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The Budget "Crisis"

BY MURRAY N.
ROTHBARD

In politics fall, not spring, is the silly season. How many times have we seen the farce: the crisis deadline in October, the budget "summit" between the Executive and Congress, and the piteous wails of liberals and centrists that those wonderful, hard-working, dedicated "federal workers" may be "furloughed," which unfortunately does not mean that they are thrown on the beach to find their way in the productive private sector. The dread furlough means that for a few days or so, the oppressed tax-paying public gets to keep a bit more of its own money, while the federal workers get a rare chance to apply their dedication without mulcting the taxpayers: an opportunity that these bureaucrats invariably seem to pass up.

Has it occurred to many citizens that, for the few blessed days of federal shutdown, the world does not come to an end? That the stars remain in their courses, and everyone goes about

their daily life as before?

I would like to offer a modest proposal, giving us a chance to see precisely how vital to our survival and prosperity is the Leviathan federal government,

and how much we are truly willing to pay for its care and feeding.

Let us try a great social experiment: for one year, one exhilarating jubilee year, we furlough,

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Understanding the Underground

BY JEFFREY A.
TUCKER

Your neighbor sells you a cheesecake that she baked in her kitchen. Your dinner guests are delighted. But they don't know that you have been party to a black-market exchange. In most states, both you and the cook could be heavily fined. If your neighbor took the cash you paid her and deposited it in a bank, she is also a money launderer, which carries a jail term.

Selling food from a home is illegal. You are supposed to have a business license, your kitchen is supposed to be inspected by bu-

reaucrats, and you are supposed to have the right kind of ovens. These regulations make it impossible to cook food for profit outside an officially-sanctioned restaurant. The purpose is allegedly to protect the consumer, but the real point is to create a cartel on behalf of the restaurant industry, and insulate it from competitive pressure.

In the Soviet Union and Eastern Europe, nearly all useful production comes from black markets. The same is true in most third-world countries, as Hernando de Soto showed about

Peru in his book *The Other Path*.

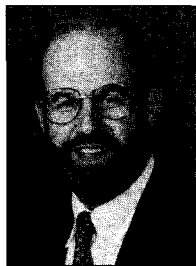
The word "black market" has a stigma attached to it, as if the people engaged in such activities as unlicensed baking must be stamped out. A much better term, used by most researchers in the field, is the "informal sector." It defines that sector of all modern economies in which the exchange of (mostly) licit goods and services takes place through illicit means.

We expect the Soviet Union and other socialist economies to have large informal sectors. In

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A Dissent on UNophilia

From the President



BY LLEWELLYN H.
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When you visit the United Nations in New York, and get over your amazement at not being mugged while on the way, you notice the antiquated modern architecture. Does anything become outmoded faster than yesterday's contemporary?

Then you are conscious of being on alien ground, for ever since the Rockefeller family and their Chase Manhattan Bank donated this land to the U.N., it has been very foreign territory.

Surrounded by limousines and stuffed with indolent world bureaucrats living high on tax-free incomes, the U.N. is a place where—noted former ambassador Daniel P. Moynihan—a vote can be bought for a blonde or a case of scotch. It is also, we are told, the “last, best hope of mankind.”

The typical U.S. history book lauds the “four great presidents”: Washington, Lincoln, Wilson, and Franklin Roosevelt. I guess a score of 25% correct isn't bad for the education establishment.

George Washington warned us against political entanglements with foreign governments, although he never envisioned a world state. Abraham Lincoln didn't concern himself with foreign policy, of course, as he fastened the federal leviathan on the body of the old republic.

Woodrow Wilson, who gave us the income tax and the federal reserve, also wanted a war. So he invaded Mexico and was disappointed when the Mexicans wouldn't fight. So, to overcome “isolationist” sentiments among the American people, he helped instigate a phony war atrocity—not for the first or last time in American history—to justify our entry into Europe's world war, and the engagement of government that it would inevitably bring.

