody who can demonstrate a minority status, whether regarding ethnicity, race, physical or mental disabilities, and even sex and sexual practices. It may be asked whether schools will remain eligible for voucher payments that haven't admitted enough members of these victim groups, even if they do not do so for the reason that entitled them to their victim status.

More practically speaking, will schools remain eligible for voucher payments if they hesitate to admit militant lesbians? Will an Orthodox Jewish school, under any voucher system we are likely to get, be allowed to restrict its student body to its own religious adherents? And what would happen to a Catholic inner-city school that focused its educational energies on Catholic youth instead of black Baptists? Would any private school be able to assert distinctive traits in its curriculum or discipline?

There is no reason to believe that the government would assign and pay out vouchers in a value-neutral fashion. Under the Reagan administration, the tax

authorities revoked the tax-exempt status of Bob Jones University not because it didn't admit blacks, and not because the school endangered anyone's life or property, but because of its restrictive policies on interracial dating. Every private college has rules that students agree to ahead of time. The market provides a means of determining which rules are popular and which are not. Allowing tax authorities to coercively change such policies is a dangerous precedent that wars against private property.

A similar control would be exercised over private schools that became eligible for voucher payment. How could one avoid such control, given the cancerous and obtrusive government we have?

Sixty years ago, this concern would not have entered my mind. Though federal and state authorities were engaging in income redistribution, at that time they recognized a private sector as distinct from the State.

Today, our government is all over us, imposing endless regulations, taxes, and rules for the conduct of our private lives. It may be imprudent to let it intrude any further into private education as the guarantor of any private school's voucher eligibility. Inviting government to eliminate a tax status, or voucher eligibility, because of a school's curriculum and admissions policies will only accelerate federal and state inroads into education.

If we must test a voucher plan, it might be best to start with public schools. Thus we avoid the problem of extending government's reach over education beyond its present outward limit. Public schools already belong to the managerial class, the National Education Association, and other organized behavioral therapists and public parasites. What harm is there in making a monopolistic situation slightly more competitive?

Unlike the manic advocates of

voucher plans, it does not seem to me that educational vouchers will make social conditions substantially better. They will not roll back the welfare state, restore decaying families, or revive the structure of private authority that educators, social workers, and the feminist movement have helped subvert.

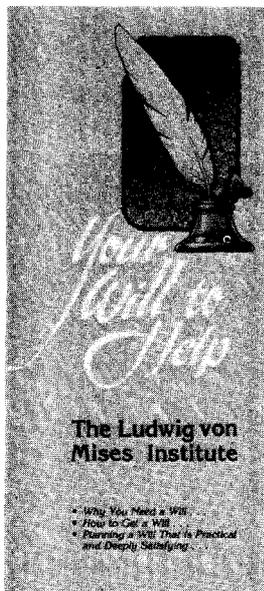
But they may arouse uneasiness in a few lazy public school teachers and administrators. They may even give a bit more importance to parental choice in public education.

One may offer reservations about even this more limited public school plan, however. Something like this will probably occur: well-disciplined schools that abound with academic achievement will become *ipso facto* guilty of discrimination, particularly if they fail to draw or keep the approved ratio of minority students fixed for the relevant district, city, or state.

Yet even despite this expected pattern of interventionism, I am willing to swallow my scruples and endorse a trial application of vouchers in the public schools.

But let us not go on calling a governmentally-controlled voucher plan "empowerment" for the poor, as is fashionable to do in Washington, D.C. The only plan capable of that would get Big Sister off everyone's back. Neither Congress nor state legislatures will allow this to happen. Overblown rhetoric substitutes for action, or is used as a cover for building the neoconservative welfare state.

With vouchers, as with every other Washington-promoted policy that sounds good at first, we must consider whether it will bring more liberty or more government. Sometimes nice-sounding principles ("choice" and "empowerment") can have pernicious practical consequences. The education of our children is too important not to consider the practical effects. ◀



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Some Other Costs of War

BY ROBERT HIGGS

War always increases State power over the economy, and the Gulf war is no exception. Thus one of President Bush's first actions was, by executive fiat, to give himself total control over any corporation or industry, if he deems it necessary for the war effort. He can now requisition what he wants, without regard to contracts or the needs of property owners and their customers.

This method was used extensively in both world wars and the Korean war. The armed forces commandeered railroads, communications, ships, and coal, for example. They allowed the ordinary managers to operate, but made them subject to Washington, D.C. Private property rights were effectively abolished.

Since the end of World War II, the government has spent about \$10 trillion in today's purchasing power on military affairs. This is about two years of current production—as if every single person stopped working for two years. With a constitutional foreign policy, most of these resources would have been available for private investment. We are a much poorer country because they were not.

War also means more government control of labor, with the draft the preferred means. Soldiers whose terms of service were set to expire have been forbidden to leave, tantamount to a partial draft.

The war economy means government takeover of private resources and people. This would be easily recognized without war. Suppose that the president, on his own authority, suddenly expanded government control of the economy. People would have much less freedom, and would have to pay much higher taxes.

The public would be outraged. But during wartime, people readily accept an executive takeover of just about every aspect of the economy.

Even victory can have its problems. Should the Iraq war be viewed as a glorious achievement, the politicians will be able to pick our pockets even more.

From a historical standpoint, war is instrumental in expanding government in every dimension. Particularly during the world wars, the transformation of a mainly market economy into a mainly command economy taught people to use government to achieve their personal ends, and eroded resistance to bureaucratization by making Americans less willing to protest.

Not only does the war machine not return to its previous level, every other aspect of government is fostered as well. During World War II, bureaucracies that had little to do with the war—the Department of Interior or Agriculture, for example claimed they were essential for the war effort, so their budgets and activities should be increased. Once the war was over, they retained their newly acquired functions.

The most important consequence of war is the ideological shift. A successful war brings new stature to the government. In the case of the Gulf war, a success will mean a more interventionist foreign policy. As neo-conservative Ben Wattenberg puts it, victory will yield "greater domestic political support for future assertiveness."

To the extent that the public thinks successful government management meant victory, their faith is increased in government solutions. It is difficult to argue that the government cannot run a

national energy policy when it appears to be running a New World Order.

Thanks in large part to war, we are much less free than we were in 1939. Living in a garrison state has also changed the political character of the American people. They are more like sheep, more easily led into approving government actions—domestic and international.

Consider the recently passed child care bill. At one time, most Americans would have viewed childcare as none of the government's business. Today, federalized child care is supported by the Congress and the president, and even the opponents didn't use principled arguments.

Until neutrality becomes once again the dominant principle in foreign policy, we have no realistic hope of dismantling domestic intervention. Yet, instead of cutting back on spending and taxes, Bush is increasing them to fund a New World Order.

This Wilsonian fantasy is as much a pipe dream as the centrally planned economy. This world of the future will be the same world we've always had—with kaleidoscopic changes constantly going on. If the president really thinks he can impose a new order on other countries, that means buying them or bombing them. Neither is consistent with the republic of the Founding Fathers' vision.

As James Madison wrote in 1795: "Of all the enemies to public liberty, war is, perhaps, the most to be dreaded.... War is the parent of armies; from these proceed debts and taxes; and armies, and debts, and taxes are the known instruments for bringing the many under the domination of the few." ◀

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