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Peru: What Happened on the Way to the Free Market

BY MURRAY N. ROTHBARD

He had been widely touted by the American media as the savior of Peru from hyperinflation and from the dangers posed by the current socialistic Garcia regime as well as the fanatical Maoist-type guerrillas who call themselves "The Shining Path." Mario Vargas Llosa, tall, aristocratic, eminent avant-garde novelist and ex-leftist, was running for president of Peru.

Vargas Llosa, trumpeted the media, was a non-politician bound for inevitable victory on his free-market program. In the April presidential balloting, however, which Vargas was expected to sweep in a landslide forecast by the public opinion polls, the bubble burst. An unknown presidential candidate, Alberto Fujimori, operating with virtually no money out of a storefront in Lima, rose from a negligible amount in previous polls into a virtual tie with Vargas Llosa for



The following is a message from your government, and is therefore exempt from the truth-in-advertising laws.

first place. Fujimori may now win the runoff. What exactly happened on the road to the Peruvian free-market paradise?

Vargas Llosa had been converted to the free market by the remarkable economist, Hernando de Soto, whose best-selling work, *The Other Path*, not only

called for a free market, but advocated a genuine "people's" free market based on private entrepreneurs, in contrast to Peru's (and other Latin American countries') unfortunate experiences with state capitalism that fosters privileged contractors and monopolists.

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Egalitarianism

BY SHELDON L. RICHMAN

The *Washington Post* recently devoted front-page space to report a decline in support for egalitarianism. More than 70% of the people responding to a poll said they disagreed that "redistributing" wealth from those who earn it to those who do not was a proper function of government. The story, of course, could barely conceal the paper's concern over the apparent growing opposition to the welfare state and its policies to "narrow the gap between the rich and the poor." Nevertheless, this represents a breakthrough.

The people who worry about these things attribute the decline

to Ronald Reagan and the 1980s, the alleged Decade of Greed. That it might have something to do with developments in Eastern Europe, where governments preaching egalitarianism have failed so miserably, has not occurred to them.

One is always entitled to be skeptical about polls, so it is too early to celebrate the demise of egalitarianism in America. Besides, the evidence that it is really out of favor is scant. How are we to explain most of the pending legislation in Washington, including the Americans with Disabilities Act and the Civil Rights Act? There could be a lag be-

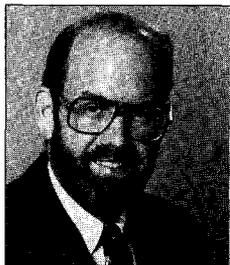
tween a change in the people's attitude about the welfare state and the legislative process, but I doubt that egalitarianism is dead or could die so easily.

It is quite possible that egalitarianism still functions as an ideal, but that people have grown doubtful about whether it can be carried out. Here the experience of Eastern Europe and the Soviet Union has been instructive. The governments in these countries assumed nearly complete power, ostensibly to fulfill the principle "from each according to his ability, to each according to his need." The result was a caste so-

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The Hairsprayed Ones

From the President



BY LLEWELLYN H. ROCKWELL

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Maybe it's because I'm bald, but I've never trusted a politician who teases his hair. You can't count on a man with a low-rise beehive. Especially if he started political life as an aide to Nelson Rockefeller.

"GOP Embraces Sharing of Wealth," said a *Washington Times* headline. Rep. Newt Gingrich (R-GA)—ex-Southern field man for the Rockefeller for President organization—was sponsoring a cable TV show also featuring HUD Secretary Jack Kemp. Another guest, Jesse-Jacksonite Polly Williams, said she "ain't going to hold it against conservatives if they happen to feel the same way we do." About the welfare state, that is, for everyone advocated "transferring wealth."

We need "a very active government," said Gingrich. Criticisms of "the bureaucratic welfare state" are passé. "We have an obligation to govern."

Governing. That must be why Gingrich engineered the colossal Congressional pay raise, and agreed to deep-six any Republican candidate who used the issue against an incumbent Democrat. Gingrich champions more welfare and civil rights (a tautology these days), while opposing a Social Security tax cut for people who work.

Kemp, who shares Gingrich's love of teased hair and big government, calls for more public housing. He also wants to send every member of the underclass to college, no matter what the cost to taxpayers. We have to "apply resources—real government dollars," says Kemp. "As a society, we have the money."