Once over there, we helped England and France overthrow the Kaiser and crush the German

people, and overthrow the Emperor and wipe the Austro-Hungarian Empire off the map (even though Germany and Austro-Hungary had been much less responsible for starting the war than England, France, and Russia). The result—in addition to millions more dead—was to clear the way for Hitler (and Lenin), and to foment ethnic hatreds with artificial boundaries that cut across ancient nations, and placed others in unnatural combinations.

Not satisfied with this, Wilson sought to establish a world authority that would take decisions of war and peace out of the hands of such parochial interests as the American people, and enshrine them in a new cartel of governments called the League of Nations.

But isolationist sentiments came roaring back after the armistice, and conservative senators defeated the League treaty. Wilson, the textbooks all tell us with a catch in their voice, died a broken man because he hadn't abolished his country's sovereignty.

Franklin D. Roosevelt would not make the same mistake. After establishing domestic tyranny in the New Deal, Roosevelt also sought a war. When he got it, he started planning for another cartel of governments, one that this time would be ratified by the Senate.

Alger Hiss, later exposed as a Soviet spy, traveled to Yalta as FDR's State Department advisor, and it was at Yalta that Roosevelt and Stalin first formally agreed to establish the U.N.

Hiss was also the U.N.'s first head. As *Time* magazine noted at the time, “the Secretary General for the San Francisco Conference was named at Yalta but announced only last week—lanky, Harvard-trained Alger Hiss, one of the State Department's brighter young men.”

During the U.N. ratification

campaign, the great anti-New Dealer John T. Flynn said: “As one who has been watching propaganda for a great many years, I take off my hat. You cannot turn on the radio at any hour of the day—morning, noon, or night—whether you listen to the Metropolitan Opera or to a horse opera, a hillbilly band, a commentator or a newscaster, that you do not hear a plug for this great instrument of peace. It is the same kind of propaganda that Hitler taught the world so effectively.” And it worked. The Senate ratified the U.N. treaty with only two dissenting votes—William Langer's (R-ND) and Henrik Shipstead's (R-MN). Even Robert Taft (R-OH) nodded on this one.

Alger Hiss ran not only the initial U.N. conferences, but he oversaw the drafting of the organization's charter and other founding documents. So it can be no surprise that, like the Soviet Constitution, the U.N. grants spurious rights to jobs, clothing, medical care, education, housing, welfare, leisure, etc., while making real rights dependent on government approval.

The U.N. tells us we have the “right to freedom of expression,” but “subject to certain penalties, liabilities, and restrictions...as provided by law.” Freedom of religion is also protected, “subject only to such limitations as are provided by law.”

All individual rights, the U.N. says, may be overridden by government for reasons of “morality, public order, and the general welfare.” No wonder Stalin could happily sign these documents.

There is no mention of real economic rights, such as the right to property, but the U.N. does say that government has the “right” to “nationalize foreign property.” It also tells us that government—not individuals, families, churches, companies, and charities—must be in charge of “economic, social, and cultural development.”

The U.N.'s Genocide Convention, long opposed by constitutionalists like Sen. Sam Ervin (D-NC) but passed at the behest of the Reagan administration, outlaws "causing mental harm" to members of any identifiable group. These days that could include opposing the civil rights or welfare agenda. The first amendment to the American Constitution would be irrelevant.

Worried by exactly this prospect, and by modern Supreme Court holdings that make treaties superior to the Constitution, Sen. John Bricker (R-OH) in the early 1950s submitted an amendment to restore the original meaning of the Constitution: that no treaty could abrogate the liberty or the property of the people of the United States.

Dwight D. Eisenhower endorsed the Bricker amendment while campaigning, but opposed it as president, and it failed.

The Constitution does call treaties "the supreme law of the land," but as Thomas Jefferson wrote, this applies to "only those objects which are usually regulated by treaty, and cannot be regulated otherwise..., for surely the President and the Congress cannot do by treaty what the whole government is interdicted from doing in any way."

The Supreme Court had held in *New Orleans v. U.S.* in 1836 that the U.S. government has "limited powers. It can exercise authority over no subjects except those that have been delegated to it. Congress cannot, by legislation, enlarge the federal jurisdiction, nor can it be enlarged under the treaty-making power." But today, as in so many other areas, this wisdom has been erased, and a statist interpretation substituted.

