

---

# THE FREEMAN

IDEAS ON LIBERTY

VOLUME 61, NO 3

APRIL 2011

---

## Features

---

- 8 **America's Turning Point** *by Jeffrey Rogers Hummel*
- 11 **The Economic Costs of the Civil War** *by Burton Folsom, Jr.*
- 14 **Gaining a Nation, Losing the Republic: Reconstruction, 1863–1877** *by Bradley J. Birzer*
- 19 **Civil War and the American Political Economy** *by Joseph R. Stromberg*
- 26 **The Question of Slavery** *by Jeffrey Rogers Hummel*
- 34 **Gold and Money** *by Warren C. Gibson*



Page 8

## Columns

---

- 4 **Ideas and Consequences ~ The Gasoline Demagogues Will Be Back**  
*by Lawrence W. Reed*
- 24 **Our Economic Past ~ Maps and Power** *by Stephen Davies*
- 32 **Peripatetics ~ The Importance of Subjectivism in Economics** *by Sheldon Richman*
- 38 **Give Me a Break! ~ Prohibitionists: Leave Us Alone!** *by John Stossel*
- 47 **The Pursuit of Happiness ~ War Is a Government Program**  
*by David R. Henderson*



Page 47

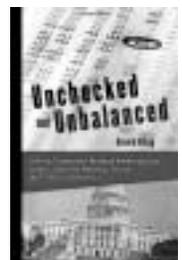
## Departments

---

- 2 **Perspective ~ The Civil War and the Statist Mentality** *by Sheldon Richman*
- 6 **Central Banking Beats Free Banking? It Just Ain't So!** *by Fred Foldvary*

### Book Reviews

- 42 **The Road to Big Brother: One Man's Struggle Against the Surveillance Society**  
*by Ross Clark* *Reviewed by George Leef*
- 43 **Unchecked and Unbalanced: How the Discrepancy Between Knowledge and Power Caused the Financial Crisis and Threatens Democracy**  
*by Arnold Kling* *Reviewed by David M. Brown*
- 44 **Commonwealth**  
*by Michael Hardt and Antonio Negri* *Reviewed by David Prychitko*
- 45 **The Privatization of Roads & Highways: Human and Economic Factors**  
*by Walter Block* *Reviewed by Arthur Foulkes*



Page 43

---

# THE FREEMAN

IDEAS ON LIBERTY

## Published by

The Foundation for Economic Education  
Irvington-on-Hudson, NY 10533  
Phone: (914) 591-7230; E-mail: [freeman@fee.org](mailto:freeman@fee.org)  
[www.fee.org](http://www.fee.org)

**President** Lawrence W. Reed  
**Editor** Sheldon Richman  
**Managing Editor** Michael Nolan  
**Book Review Editor** George C. Leef

## Columnists

Charles Baird David R. Henderson  
Donald J. Boudreaux Robert Higgs  
Stephen Davies John Stossel  
Burton W. Folsom, Jr. Thomas Szasz  
Walter E. Williams

## Contributing Editors

Peter J. Boettke Dwight R. Lee  
James Bovard Wendy McElroy  
Thomas J. DiLorenzo Tibor Machan  
Bettina Bien Greaves Andrew P. Morriss  
Steven Horwitz James L. Payne  
John Hospers William H. Peterson  
Raymond J. Keating Jane S. Shaw  
Daniel B. Klein Richard H. Timberlake  
Lawrence H. White

Foundation for Economic Education

## Board of Trustees, 2010–2011

Wayne Olson, Chairman  
Harry Langenberg Peter J. Boettke  
William Dunn Frayda Levy  
Jeff Giese Kris Mauren  
Ethelmae Humphreys Roger Ream  
Edward M. Kopko Donald Smith



The Foundation for Economic Education (FEE) is a nonpolitical, nonprofit educational champion of individual liberty, private property, the free market, and constitutionally limited government.

*The Freeman* is published monthly, except for combined January-February and July-August issues. Views expressed by the authors do not necessarily reflect those of FEE's officers and trustees. To receive a sample copy, or to have *The Freeman* come regularly to your door, call 800-960-4333, or e-mail [mnolan@fee.org](mailto:mnolan@fee.org).

*The Freeman* is available electronically through products and services provided by ProQuest LLC, 789 East Eisenhower Parkway, PO Box 1346, Ann Arbor, Michigan 48106-1346. More information can be found at [www.proquest.com](http://www.proquest.com) by calling 1-800-521-0600.

Copyright © 2011 Foundation for Economic Education, except for graphics material licensed under Creative Commons Agreement. Permission granted to reprint any article from this issue, with appropriate credit, except "Prohibitionists: Leave Us Alone!"

## The Civil War and the Statist Mentality

On April 12, 1861, the American Civil War began with the Confederate bombardment of the U.S. military's Fort Sumter in Charleston Harbor, South Carolina. Nearly four bloody years later to the day, the war ended with Lee's surrender to Grant at Appomattox Court House in Virginia. This issue of *The Freeman* is largely devoted to analyzing the reasons for and consequences of the conflict that took 620,000 lives and inflicted more than one million casualties in all.

The war damaged the country forever, as I suggested in *Tethered Citizens* (Future of Freedom Foundation, 2001). Here's an excerpt:

"While early America always had its advocates of activist government, that view becomes more prominent after the Civil War. . . .

"The Civil War itself and its militaristic effect on American society had important consequences for the nationalist collectivization of America that occurred in the following decades: It encouraged collectivist intellectuals to vigorously promote their reform visions, and it won thinkers to a collectivist cause. It even convinced some individualists that the world had changed, making their worldview outdated.

"The war's military collectivization of society profoundly impressed some Northern intellectuals, giving them visions of a new world. The war effort devalued the individualism that had characterized the earlier Jeffersonian America. Service to the Union became the reigning ideal. Order, explicit planning, and regimentation rose in value. Independent thought seemed more a liability than an asset.

"The war, wrote the historian Allan Nevins, 'transformed an inchoate nation, individualistic in temper and wedded to improvisation, into a shaped and disciplined nation, increasingly aware of the importance of plan and control.'

"A symbol of that change in mindset is Ralph Waldo Emerson, the transcendentalist author of *Self-Reliance*, who before the war represented a distinctively American cantankerous individualism opposed to institutions

and their impositions on the person. When the war came along, Emerson expressed approval that it imposed obligations on everyone. He hoped no one would be exempt from ‘the public duty.’ In a 180-degree turn, he assigned government and civilization priority over ‘the private man.’ In ‘American Civilization,’ written in 1862, he was willing to grant government ‘the absolute power of a dictator’ in a crisis. ‘Emerson’s characteristic emphasis on individualism and anarchism disappeared.’ [George M. Frederickson, *The Inner Civil War: Northern Intellectuals and the Crisis of the Union*.]

“In Emerson’s words, ‘War organizes [and] forces individuals and states to combine and act with *larger* views.’ Self-reliance was now replaced by service and obedience, particularly in the military. His new views influenced his outlook on culture, as evidenced by his support for a State-created National Academy of Literature and Art. A new era required new thinking.

“After the war, intellectuals were more interested in a strong central government and nationalism. Jeffersonian decentralization and individual liberty were seen as a part of the old ways, made obsolete in the new post-war America. The Declaration of Independence became old-fashioned. . . .

“Unlike poetry before the war, poetry now rhapsodized on the glory of the nation. Herman Melville wrote about empire, not freedom. The crushing of the Southern secession demonstrated the need for strong government and citizen compliance with the State. . . .

“The collectivist intellectuals believed that the Civil War held important lessons for the new America. It wasn’t war itself that they valued, but the things that war brought. John W. Draper, for example, wrote that war taught subordination and stimulated an appreciation of order. Men, said Draper, ‘love to obey’ those they believe are their intellectual superiors. ‘In military life they learn to practice that obedience openly,’ he said, adding that individualism was to blame for the war.

“What intellectuals such as Francis A. Walker, Charles Francis Adams Jr., and future U.S. Supreme Court Justice Oliver Wendell Holmes Jr. wished for was, in [George] Frederickson’s words, a ‘continuance . . . of the crisis mentality of war.’ That mentality would maintain the sense of duty to society that was palpable

during the war. While those men wanted conservative objectives served, others, such as John Wesley Powell, had ‘humanitarian ends’ in mind.

“The problem for these thinkers was that peacetime did not inspire service and sacrifice. People became centered on their own lives, their families, and immediate communities. But war was a call to duty and the ‘strenuous life.’ If only a substitute for war could be found, a call to duty that did not involve bloodshed. ‘There is one thing I do not doubt,’ said Holmes, ‘and that is that the faith is true and adorable which leads a soldier to throw away his life in obedience to a blindly accepted duty, in a cause which he little understands, in a plan of campaign of which he has no notion, under tactics of which he does not see the use.’”

★ ★ ★

Jeffrey Rogers Hummel begins this special issue with an overview, describing why the war is aptly thought of as a turning point for America.

Following is Burton W. Folsom, Jr.’s assessment of the economic costs of the war.

Next, Bradley Birzer documents another sort of cost: the sacrifice of republican principles through the Reconstruction.

Joseph Stromberg then examines the political economy that arose during and emerged from the Civil War, with particular attention to the ensuing Gilded Age.

Finally, Hummel returns to look at the issue of slavery in order to sort out the reasons for secession and war.

Warren Gibson concludes his two-part series on gold and money.

Our columnists have also been hard at work. Lawrence Reed warns that rising gasoline prices can be counted on to bring out the political opportunists. Donald Boudreaux debunks vulgar Keynesianism. Stephen Davies explains how maps serve the interests of power. John Stossel reports on another assault by the prohibitionists. David Henderson reminds us that war is a government program. And Fred Foldvary, confronting a claim that central banking is superior to free banking, responds, “It Just Ain’t So!”

Books on domestic surveillance, the financial crisis, Marxism, and private roads occupy our reviewers.

—Sheldon Richman  
srichman@fee.org



# The Gasoline Demagogues Will Be Back

BY LAWRENCE W. REED

Here we go again. In late February gasoline prices across America were surpassing \$3 a gallon. Forecasters are advising us to expect \$4 by summer, maybe higher. So be prepared for something else with it all: the broken-record rhetoric of anti-market types about “gouging.” It’ll be coming from a lot of the same people who block the drilling for oil just about anywhere and who think it’s always better to be gouged by the taxman to subsidize noneconomic “green energy” than to pay a price for gasoline that might reflect real market conditions.

Economist Thomas Sowell, speaking of big-government “liberals,” put it well when he said that asking them where wages and prices come from is “like asking six-year-olds where babies come from.” You’ll certainly never hear them admit that even at \$4 a gallon, gasoline is cheaper today (in inflation-adjusted terms) than it was when President Reagan decontrolled oil 30 years ago.

If you’re expecting me to offer the *economic* argument for government to get out and stay out of energy markets, you’ll have to wait. There’s a *moral* argument that takes precedence.

Suppose someone offers to buy my house for twice what I paid for it a year ago and I refuse. It’s my house, and I really don’t want to move, but I announce that if someone wants to give me ten times what I paid, I’ll take it.

Am I “gouging” somebody? Most people would say no, but they would be hard put to explain what the difference is between my action and that of those unpopular villains who produce and sell gasoline.

It’s true that my house is private property, but so is gasoline. When it’s in the underground tank at the gas

station, it’s the private property of that station until somebody else buys it. It’s not public property. It certainly doesn’t belong to people who never took a risk and invested a nickel in it—and that includes all the bellyaching demagogues who will try to further their careers by bashing wealth-creators.

If it’s wrong to sell gas at \$3 or \$4 a gallon, what if the owner of a gas station decided *not* to sell it at *any* price? Wouldn’t that be even *more* wrong? Only if one distorts the concept of private property to mean that it’s really not yours if somebody else wants it.

There are plenty of people in the world who will scoff at any defense of oil companies or gas-station owners on the basis of the “anti-quoted” notion of property rights. But of course those scoffers will defend their *own* property without hesitation; it’s only *other* people’s property about which they can afford to be cavalier.

So if it’s not yours, don’t claim it. If it doesn’t belong to the politicians, don’t demand that they jigger its price. This is a moral issue; people of moral fiber should rise to the occasion and resist the temptation to steal.

## Stockpiling and “Gouging”

Now a little economics, rooted in experiences of a decade ago. When news spread on September 11, 2001, of the terrorist attacks in New York and Washington, many people panicked. Not knowing whether this was the start of something much bigger, they did what seemed to make sense given the extraordinary situation—they began to “stockpile” gasoline because a world crisis could easily disrupt fuel supplies. Long lines

Lawrence W. Reed ([lreed@fee.org](mailto:lreed@fee.org)) is the president of FEE.

---

If it’s not yours, don’t claim it. If it doesn’t belong to the politicians, don’t demand that they jigger its price.

---

formed at gas stations all over the nation by mid-afternoon. Demand, in other words, soared. Just like Econ 101 was supposed to teach us, prices rose.

If the crisis had indeed slashed world fuel supplies, then the initial reaction of the public would have been both smart and prescient. Buying more would have pushed up prices. As prices rose they would have encouraged people to restrict their use of gas to their most important purposes, leaving more for others. And the higher prices would have sent a powerful signal for somebody to find new supplies quickly. This is the way a free price system works—in gasoline, coffee, or anything else.

It became apparent within a day or two that the events in New York and Washington had not produced disruptions in the flow of oil or in the production of gasoline. Then the market effectively worked its magic. People shopped elsewhere or found ways to do with less while prices were high. Folks eventually calmed down, and the lines at the gas stations evaporated. Suppliers rounded up more supplies. Prices fell. The upward spike set into motion the market forces that solved the “problem.”

### Saber-Rattling and Bad Laws

Nonetheless, politicians ignorant of marketplace economics rattled their sabers and piled bad law on top of previous bad law. State officials cried foul and threatened “price gougers” with prosecution.

Ohio’s attorney general went after 27 retailers that charged \$4 or more, decrying the price hikes as “unconscionable acts.” He forced the culprits to give refunds to customers and make donations to the American Red Cross or face fines of up to \$25,000 per violation.

Any stations in Wisconsin that simply changed prices more than once in a 24-hour period were threat-

ened with fines of up to \$200 for each customer they “overcharged.”

In Florida, authorities declared that stations which raised prices by more than a dime a gallon were in violation of the Sunshine State’s emergency rules and could face penalties of \$25,000 per day. Two weeks after the terrorist attacks, Missouri’s attorney general sent letters to 48 gasoline retailers telling them that if they had boosted prices for any grade of gas above \$2.49 after September 11, they would have to pay fines of “triple any gas-gouging profits, or \$750, whichever was greater, plus investigative costs of \$250.”

My home was in Midland, Michigan, at the time. A woman there named Sonja Sturgeon managed Bobbie’s Point Citgo, a gas station targeted by the state’s attorney general for gouging. Sturgeon readily admitted to the local paper that the store boosted prices to \$3 at about 8:30 p.m. on September 11 because she wasn’t expecting a new supply until later in the week. “The whole point of raising the prices was to send customers down the road to buy gas,” she said. “It had nothing to do with gouging the customers.”

Perhaps the attorney general would have advised Bobbie’s Point Citgo to behave as though nothing had changed in the wake of September 11. Keep prices the same or raise them no more than 10 percent. Would that have done anyone a favor? Surely, the lines would have been many blocks longer, and station after station would have run out, leaving people at the back of many lines without any hope of getting a drop.

Let’s see, which is better? Gas at \$3 after a 15-minute wait, or no gas at \$2 after sitting in line for an hour? This is not rocket science.

Brace yourself for another round of gasoline price hysteria. It’s going to be déjà vu all over again. **FEE**

---

As prices rise, they encourage people to restrict their use of gas, leaving more for others and sending a powerful signal for somebody to find new supplies.

---

---

# Central Banking Beats Free Banking? It Just Ain't So!

BY FRED FOLDVARY

---

In “More Bits on Whether We Need a Fed,” a November 21 Marginal Revolution blog post ([www.tinyurl.com/3y2gsbx](http://www.tinyurl.com/3y2gsbx)), George Mason University economics professor Tyler Cowen questions “why free banking would offer an advantage over post-WWII central banking (combined with FDIC and paper money).” He adds, “That’s long been the weak spot of the anti-Fed case.”

Free banking is better than central banking because only in a free market can the optimal prices and quantities of goods be determined. Those goods include the money supply, and prices include the rate of interest.

There is no scientific way to know in advance the right price of goods. With ever-changing populations, technology, and preferences, markets are turbulent, and fluctuating human desires and costs cannot be accurately predicted.

The quantity of money in the economy is like that of other goods. The optimal amount can only be discovered by the dynamics of supply and demand. The impact of money on prices depends not just on the amount of money but also on its velocity—that is, how fast the money turns over. The Fed cannot control this since it cannot control the amount people want to hold, or the demand. Also, even if the Fed could determine the best amount of money for today, the impact of its moves take months to play out, so the central bankers would need to be able to accurately predict the state of the economy months into the future.

The Fed also fails because of political pressure. Although the Fed is supposed to be independent, in

practice, when the economy is depressed, there is strong political pressure to “do something,” specifically to “stimulate” by expanding the money supply. Since Congress created the Fed and can alter it, it is impossible for the Fed to be purely independent of politics.

The Federal Reserve was set up to provide price stability, yet the United States suffered high inflation during the 1970s and continuous inflation since World War II. The Fed was also supposed to provide economic stability, but since World War II there have been severe

recessions in 1973, 1980, 1990, and 2007–2009. The Fed was supposed to ensure stability in the financial system, but it failed to prevent the Crash of 2008 and the Great Recession that followed. But the challenge is to explain why free banking would be better.

Suppose gold once again became a global currency. It would be the real money, and the U.S. dollar would be defined as a particular weight of gold.

A \$20 gold coin had about an ounce of gold before 1933.

Under free banking most transactions would not occur with gold, but rather with more convenient money substitutes. Banks would issue paper bank notes inscribed with their bank names. Anyone holding bank notes could exchange them for gold. For example, if \$1,000 was equivalent to an ounce of gold, then anyone could go to a bank and convert \$1,000 in paper bills to one ounce of gold coins. Likewise one could withdraw \$1,000 of deposits in gold coins.