Gingrich and Kemp are "changing the face of conservative politics forever," says columnist Don Lambro. Well, excuse me, but I liked the old look. In fact, I'd like to sue the plastic surgeons.

These "ambitious conservative leaders" want to gain new fol-

lowers "among inner-city minorities," says Lambro. How? By dressing LBJ in a Republican suit, teasing his hair, and hoping we think he's a conservative.

The *Washington Post* is delighted by all of this, which ought to be all we need to know. Spiro T. Agnew said it best: the *Post* belongs at the bottom of a birdcage. "These conservative activists are at the cutting edge" of a movement to "launch a new War on Poverty—a conservative war," says the *Post*. Yeah, and the bombs are landing on our families and our wallets.

With liberal Democrats, what you see is what you get. The scum floats on top of the pond. But big-government conservatives had to disguise their de-

Kemp do, no matter how they dress it up with talk of "values." "Transferring wealth," i.e., theft on a massive scale, is some value.

Before the New Deal, race relations were imperfect, but they weren't the hate-o-rama they are today. The streets of Harlem were safe at night for blacks and whites. Even in poor areas, men worked and supported their wives and families. Marriage was the norm, drug use was low, and children went to school and church. There was an active business community.

This is not some pipe dream. It actually existed. And it was destroyed by the welfare state.

What the urban poor need most is market and social pressure to act responsibly. But the

If racial hatreds are growing in this country, and I fear they are, we can thank the welfare state and the egalitarian mania that drives it.

viant ideas. Movement pressure kept them in the closet. Now they practice their vice openly.

There have always been American conservatives who rutted in the cellars of Europe, who spurned Taft and Goldwater for Disraeli and Bismarck. Now they lust after the United States of Welfaria, with bloated transfer payments, shrinking property rights, and manic egalitarianism.

Ever since the New Deal, conservatives have fought the welfare state as morally evil, economically disastrous, and socially corrupt. How can anyone look at America's inner cities, social laboratories of welfarism, and call for more of the same? Yet that is exactly what Gingrich and

welfare state deliberately subverts this to create a dependent class.

The welfare state subsidizes sloth, promiscuity, illegitimacy, and irresponsibility. It excuses horrific crime as "legitimate rage." It tells the underclass that everything that happens to them, every failure and every disorder, is somebody else's fault. Can there be any wonder at the devastation, or the venom?

If racial hatreds are growing in this country, and I fear they are, we can thank the welfare state and the egalitarian mania that drives it. Conservatives who champion those ideas deserve, not high government posts, but quarantining as moral lepers. ◀

Peru: What Happened on the Way to the Free Market

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In the early part of last year's presidential campaign, de Soto was one of Vargas's key campaign advisors. But de Soto soon broke with Vargas, denouncing him for selling out to the very state capitalism that de Soto had spent so many years denouncing.

Vargas's shift was the beginning of his troubles. His state-capitalist policies aggravated the fact that Vargas Llosa is one of the wealthy, white minority of European descent—the Criollos—(approximately 2.8 million out of a largely Indian and mixed-Indian Peruvian population of 20 million) who are the landlords and state capitalists of Peru and who are therefore cordially detested by the rest of the population. While Vargas Llosa surrounded himself with wealthy Criollos, he was visibly uneasy on the stump in Indian districts.

Vargas sealed his doom when he embraced the "free-market," "anti-inflationist" policies of the new Brazilian president, Fernando Collor de Mello. His "free-market shock treatment" for the Brazilian economy has been widely heralded as a salutary if radical "strong-man" technique of ending that country's accelerating inflation.

De Mello's policy may well be a "shock treatment," but it goes far beyond any shock admin-

istered by a free market. For while there are some decontrol and privatization planks in the de Mello program, most of the shock is blatantly statist: including a massive increase in taxes, and, in particular, a Draconian deflationary program that freezes for many months everyone's bank account, thereby suddenly contracting the Brazilian money supply by 80%.

