

# The Free Market

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## Cancel the Postal Monopoly

by Llewellyn H. Rockwell, Jr.

In the 18th century, as he had for millennia, the urban peddler went from door to door with a sack on his back. When we see this antique method of economic organization, not in a museum setting at Colonial Williamsburg but daily on the streets of every city and town in America, we know the government is in charge.

The Post Office has been a federal agency since 1775. And since 1872 it has been illegal for anyone but government employees to deliver a letter. In that year, at Post Office behest, Congress outlawed the low-priced, fast delivery of the Pony Express. It was to be the last express service available to regular mail customers.

A few years ago, a Rochester, New York, teenager offered his neighbors same-day bicycle delivery at 10¢ each for Christmas cards in his subdivision. Soon Postal Inspectors—who seem to be the only fastmoving part of the “service”—arrived at his house and threatened to arrest and jail him unless he stopped.

Somehow, even from just a common-sense viewpoint, this doesn't look like something that should be illegal. But indeed he was violating two parts of the postal laws. He was delivering first class mail—which is a federal monopoly—and he was leaving his mail in mailboxes.

By law, all “mail receiving devices” belong to the Postal Service and can be used only by it. That is, the mailbox which you buy and install on your property belongs to the U.S. government. (Note: it belongs to the government in the sense that your silverware belongs to the burglar who just took it at the point of a gun. Property can be owned only by those who acquire it honestly and voluntarily through production or trade.)

The penalty this teenager faced was a \$500 fine and six months in jail for each count of the potential indictment, i.e. for each letter delivered. This is from the same government that thinks nothing of freeing murderers and rapists after “rehabilitating” them for a year or two. But then the government has always taken crimes against itself far more seriously than actual crimes against the people.

With the government in charge, the bureaucratized service keeps getting worse. It takes longer and longer for mail to arrive. And the Post Office long ago abolished twice-a-day

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## Lies, Damned Lies, and Social Security

by Patrick W. Watson

The feds may call “Social Security” a retirement program, but it's actually an unsound, unfair, unworkable, and immoral system of wealth redistribution. It's bankrupting America and destroying rather than creating financial security.

Franklin D. Roosevelt introduced Social Security in Congress, which as usual was only too happy to go along with executive violations of the Constitution, promised that Social Security would “provide safeguards against all of the hazards leading to destitution and dependency.” Instead of safeguarding against dependency, Social Security has increased it.

Like earthquakes which announce themselves with small tremors, the burden of Social Security was at first almost unnoticeable. In 1937, the tax rate was 1% on the first \$3,000 in earnings; the maximum was thus \$30 a year, to be

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## Postal Monopoly...from page 1

delivery and is working on ending door-to-door delivery as well. Most big offices have the mail dumped in a pile at their front door; postal workers used to sort and distribute it. Then there's the "cluster box" system for residential areas, where rows of boxes are placed far away from homes in a place convenient for the postal workers.

Typical of government, as the service declines, the price of stamps keeps going up, from 22¢ to 25¢ most recently. That makes a total increase of 675% since 1958, more than twice as fast as the general price level, which has gone up 300% (thanks to another government monopoly, the Federal Reserve). In addition, the Post Office gets billions a year in direct subsidies.

Where does all this money go? Mostly to the bureaucrats themselves. The postal system spends 84% of its budget on its 746,000 employees, 100,000 of them added during the austere years of the Reagan administration.

The average postal employee—who is an unskilled worker by private sector standards—earns \$30,000 a year in wages and perks. And a GAO study found that this same average worker takes 50 days of paid leave a year (vacation, "sick" time, holidays, etc.). That's 10 weeks of repose, although considering the pace of work in the Post Office, it may be hard to tell the difference.

There's an old story about a UPS delivery man meeting a friend who worked for the Post Office during Christmas time. "How are you doing?" asked the government employee. "Just great!" said his UPS friend. "Business has never been better. Volume is way up. How about you?"

"Terrible," said the postal employee. "There's too much mail!"

In a government enterprise, customers are at best a nuisance. If the Post Office could get away with it, it would prefer no mail and no customers. That's why, during lunch hour, only one window is open, and why the P.O. takes every opportunity to cut service. The recent abolition of Saturday window hours is only the latest example.

There is only one answer to the Post Office problem, and UPS and Federal Express show us the way: privatization, i.e. repealing the laws which give the Post Office a monopoly. However, real privatization means letting the free market decide, not contracting out to politically connected businesses as advocated by the President's Commission on Privatization. Such a process leaves the bureaucrats in charge and is an invitation to political corruption.

We cannot know what kinds of communications services free-market entrepreneurs would provide for us. We can only know that they would be far more efficient than the present apparatus, that they would make use of new electronic and computer technology, and that they would be pro-consumer.