But even with all its flaws, don't we need the U.N. for world peace? As J. Reuben Clark, Jr., former undersecretary of state noted in 1945, "there is no provision in the Charter itself that con-

templates ending war. It is true that the Charter provides for force to bring peace, but such use of force is itself war.... The Charter is a war document, not a peace document." And we can see that at work today, as a minor incident is turned into a major war.

The U.N. is most worried by violations of existing boundaries. But many of them, such as those of the Soviet Union, are unjust and illegitimate. How can it be wrong for the Ukraine to seek its independence, or a Polish expeditionary force to invade the U.S.S.R. to liberate the Lithuanians?

The U.N. claims to prevent "aggression," but the word is slippery in the organization's hands. For example, Red China's invasion of Tibet did not constitute aggression to the U.N., while Iraq's invasion of Kuwait does.

The U.N. promised to stay out of the internal affairs of member countries, then hypocritically named Rhodesia and South Africa as "threats to international peace" so it could intervene in their internal affairs.

Every day, it seems, some new U.N. treaty is proposed to limit national sovereignty and independence even more.

In the name of children's rights, the U.N. seeks to take responsibility for children away from parents and give it to an international bureaucracy, which is charged with eliminating illiteracy, neglect, abuse, poverty, hunger, homelessness, and diarrhea. As Dr. Samuel Francis of the *Washington Times* has pointed out, "what the departments of Education and Health and Human Services have done to American society, the bureaucracies to be created under this convention will do to the planet."

In the name of ending discrimination against women, the U.N. would impose pay "equity" on the world economy. "Comparable worth" schemes, which set wages by bureaucratic fiat, have

brought chaos wherever they have been adopted. This would do so worldwide.

In the name of fighting drugs, the U.N. makes bank secrecy a global crime, to be enforced through economic sanctions and U.N. asset seizures.

And in the name of international cooperation, the U.N. seeks to combat "tax avoidance and evasion." A new treaty, already signed by the Bush administration, though not yet passed by the Senate, places the "assessment, examination, collection, recovery, and enforcement" of all taxes, even local property taxes, under U.N. auspices, and sets up an international enforcement corps and international data bank.

We all know how much trouble it is to deal with city hall, let alone the state house or Washington, D.C. Imagine if we had a world state taxing, regulating, and controlling our lives. It would be time for 1776, Part II...if the U.N. hadn't achieved another one of its objectives: the confiscation of all privately held weapons.

The United Nations is based on the notion that world problems can be solved by world politicians redistributing the West's wealth. Too much government has caused most of the world's problems. How can we think that even bigger government will do anything but make things worse?

The last time I went in the voting booth, I don't remember seeing "New World Order" on the ballot. Yet that is what we're getting, as Bush and Gorbachev announced at their Helsinki summit—whether we want it or not.

When interventionist governments combine, it is to oppress. That is why every patriot, and every believer in the free market, ought to work for a Disunited Nations. Without that, we will have little hope in cutting its component parts down to size. ◀

YOUR GUIDE
TO EFFECTIVE
GIVING
IN 1990

LUDWIG
VON
MISES
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Your Guide to Effective Giving

For a free copy of this helpful tax publication, please check the box on the enclosed form.

The Budget "Crisis"

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without pay, all the tax collectors. That is, for one year, suspend all federal taxes and float no public debt, either newly incurred or even for payment of existing interest or principal. And then let us see how much the American public is willing to kick in, purely voluntarily, for the public till.

We make these voluntary contributions strictly private, so that there will be no incentive for individuals and institutions to collect brownie-points from the feds for current voluntary giving. We allow no carryover of funds or surplus, so that any federal spending for the year—including the piteous importuning of Americans for funds—takes place strictly out of next year's revenue.

It will then be fascinating to see how much the American

public is truly willing to pay, how much it thinks the federal government is really worth, how much it is really convinced by all the slick cons: by the specter of roads falling apart, cancer cures aborted, by invocations of the "common good," the "public interest," the "national security," to say nothing of the favorite economists' ploys of "public goods" and "externalities."