Austrian economists have often been accused of being grim "deflationists" for wanting to allow insolvent fractional-reserve banks (including S&Ls) to go bankrupt without a bailout. But this contraction is nothing compared to de Mello's arbitrary deflation of 80%. Far from being free market, the Brazilian policy

The first Japanese were imported into Peru at the end of the 19th century to work as slaves on the coastal sugar plantations. The Japanese, however, rebelled within weeks, and moved to Lima, where they are now located. Fujimori's parents emigrated to Lima in the mid-1930s, where his father, along with other Japanese, created hundreds of successful small businesses.

After Pearl Harbor, the U.S. government pressured Peru to go to war with Japan, to confiscate Japanese-owned businesses, including the elder Fujimori's tire repair shop, and to ship almost 1,500 Japanese to internment in the U.S. Hence, the Peruvian Indians' embrace of Fujimori as a fellow non-white rising up

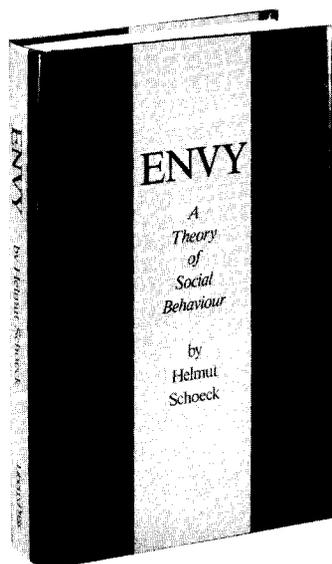
Hernando de Soto denounced Vargas for selling out to state capitalism.

amounts to *first* engaging in a massive printing of money, then spending this newly-created money, driving up prices drastically, and *then* proclaiming a cure by confiscating the largest part of that money. In short, the Brazilian government has delivered to the country's economy a massive and lethal one-two punch.

On his promising to Peru the same treatment as de Mello had just given Brazil, it is no wonder that the Peruvian voters turned from Vargas in droves. In the meanwhile, Fujimori came up fast on the outside. A member of the small but highly respected Japanese-Peruvian community of 55,000, Fujimori found himself embraced by the country's Indians as a fellow ethnic oppressed by the hated ruling Criollo elite.

against the Criollos. The fact that Fujimori's immigrant mother does not speak Spanish works in his favor with the Inca masses, who don't speak Spanish either; Spanish is the language of Vargas Llosa and the Criollo conquerors.

Fujimori, by running a non-moneyed, grass-roots campaign, tapped this favorable sentiment. Moreover, his campaign slogan: "Work, Honesty, Technology," though a bit vague, resonated with the three key precepts of Inca law: don't be lazy, don't steal, don't lie. Fujimori also promised the Peruvians something far more concrete: that he would encourage massive private Japanese investment. As I write, the race is a toss-up. If Vargas loses, it will be because he deserves it. ◀



In *Envy*, Helmut Schoeck discusses the history of this corrosive vice, and its role in Western collectivism. A student and friend of Ludwig von Mises, Schoeck was a brilliant scholar. This work—on socialism, welfarism, egalitarianism, and related evils—is his masterpiece. It is \$19, including U.S. postage and handling, in a magnificent Liberty Press hardback.

ciety in which the rulers lived in relative luxury—compared to their subjects, if not the working class in the West. Practice fell short of theory. That ought to make people rethink the theory, but many will just chalk it up to flaws in human nature. The last thing they will conclude is that the flaw is in the theory, not ourselves.

Before sorting all this out, let's dispose of an economic point first: the government cannot "redistribute" wealth. The word in quotation marks implies that wealth is initially *distributed*. It is not. In the market there is no common pot from which someone ladles wealth. The incomes we observe result from a long series of voluntary exchanges. In each transaction, two parties decide that what they will get is more valuable than what they will give up. If each did not believe that, no transaction would occur. (The exception, of course, is income derived from government sources.)

Since there is no distribution, it cannot be judged fair or unfair. No one decided how much each person would get. Rather, everyone had opportunities to enter or not enter into transactions, depending on their values and what contribution they could make to the productive process. It makes no sense to call the "distribution" of income unfair if each step in the series of exchanges that brought that outcome was fair, that is, voluntary.

But this basic economic point is not likely to persuade the egalitarian. To him, the impersonal market process is unfair precisely because it does not take into account his feeling (for that is all it is) that something is wrong with variations in income. If the market's principle of reward is contribution to production, he argues, and if that principle leads to unequal rewards, then the principle should be changed.