---

*Fred Foldvary ([fred@foldvary.net](mailto:fred@foldvary.net)) is a lecturer in economics at Santa Clara University.*

Competition among banks, as well as convertibility into gold, would result in price stability, since the banks would only be able to issue as many bank notes as the public was willing to hold. If there were more bank notes than that, they would come back to the bank to be exchanged for gold. But the money supply would also be flexible, since if there were a greater demand to hold money, the amount of bank notes or bank deposits would increase.

### The Structure of Capital Goods

Free banking mitigates the boom-bust cycle. There is a structure to capital goods similar to a stack of pancakes. At the bottom of the stack are rapidly circulating capital goods such as inventory close to the consumer-goods level. As we go up the stack, the capital goods turn over more slowly. At the top are long-duration investments such as real-estate development. Goods become more sensitive to interest rates as you move up the stack. Lower interest rates make the stack steeper, as there is more investment in long-term investments.

In a free market the “natural rate” of interest depends on the preference for goods sooner rather than later, or “time preference.” Interest is the premium paid to shift purchases from the future, for which one would have to save enough to pay cash, to the present day by borrowing.

The Fed lowers the rate of interest by creating fiat money out of nothing. As a result, businesspeople borrow more for capital goods high on the stack, such as real estate. Prices rise fastest and soonest where the money is being injected into the economy with loans. Thus real-estate prices escalate, creating a bubble like those that occurred before 1973, 1980, 1990, and 2007; indeed a similar bubble occurred during the 1920s before the Great Depression.

Every boom preceding a bust has been fueled by artificially cheap credit. With free banking the interest rate would not be manipulated down. The natural rate

of interest would raise the carrying cost of borrowed funds, reducing if not preventing the financial fever.

### Further Reforms

Free banking is not a panacea: There need to be other reforms to achieve sustainable economic growth. Punitive taxes, subsidies, and arbitrary restrictions all distort the economy, stifle enterprise, and create turbulence. But even without such other reforms, the case for replacing central banking with free banking is strong, resting on three facts:

---

Free banking is not a panacea. Government still distorts the economy in many ways. But even without further reforms, the case for replacing central banking is strong.

---

1. The optimal money supply and interest rates are unknowable in advance, and can only be discovered by market dynamics.

2. Political pressure makes the Fed expand the money supply and reduce interest rates when the economy is depressed, and this fuels an unsustainable boom that results in the next bust.

3. Government insurance, guarantees, the expectation of bailouts, and other subsidies induce excessive risk-taking, making financial crashes worse.

Cowen states that if the Fed were to shut down, the new base money would be Treasury bills. (Base money currently consists of money in circulation, bank vault cash, and commercial bank reserves on account at the Fed.) But folks don't buy groceries with Treasury bills. The best transition base money would be the current amount of Federal Reserve notes, whose supply would be frozen, as suggested by Professor George Selgin. Then new-money expansion would be the money substitutes issued by the banks, convertible into base money. Eventually, with the abolition of legal-tender laws, world financial markets would converge on a common global currency, gold.

The case for free banking is similar to the case for healthy living. It is better to prevent economic illness than to have to treat it.

**FEE**

---

# America's Turning Point

BY JEFFREY ROGERS HUMMEL

---

The Civil War represents the simultaneous culmination and repudiation of the American Revolution. Four successive ideological surges had previously defined American politics: the radical republican movement that had spearheaded the revolution itself; the subsequent Jeffersonian movement that had arisen in reaction to the Federalist State; the Jacksonian movement that followed the War of 1812; and the abolitionist movement. Although each was unique, each in its own way was hostile to government power. Each had contributed to the long-term erosion of all forms of coercive authority.

“Nowhere was the American rejection of authority more complete than in the political sphere,” writes historian David Donald. “The decline in the powers of the Federal government from the constructive centralism of George Washington’s administration to the feeble vacillation of James Buchanan’s is so familiar as to require no repetition here. . . . The national government, moreover, was not being weakened in order to bolster state governments, for they too were decreasing in power. . . . By the 1850s the authority of all government in America was at a low point.”

The United States, already one of the most prosperous and influential countries on the face of the earth, had practically the smallest, weakest State apparatus. The great irony of the Civil War is that all that changed at the very moment that abolition triumphed. As the last, great coercive blight on the American landscape, black chattel slavery, was finally extirpated—a triumph that cannot be overrated—the American polity did an about-face.



Insofar as the war was fought to preserve the Union, it was an explicit rejection of the American Revolution. Both the radical abolitionists and the South’s fire-eaters boldly championed different applications of the revolution’s purest principles. Whereas the abolitionists were carrying on the assault against human bondage, the fire-eating secessionists embodied the tradition of self-determination and decentralized government. As a legal recourse, the legitimacy of secession was admittedly debatable. Consistent with the Antifederalist

interpretation of the Constitution that had come to dominate antebellum politics, secession undoubtedly contravened the framers’ original intent. But as a revolutionary right, the legitimacy of secession is universal and unconditional. That at least is how the Declaration of Independence reads. “Put simply,” agrees William Appleman Williams, “the cause of the Civil War was the refusal of Lincoln and other northerners to honor the revolutionary right of self-determination—the touchstone of the American Revolution.”

American nationalists, then and now, automatically assume that the Union’s breakup would have been catastrophic. The historian, in particular, “is a camp follower of the successful army,” Donald wrote, and often treats the nation’s current boundaries as etched in stone. But doing so reveals a lack of historical imagination. Consider Canada. The United States twice

---

*Jeffrey Rogers Hummel (jhummel@gguol.ggu.edu) is an associate professor of economics at San Jose State University. He is the author of *Emancipating Slaves, Enslaving Free Men: A History of the American Civil War*.*

mounted military expeditions to conquer its neighbor, first during the American Revolution and again during the War of 1812. At other times, including after the Civil War, annexation was under consideration, sometimes to the point of private support for insurgencies similar to those that had helped swallow up Florida and Texas. If any of these ventures had succeeded, historians' accounts would read as if the unification of Canada and the United States had been fated, and any other outcome inconceivable. In our world, of course, Canada and the United States have endured as separate sovereignties with hardly any untoward consequences. "Suppose Lincoln did save the American Union, did his success in keeping one strong nation where there might have been two weaker ones really entitle him to a claim to greatness?" asks David M. Potter. "Did it really contribute any constructive values for the modern world?"

The common refrain, voiced by Abraham Lincoln himself, that peaceful secession would have constituted a failure for the great American experiment in liberty, was just plain nonsense. "If Northerners . . . had peaceably allowed the seceders to depart," the conservative London *Times* correctly replied, "the result might fairly have been quoted as illustrating the advantages of Democracy; but when Republicans put empire above liberty, and resorted to political oppression and war rather than suffer any abatement of national power, it was clear that nature at Washington was precisely the same as nature at St. Petersburg. . . . Democracy broke down, not when the Union ceased to be agreeable to all its constituent States, but when it was upheld, like any other Empire, by force of arms."

"War is the health of the State," proclaimed Randolph Bourne, the young Progressive, disillusioned by the Wilson administration's grotesque excesses during World War I. Bourne's maxim is true in two respects. During war itself the government swells in size and power, as it taxes, conscripts, regulates, generates inflation, and suppresses civil liberties. Second, after the war

there is what economists and historians have identified as a ratchet effect. Postwar retrenchment never returns government to its prewar levels. The State has assumed new functions, taken on new responsibilities, and exercised new prerogatives that continue long after the fighting is over. Both of these phenomena are starkly evident during the Civil War.

Before Fort Sumter national spending was only about \$2.50 per person per year, or \$50 per person in today's prices. The central government relied on only two sources of revenue: a very low tariff and the sale of public lands. The war brought not only protectionist import duties but also a vast array of internal excises, the country's first national income tax, and an extensive internal revenue bureaucracy with 185 districts reaching into every hamlet and town. Federal outlays soared from 1.5 percent of the economy's output to almost 20 percent, approximately what the central government spends today. The national debt climbed from a modest \$65 million, less than annual expenditures, to \$2.8 billion. This provided the justification for replacing the antebellum monetary system of free banking and financial deregulation (which some economic historians believe was the best the country has ever had) with inflationary fiat money and nationally regulated banking.

Protectionism would continue to dominate U.S. trade policy mercilessly until the Great Depression and was just one manifestation of the Lincoln administration's effort to enlist special interests through government subsidies and privileges. The Yankee Leviathan also was responsible for the first federal aid to transcontinental railroads, land grants for higher education, a Department of Agriculture for farmers, and troops to break strikes for employers. The prewar regime of Jacksonian *laissez faire* was effectively supplanted by Republican neomercantilism, an alliance between business and government that became so scandalous during the Grant era that it has gone down in history as, to use Vernon Louis Parrington's label for the postwar feeding frenzy, the "Great Barbecue."

---

The claim that peaceful secession would have meant the failure of the American experiment is just plain nonsense.

---

Lincoln's war delivered a blow to civil liberties as well. The Union's resort to nationally administered conscription touched off so much resistance that the President suspended habeas corpus throughout the North. Traditional estimates are that the administration imprisoned without trial or charges 14,000 civilians during the conflict, but some historians believe the figure to be much too low. To be sure, the greater number were citizens of either the border states or the Confederacy itself, and many of those arrested secured quick release within a month or two, usually after swearing a loyalty oath. Yet the federal government at the same time monitored and censored both the mails and telegraphs and shut down over 300 newspapers for varying periods.

Many of these measures were of course abandoned at the fighting's end. Federal spending fell from its wartime peak to only 3 to 4 percent of GDP. Although not a trivial decline, it still left spending at twice prewar levels, and the largest postwar expenditures were war-related. Interest on the war debt initially accounted for 40 percent of federal outlays, and by 1884 veterans' benefits were consuming 30 percent. These benefits were so lavish that they constitute the national government's first old-age and disability insurance and stand as a precursor to Social Security. The impact of the Civil War was even felt in the seemingly unrelated area of obscenity. Congress passed the first act regulating mail content in response to complaints that troops were ordering pornographic material, and this became the basis for the Comstock witch hunts of the 1870s.

### The Real Turning Point

This ratchet effect is a phenomenon historians frequently observe. Yet the Civil War did something more. Despite wars and their ratchets, governments must *sometimes* recede in reach, else all would have been groaning under totalitarian regimes long ago. Both conservatives and so-called liberals date the major political turning point in American history at the Great Depression of 1929. Previously Americans are supposed to have self-reliantly resisted the temptations of govern-

ment largess and confined federal power within strict constitutional limits. Although Franklin D. Roosevelt's New Deal is responsible for Social Security, which along with health care, now ranks as the national government's primary expense, this legend ignores several inconvenient facts. To begin with, the New Deal simply emulated the Wilson administration's previous war collectivism. Moreover the growth of government under the New Deal was trivial compared to its growth during the United States' next major conflict: World War II.

More astute analysts push the watershed in U.S. history back to the Progressive Era. Progressivism emerged at the beginning of the twentieth century as a diverse inclination, varying in different parts of the country and including members of all political parties. But it became the country's first dominant mindset to advocate government intervention in the free market and in personal liberty at every level and in every sphere.

My contention, however, is that America's decisive transition must be dated even earlier.

The Yankee Leviathan co-opted and transformed abolitionism. It shattered the prewar congruence among anti-slavery, anti-government, and anti-war radicalism. It permanently

reversed the implicit constitutional settlement that had made the central and state governments revenue-independent. It acquired for central authority such new functions as subsidizing privileged businesses, managing the currency, providing welfare to veterans, and protecting the nation's "morals"—at the very moment that local and state governments were also expanding. And it set dangerous precedents with respect to taxes, fiat money, conscription, and the suppression of dissent.

These and the countless other changes mark the Civil War as America's real turning point. In the years ahead, coercive authority would wax and wane with year-to-year circumstances, but the long-term trend would be unmistakable. Henceforth there would be few major victories of Liberty over Power. In contrast to the whittling away of government that had preceded Fort Sumter, the United States had commenced its halting but inexorable march toward the welfare-warfare State of today.

**FEE**

---

# The Economic Costs of the Civil War

BY BURTON FOLSOM, JR.

---

Even after 150 years, the Civil War evokes memories of great men and great battles. Certainly that war was a milestone in U.S. history, and on the plus side it reunited the nation and freed the slaves.

Few historians, however, describe the costs of the war. Not just the 620,000 individuals who died, or the devastation to southern states, but the economic costs of waging total war. What was the economic impact of the Civil War on American life?

The first and most important point is that the Civil War was expensive. In 1860 the U.S. national debt was \$65 million. To put that in perspective, the national debt in 1789, the year George Washington took office, was \$77 million. In other words, from 1789 to 1860, the United States spanned the continent, fought two major wars, and began its industrial growth—all the while reducing its national debt.

We had limited government, few federal expenses, and low taxes. In 1860, on the eve of war, almost all federal revenue derived from the tariff. We had no income tax, no estate tax, and no excise taxes. Even the hated whiskey tax was gone. We had seemingly fulfilled Thomas Jefferson's vision: "What farmer, what mechanic, what laborer ever sees a tax-gatherer of the United States?"

Four years of civil war changed all that forever. In 1865 the national debt stood at \$2.7 billion. Just the annual interest on that debt was more than twice our

entire national budget in 1860. In fact, that Civil War debt is almost twice what the federal government spent before 1860.

What's worse, Jefferson's vision had become a nightmare. The United States had a progressive income tax, an estate tax, and excise taxes as well. The revenue department had greatly expanded, and tax-gatherers were a big part of the federal bureaucracy.

Furthermore, our currency was tainted. The Union government had issued more than \$430 million in

paper money (greenbacks) and demanded it be legal tender for all debts. No gold backed the notes.

The military side of the Civil War ended when Generals Ulysses S. Grant and Robert E. Lee shook hands at Appomattox Court House. But the economic side of the war endured for generations. The change is seen in the annual budgets before and after the war. The 1860 federal budget was \$63 million, but after the war, annual budgets regularly

exceeded \$300 million. Why the sharp increase?

First, the aftermath of war was expensive. Reconstruction governments brought bureaucrats to the South to spend money on reunion. More than that, federal pensions to Union veterans became by far the largest item in the federal budget (except for the inter-



During the Civil War, demand notes [top] backed by gold were replaced by greenbacks with no backing.

---

*Burton Folsom, Jr., (bfolsom@hillsdale.edu) is a professor of history at Hillsdale College and author of The Myth of the Robber Barons and New Deal or Raw Deal?*

est payment on the Civil War debt itself). Pensions are part of the costs of war, but the payments are imposed on future generations. In the case of the Civil War, veterans received pensions only if they sustained injuries severe enough to keep them from holding a job. Also, widows received pensions if they remained unmarried, as did their children until they became adults. Confederates, of course, received no federal pensions.

## Pensions and Tensions

The Civil War pensions shaped political life in America for the rest of the century. First, northern states benefitted from pension dollars at the expense of southern states. That kept sectional tensions high. Second, Republicans “waved the bloody shirt” and blamed Democrats for the war. Republican presidents had incentives to keep the pension system strong, and the Grand Army of the Republic (GAR) lobbied to get as much money for veterans as possible.

The federal government established pension boards to determine whether injuries to veterans warranted a pension. But the issue was complex. Sometimes, veterans created or faked injuries; others argued that injuries received after the war—for example, falling off of a ladder while fixing a roof—were really war injuries. If the pension board turned down an application, the veteran sometimes pleaded to his congressman—who was often able to get a special pension for his constituent through Congress. The corrupt pension system corroded politics for the whole 1865–1900 period.

President Grover Cleveland tried to stop congressmen from voting pensions to constituents with bogus injuries by vetoing bill after bill. His successor, Benjamin Harrison, “solved” the problem by signing the Blair bill, which liberalized pensions to the point that even old age made a veteran eligible for a pension. During the 1890s, after most veterans had died, pension payments remained a huge and corrupting item in the federal budget.

The economic impact of the Civil War extended beyond pensions. One argument made during the war was that transportation needed to be improved to con-

nect California with the other Union states. President Lincoln signed a bill establishing federal subsidies for building two transcontinental railroads.

Lincoln was a gifted writer and an able defender of natural rights, but on railroad subsidies he had a reverse Midas touch. During the 1830s, for example, when Lincoln was in the Illinois legislature, he helped lead the charge for a \$12 million subsidy to bring railroads to the major cities of Illinois. Unfortunately for Lincoln, the money was wasted and the railroads largely went unbuilt. According to William Herndon, Lincoln’s law partner, “[T]he internal improvement system, the adoption of which Lincoln had played such a prominent part, had collapsed, with the result that Illinois was left with an enormous debt and an empty treasury.”

## Bribes Across America

When Lincoln signed the transcontinental railroad bill in 1862, he was creating an even larger boondoggle. The Union Pacific and Central Pacific Railroads were to be paid by the mile to lay track from Omaha to Sacramento. Thus, the UP and CP had incentives to create mileage, but not quality mileage. Their railroads were sometimes not straight, and other times went over hilly terrain that was impossible for a train to surmount. When finished, parts of what they had built were unusable, but both lines had paid off politicians (with some of their subsidy money) to continue the subsidies and not inquire closely on how they were being spent.

Lincoln is not responsible for the corruption that occurred after he died, but the Republican leaders during the war committed themselves to many federal interventions other than the constructive one of ending slavery. The National Banking Act of 1863, and amendments to it, brought greater federal control to banking and imposed a 10 percent tax on state bank notes.

The Morrill Act of 1862 gave 17.4 million acres of federal land to states to build land-grant colleges to teach citizens agriculture and science. Gifts of land and statements of educational focus seem like minor interventions, but the Constitution gave no role to the fed-

---

Lincoln had a reverse Midas touch when it came to railroads.

---

eral government in subsidizing education or creating universities. The Morrill Act became an entering wedge for later interventions (the Hatch Act of 1887 and the Smith Lever Act of 1914) that established direct federal subsidies to those same land-grant colleges.

Once the federal government intervenes in an area, it's hard to remove the controls and easy to expand them. The Gilded Age generation did, however, halt some of those Civil War interventions. Those moves back to freer markets in the late 1800s help account for the tremendous economic growth during that time.

### Some Rollbacks

The starting point here is the decision after the Civil War to reduce the \$2.7 billion national debt. From 1866 to 1893, the U.S. government had budget surpluses each year and slashed the national debt to \$961 million. Annual revenue during these years was about \$350 million and expenses was about \$270 million—most of which consisted of Civil War pensions and interest on the national debt.