It would be even more instructive to allow the various anonymous contributors to check off what specific services or agencies they wish to earmark for expenditure of their funds. It would be still more fun to see vicious and truthful competitive advertising between bureaus: "No, no, don't contribute to those lazy louts in the Department of Transporta-

tion (or whatever), give to us." For once, government propagandists might prove to be instructive and enjoyable.

The precedent has already been set: if it is proper and legitimate for President Bush and his administration to beg Japan, Germany, and other nations for funds for our military adventures in the Persian Gulf, why shouldn't they be forced, at least for one glorious year, to beg for funds from the American people, instead of wielding their usual bludgeon?

The 1990 furlough crisis highlights some suggestive but neglected aspects of common thinking about the budget. In the first place, all parties are talking about "fair sharing of the pain," of the "necessity to inflict pain,"

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some places, like the Ukraine, it is four times the size of the official economy. And we would expect to find large informal sectors in the third world as well.

But the informal sector thrives everywhere that government regulations, taxes, and labor laws prevent people from supplying and acquiring the goods and services they want at prices they can afford. In fact, the size of the informal sector is the perfect measure of how much a government has overstepped its bounds.

The U.S. therefore has an enormous informal economy. Economists haven't paid much attention to it, but some recent studies have shown that in every major city, all forty sectors of the standard industrial classification have a major informal component. The informal economy is thus a major source of our prosperity, and one of the reasons that we are not as poor as we "ought" to be, given the size, cost, and intrusiveness of government.

Being informal includes everything from operating without a license, to hiring non-union employees in unionized industries, to paying less than the minimum

wage, to deliberately avoiding state restaurant regulations.

The firms tend to be small so as to avoid detection. The workers tend to be undereducated and unskilled, the kind of people the unions' minimum wage laws are intended to exclude from the market. These firms cannot advertise in the open. They are characterized by shadow entrepreneurs, shadow banks, shadow workers, and shadow advertising. One's reputation is even more important in the informal sector than in the official.

In New York City, informal activities are rife in apparel, construction (especially masonry, stonework, and plastering), footwear, toys, sporting goods, and electronics. Informal production also occurs in the manufacture of such goods as lampshades, artificial flowers, furniture, and jewelry.

In New York's construction industry, more than 90% of all interior work is done without a building permit. More than one-third of the workers in construction projects are unregistered and nonunion and therefore illicit. A majority of workers in the New

York apparel industry are unregistered, and the number of informal "sweatshops" (which pay less than the minimum wage) has grown by 3,000% in the last two decades.

The electronics industry is extremely competitive in New York, and labor standards and regulations have put many firms into hard times. Rather than fight within licit markets, many have gone underground where they ignore the regulations and employ nonunion labor.

One way in which informal businessmen avoid detection is subcontracting. For example, electronic and apparel firms have their employees work out of their own garages and basements. The workers deliver the completed products to the main office.

The work places of these subcontractors violate every labor code in the book, but they are known for high quality, low prices, and quick service. Consumers seek them out, and would-be subcontractors ask if they too can't be "exploited" by having their own home business.

The informal sector prospers in transportation too. There are

How come that government, and only government, is regularly associated with a systematic infliction of pain?

etc. How come that government, and only government, is regularly associated with a systematic infliction of pain?

In contemplating the activities of Sony or Proctor and Gamble or countless other private firms, do we ask ourselves how much pain they propose to inflict upon us in the coming year? Why is it that government, and only government, is regularly coupled with pain: like ham-and-eggs, or...death-and-taxes? Perhaps we should begin to ask ourselves why government and pain are Gemini twins, and how much we really need of this massive engine for the imposition and administration of pain and suffering.

Another curious note: it is now the accepted orthodoxy of our liberal-and centrist-Establish-

ment that taxes must be raised, regardless where we are in the business cycle. So strong is this article of faith that the fact that we are already in a recession (and intelligent observers do not have to wait for the National Bureau of Economic Research to tell us that retroactively) seems to make no dent whatever in the thirst for higher taxes. And yet there is no school of economic thought—be it New Classical, Keynesian, monetarist, or Austrian—that advocates raising taxes in a recession. Indeed, both Keynesians and Austrians would advocate cutting taxes in a recession, albeit for different reasons.