Changed to what? Different

People have different degrees of intelligence, different talents, different levels of ambition, different qualities of alertness to opportunities, different physical capacities. Difference—inequality—is the rule.

egalitarians have given different answers. The differences are not important here; only the principle is. Every egalitarian has presumed to call for interference in the peaceful system of voluntary exchange to bring about an arrangement of wealth fairer than the one the market would create.

The egalitarian is right about one thing: left to its own devices, the market will "distribute" wealth unequally. It is an elementary truth, requiring no proof beyond simple pointing, that people are different in almost every way. They have different degrees of intelligence, different talents, different levels of ambition, different qualities of alertness to opportunities, different physical capacities. Difference—inequality—is the rule. We have no say in the matter, and we should be thankful for it. Imagine a world where everyone was the same. The division of labor would not work, and we would all be equally poor. It is precisely because we are different that the law can treat us in the same way and not cause a catastrophe.

The law is the only realm where equality is properly recognized. But equality in this context means one law for everybody. A free society is one in which there are no castes, that is, no legally enforced divisions as found in feudal and socialist societies. It is not a classless society. Classes are merely groupings, based on income and other crite-

ria, that result from voluntary association. Using Ludwig von Mises's distinction, a class is not legally closed to entry; a caste is.

The egalitarian is not satisfied with equality under the law. In fact, he resents it because it accepts the natural differences between people. In his effort to bring about equality in the economic realm, he must establish inequality in the legal realm. Those thought to have too much will be treated differently from those thought to have too little. The first will be deprived, the second endowed. Bad equality therefore drives out good equality. But notice that the egalitarian merely succeeds in substituting one set of inequalities for another.

Only a dreamer would maintain that under an egalitarian regime all inequalities are wiped out (or even diminished). On the contrary, the system rewards those excelling in the manipulation of the political process. Obviously, these skills are not equally "distributed." Instead of the market system, which rewards people for satisfying consumers, the egalitarian favors a system that rewards people for winning political office or currying favor with politicians and bureaucrats. The egalitarian no doubt is the best judge of which kind of skill he has.

What motivates the egalitarian? Maybe at one point in history the motive was naive humanitarianism. But no more.

The consequences of the interventionist state are too stark to be missed. The poor are its first victims. They are made humiliatingly dependent on the state, while regulations deprive them of the freedom to help themselves and taxes choke off economic opportunity. In their name, a multitude of bureaucrats (and "private"-sector consultants) grow rich. The politicians gain a constituency, but no matter how much money is spent, the problem is always worsening and the producers of wealth are always expected to give more. It is hard to find humanitarianism in this. Honest humanitarians would have given up on the welfare state long ago.

Those who cling to it are motivated by something else: envy. What else can explain a system that worsens the condition of the purported beneficiaries as well as society's achievers? At some point all innocent explanations fall away and what is left is hatred—of achievement in itself.

It is bad enough that the administrators of the welfare state are moved by a hatred of ability.

Those who cling to the welfare state are motivated by envy. What else can explain a system that worsens the condition of the purported beneficiaries as well as society's achievers?

The greater tragedy is that they poison the minds of the constituency they so desperately need. Instead of the poor learning to admire the productive and aspire to be like them, they are taught by the system that their poverty is caused by others' affluence. They learn to resent achievement and to prefer seeing the achievers dragged down. That is all the welfare state can bring about.

Egalitarianism rests on the principle that people are not responsible for themselves. It is not a poor person's fault that he is poor; nor do the rich deserve their wealth. The opposing view

need not hold that everything is in a person's control. Luck can play a part in wealth and poverty. Nevertheless, no two people react the same way in the same circumstances. A person's perceptiveness, judgment, and ambition play a large part in his fortunes.

The welfare statist will cry out that we have responsibility to those less fortunate. We do, but in a sense other than the egalitarian imagines. We have a responsibility to create and maintain a free society so that all may go as far as their abilities and determination will take them. ◀

Greed

BY TOM BETHELL

Liberals no longer argue from premises to conclusions. They react as the upholders of an etiquette that is or should be perfectly well understood, but is alas threatened by people who have not been properly trained.