One reason the federal budgets tended to be lower in the 1880s than in the 1860s and 1870s was that interest payments on the debt declined sharply as the debt disappeared. For example, the annual interest on the national debt dropped from \$146 million in 1866 to only \$23 million in 1893. The generation that fought the Civil War became the politicians of the Gilded Age, and they had the fortitude to wipe out almost two-thirds of the Civil War debt.

Speaking of Civil War politicians, those in the Grant administration—long maligned by historians—established many of the conditions for the freedom and prosperity of the Gilded Age. For example, Grant helped make sure the U.S. government had budget surpluses by winning \$15.5 million from Britain for damages done to Union ships by the *Alabama* and other ships the British built for the Confederates. In 1875 Grant also signed the Specie Resumption Act, which

promised to redeem the Civil War greenbacks for gold. Grant committed the United States to a sound currency and fiscal restraint.

Also under Grant, the income and estate taxes were abolished in 1872. He committed the U.S. government to budget surpluses with revenue almost exclusively drawn from tariff duties and excise taxes on alcohol and tobacco. Even before Grant was able to abolish the income tax, he had it changed from a progressive to a flat tax.

The income tax during the Civil War—the first in U.S. history—was not onerous by today's standards. Early in the Civil War, Congress passed a flat 3 percent tax on all income over \$800 (which was much more than most families earned). Then Congress made the tax progressive and raised the top marginal rate to 10 percent.

When Grant had the income tax abolished, he returned the nation to the tax system envisioned by the Founders. In Federalist 21, for example, Alexander Hamilton defended a system of consumption taxes (tariffs and excises) against income taxes—which can be more divisive and more easily manipulated by politicians. Under consumption taxes, Hamilton argued, “The amount to be contributed by each citizen will in a

degree be at his own option, and can be regulated by an attention to his resources.”

Hamilton added, “If duties are too high, they lessen the consumption. . . . This forms a complete barrier against any material oppression of the citizens by taxes of this class, and is itself a natural limitation of the power of imposing them.”

After the Civil War, Americans chose to consume alcohol and tobacco in sufficient quantities to help pay down the debt each year for most of the rest of the century. American industry recovered under such limited government, and the Civil War generation paved the way for economic greatness. They overcame much of the financial damage from the Civil War. **FEE**

---

The generation that fought the Civil War became the politicians of the Gilded Age, and they had the fortitude to wipe out much of the war debt.

---

---

# Gaining a Nation, Losing the Republic: Reconstruction, 1863–1877

BY BRADLEY J. BIRZER

---

A dead president, carpetbaggers, scalawags, burning crosses, white hoods, an occupied South, Boss Tweed, Thomas Nast cartoons, the New York Democratic machine, and an imprisoned Jefferson Davis—all provide vivid images of the dozen years following the surrender of Robert E. Lee’s forces at Appomattox in April 1865. As every historian knows, often to his chagrin, these 12 years were tumultuous, confusing, and chaotic, especially in hindsight. The period of course is also a letdown after the tragedies and nobilities of the Civil War years. Whereas individuals had a clear purpose during the war—no matter what side they chose—political compromises and plunder defined Reconstruction.

A period of governmental corruption, monetary instability, gross expansion of political power, the solidification of public schooling, Anglo-Saxon racist beliefs, manifest destiny, Indian Wars, and extreme violence, Reconstruction witnessed a giant leap toward a cohesive nation-state—far from the founding vision of a decentralized federal republic.

A mere two months before John Wilkes Booth assassinated him in 1865, President Abraham Lincoln met with his two top generals, Ulysses S. Grant and William Tecumseh Sherman, on the steamship *The River Queen*, just outside of Hampton Roads, Virginia. Though Lincoln would call for “malice toward none” and “charity for all” in his second inaugural, delivered in early March of the same year, he offered his fullest plan and desires for what a reconstructed union might look like in a

private conversation with Grant and Sherman. Lincoln assured them he wanted nothing more than

to get the deluded men of the rebel armies disarmed and back to their homes. . . . Let them once surrender and reach their homes, [and] they won’t take up arms again. . . . Let them all go, officers and all, I want submission and no more bloodshed. . . . I want

no one punished; treat them liberally all around. We want those people to return to their allegiance to the Union and submit to the laws.

While Lincoln had waged a terribly hard and total war, he also desired the softest peace possible. Indeed, if one takes Lincoln’s words on *The River Queen* at face value, the United States of 1865 would look very much like the

United States of 1860, with one exception: Returning states would need to accept the emancipation of all slaves through the Thirteenth Amendment to the U.S. Constitution. His architects of total war, Grant and Sherman, agreed completely with the President. Neither of Lincoln’s generals knew how much longer the war would last, they explained to him, but they believed the war was rapidly approaching an end with possibly only one or two major battles left. They had reached the endgame.

---

*Bradley Birzer (bbirzer@hillsdale.edu) is the Russell Amos Kirk Chair in American Studies and a professor of history at Hillsdale College. He is the author of several books, including his most recent about the American founding, American Cicero: The Life of Charles Carroll. He dedicates this article—for his friendship and inspiration for over 20 years—to Larry Reed.*

When Booth cut down Lincoln at Ford's Theater on Good Friday, two months later, he changed the entire course of American history. Had Lincoln presided over the peace, one has no reason to doubt, he would have reconciled constitutional relations with, among, and between the former Confederate states, officers, and citizens as quickly as politically possible. The war, after all, had been viewed by almost all sides as a noble tragedy for the common good of the republic and for the vision (no matter how varied) of the American founding fathers. Men, for the most part, had chosen to fight, and they had chosen to fight again and again. Though a draft existed in the North, for example, after the summer of 1863, 94 percent of all Union soldiers had volunteered. As General Joshua Chamberlain, the classicist from Maine's Bowdoin College, had astutely observed of the surrender ceremonies in April 1865: "Honor answering honor. . . [as men] of near blood born, made nearer by blood shed. . . . On our part not a sound or a trumpet more, nor roll of drum; nor a cheer, nor word nor whisper of vain-glory, nor motion of man standing again at the order, but an awed stillness rather, and breathholding."

Just outside of Appomattox Court House, Robert E. Lee's former Confederate forces, what remained of the Army of Northern Virginia, walked through two lines of Union soldiers. The Union soldiers saluted the defeated for hours on end that day. "Reluctantly, with agony of expression," Chamberlain recorded, the Confederate soldiers "tenderly fold their flags, battle-worn and torn, blood-stained, heart holding colors, and lay them down; some frenziedly rushing from the ranks, kneeling over them, clinging to them, pressing them to their lips with burning tears."

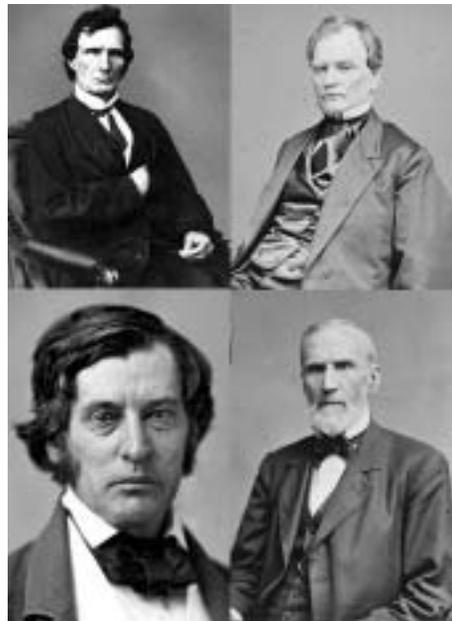
Such a scene, of course, is a far cry from the militarization and politicization, the martial law and the intrusion of Leviathan that one normally associates with Reconstruction as it actually happened. Though

President Jefferson Davis's final executive order called for all Confederate States of America troops to divide into terrorist cells and launch attacks against civilians and urban areas, Lee countermanded the order through deed and word, telling the men to "be good citizens as they had been soldiers."

With Lincoln's death, though, the war became personal in a way that it had not been during the mass bloodshed of the previous four years. To many in the country, especially in the North, Lincoln's death transformed him into a full-fledged American martyr, and his reputation exploded. The Radicals within the Republican party—Senator Benjamin Wade of Ohio, Senator Charles Sumner of Massachusetts, Representative Thaddeus Stevens of Pennsylvania, and Representative George Julian of Indiana, to name a few—manipulated this loss to their advantage more than any other group. These men had despised and resented Lincoln as a spineless moderate, lacking a proper nationalist and vindictive streak.

The Radicals had attempted nothing less than a congressional coup against Lincoln in December 1862, openly desired a military dictatorship throughout much of the war, and proposed their own version of Reconstruction as early as

1863. Their vision of postwar America involved remaking the entirety of the South in their own image, with extensive punishment for all involved. Just as they had wanted Lincoln to wage an ever-increasingly hard war, they wanted a peace imposed by the sword. Lincoln's death provided them with a symbol around which to rally northerners against their southern brethren. "Within eight hours of his murder Republican Congressmen in secret caucus agreed," Lincoln biographer David Donald explained, "that 'his death is a godsend to our cause.'" As the leader of the Radicals, Wade, stated, "[T]here will be no more trouble running the government."



Thaddeus Stevens, Benjamin Wade, George Julian, and Charles Sumner were among the Radical Republicans who wanted Lincoln to take a more vindictive approach to Reconstruction.  
commons.wikimedia.org

Wade and his fellow Radicals would have no small part in nationalizing the United States over the next dozen years. “The New England reformers thought they had struck down evil incarnate when they crushed the Sable Genius of the South; and their horror at the corruption and chaos of the Gilded Age was intensified proportionately as they discovered the extent of their own previous naiveté,” the cultural critic and historian Russell Kirk in wrote *The Conservative Mind*. “They had dreaded an era of Jefferson Davis; but now they were in an era” of the radicals and “of worse.” The true reformers “awoke to find their fellow-Republicans, the oligarchs of their party, intent upon concrete plunder.”

Not surprisingly, government grew dramatically during the four years of the Civil War. The Union printed greenbacks, founded the U.S. Secret Service to protect the fiat money (the second federal police force, the first having been set up after the passage of the Fugitive Slave Law of 1850), taxed incomes, promoted university education, built war factories and railroads, raised tariffs, declared—in some places—martial law and suspended freedoms of speech and habeas corpus, used troops to break labor strikes, and encouraged mobs to do what it believed it could not do openly.

In the South, President Jefferson Davis nullified the Confederate constitution almost from day one. Davis often ignored Congress and his own vice president, and he used the full power of his office to harass any political opposition. Most notably, through fraud Davis shut down the one opposition to develop, the classical-liberal Conservative Party of North Carolina. The Confederate States of America (CSA) taxed incomes, excess profits, and licenses, and raised tariffs on imports as well as exports. Because currency flowed only intermittently throughout the South, the CSA printed an outrageous amount of paper currency and established—to the horror of average southerners—the Tax-In-Kind men, empowered by the government to take whatever livestock, produce, and

materiel they deemed necessary for the war effort. Unlike the North, the South conscripted throughout much of the war, set prices, and enforced loyalty oaths. The CSA, contrary to popular memory, also rigorously enforced its own laws against the several states making up the Confederacy.

With the collapse of the Confederate government, no confederate laws continued, of course. With the end of the war the Union repealed many, if not most, of its war measures. The legacy and symbolism of such martial laws, however, remained into the Progressive period and beyond: If Lincoln could centralize the Union and defeat the Confederacy and slavery, could we not also

---

If Lincoln could centralize the Union and defeat the confederacy and slavery, could we not also use the federal government to wage war against whatever any Progressive might resent?

---

use the federal government to wage war against poor standards, poverty, immigrants, or whatever any Progressive might resent? Perhaps no figure better represents this than John Wesley Powell, a Union officer who lost his arm in the 1862 Battle of Shiloh and is often regarded as the father of American Progressives. Tellingly, through the Department of the Interior, the U.S. Geological Survey, and the Bureau of Ethnography, Powell crafted and promoted plans to remake the West (sometimes physically) through the powers of the federal government.

Believing the federal government under Lincoln had never gone far enough, the Radicals of Reconstruction expanded the scope and reach of the federal government as quickly as possible. Not only did the Fourteenth Amendment to the U.S. Constitution apply the Bill of Rights to the states, but it also repositioned virtually all federal law as superior to all state and local laws, thus attenuating even further the already difficult balance of federalism. Most Reconstruction laws began in the Radical-controlled congressional Joint Committee on Reconstruction, dominated by Wade. Most important, through the impetus of the Joint Committee, Congress passed a series of haphazard laws establishing martial law over various districts of the South. The rule of law, such as it was, was enforced through military rather than civilian courts.

Through a series of laws Congress provided extensive funding for public schooling and welfare (direct aid) for freed slaves, and it sometimes enforced the property rights of blacks.

None of this should suggest that somehow the Radicals were, as a whole, pro-black. As the Pulitzer prize-winning historian T. H. Williams once noted, the Radicals “loved the Negro less for himself than as an instrument with which they might fasten Republican political and economic control upon the South.” In reality the Radicals were little better in their promotion of rights, dignity, and liberties of blacks than had been the plantation owners of the previous generations. Each group—white men of the North and South—desired to manipulate the black population for its own aggrandizement and profit.

As Robert Higgs has definitively shown in his path-breaking work, *Competition and Coercion*, American freedmen did exceedingly well in terms of culture, economics, and literacy in the 50 years after emancipation, but did so through their own efforts and despite significant government and societal obstacles: “Free from competitive counterpressures and strongly equipped to enforce compliance, public officials could discriminate pretty much as their pleasure or caprice might dictate. Under these circumstances it was a definite blessing for the blacks that the governments of the post-bellum South were still quite limited in the range of functions to which they attended. Such salvation as the black man found, he found in the private sector.”

Not surprisingly, given the abusive attitudes white Radicals held toward American blacks, corruption proved endemic to the entire Reconstruction effort. So much money flowed from Congress into the reconstructed South that manipulators and opportunists profited wherever and whenever possible, which was more often than not. The Reconstruction governments simply had no manpower or will to prevent the corruption. They often participated directly in the corruption, using it for political gain. The famous

nineteenth-century Scottish observer of America, James Bryce, recorded his own thoughts on the period in *The American Commonwealth*: “Such a Saturnalia of robbery and jobbery has seldom been seen in any civilized country, and certainly never before under the forms of a free self-government.” He compared the American officials of Reconstruction to Roman provincial governors in the last days of the Republic:

Greed was unchecked and roguery unabashed. The methods of plunder were numerous. Every branch of administration became wasteful. Public contracts were jobbed, and the profits shared. Extravagant salaries were paid to legislators; extravagant charges allowed for all sorts of work done at the public cost. But perhaps the commonest form of robbery, and that conducted on the largest scale, was for the legislature to direct the issue of bonds in aid of a railroad or other public work, these bonds being then delivered to contractors who sold them, shared the proceeds with the governing ring, and omitted to execute the work. Much money was however taken in an even more direct fashion from the state treasury or from that of the local authority; and as not only the guardians of the public

funds, but even, in many cases, the courts of law, were under the control of the thieves, discovery was difficult and redress unattainable. In this way the industrious and property-holding classes saw the burdens of the state increase, with no power of arresting the process.

While almost all white leftist historians have downplayed or ignored this corruption since the 1960s, they have done so at great peril to the dictates of honesty and truth.

As they had failed to do with Lincoln in the attempted congressional coup of December 1862, the Radicals tried to gain control of President Andrew Johnson’s cabinet with the Tenure of Office Act. When Johnson violated this law in February 1868, the House

---

White men of the North and South both desired to manipulate the black population for their own aggrandizement and profit.

---

of Representatives impeached him on a strict party-line vote, 126-47. The failure of the Senate to support the House's impeachment undercut the strength and confidence of the Radicals. Indeed, though Radical regimes remained in power until 1876, the Radicals never again wielded the same kind of power as they had in the second half of the 1860s.

In part the Radicals also failed because Ulysses S. Grant never accepted the fanatical premises on which Radicalism had developed. A moderate Republican at best, Grant resented the postwar bloodthirstiness of the Radicals, few of whom had ever seen battle. Despite this, Grant was a determined nationalist and, when he was not dealing with the corruption in his own administration, he was promoting "Americanness" wherever possible. This became most clear in his policy toward the American Indians.

U.S. government relations with the Indians had never been consistent. They had gravitated between vicious brutality (as had been the case under Andrew Jackson) and respect and protection of Indian property (such as under Franklin Pierce). After the Civil War, under the Johnson and Grant administrations, the U.S. government waged a fierce war against the Indians, confiscating their best property, relegating what remained of the tribes to the worst land. The greatest atrocity committed by the federal government against the Indians came just at the very end of Reconstruction. After a tragic misunderstanding, the military decided to round up, forcibly remove, and detain a sizable minority of the Nez Perce Indians, a tribe faithfully allied to America since 1805. When the Nez Perce understandably resisted, the government spared neither time nor expense to defeat them. As *The Nation* reported in 1877:

How far the Indian insurrection on the Pacific Slope is for the present suppressed is not decided, but it were well, while its lesson is fresh, to realize that the Nez-Perces are not to blame for the expensive and

sanguinary campaign, unless being goaded into a brief madness by the direct and endless oppression of our Federal authorities be blameworthy. . . . [T]he neglect and bad faith of the general Government, continued for a quarter of a century, are apparent in the records of Congress. There was swindling, not in petty matters and by individuals, requiring detection and proof, but on a grand scale by the United States itself.

It would be difficult to find a more telling example of government corruption and abuse of power during this period than the directing of the military against a peaceful, allied people, farmers and ranchers who had been occupying the same land—the Palouse and Camas Prairies of the Pacific Northwest—for nearly 500 years.

---

Grant resented the postwar bloodthirstiness of the Radicals, few of whom had ever seen battle.