So whence this fanatical devotion to higher taxes? The liberal-centrists profess its source to be deep worry about the federal def-

icit. But since these very same people, not too long ago, scoffed at worry about the deficit as impossibly Neanderthal and reactionary, and since right now these same people brusquely dismiss any call for lower government spending as ipso facto absurd, one suspects a not very cleverly hidden agenda at work. Namely: a love for higher taxes and for higher government spending for their own sake, or, rather, for the sake of expanding statism and collectivism.

There is one way we can put our hypothesis to the test: shouldn't these newfound worriers about the deficit delight in our modest proposal of one year with no deficit at all, one year with no infliction of pain whatever? Wanna bet? ◀

The informal sector spans our country coast to coast. Tens of thousands of informal businesses prosper in almost every city and town in America.

more than twice as many "gypsy" cabs in New York as licensed ones. Huge business is done by firms that transport people through the city on safe, clean, and convenient vans, which—though illegal—easily outcompete the inferior municipal service. Interestingly, the gypsy cabs and vans mostly serve low-income areas.

Most of New York's street vendors and flea markets are unlicensed. And many high-priced jewelry and fur shops operate "informally" in the backroom, where the customer pays in cash and gets a much better deal. The same is true in both high-end and low-end footwear. And certain sections of the city sport huge clusters of auto repair shops. One survey showed that a small site in Brooklyn handled 100 cars every day—more cars than there were in the neighborhood—showing that people came from all over to enjoy the low prices and good service.

Miami is in a similar situation: overbearing government has created a thriving informal sector. The most common source of informalism is labor-code vio-

lations. Capitalists avoid paying overtime, allow garment workers to engage in dreaded "home-work," and employ "under-aged" labor—teenagers anxious to earn money rather than take drugs or hang out on the street.

Nearly one-third of Miami's Cuban immigrants began work in informal enterprises. These businesses include everything that is offered for higher prices (with less service) in the formal sector: services, retail, manufacturing, and construction.

In 1980, the U.S. Department of Labor cracked down on Miami's informal sector, and in a short time, discovered 132 firms violating the labor laws. The government forced the firms to pay back wages of \$180 million to 5,000 employees, as if the workers, who would otherwise not have had jobs, were being exploited.

As the Miami government's housing regulations increased during the 1960s, Cuban immigrants began creating their own informal firms and competing for contracts to build condos in Miami Beach and office buildings in downtown Miami. When the

recession hit in 1973, formal firms were wiped out, while informal ones survived and even flourished.

The informal sector spans our country coast to coast. Tens of thousands of informal businesses in food preparation (as in the cheesecake example), tailoring, plumbing, carpentering, auto repair, and other areas, prosper in almost every city and town in America.

One of the fastest growing informal activities is child care. In any immigrant neighborhood, one can find hundreds of homes spilling over with children during the day. This is a direct result of increased regulation of the industry as promoted by the established regulated firms. The child-care industry has been cartelized, with requirements that firms employ state-certified teachers, that all employees be paid at least the minimum wage, and restrictions on the number of children who can be cared for in one room. Impoverished baby sitters find such regulations impossible to meet, and the people who use them are too poor to afford licit

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child care.

The informal sector serves all classes in society, but those who really depend on it for essential services like child care and transportation are the poor. This puts a new spin on the old leftist claim that America offers one system for the rich and one for the poor. Except that it has been liberal policies in taxes, regulation, and unionism that have created the problem.

The informal sector is no paradise, however. Informal firms must always be less efficient than open firms in a free market. Informal businesses must develop complicated ways of avoiding detection, which takes time and resources. They cannot advertise openly. They cannot merge. They must get by without the normal legal channels for settling disputes. Even though most disputes are handled peacefully, sometimes contract disputes result in violence since there is no

other enforcement mechanism.

It is, however, instructive that informal economic arrangements work as well as they do. It should increase our skepticism about the "benefits" of government services, even those deemed "essential."