No sooner were the 1980s over than the liberals began to moan about the Decade of Greed. But they never defined greed, very much the liberal style. Rarely do they give us an argument. Instead we find attitudes—sometimes indignation, sometimes amazement, sometimes outrage. It is as though they are on stage—and they are (the media's). The raised eyebrow is a frequent pose, the better to let you know that such and such position is, frankly, not acceptable in polite society.

As to greed, we are given to understand, like the lady who asked Fats Waller to define rhythm, that if you've got to ask you'll never know.

It is not easy to define greed. St. Thomas Aquinas, in the editions of the *Summa Theologica* that I have come across, does not discuss greed. But he does define covetousness as "an inordinate love of possessing," in particular the "immoderate love of getting and possessing money"—a sin "directly opposed to the virtue of liberality." He makes the interesting observation that "though the riches coveted are material things, the evil of covetousness is in the desire for satisfaction in the possession of these things, and not in the things themselves."

Let us accept that there really is an immoderate love of possess-

ing money, or things, and that this is sinful. Where does this leave us? First of all, it is a fault of particular individuals. It cannot be imputed to whole classes. But, of course, it is.

The typical blanket accusation of greed arises in the news media when voters urge their representatives to reduce taxes. (In today's weird political vocabulary, as Joe Sobran points out, wanting to keep more of your own money is greed; seeking more of other people's money is "need.")

Obviously, however, it is a contingent matter whether an individual who benefits from lower tax rates succumbs to greed. He may want to keep more of his earnings so that he can send his son to college, or so that he can give it to Mother Teresa. Accus-

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Greed

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ing a whole class of beneficiaries of greed is as unintelligent as accusing people of gluttony for arguing that an end to food price controls will increase the provisions in grocery stores. But, as I say, liberals long ago stopped arguing.

They seem to think of "greed" as an omnipresent feature of human nature, which in decency ought to be held in check by steeply progressive taxation, but which conservatives and libertarians and other morally obtuse people insist on treating as the very dynamo that drives market economies.

In this, of course, they confuse greed with rationality. It is not that people are greedy in wanting to keep more of what they earn. They are rational in being reluctant to work for rewards that they do not see and cannot control. The individual understands that he cannot know the destination of a dollar forcibly diverted from his pocket or paycheck into the government's common pool; and he also realizes that even if he did know that destination, perhaps especially if he did, he might very well disapprove of it.

The real goal of those who bandy accusations of greed is the socialization of a greater portion of people's earnings; and their technique is to level moral-deficiency charges against those who resist this goal.

But is the disposition toward greed more likely to be encouraged in a free-market system of privately owned wealth, or in a system where most or all of the wealth is socialized? There is more wealth in New York than in Moscow, but is there more greed? And how about Bucharest? When we try to identify greedy individuals, people like the Ceaucescus are apt to come to mind. One thinks of the hoarded goods uncovered late last fall when the Communist tyrants of Eastern Europe were overthrown. Others may think of the

holdings of Ferdinand Marcos, or the clothes closet of his wife Imelda.

Notice that it is princes and potentates and (in the 20th century) party officials who are particularly well placed to indulge the temptations of avarice. Tyranny facilitates greed, because tyrants may with impunity use force against their fellow men. What makes this tyrannically attained greed so much worse than "privatized" greed is that it is achieved without consent, both enslaving and impoverishing others. Private greed may indeed be a vice, but it is not indulged at the expense of others (except possibly family members).

Notice, incidentally, that tyrants are not *necessarily* greedy.

But the opportunity to indulge such temptation is surely greater in a regime of state ownership, controlled by force and tyranny. When property is privately owned, then your attempt to obtain my property without my consent falls into the category of fraud or theft, and may be suitably discouraged by laws against fraud or theft. But when property is communally owned, the ensuing free-for-all will encourage selfish behavior as a matter of rational self-protection. Those who are forced to eat from a common pot will tend to eat greedily, because there may be nothing left for the slowest eater. Private property, often thought of as an inducement to greed, is in fact a bulwark against it.

P rivate property, often thought of as an inducement to greed, is in fact a bulwark against it. Competition forces most people to work hard for their money.