---

Nation-building always and everywhere demands conformity and destruction of local and individual differences. To overcome such divisions, the builders must create a religious type of myth and fundamental symbols to rally the population and with which to defend the new nation with unrelenting force. The Reconstruction government did all of this without apology, and immigrants

(especially Roman Catholics), blacks, and Indians suffered intensely. "Nationalism in the sense of national greed has supplanted Liberalism," E. L. Godkin, one of the great classical liberals of the day and the founder of *The Nation*, noted in hindsight in 1900. "We hear no more of natural rights, but of inferior races, whose part it is to submit to the government of those whom God has made their superiors." Americans, Godkin argued, had forsaken the Declaration of Independence as well as the Constitution. Further, he wrote, "The great party which boasted that it had secured for the negro the rights of humanity and of citizenship now listens in silence to proclamations of White Supremacy."

Men who had fought valiantly on the battlefields of the Civil War must have asked themselves what, if anything, it had all meant. FEB

---

# Civil War and the American Political Economy

BY JOSEPH R. STROMBERG

---

The task before us is to assess in largely material terms the political-economic system arising during and after the American Civil War. Ideological issues existed, certainly, but much evidence suggests that pure idealism had a rather limited run. Antislavery was one of many themes generally serving as the stalking horse for more practical causes. Slavery itself was a colossal background fact constituting, as historian James L. Huston states, the biggest single capital investment in the United States—an enormous material interest uniting millions of people (not just in the South) through ties of interest, commerce, and sentiment. This interest stood athwart the political-economic ambitions of powerful interests in the Northeast.

We may think here of large “forces” at work, each with limits and counter-tendencies. Where slavery is concerned, Americans shirked the job of finding a reasonable solution. Offered one—disunion—some rejected it, after which the blunt instrument of war permitted another solution of sorts. As historian Howard Zinn writes: It was not the moral enormity of slavery but “the antitariff, antibank, anticapitalist aspect of slavery which aroused the united opposition of the only groups in the country with power to make war: the national political leaders and the controllers of the national economy.”

Political scientist Thomas Ferguson believes that the goals of money-driven coalitions explain the greater part of American political history. During the mid-nineteenth century, railroads represented the biggest new business opportunity, provided large-scale government subsidies (state and federal) were available. Northern railroad promoters and land speculators, many based in New England, worked both to get subsidies and remove obstacles. On the removal side, some of them, like John Murray Forbes, donated money to John Brown’s good works in Kansas apparently to put pressure on southern opponents of internal improvements.

The Republican Party platform of May 1860 stated the minimal program of a historical bloc of northeastern financial and manufacturing interests and Midwestern and western farmers. It began on a high note of egalitarian and

republican ideology, aired some Free Soil, antislavery grievances, and thudded to rest with some practical matters: protective tariffs, homesteads (good for votes but rather ambiguous), federally funded improvements of rivers and harbors (Great Lakes subsidies), and a Pacific railroad. In addition, the party’s friendliness to central (national) banking was no secret. The Hamil-



Railroads presented one of the main opportunities for northern mercantilists to use the Civil War to start or secure their fortunes.

---

*Joseph Stromberg (strombergjr48@gmail.com) is an independent historian and writer living in northern Georgia.*

tonian mercantilism of the platform was its central theme, if not quite its only one. Alas for its adherents, they soon found a large bloc of their recent opponents (and potential taxpayers) leaving the Union, beginning with South Carolina in December 1860.

The opposition to northern mercantilism had removed itself from the system. “Why fight to bring it back?” historians Thomas C. Cochran and William Miller ask. Over the Secession Winter of 1860–1861 many northerners asked just that question. Matters were, after all, rather complex. Key New York trading interests were heavily involved with southern cotton—the petroleum of the mid-nineteenth century—and New England manufacturers processed it. If the incoming administration refused to accept secession and used force to retain states allegedly “in rebellion,” war would come. Many agreed that, generally speaking, war was never good for business as a whole. For some months hesitation reigned.

### Ready for War

It seems clear that *key leaders* of the northern “developmental coalition” represented by the Republican Party were ready enough for war, provided other people bore most of the costs. As tax historian Charles Adams writes, “The Wall Street boys and the men of commerce and business were determined to preserve the Union for their economic gains”—a calculation made easier for them after the contrasting U.S. and Confederate tariff schedules were released in early 1861.

With the highest tariff rates at 47 percent (North) and 12 percent (South), a massive shift of English and European trade to Norfolk, Charleston, Mobile, and New Orleans seemed likely. U.S. revenues would plummet, and northern business imagined short-run (or longer) catastrophe. A good many more northern businessmen began to calculate the possible benefits of a war. On cue, hesitating newspapers changed their line. Of course access to the Mississippi River (quite unthreatened in reality), the reluctance of any State

apparatus to lose territory, and ideological nationalism played their parts.

War came, and Republican economic operators made the most of it. With so many of their former opponents assembled in another Congress in Montgomery (later Richmond), Republican interest groups conducted what historian Ludwell Johnson calls “a war of economic and political aggrandizement.”

To fund and man the actual military struggle, Congress provided numerous excise taxes, inflationary Greenback currency, bond issues (public debt), an unprecedented income tax, tariffs, and mass conscription. Interestingly, most northern enterprisers doing well off the war (like Mellon, Morgan, Armour, and Gould) paid substitutes and never went near a battle.

---

It seems clear that the economic interests represented by the Republican Party were ready enough for war, provided other people bore most of the costs.

---

The costs of the war could indeed be shifted. For interests getting vested under cover of the war, there were also tariffs (dual-use, it seems), banking acts, the Homestead Act (1862), the Contract Labor Law (1864), Pacific (and other) subsidized railroad projects complete with land-jobbing, and of course the inevitable rivers and harbors acts. The resulting concentration of capital, active strike-breaking by federal troops in St. Louis and Louisville, and (fairly typical) 50 percent profit rates on U.S. war contracts round out this pretty

picture. Transparent loopholes in the Homestead Act ensured that land speculators and mining, timber, and oil companies got far more land than genuine settlers did. In addition, historian Jeffrey Rogers Hummel notes that the Morrill Act of 1862 granted considerable western land to eastern states partly in support of federal military education (more fodder for organized land-jobbers). Intentionally or otherwise, the Fourteenth Amendment (1868) hastened, as historian Arthur A. Ekirch, Jr., writes, “the triumph of national big business under the gospel of the ‘due process clause.’”

It follows that a minimal definition of *laissez faire* as understood by Republicans during and after the war would run as follows: open-ended, active federal assistance for connected businesses through tax money,

favorable statutes and legal rulings, and other institutional favors, with no corresponding obligation of these businesses toward society or even the State itself. So assisted, businessmen would make big bucks and accumulate capital, thereby greasing the wheels of progress and development. This was all the common good we need ever expect—a cozy arrangement indeed, despite conflicts and divisions already visible within the Republican machinery.

Historian Clyde Wilson notes that for Republicans “the revolution . . . was the point” and finds it odd that scholars fully informed on wartime and postwar corruption “imply that it mysteriously appeared after Lincoln’s death, and somehow miss the obvious conclusion that it was implicit in the goals of the Lincoln war party.” Lincoln’s first secretary of war, Simon Cameron, Pennsylvania iron manufacturer and Republican political boss, oversaw many a dodgy deal. Lincoln himself knew his associates quite well and joked that at least Cameron “wouldn’t steal a red-hot stove.” Small wonder, then, that Ludwell Johnson finds profiteering and fraud “so pervasive that they seemed to be of the very essence of the Northern war effort.”

Johnson sees northern wartime practice with regard to southern property as a policy of “redeeming the South by stealing it.” Under vague doctrines of “war powers” and the like, the administration quickly moved to confiscate “rebel” property forfeited for withdrawal of “allegiance” owed. In occupied Confederate territory the U.S. government created special tax districts whose funny auctions of “abandoned” property attracted insider bidders with advance information. The New England Emigrant Aid Company—a land company previously active in Kansas, doing business under a philanthropic veneer—set its sights on conquered parts of Florida. Here it would make money while sharing the bounty of New England civilization. Edward Atkinson, an antislavery textile manufacturer from Massachusetts, took an interest in the Florida project, writing to a colleague, “If he [the former slave] refused to work, let him starve and exterminate himself

if he will, and so remove the negro question—still we must grow cotton.” (As philanthropy this was perhaps a bit narrow.) And cotton was a hot item—confiscated, stolen, or gotten through trade with the enemy, for which Lincoln personally issued the licenses. Out of \$30 million worth of cotton seized under an 1863 law only 10 percent actually reached the U.S. Treasury. Another \$70 million in cotton was simply “stolen by Republican appointees,” as Wilson notes.

In any case, the war was not inexpensive. Claudia D. Goldin and Frank D. Lewis estimate direct war costs in terms of expenditures, lost wages, and more at \$3,365,846,000 for the North and \$3,285,900,000 for the South. In Georgia alone General Sherman guessed that of \$100 million in property destroyed by his forces, 80 percent was “simple waste and destruction” and not

a matter of military necessity. For the South as a whole, estimated wealth fell between 1861 and 1865 by about 40 percent—*not* counting the value of slave “property.” Hummel gives a figure of 50,000 for civilian deaths in the South, presumably of all races, genders, and conditions. Of southern white males aged 18 to 45, 18-25 percent had been killed.

### Reorganized Production

Counting Reconstruction as a political continuation of the war, we may now survey the political-economic structure yielded by the struggle. Here the old debate about whether the war retarded or accelerated American industrialization is of little interest. Mere questions of productivity (or output per square worker) matter less than how production was reorganized and who benefited from any changes. In Hummel’s view the wartime illusion of prosperity and full employment cannot survive the fact that wages fell, in real terms, by one-third. In the end, he concludes, the war retarded real growth; indeed, there was a waste of roughly five years’ accumulation of wealth. War contracts had not made up for lost southern markets.

In this new economy railroads were both cause and effect. Organized as much for land speculation as for

---

One historian found profiteering and fraud “so pervasive that they seemed to be of the very essence of the Northern war effort.”

---

transportation, subsidized railroads gave early signs of having far exceeded demand; in other words, railroads represented massive overinvestment. Yet subsidized transportation was the key lever of the post-1865 American economy. William Appleman Williams writes that the demand for railroad regulation was not socialist, but merely applied “[Adam] Smith’s argument against mercantilist joint-stock companies to the railroad corporations of their own time.” Railroads particularly required large-scale bureaucratic organization. The modern corporate form served them well, and their short-run success strengthened the corporate form. As Peter N. Carroll and David W. Noble observe, the railroad corporation “patterned itself on the Union army, the first major public bureaucracy.”

Along with increased corporate organization came concentration of capital reinforced by the details of wartime contracts and favored by the tax structure. No less a libertarian than Roy A. Childs, Jr., wrote in 1971 that “much of the concentration of economic power which was apparent during the 1870s was the result of massive state aid immediately before, during, and after the Civil War. . . .” Further, in the decades after the war, this led, as Willis J. Ballinger noted in 1946, to an imbalance in favor of savings invested in fixed capital (“oversaving”). (This spawned from the 1880s forward much discussion of “oversaving” and “overproduction,” with overseas economic empire as a proposed solution.)

### A New Industrial Order

Wartime corruption was only a small part of the story. It is more important that, as Richard F. Kaufman observes, the Civil War brought about a “new industrial order . . . composed largely of war profiteers and others who grew rich on government contracts . . . and . . . were able to influence the economic reconstruction.” Further, important and persisting capitalist fortunes arose from wartime contracts: “J. P. Morgan, Philip Armour, Clement Studebaker, John Wanamaker, Cornelius Vanderbilt, and the du Ponts had all been government contractors. Andrew Carnegie got rich speculating in bridge and rail construction while assis-

tant to the Assistant Secretary of War in charge of military transport.” If there indeed were Robber Barons, they got their start in the war.

There were various tensions in the Republican developmental bloc. Some New Englanders, for example, favored lower tariffs and even dared hope that party regulars might steal a little less at a time. According to historian Williams, the Radical wing stood for inflationary currency, high tariffs, and holding the southern states as “a new frontier” for Yankee enterprise.

In political scientist Richard Franklin Bense’s view, a Republican-led northern developmental coalition of capitalists, financiers, and farmers successfully imposed a single market and commercial code on the entire American federation through neomercantilist activism. The war saw the emergence of a powerful new class of financiers in New York City. After 1865 much of their money went into railroads as they worked to remove

---

If there indeed were  
Robber Barons, they  
got their start during  
the war.

---

Greenback currency from circulation from 1870 on. Here they broke with the Radical Republicans. Bankers preferred to control any expansion of credit and wanted their loans repaid in dollars of equal or greater value than those they had lent. Deflation suited them. The Republican capitalist-and-farmer alliance may have

lasted as long as it did only because a generous and expanding pension program for Union veterans partly offset what Midwestern and western farmers lost through high tariffs. (A qualified veteran typically got about a third of the average workingman’s wages for a year. Here was America’s first major welfare program.)

Historian Gabriel Kolko notes rapid expansion and accumulation of capital from 1871 to 1899. Because of recurring upper-class panics over labor organization, “violence was used in America more than in any other country that bothered preserving the façade of democracy”—and the violence was always disproportionate. The Civil War had stimulated manufacturing, railroad investment and building, and mining. Big enterprises rested on family alliances and nepotism. As a result, Kolko writes, the idea of social consensus “wholly obscures the real basis of authority in the United States society since the Civil War—law and the threat of

repression.” Alas for the members of the ruling class, they so successfully broke “the possibility of opposition [that] they also destroyed as well, social cohesion and community.”

In a polemic written in 1937, Texas historian Walter Prescott Webb made a case for the West and South against the North. Railroads, built only in the North between 1860 and 1875, killed off southern river traffic. The North enjoyed major bounties: high tariffs, Union army pensions (seven-eighths of which went to the North—a way of spending the “surplus” raised by high tariffs), northern ownership of most industrial patents, and finally, the modern corporation as such—

with 200 majors in 1937, all based in the North. This financial-capitalist “feudalism” was sustained by the Supreme Court’s dogma of corporate personhood (1885, 1886, 1889). Anticipating Bensel’s analysis by 50 years, Webb noted how Union army pensions (\$8 billion, all told) compensated the West for what it lost on the tariff.

Historian C. Vann Woodward notes that, ground down by tariffs and northern business control of most patents, the South remained trapped as an exporter of raw materials. Along with the famous freight-rate differential (which lasted into the 1940s), these levers worked as effectively as the British Board of Trade in reducing the southern economy to colonial status. As Hummel writes, national banking rules “stifled recovery of the South’s credit markets.” Nor was there cash in small denominations. Here Hummel fills in some gaps in Woodward’s argument. (On the orientation of banking law toward the convenience and profit of northeastern financiers, Bensel’s *Yankee Leviathan* account reinforces Hummel’s *Emancipating Slaves, Enslaving Free Men*.) Further, Hummel notes, southerners were taxed to pay interest on the national debt, nearly all of which went to northern parties and

to fund Union army pensions—29 percent of the federal budget by the mid-’70s. Here again was a net outflow northward, while the same southerners paid state taxes for Confederate pensions. Not surprisingly, railroad bonds issued by Republican governments in the South during Reconstruction had been “the occasion of most political fraud below the Mason-Dixon line.”

It can be argued that in the end agriculture always *pays* for industrialization. Bensel is quite clear: “The [American] developmental engine left the southern periphery to shoulder almost the entire cost of industrialization. . . . The periphery was drained while the core prospered.” This means that independence was a

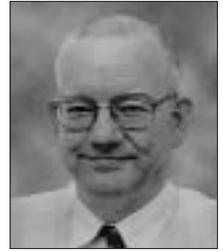
---

Ground down by tariffs and northern business control of most patents, the South remained trapped as an exporter of raw materials.

---

serious economic option whose advantages for the South Bensel briefly discusses. But as historian Eugene D. Genovese writes, “Since abolition occurred under Northern guns and under the program of a victorious, predatory outside bourgeoisie, instead of under internal bourgeois auspices, the colonial bondage of the economy was preserved, but the South’s political independence was lost.”

Under Republican auspices the federal government asserted complete primacy over economic regulation, while advancing a big-business bloc allied to its party. This was in the essential Federalist tradition. “Liberal reform” of the 1870s was partly rooted in bourgeois panic over imaginary Paris Communes about to arise on our shores. One result was attempts *in the North* to disenfranchise “unreliable” voting blocs of workers and immigrants. Here were the beginnings of “de-participation”—the conscious project of removing the people from popular government in favor of permanent bureaucratic management intended to be both effective and inexpensive. Here was America’s answer to Benthamism. Our troubles did not begin (or end) with the Progressive Era. **FEE**



## Maps and Power

BY STEPHEN DAVIES

The modern world (meaning since the later eighteenth century) is different in several profound ways from earlier times. One of the most important of these is the nature and power of government. Modern States can do things beyond the reach of earlier ones, however large or aggressive. This expanded capacity is a feature of modern government whether it is actually used or not: It is always there as a possibility. The kind of extensive government we have now, the range of activities it undertakes, and the degree of control and regulation exercised by political elites over everyday human affairs were simply not possible in earlier times. Whether or not this capacity is used depends on beliefs, ideas, and interests, but the capacity itself has a different source. It derives from “technique,” a category that includes technology but has a wider meaning. Above all it includes ways of organizing and understanding information.

In this context a key technique and one of the most important foundations of the modern State is the map. The apparently neutral art of cartography is actually one of the main sources of modern political power. The most important aspect of this is the cadastral map or survey. Unlike a topographical map, it does not simply record the natural features of the terrain. It also captures, in a radically simplified and systematized form, a huge amount of knowledge of such matters as ownership, rights and entitlements, values, social relations, and obligations.

### Cadastral Surveys

Maps and surveys of this kind were found to some degree in the ancient world but they disappeared with much else of the governing power of the great

empires of antiquity during the sixth and seventh centuries. Such maps began to reappear during the late Renaissance, initially in Italy, latterly in the Netherlands, Germany, France, and the United Kingdom.

Before the creation of a cadastral survey this knowledge existed in the form of dispersed and tacit knowledge, scattered among many people and only accessible to those in a locality and then only partially. In this situation many kinds of action by rulers, particularly taxation but also control and regulation of the physical environment and people’s use of the land, were difficult or even impossible.

Cadastral surveys do not capture all this dispersed knowledge or even the greater part of it. They do, however, capture a significant part in a way that makes it simplified, standardized, and systematically organized or structured. This enormously increases the ability of rulers to act on society and control or direct human interactions, and so in turn to have great influence on the outcome of those interactions, whether intentionally or unintentionally. This point is explored by James C. Scott in his work *Seeing Like a State*.