Even though we cannot calculate the size of the informal sector in America, we can perform a mental experiment by imagining what would happen if all these firms were shut down in one massive federal sting operation. Our standard of living would dramatically fall. The poor would have no child care outside state provision, therefore could not work; big construction projects would shut down; items like sweaters would be more expensive; transportation would dramatically decrease; economic competition would fall; and a labor shortage would ensue. Even the stock market would work less efficiently.

Not that the U.S. government isn't trying to eliminate the informals. But it is an illusion to think that the informal economy could be wiped out through tougher enforcement. Even Stalin and Mao couldn't do it. But it could be abolished peacefully: by repealing the oppressive laws that create the informal sector. Such laws stay on the books not because of public resistance, since so much of the public relies on informal exchange, but because of the continuing power of interest groups that seek protection from competition in a free market.

Eliminate these laws, and we will gut the special interests, create a real free market, and raise everyone's standard of living. Most importantly, we would formalize the informals and increase respect for the rule of law, which the government has done so much to undermine. ◀

Ten Myths About the Budget

BY DOUG BANDOW

Myth 1: The Government Is Starved for Revenue.

The government collected \$1.05 trillion this year, up \$53 billion from 1989. Even without any new tax hikes, collections will jump \$78 billion next year, \$73 billion the following year, and \$84 billion in 1993.

All told, taxes have risen dramatically for a half century. Tax revenues in 1934 were \$3 billion. In 1963, the government grabbed \$106.6 billion. Uncle Sam took another nine years to breach the \$200 billion level, but only five more years to bust the \$300 billion level. By 1980, receipts were running \$517.1 billion; a decade later taxes have more than doubled again. As a percentage of GNP, taxes are higher today than they were in 1980.

Myth 2: Federal Spending Is Inadequate.

Outlays this year are \$1.263

trillion. (Actually, because the government counts some user fees against outlays, spending will be \$1.36 trillion, but the other figure is more commonly used.) This is up from \$590.9 billion in 1980 and \$1.143 trillion only last year. In real terms, spending is one-third higher than it was a decade ago.

With the military taking \$299.9 billion in 1990, are pressing "social needs" being starved? Social security costs \$248.7 billion, welfare consumed \$148.5 billion, and Medicare ran \$96.9 billion. And more is being spent on education, transportation, veterans, the environment, foreign aid, agriculture, and on and on. In all cases, the government is spending more money than had been predicted last January. And we can expect them to spend far more in the future.

Myth 3: Reagan Tax

Cuts Caused the Deficit.

Tax revenues rose from \$517.1 billion to \$908.9 billion between 1980 and 1988—an increase of 76%. Even after factoring in inflation receipts, taxes rose 23% under Reagan.

All the fabled Reagan tax cuts did was counteract other tax hikes. The Treasury Department says that the 1981 tax cut reduced revenue by \$1.488 trillion (between 1981 and 1989). However, inflation-induced bracket creep (before indexing took effect), Social Security tax increases, and a half dozen tax hikes signed by Reagan upped revenues by \$1.529 trillion over the same period. Thus, Reagan's legacy is a \$41 billion tax *increase*.

Myth 4: Reagan Slashed Spending.

When Reagan was elected, federal outlays were \$590.9 billion. When his successor was

chosen in 1988, spending had hit \$1.064 trillion—an 80% increase! Spending increased every year Reagan was in office; in 1983, spending as percentage of GNP hit a post-World War II record of 24.3%.

Myth 5: Reagan Slashed Social Spending.

So-called “human resource” spending—health, education, and welfare—rose from \$313.4 billion in 1980 to \$533.4 billion in 1988—a 70% increase. Outlays on “physical resources,” such as energy, housing, and transportation, edged up from \$66 billion to \$68.3 billion over the same period. Spending on agriculture went from \$8.8 billion to \$17.2 billion (and even hit \$31.4 billion in 1986), and space and technology rose from \$5.8 billion to \$10.8 billion.

Myth 6: Republicans Are Fiscal Conservatives.

Dwight Eisenhower actually reduced inflation-adjusted spending during his years in office, while Kennedy and Johnson proved to be big spenders, together upping real outlays by 54.4%. Since then, partisan differences have shrunk: real spending grew 16% under Nixon/Ford, and 25.8% under Reagan, but only 14.6% under Carter.