American liberals will point with vicarious pride to the modest house of a Julius Nyerere, or the spartan Kremlin quarters of a Lenin. (In it purely for the power, my friend! Power unsullied by steaks or Chardonnay or closets full of tacky shoes!) Robespierre the Incorruptible was the prototype. But if greed is a spiritual vice, as Aquinas says, how much more so is the love of power. The modern liberal's worship of power divorced from possession is in reality nothing more than the condescension that the spiritually corrupt feel for those who do not appreciate the more refined forms of spiritual corruption.

Individuals, then, may or may not be greedy for material goods.

The truth is that a competitive economy is not exactly a friendly environment for those with dreams of avarice. Competition forces most people to work hard for their money. Still, there may sometimes be real instances of greed. If so, this is a problem for the individual and his spiritual advisor. Society at large should not be punished for private vice. It should count itself blessed that it permits private prosperity, and that its institutions are not overrun by the negative emotions of hatred and envy (as is true in so many parts of the world). It makes no more sense to preempt individual cases of greed by punitive legislation than it does to try and wage war on gluttony by closing down restaurants. ◀

The Myth of a Swedish Utopia

BY ANTON WAHLMAN

Liberal Americans have long admired the Swedish model, but far from being a social-democratic utopia, Sweden is a case study in how to destroy entrepreneurship, economic growth, and the standard of living.

Before the 1960s, Sweden had a relatively laissez-faire economic policy, which created the wealth visitors see when they walk the streets of Stockholm today. As total taxes rose from 30 to 59% of GNP, however, the standard of living fell in comparison with other countries like Japan and West Germany. In the long run, we've discovered, taxes, regulations, and government spending are almost as effective in destroying prosperity as tanks, soldiers, and bombs.

Between 1870 and 1970, only Japan had more economic growth than Sweden. Since 1970, Sweden's growth has lagged behind all other industrialized countries except Denmark, also a welfare state.

The welfare state has received rave reviews in the world media, but it has been the road to economic serfdom. The average Swedish worker earns roughly \$27,000 before taxes. But the price level in Sweden is about twice as high as the U.S. Swedish workers pay \$17,000 for a Ford Escort, \$4 for a gallon of gasoline, \$700 for a standard VCR, and \$1.50 for a can of Coke.

The federal income tax rate ranges up to 20%, and state and local taxes total a flat rate of 32%. On gross salaries, employers pay an ever-increasing "employer's fee" now amounting to almost 40%, for pensions, social security, sick pay, child care, government employment agencies, mandatory insurance, etc. And we will soon suffer a "temporary" increase in the value-added tax from 23.45% to 25%.

Child care is provided by the

local authorities, but there are waits of up to two years, and only about 60% of those who want child care actually get it.

Hospitals are owned and managed on a state level (there are 24 states in Sweden). Medical taxation on average is 14%, and health care is over 95% of the states' budgets.

The public waits in almost Soviet-style lines for many forms of surgery—up to ten years in some cases—so some people die while waiting. Swedes who can afford it circumvent the socialized medicine by going to private hospitals in other countries.

Three unions monopolize organized labor, and if private-sector workers get a raise, the government workers must get the

same under the doctrine of "labor solidarity." The fact that the private sector has increased its productivity, and the public sector has decreased its productivity, is irrelevant. The sacred Social Democratic wage policy must be upheld.

Many workers collect sick pay from one job while working a second. Welfare payments often exceed net wages, even for middle-income workers. How can a nation prosper under such conditions?

Before World War II Swedish industry was world renowned for its quality, innovative technology, and cost-effectiveness. Since then, only two major companies

have been founded—IKEA and Tetra Pak, and both moved their headquarters abroad in the early 1980s.

Despite these disasters, the Social Democrats are still in power. After World War II, they built up a political "safety net" with official organizations for the retired, gasoline consumers, tenants, food consumers, etc. The party owns department stores, libraries, concert halls, kindergartens, and funeral agencies.

All these organizations are state-subsidized propaganda machines for the Social Democratic Party. When the annual negotiations about rents take place, for example, government officials in effect negotiate with themselves

Far from being a social-democratic utopia, Sweden is a case study in how to destroy entrepreneurship, economic growth, and the standard of living.

through an organization that is said to represent all tenants.