The history of the United States shows this last point clearly. One of the first things undertaken by the government of the newly established republic in 1785 was a cadastral survey of the Northwest territories, which was subsequently expanded to all of the territory of the United States apart from the original colonies. This was the Public Lands Survey System, which has become a model for similar systems in many parts of the world. The initial idea was to use this capacity to



*Stephen Davies (sdavies@iea.org.uk) is academic director at the Institute of Economic Affairs in London.*

create a society of independent freeholders. However, it has been used both consciously and unintentionally to very different ends.

The very act of capturing information in this way and the power it gave to rulers to direct and control the use of the land by private individuals and corporations meant that decisions made by the political class now had a huge influence on the course of settlement and development. All kinds of possibilities were excluded while others could be encouraged or directed. Thus the decision to divide the land surveyed into regular rectangular blocks produced a particular kind of urban settlement and development that would not have occurred had the dispersed local knowledge worked through informal institutions and private agreement. A whole range of government functions, in particular the control and regulation of much economic activity, is only possible because of the information captured in the maps and surveys.

Scott indicates that maps of this kind, by capturing a simplified version of the tacit knowledge of the local population, enable remote outsiders to have at least some knowledge of what the situation is on the ground (literally). This opens up a range of otherwise unavailable options for them. For example, it makes possible large-scale urban planning and redevelopment of the kind that became common in the United States after World War II. Instead of the spontaneous urban development described by Jane Jacobs, we have had the large-scale planned reconstruction advocated by her arch-nemesis Robert Moses. As Scott points out, this technique has also made possible catastrophic social “experiments” such as Soviet collectivization of agriculture and the Tanzanian “Ujaama” system of land reform.

Maps and surveys of this kind are not the only techniques that have aided the transformation of government, of course. Another, equally important, is the kind of accurate decennial census established in 1790 in the

United States. Census-taking has a long history (as most of us will gather from reading the Gospels), but again it became much more systematic, extensive, and important from the early modern period on. Today a lot of what government does depends on the accuracy and completeness of the census, which is why taking part in it is enforced by such stringent penalties.

### Limits of Knowledge

However, this also shows the ultimate limits of such techniques and the modern State that is based on them. Governments around the world today face increasing problems of noncompliance with and resistance to the census. Even if these difficulties can be

overcome, there is an even more basic problem that affects maps and surveys even more. Although a cadastral survey is a powerful way of capturing and distilling tacit knowledge, it is inevitably imperfect. Much of the local, dispersed knowledge is never captured. What is captured is radically simplified and much of the subtlety and nuance are lost. This does not matter so much if the government activity is relatively simple. However, complex activities will simply not work.

In other words, although modern techniques give rulers and elites enormous powers that their predecessors did not have, they are still limited in what they can do effectively by the nature of knowledge and the limits of the tools and techniques at their disposal. Today large organizations—private ones, too, but above all government—are operating at or beyond the limits of their capacity in terms of what their foundational techniques will allow them to do effectively. This is one of the main reasons many programs and agencies are seen to be simply not working, and it is also why so many politicians and officials experience not power but frustration. Time to simplify and take a more modest view of what things like maps make possible in the modern world.

PEE

---

The very act of capturing information through cadastral surveys gave rulers new power to direct and control the use of land.

---

---

# The Question of Slavery

BY JEFFREY ROGERS HUMMEL

---

Slavery can neither fully explain nor ultimately justify the American Civil War. This realization is unfortunately obscured because most scholars and buffs alike have usually sought a single cause for those four years of soul-wrenching conflict. The early nationalist interpretation, put forward by historian James Ford Rhodes, blamed one factor and one factor only: slavery. Slavery induced the southern states to secede, and Rhodes unreflectively assumed that the national government had no option but to suppress them. Later revisionist historians, such as Avery O. Craven and James G. Randall, contended that slavery was dying of its own accord and attributed the war instead to a “blundering generation” of politicians, manipulated by irresponsible extremists and fanatics on both sides. The Progressive perspective of Charles Beard also denied slavery’s role and replaced it with economic considerations. Then, beginning in the 1950s, a neo-abolitionist school, which today dominates Civil War scholarship, reaffirmed the centrality of slavery.

Yet while these competing interpretations have waxed and waned, the underlying quest for the one overriding cause continues unabated. What southerners called their “peculiar institution” was indeed the fundamental cause of secession. That proposition no longer

admits of any doubt. Historians would be hard pressed to find *any* causal claim in all human history for which the empirical support is more overwhelming.

But when historians go on to claim that secession made war inevitable, they embrace a common but logically indefensible leap. Only a few prominent neo-abolitionist historians, such as Eric Foner and Kenneth Stampp, have recognized that Civil War causation breaks down into at least two questions. Why did the southern states want to leave the Union? And why did

the northern states refuse to let them go? Just because slavery is the answer to the first, it does not necessarily follow that it answers the second. These two questions are often conflated because so many Americans approach the Civil War with an implicit and unchallenged prejudice in favor of national unity.

Yet secession and war are distinct issues. For secession to lead to war, northerners had to be determined to hold the Union together with violence. And scholarly research has demonstrated that slavery had very little, if anything, to do with that determination, either on



Slavery was behind the South’s secession. It wasn’t behind the North’s violent response, however.

---

*Jeffrey Rogers Hummel (jhummel@gguol.ggu.edu) is an associate professor of economics at San Jose State University. He is the author of Emancipating Slaves, Enslaving Free Men: A History of the American Civil War.*

the part of President Abraham Lincoln or of the northern public generally.

The sole northern group that had always made opposition to slavery their primary goal was the abolitionists. They burst on the national landscape in the 1830s, demanding the immediate emancipation of all slaves, without any compensation to slaveholders, and full political rights for all blacks. Less well known is that they were also often advocates of disunion. The most prominent and vitriolic of these abolitionists, William Lloyd Garrison, went so far as to denounce the Constitution for its proslavery clauses as “a covenant with death and an agreement with hell.” During one Fourth of July celebration he publicly burned a copy, proclaiming: “So perish all compromises with tyranny!” He believed that, if anything, the North should secede. That way it would get out from under the Constitution’s fugitive-slave clause and become a haven for runaway slaves. The slogan, “No Union with Slave-Holders” appeared on the masthead of Garrison’s weekly paper, *The Liberator*, for years.

Thus passionately opposing slavery and simultaneously favoring secession are quite consistent. And Garrison’s strategic vision was hardly unique to him. Nearly all of slavery’s most radical opponents initially shared it, including Frederick Douglass, the free black leader who in 1838 had escaped from slavery in Maryland, and Wendell Phillips, a wealthy lawyer and Boston Brahmin. Needless to say, this disrespect for the Union did not go over well in the free states. Abolitionist lecturers, presses, and property were frequent targets of hostile mobs throughout the 1830s. Nor did all abolitionists support disunion. Many eventually would turn away from Garrison to take up political activity in a quest for respectability and success. As the antislavery crusade split into doctrinal factions, the resort to the ballot box would bring both a broadened appeal and a dilution of purity.

The Republican Party eventually triumphed by reducing political antislavery to its lowest common denominator. The party’s main position, preventing slavery’s extension into new territories, carried no taint

of disunion. It allowed northerners to take steps against slavery in a distant sphere while honoring their constitutional obligation to leave the local institutions of the southern states alone. Here moreover was an antislavery position that could be made consistent with racism. Keeping slaves out of the territories was an excellent way to keep blacks out altogether. Abolitionists had failed to win over the North because they had put their opposition to slavery ahead of the Union. Republicans succeeded because they put the Union ahead of their opposition to slavery.

### Republicans and the Slave Power

That Republicans promised not to interfere with the peculiar institution in the existing states—to the point of supporting in 1861 a proposed *unamendable* thirteenth amendment that would have explicitly guar-

anteed slavery—goes without saying. Even the platform of the abolitionist Liberty Party, which conducted presidential campaigns in 1840 and 1844, had respected this constitutional constraint. But there were other constitutionally permissible steps that the central government could have taken and yet the Republican platform eschewed, such as abolishing slavery

in the District of Columbia and prohibiting the interstate and coastal slave trade. Lincoln even promised in his first inaugural to enforce the fugitive slave law, so hated among many northerners.

The plain fact that Lincoln was not an abolitionist is often cited by those who wish to deny that the seceding states were concerned about slavery’s future. The observation has become commonplace today that special interests inordinately influence government policy. This has actually always been the case; it is just less noticeable or objectionable when government is small and unobtrusive. One of the most powerful special interests during the pre-Civil War period was what abolitionists and Republicans referred to as the “Slave Power.” Despite constituting only one-quarter of southern families in 1860, slaveholders had dominated American politics both in the southern states and at the national level.

It is not as well-known that abolitionists were often advocates of disunion.

Then in 1860 a northerner who had not carried a single slave state, and in ten of them did not get a single recorded vote, was elected president. Nationwide, Lincoln received only 40 percent of the popular vote. Yet he won with the electoral votes of every free state except New Jersey, where he got four out of the state's seven. The contest in the South—mainly between the Southern Democratic and Constitutional Union candidates—had proved utterly irrelevant. Even if the votes of all Lincoln's opponents had been combined, he still would have won. Nothing could make the looming political impotence of the slave states more stark. Almost overnight a special interest that had dictated policy in Congress, to the executive, on the Supreme Court, and usually in both major parties was politically dispossessed.

Southern fire-eaters recognized that a major faction within the Republican Party did favor further steps to divorce the general government from slavery. Lincoln appointed to his cabinet at least two of these radical Republicans: William Henry Seward of New York as secretary of state and Salmon Portland Chase of Ohio as secretary of the treasury. Even if the radicals did not immediately have their way, the Republican Party now controlled federal patronage, the postal service, military posts, and judicial appointments. Lincoln could put Republicans, abolitionists, and even free blacks into public office all over the South. That a national administration—for the first time—morally condemned the peculiar institution might in and of itself trigger slave resistance. And the Republican commitment to a territorial policy that the Supreme Court had already declared unconstitutional in the infamous Dred Scott decision showed that slaveholders could not rely on paper guarantees.

The editors of the *Richmond Enquirer* described how Lincoln's victory must in the long term destroy slavery. "Upon the accession of Lincoln to power, we would apprehend no direct act of violence against negro property," the editors conceded. But "the use of federal office, contracts, power and patronage" would result in

---

Almost overnight a special interest that had dictated policy throughout the federal government was politically dispossessed.

---

"the building up in every Southern State of a Black Republican party, the ally and stipendiary of Northern fanaticism, to become in a few short years the open advocate of abolition." Already a Missouri congressman, Frank Blair, Jr., whose family had long been powerful within Democratic circles, had gone over to the Republicans and delivered 10 percent of that border slave state's presidential vote to Lincoln.

The *Enquirer* also understood that the eventual "ruin of every Southern State by the destruction of negro labor" would be accomplished through the increase in fugitive slaves after tampering with the peculiar institution in the upper South. "By gradual and insidious approach, under the fostering hand of federal power, Abolitionism will grow up in every border Southern State, converting them into free States, then into 'cities of refuge' for runaway negroes from the gulf States. . . . There are no consequences that can follow, even forcible disunion, more disastrous to the future prosperity of the people of Virginia."

### Nothing to Lose

Secession was risky. But with Republicans in control of the national government, many southern whites felt they had nothing to lose. Slavery seemed eventually doomed otherwise. Slaveholders could better depend on an independent central authority to provide protections against runaways by policing the new borders. As one Georgian explained in a letter to his representative in Congress, Alexander H. Stephens, independence would permit southerners to erect "an impassable wall between the North & the South so that negroes could not pass over to the North or an abolitionist come to the South to annoy us any more."

Other southerners disagreed, however, including Stephens himself. Although he would become the Confederacy's vice president, he opposed his state's secession, judging "slavery more secure in the Union than out of it." By leaving the Union, southerners were abandoning the Constitution's protections for slavery and possibly unleashing the very plague of runaways

they feared. Indeed, Lincoln would warn in his first inaugural that the seceding states could no longer rely on this national subsidy. The withdrawal of the deep South's representatives from Congress would make free-state control over the national government more pronounced than ever. The Republicans would have a free hand in the territories, whereas the economic viability of a small, independent slave republic was in doubt, especially if it could not expand. Even without resorting to war, Republicans could have implemented a set of policies that would have brought the peculiar institution to an end within an independent Confederacy, certainly by the turn of the century, *if* Lincoln had been purely interested in ending slavery *rather than* preserving the Union.

As Lincoln took the oath of office, the Union still contained eight slave states, more than had left. Secession had so far failed in the upper South, where the black population was less dense. Even in a few states of the lower South, disunion had triumphed by only narrow margins. Some northerners were prepared to allow the new Gulf Coast Confederacy to depart in peace. Militant abolitionists such as Garrison were mainly concerned that South Carolina's secession was just a bluff. Even Horace Greeley's staunchly Republican *New York Tribune* had briefly come out for letting the cotton states go, hoping "never to live in a republic whereof one section is pinned to the residue by bayonets."

### Lincoln's Determination

Lincoln, on the other hand, was determined to preserve the Union by force if necessary. Slavery's abolition did not figure at all in either his avowed justifications or his private motivations. "I hold that . . . the Union of these States is perpetual," the President asserted in his first inaugural address, cautiously revealing this unyielding posture. "The Union is unbroken, and to the extent of my ability I shall take care, as the Constitution itself expressly enjoins upon me, that the laws of the Union be faithfully executed in all States."

---

Even without war, Republicans could have implemented policies that would have ended slavery in the Confederacy, if Lincoln had been interested in ending slavery rather than preserving the Union.

---

Lincoln's determination received the hearty applause of powerful northern interests. Westerners feared the closing of the lower Mississippi River, even though the Confederate government promised free navigation. Eastern manufacturers worried that they would lose southern markets to European competitors because of the Confederacy's free-trade policy. Yankee merchants and shipbuilders faced an end to a monopoly on the South's coastal trade that the government granted to U.S. vessels. Holders of government securities were edgy about the Union's loss of tariff revenue. But in the final analysis, American nationalism proved to be the most compelling opponent of southern independence.

Republicans had promised northern voters that they could have *both* anti-slavery and Union. Now that the Union was imperiled, the Republican Party had to take decisive action or face political oblivion.

The deep South's refusal to abide by the outcome of a fair and legal election struck northern voters as a selfish betrayal of the nation's unique mission. "Plainly the central idea of secession is the essence of anarchy," argued Lincoln. Indeed, his inaugural equated secession with despotism. "A majority held in restraint by constitutional checks and limitations, and always changing easily with deliberate changes of popular opinions and sentiments,

is the only true sovereign of a free people. Whoever rejects it does, of necessity, fly to anarchy or despotism," because "unanimity is impossible; the rule of a minority, as a permanent arrangement, is wholly inadmissible." Worse still, the successful breakaway of the lower South raised the possibility of other regions separating.

Yet Lincoln also wished to preserve the loyalty of the upper South. Southern unionists made clear their conviction that no state should be forced to remain. He therefore initially settled on a defensive strategy to uphold national authority. Until the Confederate bombardment of Fort Sumter on April 12, 1861, the President could not have counted on enthusiastic northern

support for an appeal to arms. The attack, however, electrified the free states, as Lincoln issued his proclamation calling up the state militias. The President's call garnered an opposite reaction in the slave states. It wiped out any lingering unionism in those that had already seceded. Still more decisive was its impact on the wavering states of the upper South. Virginia, North Carolina, Tennessee, and Arkansas all promptly transferred their allegiance to the Confederate States of America. At a single stroke of the pen, Lincoln had more than doubled the Confederacy's white population and material resources.

Once war got underway Lincoln continued to insist he wanted only to preserve the Union, and the newly elected Congress confirmed this war aim shortly after it convened. The Crittenden-Johnson resolutions of July 1861 denied that the government was waging war "in any spirit of oppression, nor for any purpose of conquest or subjugation, nor purpose of overthrowing or interfering with the rights or established institutions of those States," but only "to defend and maintain the supremacy of the Constitution and to preserve the Union." In other words, the resolutions promised to leave slavery untouched in the seceding states.

### Political Slavery over Chattel Slavery

It is true that northern blacks, abolitionists, and Radical Republicans, from the first salvo, did seek a crusade against slavery. The prospect of wartime abolition seduced even Garrison and most of his militant followers into abandoning disunion. Only a handful of slavery opponents remained true to their original principles. Among them was Boston freethinker Lysander Spooner, an abolitionist so enthusiastic about John Brown's raid on Harper's Ferry that he had earnestly proposed kidnapping the governor of Virginia to hold as hostage in exchange for Brown's life. But although never a pacifist, Spooner saw absolutely no moral analogy between slaves violently rising up to secure their liberty and the central government violently crushing aspirations for self-determination on

the part of white southerners. After the war he would write that the North had fought for the principle that "men may rightfully be compelled to submit to, and support a government they do not want; and that resistance, on their part, makes them criminals and traitors." "Political slavery" had taken the place of "chattel slavery."

Lincoln meanwhile was drifting toward the Radical position. He publicly warned that he would take whatever action he thought necessary to win the war. "My paramount object in this struggle," the President declared in his oft-quoted reply to Horace Greeley, "is to save the Union, and is *not* either to save or to destroy slavery. If I could save the Union without freeing *any* slave I would do it, and if I could save it by freeing *all* the slaves I would do it; and if I could save it by freeing

---

Only a handful of slavery opponents remained true to their original antiwar principles.

---

some and leaving others alone I would also do that. What I do about slavery, and the colored race, I do because I believe it helps to save the Union; and what I forbear, I forbear because I do *not* believe it would help save the Union." Lincoln added, however, that "I have here stated my purpose according to my view of *official* duty; and I intend no modification of my oft-expressed *personal* wish that all men every where could be free."

When the preliminary Emancipation Proclamation appeared on September 22, 1862, it was framed as a war measure. It still gave the seceding states until the end of the year to cease their rebellion and retain their slaves. The proclamation did not emancipate any of the slaves in the four border states that had not seceded. Nor did it emancipate any slaves in many of the sections of the Confederacy that the Union armies had already reconquered, including all of Tennessee and large portions of Virginia and Louisiana. This anomaly inspired a cynical retort from Secretary of State Seward. "We show our sympathy with slavery," he stated the day after the final proclamation was issued, "by emancipating slaves where we cannot reach them, and holding them in bondage where we can set them free."