How about Bush? After just two years, real spending has leaped 9.4%. And small wonder. This summer, Bush said he was reneging on his no-new-taxes pledge to avoid a sequester under Gramm-Rudman. The result, he warned, would be “draconian cuts in defense, student grants, and a wide array of other necessary domestic services.”

Myth 7: A Sequester Would be a Disaster.

If Congress hadn't reached a

budget deal, about \$87 billion in cuts would have been made in a \$1.271 trillion budget. That's 6.9%. Are we really supposed to believe that a government that has more than doubled its spending over the last ten years cannot cut seven cents on the dollar?

Myth 8: The Budget Summit Agreement Would Have Cut Spending.

Washington loves Orwellian language. Tax increases are real increases, while spending cuts are reductions in desired increases. Thus, on-budget spending would grow from \$1.2 trillion this year to \$1.4 trillion in 1994. Some cut.

Myth 9: A Budget Agreement Will Solve the Debt Problem.

Past budget agreements have done nothing to hold down spending, since Congress never provides a way to enforce them. For example, under the original Gramm-Rudman proposal, the deficit should be zero this year. Instead, the result is permanent tax increases which allow Congress and the executive branch to spend more as the deficit grows.

And don't pay any attention to the official figures on the deficit. What really matters is the much bigger increase in total federal debt, which stands at \$2.2 trillion. And this is pocket change compared with other liabilities: \$16.5 trillion for Social Security, \$1.8 trillion for Medicare, and \$1 trillion for civil “service” and military pensions. The government has liabilities of \$5.8 trillion in direct loans, loan guarantees, loan insurance, and deposit insurance. Not all these contingent liabilities will come due, but losses from S&Ls, commercial banks, farm credit programs, student loans and housing subsidies

ran \$82 billion in 1989 alone. All told, taxpayers are potentially liable for \$27.3 trillion in unfunded obligations—\$109,200 per American!

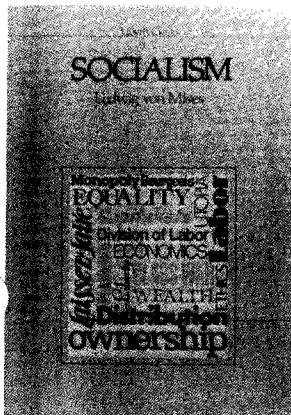
Myth 10: Congress Is Restraining Spending.

The opposite is true. When times are tough, Congressmen raid the common pool with a fury. Budget negotiators recently approved an 18.8% increase (\$2.5 billion) in highway spending, a prime source of pork. Republican Silvio Conte's Massachusetts district will receive a \$3.4 million highway “demonstration” project, for instance. Another \$1 million goes to develop a “national transportation policy,” which is supposed to make us bike or walk instead of drive. New energy, land, park, and water projects garnered an incredible \$20 billion.

Congress upped housing appropriations by 22% (to \$9.5 billion)—thanks to Jack Kemp's lobbying. Medicaid has been expanded by \$400 million. Outlays on 13 national laboratories are rising 18%—to ensure funding for worthy projects like SETI: the Search for Extraterrestrial Intelligence. The University of Massachusetts will get a new solar heating plant and North Dakota will get \$500,000 to renovate the birthplace of Lawrence Welk.

Congress also voted to renovate the House beauty parlor and barber shop (\$375,000), to find a location for a staff gymnasium (\$25,000), to renovate a House restaurant (\$2 million), and to buy new House trash cans (\$40,000). The Senate gets new elevators for Senators only (\$8 million) and new Senate office furniture (\$2.5 million).

In the Washington budget process, spending always rises, special interests always find new ways to mulct the taxpayers, and politicians always lie. And that's the truth. ◀



Book of the Month

In 1948, Professor H. Gordon Hayes of Ohio State University reviewed Ludwig von Mises's “Planned Chaos” (now the appendix to *Socialism*) in the *American Economic Review*.

“Mises,” said Hayes, has the gall to tell us that “economic calculation” is impossible under socialism, without a word to unwary readers” that this view has been “thoroughly discredited.”