These state-subsidized organizations make huge grants to the party. That is how the Social Democratic Party in little Sweden (8.5 million people) was able to spend almost twice as much in the 1988 election campaign as Ronald Reagan did in his 1984 campaign. That's roughly 50 times more per capita.

Although Sweden is not socialist in the formal sense, it has taken a huge dose of the medicine that ruined its neighbors to the East: big government. Despite the low crime rate and the world's most beautiful girls, neither West nor East should look to Sweden as a model society. ◀

What's Wrong With Progressive Taxation

BY ROY E. CORDATO

Tax debates used to focus on economic growth; today it's rich vs. poor, with the alleged champions of the latter calling for a more progressive income tax. But they've got it wrong, morally and economically.

A progressive tax, be it noted, doesn't mean higher-income people pay a greater percentage of the total tax calamity; this is likely to be true even when taxes are regressive. Say the tax rate is 50% up to \$30,000, and 20% above that, and there are two taxpayers earning \$20,000 and \$100,000 respectively. The higher-earning person pays \$29,000 of the total taxes of \$39,000.

A progressive tax, on the other hand, means that everyone is punished for earning a higher income.

Any income tax—by making productive activity less rewarding—decreases economic well-being. But a progressive tax is even worse, since it insures that people keep smaller and smaller proportions of any additional income they earn.

A progressive tax also harms saving and investment. In gen-

eral, people with higher incomes have them because they have accumulated a large amount of capital and are reaping the gains of that accumulation. This capital includes not just assets like stocks and bonds, but also "human capital" like education, training, and job experience.

Progressive taxation penalizes investment and capital accumulation relative to consumption, thus reducing economic growth.

Economic growth is irrelevant to the supporters of progressive taxation, however. They talk instead about "equity" and "fairness." It is "just," they say, for

ernment theft, would seek the barest minimum in taxes for everyone.

Progressive-era economist and tax advocate Henry Simon said that "drastic progression in taxation" was justified by "the prevailing distribution of wealth and income," which was unequal and therefore "distinctly evil or unlovely."

But isn't the real unloveliness a tax system that destroys the American ideal of equal treatment under law?

Simon claims that since equality is the great moral principle, "every increase in the degree of progression" is "desirable." But this is nonsense, economically and morally.

In a free market, the distribution of wealth and income is unequal because people are unequal, and because they choose to produce goods and services that are valued unequally by others. To say this is unjust is to rail against the fact that people are different from each other. In a free market, unequal incomes are just because they reflect our productivity, and the fact of human diversity. They are also the only result consistent with individual liberty.

That's why the nostrums of Marxist ideologues and liberal advocates of a progressive tax are different only in degree. Both deem the incomes that result from freedom to be immoral, and both use coercion to remedy the "problem."

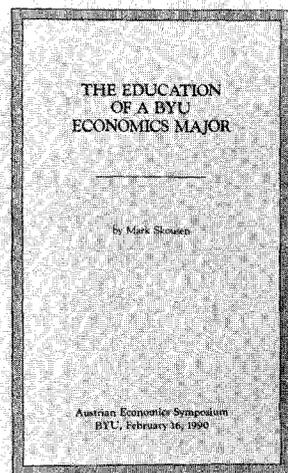
Americans must realize that the real battle is not between rich taxpayers and poor taxpayers, as the progressive taxers would have us believe, but between all taxpayers and a rapacious government that wants more and more of what we all earn. ◀

progressive
tax
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ductive.

those with higher incomes to pay not only a greater proportion of total taxes, but also a greater percentage of their incomes.

The influential lobby Citizens for Tax Justice claims that "people should pay taxes according to their ability," in a sort of take-off on the Marxist slogan, "from each according to his ability, to each according to his need."

But there are other perspectives. A "consumerist" view of justice, holding that people should get what they pay for, would say that those who receive the most from government ought to pay the highest taxes. A libertarian view, seeing taxes as gov-



In this engaging monograph, our adjunct scholar Mark Skousen, of Rollins College and *Forecasts & Strategies*, describes his Keynesian training and the compelling alternative he found in the Austrian school. Included are a helpful summary of Austrian economics and a critique of the mainstream economics texts. Free with any contribution or purchase this month.

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