Of course, northerners came around by the war's end to demanding that slavery's elimination be com-

plete and permanent. A little more than two months before General Robert E. Lee's surrender at Appomattox, two-thirds of Congress passed a new, proposed thirteenth amendment abolishing slavery within the United States forever. Emancipation was therefore a consequence of the Civil War. But it was a consequence unintended at the outset, and played no discernible role in the northern refusal to let the lower South go in peace.

### Yankee Civil Religion

Although mainstream historians will find no major surprises in the above account, they nonetheless seem oblivious to how instrumental in bringing on the carnage was northern worship of the Union as absolute deity. Why was preserving the nation's existing boundaries such a big deal? Although historians have thoroughly researched southern motives for secession, they have not done as good a job with northern motives. Nationalist bias elevates perpetual union to an automatic and unquestioned standard. Exactly *how* and *why* northerners came to embrace this standard has never been satisfactorily answered. Yet somehow the mystical identification of Union with Liberty had evolved into such a cornerstone of the Yankee civil religion that it was impervious to all reason.

Peaceful secession has become a fixture of the modern world. Even before America's war over secession, Belgium in 1830 had consummated a separation from the Netherlands that was almost entirely without bloodshed. Norway seceded from Denmark in 1905 and Singapore from Malaysia in 1965. Since then, we have witnessed, among others, the peaceful separation of the Czech Republic and Slovakia and the peaceful breakup of the totalitarian Soviet Union into more than a dozen independent nations, including Russia. So we ought to be able to view Lincoln's justifications for the Civil War with a healthy dose of skepticism.

When in the mid-1990s Quebec held a referendum on whether to secede from Canada, the Canadian central government disavowed the use of force to prevent the province's departure. This incident contains some striking parallels to southern secession because the population of Canada at the time was about 30 million, slightly less than the U.S. population in 1860. Quebec had seven million inhabitants, making it smaller than the Confederacy became (about nine million) after Lincoln's call for troops but larger than the Gulf Coast Confederacy (about five million) at the time of Lincoln's inauguration.

The southern states had no right to self-determination because of slavery, runs the retort. But black slavery was practiced in every one of Britain's North American colonies, from New Hampshire to Georgia, at the opening of the War for Independence. Moreover, Virginia's royal governor issued a proclamation on November 7, 1775, similar to Lincoln's Emancipation Proclamation, freeing any slave who would bear arms against the rebellious colonists. At least 18,000 freed blacks accompanied British forces as they evacuated Savannah, Charleston, New York City, and other places at the end of the earlier war. South Carolina, the only colony with a slave majority when independence was

declared, lost as much as one-third of its black population to flight or migration. In short, most arguments marshaled to deny the legitimacy of southern independence in 1861 apply with almost equal force against American independence in 1776.

As an excuse for civil war, maintaining the State's territorial integrity is bankrupt and reprehensible. Yet that is the only excuse that Lincoln and the Republican Party put forward. Slavery, to repeat, neither explains nor justifies northern suppression of secession. In the final analysis we must accept the verdict of Moncure Daniel Conway, another abolitionist, self-exiled from his home in Virginia. The Union war effort, he sadly concluded, reduces to "mere manslaughter." **FEE**

Most arguments marshaled to deny the legitimacy of southern independence in 1861 apply with almost equal force against American independence in 1776.



# The Importance of Subjectivism in Economics

BY SHELDON RICHMAN

After many years, Frédéric Bastiat remains a hero to libertarians. No mystery there. He made the case for freedom and punctured the arguments for state socialism with clarity and imagination. He spoke to lay readers with great effect.

Bastiat loved the market economy, and badly wanted it to blossom in full—in France and everywhere else. When he described the blessings of freedom, his benevolence shined forth. Free markets can raise living standards and enable everyone to have better lives; therefore stifling freedom is unjust and tragic. The reverse of Bastiat’s benevolence is his indignation at the deprivation that results from interference with the market process.

He begins his book *Economic Harmonies* by pointing out the economic benefits of living in society:

It is impossible not to be struck by the disproportion, truly incommensurable, that exists between the satisfactions [a] man derives from society and the satisfactions that he could provide for himself if he were reduced to his own resources. I make bold to say that in one day he consumes more things than he could produce himself in ten centuries.

What makes the phenomenon stranger still is that the same thing holds true for all other men. Every one of the members of society has consumed a million times more than he could have produced; yet no one has robbed anyone else.

Bastiat was not naive. He knew he was not in a fully free market. He was well aware of the existence of privilege: “Privilege implies someone to profit from it and someone to pay for it,” he wrote. Those who pay are worse off than they would be in the free market. “I trust that the reader will not conclude from the preceding

remarks that we are insensible to the social suffering of our fellow men. Although the suffering is less in the present imperfect state of our society than in the state of isolation, it does not follow that we do not seek wholeheartedly for further progress to make it less and less.”

He wished to emphasize the importance of free exchange for human flourishing. In chapter four he wrote:

Exchange *is* political economy. It is society itself, for it is impossible to conceive of society without exchange, or exchange without society. . . . For man, isolation means death. . . .

By means of exchange, men attain the same *satisfaction* with less *effort*, because the mutual services they render one another yield them a larger proportion of gratuitous utility.

Therefore, the fewer obstacles an exchange encounters, the less effort it requires, the more readily men exchange.

How does trade deliver its benefits?

Exchange produces two phenomena: the joining of men’s forces and the diversification of their occupations, or the division of labor.

It is very clear that in many cases the combined force of several men is superior to the sum of their individual separate forces. . . .

Now, the joining of men’s forces implies exchange. To gain their co-operation, they must have good reason to anticipate sharing in the satisfaction to be obtained. Each one by his efforts benefits the others and in turn benefits by their efforts according to the terms of the bargain, which is exchange.

Sheldon Richman ([srichman@fee.org](mailto:srichman@fee.org)) is the editor of *The Freeman*.

---

**Bastiat was not naive.  
He knew he was not  
in a fully free market.**

---

But isn't something missing from this account?

Indeed, there is: the subjectivist Austrian insight that individuals gain from trade *per se*. For an exchange to take place, the two parties must assess the items traded *differently*, with each party valuing what he is to receive more than what he is to give up. If that condition did not hold, no exchange would occur. There must be what Murray Rothbard called a *double inequality of value*. It's in the logic of human action—the discipline Ludwig von Mises christened *praxeology*. Bastiat, like his classical forebears Smith and Ricardo, erroneously believed (at least explicitly) that people trade *equal* values and that something is wrong when unequal values are exchanged.

Perhaps I am too hard on Bastiat. After all, he was writing before 1850. Carl Menger did not publish *Principles of Economics* until 1871. Yet the Austrians were not the first to look at exchange strictly through subjectivist spectacles—that is, from the economic actors' points of view. The French philosopher Étienne Bonnot de Condillac (1715–1780) did so a hundred years before Bastiat wrote: “The very fact that an exchange takes place is proof that there must necessarily be profit in it for both the contracting parties; otherwise it would not be made. Hence, every exchange represents two gains for humanity.”

Well, perhaps Bastiat was unaware of Condillac's argument. That is not the case. He reprints the quote above in his book and responds:

The explanation we owe to Condillac seems to me entirely insufficient and empirical, or rather it fails to explain anything at all. . . .

The exchange represents two gains, you say. The question is: Why and how? It results from the very fact that it takes place. But why does it take place? What motives have induced the two men to make it take place? Does the exchange have in it a mysterious virtue, inherently beneficial and incapable of explanation?

We see how exchange . . . adds to our satisfactions. . . . [T]here is no trace of . . . the double and empirical profit alleged by Condillac.

---

Bastiat erroneously believed that people trade *equal* values and that something is wrong when unequal values are exchanged.

---

This is perplexing. Clearly, the necessary double inequality of value is not empirical or contingent. Contra Bastiat, the double inequality explains quite a lot, and his questions all have easy answers.

Yet more perplexing still is Bastiat's statement in the same chapter: “The profit of the one is the profit of the other.” This seems to imply what he just denied.

Bastiat's failure to grasp this point had consequences for his debates with other economists. For example, he and his fellow “left-free-market” advocate Pierre-Joseph Proudhon engaged in a lengthy debate over whether interest on loans would exist in the free market or whether it was a privilege bestowed when government suppresses competition. Unfortunately, the debate suffers because neither Bastiat nor Proudhon fully and explicitly grasped the Condillac/Austrian

point about the double inequality of value. As Roderick Long explains in his priceless commentary on the exchange:

[E]ach one trips up his defense of his own position through an inconsistent grasp of the Austrian principle of the “double inequality of value”; Proudhon embraces it, but fails to apply it consistently, while Bastiat implicitly relies on it, but

explicitly rejects it. . . .

Proudhon's case against interest seems to depend crucially on his claim that all exchange must be of equivalent values; so pointing out the incoherence of this notion would be a telling reply. But *Bastiat cannot officially give this reply* (though he comes tantalizingly close over and over throughout the debate) because elsewhere—in his *Economic Harmonies*—Bastiat explicitly *rejects* the doctrine of double inequality of value.

How frustrating! Bastiat has so much to teach. But here is one blind spot that kept him from being even better. **FEE**

---

# Gold and Money

BY WARREN C. GIBSON

---

Last month we examined some propositions about gold as money, drawing from theory and history. This month we ask whether and how gold might once again serve a monetary function.

Money of any sort, commodity-based or not, derives its value in large part from what economists call a “network effect.” Like a fax machine, whose value depends largely on how many other people have fax machines, we value money because other people value it. We feel confident our money will buy us what we need tomorrow. A strong network effect means that something drastic has to happen before people will give up their familiar form of money.

Something drastic was happening when U.S. Rep. Ron Paul’s Gold Commission was set up in 1979. By the time the commission’s report was issued in 1980, inflation had reached alarming levels: The consumer price index was at 14 percent and rising. The prime rate was over 20 percent, and in 1980 silver exploded to \$50 an ounce and gold surpassed \$800 (about \$2,300 in today’s dollars). Bestselling books urged people to buy gold, silver, diamonds, firearms, and rural hideouts.

We now know that inflation was peaking and that the silver price spike was a fluke caused by a failed attempt to corner the silver market. But none of this was apparent at the time, so it was reasonable to wonder whether our monetary system would survive. What did happen, of course, was that the new Fed chairman, Paul Volcker, stepped on the monetary brakes hard enough to break the back of inflation. Two back-to-back recessions resulted but were followed by a long period of

recovery in which both inflation and interest rates dropped steadily. The Gold Commission was largely forgotten, though the U.S. Mint did get into the business of producing gold coins in a big way.

We have a crisis of a different sort at present, featuring unprecedented levels of public and private debt rather than inflation. In addition, global trade has advanced significantly and worldwide financial markets are tightly linked. Many new financial innovations have emerged since 1980, not just the sophisticated derivatives that were at the center of the 2008 crisis, but also innovations such as exchange-traded funds (ETFs) that are available to everyone. The euro is in trouble, and there is a real possibility that a Chinese property bubble is about to burst. Gold is above \$1,400 an ounce, up from \$250 a decade ago, while silver has advanced from about \$5 to over \$30 an ounce.

Ron Paul is no longer a lone voice calling for a return to gold. Robert Zoellick, president of the World Bank, astonished everybody recently when he wondered out loud whether gold should again play a monetary role. Although he drew praise from some quarters, most comments were dismissive. Berkeley economist Brad DeLong, for example, nominated Zoellick for the “Stupidest Man Alive.” One is reminded of Gandhi’s four steps to victory: First they ignore you, then they ridicule you, then they fight you, then you win.

---

*Warren Gibson (warren@gibson2.com) teaches engineering at Santa Clara University and economics at San Jose State University. This is the second of a two-part series.*



In 2010 the Central Bank of China imported over 200 tons of gold, more than offsetting recent IMF sales. This is in addition to the 350 tons that are mined in that country annually. Wealthier Chinese citizens are adding it to their portfolios. While substantial, Chinese gold holdings are still dwarfed by their holdings of U.S. Treasury securities. The gold purchases may be intended mainly as a signal of its displeasure with dollar hegemony. Other central banks are acquiring gold in smaller amounts.

### Monetary Links to Gold

Within just a few years ETFs have attained a prominent place in the investment world. None has been more amazing than the SPDR Gold Trust (GLD), which purchases and stores gold bullion for the benefit of its shareholders. This fund was launched in 2002 by the World Gold Council, an industry group, as a means of stimulating demand. The results have exceeded their wildest dreams. GLD now holds about 1,300 tons of gold bullion, a hoard larger than that of any central bank save four. (A metric ton of gold would fill a large suitcase and have a market value of about \$45 million.) Competing funds of the same sort now offer silver, platinum, and palladium in addition to gold.

Gold coins are also selling at a brisk pace. The U.S. Mint offers Gold Eagles along with an array of silver and platinum coins. But it's difficult to get one-ounce Eagles at present, and the smaller sizes have been discontinued entirely because the Mint has run short of bullion inventory. Presumably this is bureaucratic ineptness, because the bullion markets are highly liquid. Canadian Maple Leafs, South African Krugers, and others that compete with the U.S. coins are readily available. These are all "bullion coins," so-called because their value is only marginally above their gold content.

The one-ounce Gold Eagle and the Maple Leaf have an interesting feature: They are legal tender, the

Eagle for \$50 and the Maple Leaf for C\$100. While the gold price will surely never again see such low levels, it is interesting that the authorities saw fit to establish this modest link between gold and money.

Soaring prices for precious metals and unprecedented demand for bullion gold and silver coins are an obvious sign that investors are worried. Anyone who buys bullion or coins has to be concerned enough to forgo interest income and pay, directly or indirectly, storage and insurance costs. If and when confidence in the world's monetary and banking institutions returns, we can expect a rush out of precious metals and into productive assets.

Now to the central question: Will gold again be money?

---

The Central Bank of China is importing gold, gold index funds have been growing rapidly, and gold coins are selling well. Will gold again be money?

---

### Don't Call It a Comeback. Yet.

Gold is too volatile, say some. If, for example, the Fed were to adopt a stable gold price as its monetary target, it would be hitching the U.S. economy to a wild horse. If the Fed had tried to track gold's recent rise, it would have had to engage in massive quantitative "dis-easing." Monetary deflation added to falling aggregate demand would have been a disaster.

The problem with this argument is that it takes the gold price as given.

Had the Fed hitched its wagon to gold some years ago, it would have added significant inertia to the "wild horse" and it is likely that the run-up would have been milder or nonexistent.

Still, gold targeting by the Fed is probably not a good idea. The Fed has lost a great deal of credibility of late, thanks in part to Chairman Ben Bernanke's recent declaration on *60 Minutes* that the Fed would not "print money" to carry out the next round of quantitative easing. The chairman's life will only get more complicated now that Ron Paul has become chairman of the House Subcommittee on Domestic Monetary Policy. Should the Fed adopt gold targeting, markets would need to be shown over a long period that it was serious

about hewing to gold in the face of political pressures to the contrary.

One hundred years ago it was common to link contracts such as railroad bonds to gold. I have in my possession such a bond, issued in 1893 (it's a beautifully engraved document, incidentally), which promises to pay at maturity "one thousand dollars in gold coin of the present standard of weight and fineness." Borrowers probably didn't expect to be paid with a stack of 50 gold coins, which would have been inconvenient. Rather, the phrase was meant to protect the borrower from future government debasement of money. But sanctity of contract went out the window in 1933, when Franklin Roosevelt abrogated all such private contracts at a stroke. Predictably, 50 one-ounce gold coins now fetch nearly \$70,000.

### Gold Clauses

A comeback of gold clauses in business contracts is a realistic possibility, provided they could survive legal challenges based on legal tender laws. Imaginative clauses could be created that guaranteed a return in dollars at least partially linked to the gold price. Such things already exist, in fact. Everbank, an online bank, currently offers, among other innovative products, a five-year certificate of deposit whose return is tied to the price of a basket of precious metals. At worst, investors get their principal back. At best, their five-year return is capped at 50 percent. Everbank is not, of course, issuing gold-backed money, but it is coupling gold to money's role as a store of value.

Another possibility is that shares of GLD could assume an informal monetary role. Those shares currently trade for about \$135 each. Originally they represented one-tenth of an ounce but have lost some value as administrative charges have been deducted. New sub-shares, perhaps representing one gram each, would equate to \$45. Getting such sub-shares into circulation would be much easier via the Internet than getting paper shares into circulation. Such schemes would of

course require government forbearance backed by political pressure. That pressure would not likely arise until and unless the current financial crisis grew to alarming proportions.

In 2003 e-gold.com was established as an online gold-payment service, growing to five million accounts in 2008, according to its owners. That year the company pleaded guilty to conspiracy to engage in money laundering and conspiracy to operate an unlicensed money-transmitting business. The company's problems seem to have had more to do with security than with gold per se. Still, the e-gold case serves as a reminder that innovators in gold payments may face legal problems.

Recently J.P. Morgan Chase announced that in addition to Treasury securities, it would begin accepting gold as collateral for certain loans. "Many clients are holding gold on their balance sheets . . . and are looking to make these assets work for them as collateral," said a company spokesman. "It gives another use to gold as a cash instrument," added a commodities analyst, exaggerating only slightly. Indeed, Treasury securities are considered very close to money itself in terms of safety and liquidity, so it is rather remarkable to see gold accepted as substitute collateral even in this minor sector of the financial markets. It suggests a gradual movement of gold toward monetary status.



This double eagle, minted about a century ago, has one ounce of gold. That much gold is worth over \$1,400 now and these coins go for \$1,700 or more, depending on condition.

### New Currencies

What about a new currency backed by the Fort Knox holdings? There would be practical difficulties, assuming most of the gold is in 400-ounce bars, each with a dollar value exceeding a half-million. It would be expensive to convert all this to coin, and besides, the smallest practical coin, perhaps five grams, would still represent over \$200. A \$10 gold note would fetch a mere speck of gold. More realistic than gold notes would be a spinoff of a new gold exchange-traded fund. Shares of that fund might gain

gradual acceptance as money, especially if a dollar crisis were in progress.