Calling Mises's work “ominous” and a “travesty on scholarship,”

Hayes says that such a publication “from within the fraternity of scholars” may mean “increasing difficulty in making bridges to the future.” That is, “if

Mises and his fellow anti-planners are strong enough.”

To see what upset Professor Hayes so, see the appendix to Mises's *Socialism*. If you have a copy, another would make a great gift for a student or a school library.

The Shackling of Arnie

BY VICTOR NIEDERHOFFER AND PETER HANSEN

We all know how interventionist the federal and state governments are. But municipalities can be just as oppressive. Take the example of Westport, Connecticut. In 1981, a small entrepreneur from Westport named Arnold Kaye sought to open a video game business in his hometown. In that little people's republic, he couldn't just do so, and let the market decide his success or failure. He had to approach the Planning and Zoning Commission (P&ZC) to ask where he could operate his business.

Following the P&ZC's instructions, Arnie purchased land in an area zoned commercial, hired an architect, drew up a plan, and submitted it to the commission's approval.

The commission refused him permission because he had only included the amount of parking that the commission mandated for "an indoor entertainment establishment." Now, he was told, he must include as many spaces as a bowling alley.

Arnie returned to his architect and had the property redesigned to include more parking. But before he could present this new plan to the P&ZC, they passed an ordinance outlawing video gamerooms in Westport. They just weren't in keeping with the tone the city fathers (or big brothers) wanted.

But Arnie, an old-fashioned guy who believes in free enterprise, refused to knuckle under. He built and opened his gameroom in defiance of the ordinance. Naturally, the town took him to court for defying its authority, but, though Arnie was fined, the judge ruled that Arnie

must be allowed to operate his gameroom.

Thus, after tremendous delays, legal fees, and other costs, Arnie won his first battle with Westport, and the gameroom has been a market success. That made him even less popular with the bureaucrats, and the Planning and Zoning Commission continued to harass him as, over the next few years, Arnie built an ice-cream parlor, a restaurant, and a catering business next to his gameroom. Then he applied for a liquor license for his restaurant.

Arnie needed the license because he was losing money on his restaurant. With the incredible sums he had to spend on legal fees, Arnie faces bankruptcy if he can't increase profits at his restaurant with drink sales.

So Arnie was told he had to prove to the P&ZC that liquor-serving restaurants do not cause drunkenness! (As versus dealing with bureaucrats.)

Arnie also had to promise that he would not open a separate bar. After doing so, he was told that an old town ordinance barred him from getting a license anyway, since his restaurant was within 1,500 feet of another "liquor-serving establishment."

Then, thanks to the efforts of Arnie and other free-market advocates, new commissioners were elected: people who were a little more favorable to economic freedom. The new commission then passed an Arnie amendment allowing restaurants without bars to get liquor licenses regardless of how close they were to the competition.

This infuriated both the competition and the officials, and a few weeks later, Westport's legislature, the Representative Town

Meeting (RTM), took the highly unusual step of nullifying the Arnie amendment.

Arnie then asked for permission to gather petition signatures for a town referendum to overturn that action, but the Town Attorney refused, on the grounds that while he could seek a referendum on an ordinance, he could not do so on a rejection of a P&ZC amendment.

Using his own technicality, Arnie then brought suit against the town on the grounds that the RTM's action was void because it had not been officially published as required by law. The town is opposing his suit, of course.

The legal issues in Arnie's battle with Westport government are a bit arcane, but the central theme is not: the oppression of a productive businessman. As Arnie says, to Westport officials, the competing businessman is "the enemy. There are two dreaded diseases in this town. Herpes and developerism."

Arnie has been battling the officials for years, spending hundreds of thousands of dollars. Last June, worried about his impending bankruptcy, Arnie tried to talk to Westport's First Selectman Doug Wood, who wouldn't give him an appointment. So Arnie walked into a meeting that was supposed to be open to the public, but wasn't, and Wood had him arrested and charged with criminal trespassing.

Arnie Kaye today faces not only bankruptcy but jail. Not in Sweden or Russia, but in Connecticut—for the crime of trying to serve the public. Tip O'Neill once said that "all politics is local." While not all oppression is local, plenty is, as Arnie Kaye can testify. ◀

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