U.S. public or private institutions aren't the only possible sources of a return to gold. Though globalization has been fostered by declining trade barriers and transportation costs, we still lack the considerable advantages of a uniform worldwide currency or rigidly linked currencies. In the late nineteenth century, when all major currencies were tied to gold, the dollar/pound exchange rate was no more worrisome than the inch/centimeter exchange rate. As things stand now, firms doing business in different currencies must divert significant resources away from satisfying customers and into managing exchange-rate risk. Currency fluctuations have not been minor, as Milton Friedman expected when he first proposed floating exchange rates. During 2010, for example, the euro ranged between \$1.19 and \$1.45—a variation wide enough to turn a multinational firm's yearly profit into a loss or vice versa. The need for a new global currency may be an opportunity for some enterprising central bank—China's perhaps—or some private firm to establish a new international form of gold-linked money or near-money.

There are those who defend the gold standard on ideological grounds, claiming near perfection for it. This is unrealistic. For example, price inflation can happen under a gold standard. Ironically, as confidence increases in a fractional-reserve gold standard, people are less inclined to hold monetary gold. The multiplier increases, and there is price inflation—mild, gradual, and predictable. Increasing prosperity and the consequent increasing demands for nonmonetary applications of gold such as jewelry or technology would work in the opposite direction: The supply of monetary gold would drop, causing deflation. New gold discoveries or better mining techniques dilute gold's purchasing

power—another inflationary development likely to be mild and gradual. But it is conceivable that someone could invent an economical process for converting base metals into gold—the alchemists' dream. This very unlikely development could be a major disruption to an economy using gold-backed money. The most likely situation under a gold standard would be gradual, mild deflation as happened in the late nineteenth century. In short, a totally stable price level, if such could be defined, is not something to expect from a gold standard.

### Resource Costs and Stability

We cannot overlook the resource cost of gold locked away as backing for money. Monetary gold cannot be used for jewelry or electronics. Friedman once dismissed a return to gold on the grounds that the resource cost would amount to 2 percent of GDP. But his estimate was predicated on 100 percent backing of the wider M2 money supply. Under a fractional reserve system, the cost would be much lower.

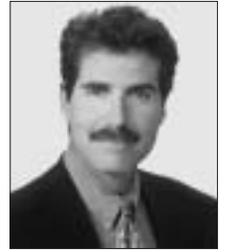
Of course, monetary gold lying "idle" in a vault is only idle in a naive physical sense. A gold bar sitting undisturbed in a vault is producing security for holders and users of money day in and day out. The irony here is that while the amount of monetary gold would likely decrease as a fractional-reserve gold system gained confidence, our present system seems to require the retention of 8,000 tons at Fort Knox, while leaving the control of money under the increasingly politicized Federal Reserve—the worst of both worlds.

It is possible that stability will return to our current monetary and banking systems. We could have a repeat of 1980 and a couple of decades of stability and growth. If not, there is good reason to believe that gold will make a return in some form. FEE

---

A totally stable price level, if such could be defined, is not something to expect from a gold standard.

---



## Prohibitionists: Leave Us Alone!

BY JOHN STOSSEL

Sometimes I drink Scotch and then, to wake myself up, I drink coffee. So what? Many people consume mixtures of caffeine and alcohol in drinks like rum and Coke.

But recently some college kids started drinking pre-mixed combos of alcohol and caffeine with names like Four Loko and Moonshot '69. Moonshot '69 is a pilsner beer with less than a coffee cup's worth of caffeine. Until recently, Four Loko contained 12 percent alcohol—about the same as wine—and as much caffeine as a cup of coffee. A few students, after drinking Four Loko, landed in the hospital with alcohol poisoning. Naturally, hysterical news reports followed.

A new bogeyman was born: caffeinated alcoholic beverages.

As night follows day, the Food and Drug Administration in November ordered beverage companies to lose the caffeine or shut down. The FDA called caffeine an “unsafe food additive.” Phusion Products says it will now produce only noncaffeinated Four Loko. Moonshot '69 is off the market for now, which is bad news for Rhonda Kallman, who founded the company that makes it, New Century Brewing.

“There is nothing new about adults combining caffeine and alcohol,” Kallman writes on her company website. “Who hasn't enjoyed a rum and Coke, Irish coffee, Kahlua or espresso martini? . . . Moonshot '69 is a beer for beer drinkers that has been enjoyed by craft-beer lovers since 2004.”

Her online petition states: “We the undersigned support the right of responsible adults to choose the beer of their choice. We support Moonshot '69 and the

rights of craft brewers across the country to produce new and innovative offerings for the beer drinking public. . . . We call on the federal government to adhere to responsible regulation of alcoholic beverages that allows adults to enjoy the beer of their choice.”

Unfortunately, Kallman tries to separate her product from higher-alcohol FDA targets, but Nick Gillespie of *Reason* magazine argues that the FDA has no business limiting the sale of any of the alcohol/caffeine combos.

“This has been going on for as long as there have been colleges and universities,” he said. “You can go back to the Middle Ages, and booze and students go together like, I guess, beer and caffeine.”

### Forced Underground

Are't some drinks more dangerous than others?

“I don't think so. But when we raised the drinking age to 21 . . . we told young people . . . you can vote, you can enter a contract, you can go to war, you can die for your country, but if you want to drink and you're going to college,

you better go off campus into a basement apartment somewhere and chug like there's no tomorrow because you don't know when you're going to be able to get drunk again.”

He points out that by forbidding pre-21 adults from drinking openly around their elders, we deny them the chance to be exposed to responsible drinking.



The FDA banned this beer without any evidence that it causes any harm.

Photo courtesy O'Neill and Associates

---

*John Stossel hosts Stossel on Fox Business and is the author of Myths, Lies, and Downright Stupidity: Get Out the Shovel—Why Everything You Know is Wrong. Copyright 2011 by JFS Productions, Inc. Distributed by Creators Syndicate, Inc.*

About the ban on caffeinated alcoholic drinks, he added, “You can’t minimize the over-reach by the FDA.”

I asked the FDA why Moonshot ’69 is included on the ban list when it’s not marketed to pre-21 adults and it contains less alcohol than more sugary drinks. They replied that Moonshot was referred to the agency by state attorneys general concerned about alcohol and caffeine. The FDA asked New Century Brewing for data indicating the legal standard for safety had been met, but no data was provided.

Kallman points out that the FDA “didn’t fully research it either. So they put the onus on the small

entrepreneur to have a scientist. But at the end of the day, it’s 5 percent alcohol by volume and less than a half a cup of coffee of natural caffeine. Where will they stop?”

Never. Government never stops.

Gillespie added, “What we should be having instead of bans [of] beverages that people like and . . . consume responsibly is . . . a national conversation about how, after a couple of hundred years of the American experiment, we can get past the prohibitionist mindset and teach people how to drink responsibly like they

do in France, Italy, Spain and many other parts of the world.”

FEE

By forbidding pre-21 adults from drinking openly around their elders, we deny them the chance to be exposed to responsible drinking.

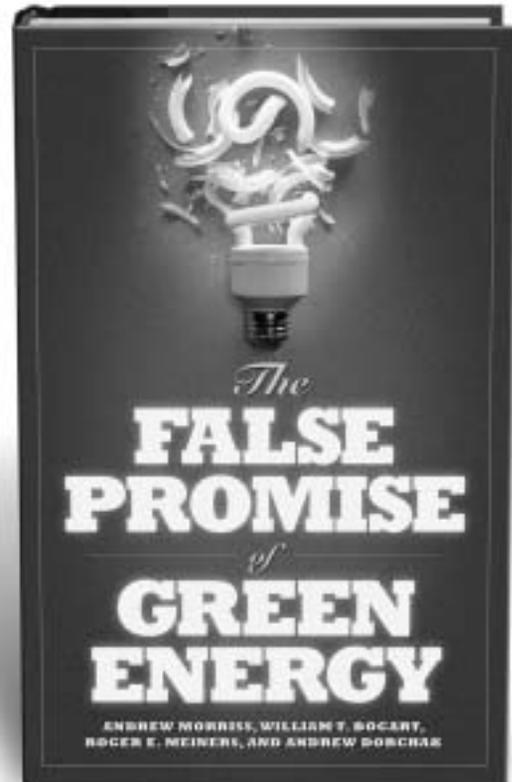
NEW BOOK FROM THE CATO INSTITUTE

“This concise book dispels a number of myths, not the least of which is that wind and solar power, long touted as effective power sources, are neither cheap nor ‘green.’”

—ROBERT L. BRADLEY JR.,  
Founder & CEO, Institute for Energy Research

What green energy promises to provide is just so alluring—more jobs, a cleaner environment, and a more stable economy. There’s just one problem. It isn’t going to happen that way. This book realistically evaluates the claims of green energy and green jobs proponents who argue that we can improve the economy and the environment, almost risk-free, by spending billions upon billions of taxpayer dollars in return for what are ultimately false promises. The authors illustrate the irresponsibility of attempting to transform society with borrowed money, wishful thinking, and bad economics.

HARDBACK: \$24.95 • EBOOK: \$14



Buy your copy at bookstores nationwide, call 800-767-1241, or visit [Cato.org](http://Cato.org)

## THE BEST OF READER COMMENTS "Intellectual Property: Silly or Sinister?"

by David K. Levine, *The Freeman*, Jan/Feb 2011

### Comment by James Madison Fan on 28 December 2010:

If intellectual property is a fallacy then I have to wonder if Mr. Levine would be at all annoyed if I plagiarized this article and made millions selling it to newspapers and magazines without giving him any credit much less a portion of the profits? . . .

Intellectual labors are no less difficult than physical ones and far fewer people are capable of achieving them. Just about any man can train his body to perform physical labor but only a select few can train their minds in a way that leads to ground shaking discoveries and great works of art.

Copyright, patents, and trademarks exist so I can't steal someone else's work and make money off of it without giving him due credit and compensation for his efforts. We have a word for that: Theft.

If I don't own what my own mind invents and my own hands create then can I truly claim to truly own anything?

### Comment by Brittney on 28 December 2010:

I notice that authorship and ownership are consistently conflated in IP discussions. For instance, in file sharing, the problem was never that users swapped songs by indie bands and pretended to pass them off as their own. It was a question of distribution rights and whether the artists (or record companies) have a "right to profit"—not a question of having license to lie about your role in the production of the piece.

Shades of grey may arise in questions about artistic "borrowing" or "plagiarism," which has always existed. Yet those questions could possibly be settled outside the monopolistic production/distribution model when they have some significance, the way trademarks do. . . .

### Comment by James Madison Fan on 29 December 2010:

Brittney, I just don't see how we can do without the concept of IP. Plagiarism is offensive but I don't see it as the greater evil in this discussion. . . .

The time you spent writing "Brittney's Story" is no less valuable than the time some Contractor spends building your home and you should be compensated for this the same as any entrepreneur that invests time, money, and effort in a project. The only difference between the home I build and the book you write is people can't scan a home into a USB drive and upload it to a web page for other people to live in for free.

The thing I find bizarre is no one would have any difficulty calling me a thief if I were to walk out of Barnes and Noble with a hard copy of your book that I didn't pay for but this same theft suddenly becomes ambiguous if not acceptable when done virtually or conceptually. I'd like someone to explain how stealing wood pulp and ink is a crime but taking the story, characters, and plot contained therein isn't?

### Comment by martin on 31 December 2010:

James Madison Fan, So Smith buys a book, and then lends it to Jones. Jones reads it without paying for its contents. Is this equivalent to Jones walking out of Barnes & Noble with a hard copy of the book he didn't pay for? . . .

### Comment by Paul on 2 January 2011:

As an architect working for a construction firm, I was assigned to a client to design their new home. I completed a preliminary plan based on their requests and requirements, not referencing any other plans. A few days later, I was speaking with another architect in the same firm. He had just completed a plan for a client. As I reviewed his plan, I realized that we had almost identical concepts. The shapes were slightly different, but so similar it was scary. We had come up with the same plan. Do I sue?

Architectural designs/plans are protected under copyrights... and that's not an entirely bad thing, but there are only so many ways to layout a bathroom in a 5x8 space. Should that be patentable? Copyrighted? I don't think so.

It is entirely possible for two people to come up with the same idea.

I've written preliminary business plans, for what I thought was an original idea, only to see a business doing that very thing.

The patent/copyright system is broken. We've gone the wrong direction for time. We do give patents for obvious things, business method patents and software patents are a bad idea. The best reform would be to reduce copyrights and patent times to their original limits.

But what's really needed is tort reform – where incidental infringements are dismissed and real intentional infringements are dealt with (like the guys who copy DVD's and sell them in the back alley).

### Comment by PalmCoast on 16 January 2011: @Jeremy and Jamesmadisonfan

Problem here is that digital [sic] information is non-rivalrous, yet the paper book is rivalrous. If i [sic] lend you the book, only you can use the book. If I create a digital copy of the book and give that to you, we both are still able to enjoy the book.

### Comment by Sandy Yago on 22 January 2011:

I just don't understand how literary works like the Iliad, the Bible, Gargantua & Pantagruel, works of authors like Chaucer, Shakespeare, Villon, Balzac, Hugo, Dante; paintings of Botticelli, Michelangelo, Vermeer; music of the Gregorian chants, the Indian ragas, the gamelan music of Bali, Bach's, Handel's, Vivaldi's concertos could be created before intellectual property right became the norm? What motivated these artists? Were they out of their frigid minds?

We are so much more advanced, it is not even funny!

### Comment by Frank James Davis on 26 January 2011:

Protecting intellectual property is often considered a "silly" concept by those who have none to protect. Also, one is logically led to ask: Does a frivolous interpretation of any law—in and of itself—ever represent proof of the invalidity of that law's proper application?

Join the discussion today at [TheFreemanOnline.org](http://TheFreemanOnline.org)

amazonkindle



# Now Available!

Get the insightful analysis, informed opinion, and crisp writing found nowhere but *The Freeman* on your Kindle or the Kindle app for smart phones.

Subscribe now for \$2.49/month  
(\$4.99/issue without subscription)

---

# Book Reviews

---

## **The Road to Big Brother: One Man's Struggle Against The Surveillance Society**

by Ross Clark

Encounter • 2009 • 200 pages • \$21.95

Reviewed by George Leaf



As I write this review, millions of Americans are annoyed if not outraged over the recent measures adopted by the so-called Transportation Security Agency. Airline travelers hate the choice between going through a scanner that effectively undresses them and an aggressive grope of their bodies.

Are those offensive procedures necessary? Are they legal? What is becoming of our country? At least people are starting to ask the right questions.

Highly pertinent to the TSA's heightened arrogance is Ross Clark's book *The Road to Big Brother*. Clark lives in Britain, where government surveillance of the citizenry is even more advanced than here. Referring to Jeremy Bentham's idea for a prison where the prisoners would be constantly observed (or at least would think they were), Clark writes, "Modern Britain is one big panopticon." The government watches, monitors, and gathers data on citizens all the time, justifying this as necessary for their safety. The big lesson readers take away from the book is that, like virtually everything the State does, costs greatly exceed benefits. People's privacy is whittled away, their freedom erodes, their taxes go up, but criminals are barely inconvenienced by all the State's surveillance.

The book is chock full of the author's witty, often sarcastic observations on the panopticon that surrounds him. For example, the town of Luton has installed closed-circuit TV cameras that are supposedly "intelligent" since they are able to detect "suspicious" behavior. No criminals have been caught thanks to the cameras but, Clark writes, "Should your tastes in window-shopping not match those of the average resident,

the system will pick you out. Should your clothing or your gait be considered out of the ordinary, the system will pick that out, too. . . . [The cameras] are less a cerebral detective than a skinhead who lashes out at people and customs that fall outside his narrow experience of what is 'normal.'"

But why not give government surveillance a chance? After all, it might, occasionally, work. Clark alerts us to the danger in that line of thought, namely the likelihood of mission creep. Once the authorities get going with their schemes, they won't stop. Monitoring of streets ostensibly to help prevent crime has expanded into monitoring people's homes to see how energy-efficient they are, a development that will probably lead to mandates that homeowners install various energy-saving devices if they ever want permission to sell. There is no stopping point once Big Brother gets his foot in your door.

Advocates of increasing government surveillance usually say, "If you're innocent, you have nothing to fear." Clark shows how mistaken that notion is. With modern DNA testing, for example, it is possible to make highly probable (but not perfectly reliable) matches of crime scene DNA evidence with samples taken from the general populace. Many European politicians are pushing for a massive database of mandatory fingerprints and DNA samples, the better to help apprehend criminals. Clark points out, however, that this will encourage criminals to plant false DNA evidence to point investigation toward innocent people—who may have a hard time proving they really were not at the crime scene.

Moreover, officials in Britain are looking into the possibility of using DNA analysis to help identify people who might have a genetic predisposition toward crime. The result of that, Clark fears, will be social workers devising "care plans" for individuals suspected of being potential criminals. The Nanny State will grow apace once it gets the mission of trying to prevent people from going bad.

And what happens when, inevitably, public officials make a mistake? Suppose that your name is erroneously entered into the Police National Computer? Clark cites a report that 22 percent of the records entered contained an error, with the result that innocent people

have been tarred with criminality, thus making it hard for them to get jobs. It's also difficult to get the authorities to correct their mistake. That is just one of the many forms of collateral damage inflicted by the surveillance state.

I do not get the sense that Clark is a libertarian seeking to chop down the British Megastate, but a fairly ordinary bloke who refuses to believe its propaganda that expansive government programs are necessary for safety. His demonstration that the Security State is an invasive, costly, counterproductive humbug is perfectly aligned with the libertarian critique of the State, however. Just as it is a mistake to turn to government for safety, so is it a mistake to turn to it for education, for economic progress, for moral uplift, and so forth.

FEE

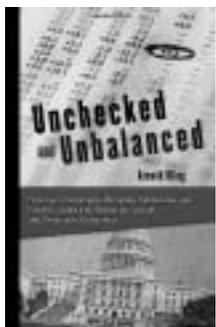
*George Leef (georgeleef@aol.com) is book review editor of The Freeman.*

### **Unchecked and Unbalanced: How the Discrepancy Between Knowledge and Power Caused the Financial Crisis and Threatens Democracy**

by Arnold Kling

Rowman & Littlefield/Hoover Institution • 2009 • 122 pages • \$29.95

Reviewed by David M. Brown



This slim yet insight-packed volume makes fair progress toward explaining the 2008 financial crisis. The first of the book's three chapters outlines the "housing industrial policy" that led to the crisis. The second discusses the conflict between concentrated political power and effective use of socially dispersed knowledge, and the third suggests reforms.

Tracing the government's ever-greater role in financing and encouraging housing debt, especially since the 1960s, Kling observes that regulation-fostered securitization of mortgages necessarily obscures risk. A bank exercises the best oversight over loans that it awards directly; in an unhampered market, loan officers have little incentive to prefer an indirect or "securi-

tized" method of lending. But by rigging the housing market for decades to promote the holy grail of homeownership, politicians fostered and even mandated many dubious mortgages that wouldn't otherwise have passed muster. Kling draws on his background as a former Freddie Mac economist to highlight the specific problems of the rickety financial structures that were only made possible by governmental assumption of risk. "Without the [government] guarantees [of mortgage-based securities]—or apparent guarantees—indirect lending would not have been possible," he concludes.

In Kling's view, bad mortgage regulations, a spate of mortgage loans requiring unrealistically low down payments, and what he calls a "suits vs. geeks" divide (see [www.tinyurl.com/2dp77fg](http://www.tinyurl.com/2dp77fg)) were the main causes of the housing bubble. But the last two "fundamental" causes stem from the first. So the author's explanation of the housing crisis boils down almost entirely to the welter of incentive-skewing mortgage regulations.

The book surveys and critiques several alternative explanations for the crisis, including the oft-heard but historically unintelligible claim that it resulted from "deregulation." Unfortunately, this tour does not investigate the role of the Federal Reserve. Economist Robert Murphy is among those of Misesian-Hayekian persuasion who point to the malinvestment-encouraging effects of the credit splurge of 2001–2003, the period during which the Fed lowered the federal funds target interest rate from 6.5 to 1 percent. The omission is odd since Kling elsewhere acknowledges the importance of the Austrian analysis.

A more fundamental discrepancy between knowledge and power than that exemplified by the suits/geeks divide is that exemplified by the hubristic power-grabbing of government officials, both before and after the economic blowout. Instead of arguing that in 2008 officials should have abstained altogether from such interventions as using tax dollars to buy "toxic" assets, the author suggests that the government might have instead tried the stopgap measure of "impos[ing] penalties on firms that make extravagant demands for collateral to back repurchase agreements" and other financial instruments. Limiting a fresh bout of intervention in that way would have been better than the blun-

dering and direct central planning the federal government undertook, but it would still have amounted to giving economic actors orders, discouraging reliance on local knowledge and conditions. “Extravagant” terms of contract may be the only ones on which a trade can be conducted that satisfies both parties.

The second chapter considers the syndrome of force-wielding politicians and bureaucrats pretending to know better than individuals their own unique circumstances, values, goals, and options. The conflict between the individual’s knowledge and freedom, on the one hand, and coercive rules which preempt that knowledge and curtail that freedom, on the other, lies at the heart of the 2008 debacle (and many other economy-wide slumps). Markets are characterized by price signals and other coordinating mechanisms that enable human beings to make effective use of widely dispersed knowledge, very little of which we can ever grasp first-hand. Kling observes that modern economies are becoming ever more specialized and complex even as political power becomes more centralized and resistant to calls for reform. He tries to come up with empirical gauges of both trends, although that isn’t strictly necessary to refute the fallacies and expose the hazards of central planning.

The problem of how to prevent or ameliorate the blunders of the commissars is tackled in the final chapter. The author suggests various half-measures that proponents of fully free markets will be less than satisfied with: proposals, for example, to merely decentralize government functions that would be better delegated altogether to the private sector. Still, most of Kling’s proposed reforms—including a scheme that would enlist “competitive governments” to jockey for the chance to collect your garbage, and another to dispense vouchers rather than Medicare-style reimbursements to pay medical costs—might make it easier to achieve thoroughgoing restoration of markets than leaving things as they are. **FEE**

*David M. Brown (bestwriter@fastmail.fm) is a freelance writer and editor.*

## Commonwealth

by Michael Hardt and Antonio Negri

Harvard University Press • 2009/2011 • 448 pages • \$35.00 hardcover; \$29.95 paperback

Reviewed by David Prychitko



Some two decades after the collapse of communism, socialist intellectuals still scramble to rehabilitate Marx and collectivist social theory in general, with Duke University professor Michael Hardt and Italian sociologist Antonio Negri leading the bunch. Academics are attracted to their radical

critique of existing capitalist institutions. Non-academics and educated laypersons on the left are attracted to their radical message and hope that the people will successfully engage in a revolution to overturn private ownership and market exchange.

Although the book has attracted some zealous followers, it is a difficult read. One wades through lengthy and tiring discussions of Foucault, debates with Sartre, attempts to refashion Marxist theory, and then, sandwiched in between, hopeful tales about the restoration of “authentic identity” among the Maya and lengthy, optimistic claims about how the people of Cochabamba are progressing from “antimodernity” toward “altermodernity.” One suspects that the authors understand that their ideas won’t hold up well if stated in plain English, so they resort to an obscure but intimidating style. Amidst all of this, and among many other intellectual detours, stands a full-blown chapter on Spinoza’s concept of love. Suffice it to say that Hardt and Negri argue that people must be trained and educated in love in order to fight the evil forces of private property.

The authors assume (but don’t bother to *argue*) that property and market exchange block and destroy genuine human relationships. Marx had this general insight correct, they believe, but they suggest that his analysis needs to be corrected and updated in its details to fit our postindustrial age. Hardt and Negri claim that Marx’s theory of alienation, for example, must be further developed from an analysis of competitive separa-

tion of people and estrangement of the fruits of their labor to an “alienation of one’s thought” itself. Exactly what that means isn’t clear, but I think they’re suggesting that our thoughts aren’t truly our own, but are created by the capitalist system that allegedly controls us.

The authors insist that life—genuine, loving human relationships—is nestled in “the common.” The common consists of those institutions beyond private and public ownership of the means of production and, it appears, the fruits of labor, too. (One of the book’s many confusing aspects is that the meaning of “the common” is vague and shifting.) In Hardt and Negri’s view private property is the essence of capitalism, public property the essence of socialism, and the common is the essence of—you guessed it—communism. With this concept the authors try to break from the totalitarian consequences of “the victorious revolutions” of Russia, China, and Cuba. They claim to be optimistic that the revolution is imminent and, at long last, emancipating.

Nowhere do the authors consider the possibility that their revolution might lead to adverse results. Nor do they ever come to terms with the knowledge-communicating properties of voluntary and open exchanges of property rights. The coordination of plans, which is ultimately coordination of thoughts and expectations, is completely ignored in the book. How this can happen without private property and exchange is a mystery.

The common, the authors proclaim, is the ground of freedom and voluntarism. Activities within the common are the source of true wealth (hence the book’s title). The freedom of the common is the freedom to find and develop love, and it provides the source of the multitude’s supposed creative power. But “capital,” that meaningless collectivist concept that goes back to Marx himself, disrupts the common. Capital, they assert, exploits the multitude, the truly productive.

And the multitude is huddled and gathered mainly in cities, in “the metropolis,” used as another collectivistic concept. Marx focused on the factory, but Hardt and Negri claim that the metropolis is supposedly the current site of “hierarchy and exploitation, violence and suffering, fear and pain,” and therefore will be the site of the impending revolt. The authors have absolutely no sense of cities as spontaneous orders where millions

cooperate for mutual gain. Maybe people keep going to cities because they are alienated from their own thoughts.

Hardt and Negri try to impress with their knowledge of Foucault, Laclan, Derrida, and Viveiros de Castro, but where’s Smith? Where’s Hayek? Where’s Jacobs? They never address the spontaneous and invisible-hand-like nature of markets, the communicative and wealth-enhancing nature of exchange, the role that cities play in such exchange, and the notion of civil society, an independent sector that is not fundamentally organized through commercial activity or the violent compulsion of the State. Are they even aware of the counterargument? And if so, when do they plan to address it?

*Commonwealth* is a pitiable effort at resuscitating Marx. But it was a lost cause to begin with. **FEE**

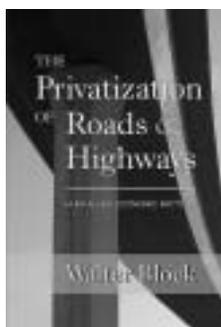
*David L. Prychitko (dprychit@nmu.edu) is professor of economics at Northern Michigan University and coauthor, with Peter Boettke and the late Paul Heyne, of The Economic Way of Thinking.*

### The Privatization of Roads & Highways: Human and Economic Factors

by Walter Block

Ludwig von Mises Institute • 2009 • 475 pages • \$19.00

Reviewed by Arthur Foulkes



Loyola University economist Walter Block is among the most fearless advocates of freedom today. At a time when pundits widely believe the free market has failed, Block takes his case for truly free markets deep into unfriendly territory by arguing for the full privatization of all roads and highways.

In 2006 officials in Indiana leased 157 miles of the Indiana Toll Road to a private Spanish/Australian consortium. While this was called a “privatization,” Block would clearly dismiss it as nothing of the kind. The Indiana Toll Road remains owned by the state. Real privatization would mean completely private ownership of all streets, roadways, paths, and freeways. Only

private roadway owners would determine regulations and prices.

In the current political climate it may seem Block has the cart before the horse. Arguing for free-market roads these days is a little like a starving person worrying about his dessert. Shouldn't we first try to halt the current growth in the size and scope of government and deal with the almost Utopian idea of private streets and highways later? But anyone who has read Block's provocative book, *Defending the Undefendable*, or has heard him discuss free-market ideas one on one, knows he does not blink in his support for freedom. Besides, if "we can establish that private property and the profit motive can function even in 'hard cases' such as roads, the better we can make the overall case on behalf of free enterprise," he writes.

A big roadblock, so to speak, in arguing for private roads and highways is that practically everyone takes government ownership for granted. Even many economists, using "market failure" arguments such as the one about "externalities," often cite roads as something only government can provide. Block carefully takes apart these arguments. For example, the "externalities" argument contends that private investors would underinvest in roads and highways. But who is to say, given a complete lack of market signals, a government agency would invest the correct amount? Indeed, this part is among the book's best contributions.

In addition to giving readers a seminar in logical economic reasoning, Block's book also reflects his passion for freedom. He believes firmly that government management of roads and highways is not only inefficient but also deadly. "Road socialism" causes the deaths of more than 40,000 people in the United States each year. And although many people blame highway deaths on alcohol, unsafe vehicles, or speeding, Block lays the blame on the government officials who manage the highway system. He explains his conclusion: "It may well be that speed and alcohol are deleterious to safe driving; but it is the road manager's task to ascertain that the proper standards are maintained with regard to these aspects of safety. If unsafe conditions prevail in a

private, multistory parking lot, or in a shopping mall, or in the aisles of a department store, the entrepreneur in question is held accountable." The problem is that government officials are not accountable.

Much of the book, a collection of essays, involves answering practical questions, such as how private road owners might deal with intersections. Block answers this and other questions fully—maybe a little too fully for the casual reader. Still, Block is serious about this complex subject, and his book is not intended to be light reading. Fortunately, his writing style is clear and easy to follow.

An important assumption underlying the book is that a competitive free-market road system would necessarily be superior to one operated by government. In supporting that assumption Block presents a series of arguments familiar to students of the Austrian school of economics. For example, he notes the importance of market signals in directing entrepreneurial decisions. Block also addresses the neoclassical notion of "perfect competition." This highly unrealistic model suggests roads require government management. Yet, as Block notes, "perfect competition" exists practically nowhere and, if that were truly our standard, nearly all markets would call for nationalization.

After making a strong case for road privatization, Block addresses the thorny matter of getting from here to there. After wrestling with several possible approaches, he admits that privatizing today's system of public roads would be like trying to unscramble an egg. Yet even an "imperfect privatization will be far preferable to none at all. Government streets are an administrative and safety nightmare. It is inconceivable that private initiatives could do worse."

The fall of the Soviet Union and other collectivized systems clearly showed the gigantic problems inherent in government ownership and management of any enterprise. This lesson has not yet been applied to our roads and highways. Thanks to Block's comprehensive work, that may not always be the case. **FEE**

*Arthur Foulkes (arthurfoulkes@hotmail.com) is a journalist and freelance writer in Indiana.*

## War Is a Government Program

BY DAVID R. HENDERSON



Libertarians and conservatives who argue for economic freedom and against government control tend to make both principled and practical arguments for their positions. Take health insurance, for example. The principled argument against government regulation of health insurance is twofold: (1) No government has the right to dictate to someone what kind of insurance he should buy or whether he should buy it at all; and (2) no government has the right to dictate to an insurance company what kind of insurance it may sell and what it may charge. The practical arguments are many; for example, if government sets prices too low, it will cause shortages and rationing, which most people would find undesirable.

But when some of those same libertarians and many conservatives think about war, their critical thinking skills seem to go out the window. On the principle side, they rarely argue that the U.S. government doesn't have the right to force U.S. taxpayers to support oppressive dictators in foreign countries such as Kuwait. Why? Because they seem to think the fact that an even more vicious dictator, Saddam Hussein, attacked Kuwait makes coerced funds from U.S. taxpayers morally obligatory. And on the practical side, they tend to drop their skepticism about the consequences of government action. Yet, even aside from any argument based on principle, if libertarians and conservatives were to be as skeptical of our own government abroad as they are of it at home, they would likely favor keeping the United States out of foreign wars. Indeed, as I shall show, there are two reasons we should be even more skeptical of our government's actions overseas.

One of the strongest practical arguments against government intervention in the domestic economy comes from Ludwig von Mises: One intervention, by causing unintended consequences, leads to further intervention. At each point in the chain the government could back down and deregulate. But governments tend not to do that. Take an example I wrote about in this publication ("Unintended Consequences in Energy Policy," March 2009, [www.tinyurl.com/adv6gm](http://www.tinyurl.com/adv6gm)). Richard Nixon's price controls on gasoline caused a shortage that then led to fuel-economy standards for cars.

The same kind of reasoning applies to foreign policy. In 1963 the Central Intelligence Agency helped a young Iraqi ally who, along with other plotters, overthrew Gen. Abdel-Karim Kassem. His name: Saddam Hussein. Five years later, the CIA backed another coup that made Hussein deputy to the new military ruler. Then, in 1979, Hussein took his turn as dictator.

In 1980 Hussein proceeded to wage a long and costly war on Iran. Interestingly, the Reagan administration supported this invasion with billions of dollars in export credits and with satellite intelligence. Consider how this one intervention led to another.

Why did the U.S. government support Saddam Hussein in his war on Iran? The Iranian government had



Intervention has unintended consequences, which beget further interventions.

---

*David Henderson (davidrhenderson1950@gmail.com) is a research fellow with the Hoover Institution and an economics professor at the Graduate School of Business and Public Policy, Naval Postgraduate School, Monterey, California. He is editor of The Concise Encyclopedia of Economics (Liberty Fund) and blogs at econlib.org.*

become an enemy of the U.S. government a year earlier, when Ayatollah Khomeini took over and some Iranians held Americans in the U.S. embassy hostage. Why did so many Iranians dislike the U.S. government? One reason was that in 1953 the CIA had helped depose the democratically elected premier, Mohammad Mossadegh, and reinstated the shah of Iran. The shah created a secret terrorist police force, SAVAK, that tortured its own citizens and imprisoned political opponents. The CIA helped train SAVAK. The shah also undertook a highly inflationary monetary policy that caused the value of the Iranian currency to plummet. Inflation and torture: funny how that upsets people.

### No Laughing Matter

Interestingly, when James Woolsey, former director of central intelligence in the Clinton administration, spoke at the Naval Postgraduate School in August 2003, he addressed the 1953 uprising in response to my question. During his speech Woolsey had stated that the war with militant Islam had begun in November 1979, when some Iranians took over the U.S. embassy. I asked him whether he didn't think it might have begun in 1953, when the CIA helped depose Mossadegh. Laughing, Woolsey quoted Winston Churchill's claim that Americans, after doing many wrong things, would always end up doing the right thing. In other words, Woolsey seemed to admit CIA complicity, but dismissed the idea that this mattered because the U.S. government, at some point (he didn't specify when), had gotten it right.

But Woolsey's answer evaded the issue: The consequences of the U.S. government's intervention in 1953 have been horrendous and cannot be laughingly dismissed.

Or take the unintended consequences of U.S. government intervention in Afghanistan. Although the U.S. government now fiercely opposes the radical Muslims who until 2001 ran the Afghan government,

it helped put them in that position in the first place. Zbigniew Brzezinski, national security adviser to President Jimmy Carter, bragged in an interview in *Le Nouvel Observateur* that in 1979 he had persuaded Carter to destabilize Afghanistan's pro-Soviet government so that the Soviets would invade. In December 1979 Brzezinski got his wish: The Soviets invaded Afghanistan. The CIA proceeded to finance Afghan Muslim jihadis through Pakistan.

Just as the economy is a complex nexus of rights and exchanges with each participant having, as Adam Smith put it, his own "principle of motion," so it is with whole countries. U.S. government officials—and there are many—who think they can plan another country to make it better clearly don't recognize these principles of motion. They have what F. A. Hayek called, in his criticism of government intervention in the economy, a "fatal conceit." And, as we've seen with the above-mentioned wars, the conceit is literally fatal.

There are two reasons to think that the consequences of government intervention abroad will be *worse* than the consequences of government intervention at home. First, the major victims of this foreign intervention will typically be foreigners.

Foreigners don't vote in U.S. elections. Therefore, U.S. politicians will never have to worry about the negative votes of foreigners and will therefore be more destructive than otherwise. Second, when people see the negative consequences of intervention, they, all else equal, tend to turn against it. That's why people tend to oppose taxes more than regulation: Virtually everyone can observe the wealth lost to taxes. But because most of the obvious consequences of foreign intervention occur abroad, they are less visible to Americans. How many Americans are aware that the CIA helped overthrow a democratically elected prime minister?

War is a government program. Libertarians and conservatives should bring the same skepticism to war that they bring to other government programs. **FEE**

---

U.S. government officials who think they can plan another country to make it better have a literally fatal conceit.

---