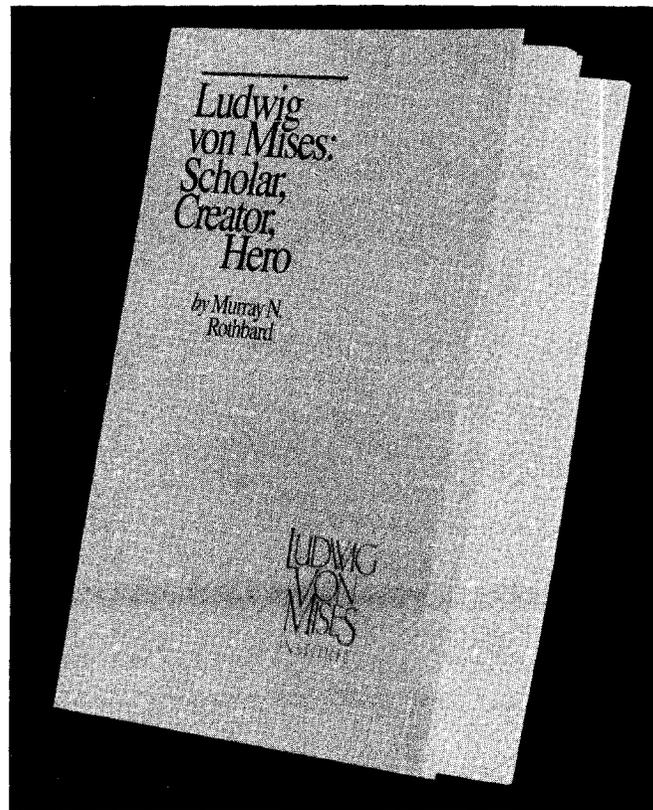
In March I debated Moe Biller, president of the postal

workers union and an old-line union boss, on CNN's *Crossfire* TV show. Moe—with a \$1,500 suit, a \$5,000 watch, and a union-boss manner right out of central casting—denounced privatization as "profitization."

"If Rockwell has his way," Moe said, "rates would go up." Coming from the biggest champion of higher rates, I found this unconvincing. But certainly the rate structure would change. There would be a whole array of alternatives available, varying in price according to distance, speed, handling, etc.

Moe held it up as a great thing that we can mail a letter from Washington, D.C., to Hawaii for 25¢. But why should it cost the same amount to send a letter across town as across the continent? This is typical government pricing: one high price for everything, which a bureaucracy can administer much more easily than a rational rate schedule. It rightly costs more to ship freight or make a phone call over long distances, and postal service should be no different.

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Just published, Murray N. Rothbard's *Ludwig von Mises: Scholar, Creator, Hero* is an eloquent and moving tribute to his teacher, and the most definitive book on Mises thus far. It covers Mises's growing up, schooling, intellectual background, career, seminar, influence, and legacy. As Rothbard shows, Mises was not only one of the great minds of this century, he had the courage to defend passionately the cause of liberty in an era of virulent statism. This new book is available for \$8.00, which includes U.S. postage and handling.



## The National Bureau and Business Cycles

by Murray N. Rothbard

Not only is there confusion about whether or not a recession is imminent, but some economists think that we're already *in* one. Thus, Richard W. Rahn, chief economist for the U.S. Chamber of Commerce, recently declared: "The economic slowdown is not coming: it's here, and soon it will be gone." Not knowing whether or not we're in a recession is not as silly as it sounds. It takes a while for data to come in, and then to figure out if a decline is a mere glitch or if it constitutes a new trend. But the natural confusion is compounded by the thrall in which virtually all economists, statisticians, and financial writers have been held by the National Bureau of Economic Research.

Everyone waits for the National Bureau to speak; when the oracle finally makes its pronouncement, it is accepted without question. Thus, in 1966, the economy slowed down and receded to such an extent that I, for one, concluded that we were in a recession. But no, GNP had not declined quite long enough to meet the Bureau's definition of a recession, and that, unfortunately, was that. And since we were not in what the Bureau called a "recession," we by definition continued to be in a "boom." The reason is that, by the Bureau's peculiar and arbitrary standards and methods, the economy *cannot* be just sort of lolling along, in neither a boom nor a recession. It *has* to be in one or the other.

To say that the Bureau is fallible should go without saying; but instead, its pronouncements are taken as divine writ. Why is that? Precisely because the Bureau was cleverly designed, and so proclaimed, to be an allegedly value-free, purely "scientific" institution.

The Bureau is a private institution, supported by a large group of associations and institutions, business and union groups, banks, foundations, and scholarly associations, which confer upon it an almost painful respectability. Its numerous books and monographs are very long on statistics, short on text or interpretation. Its proclaimed methodology is Baconian: that is, it trumpets the claim that it *has no* theories, that it collects myriads of facts and statistics, and that its cautiously worded conclusions arise solely, Phoenix-like, out of the data themselves. Hence, its conclusions are accepted as unquestioned holy "scientific" writ.

And yet, despite its proclamations, the National Bureau's procedures themselves necessarily manipulate the data to arrive at conclusions. And these procedures are *not* free of theory, indeed they rest on faulty and questionable theoretical assumptions. Hence, the conclusions, far from being strictly "scientific," are skewed and misshaped to the extent that they are determined by the procedures themselves.

Specifically, the Bureau selects "reference cycles," of the general economy, and then examines "specific cycles" of particular prices, production, etc. and compares these with the reference cycles. Unfortunately, all depends on the Bureau's dating theory, that is, it picks out only the trough and peak months, first for the general cycles, and then for each specific cycle. But suppose, as in many cases, the curve is flat, or there are several peaks or troughs close to each other.

In these cases, the Bureau, purely arbitrarily, takes the *last month* of the plateau, or the multi-peak or trough period, and calls *that* the peak or trough month. There is no earthly economic reason for this; why not take the whole period as a peak or trough period, or average the data, or whatever? Instead, the Bureau takes *only* the last month and calls that the peak or trough, and then compounds that error by arbitrarily squeezing the distance between the designated "peak month" and "trough month" into three equal parts, and assuming that everything in between peak and trough is a straight line of expansion or contraction, boom or bust.

In other words, in the real world, any given time series, say copper prices, or housing starts in California, might have dawdled near the trough, gone quickly upward, and stayed at a plateau or multi-peak for many months. But on the Procrustean rack of National Bureau doctrine, the activity is squeezed into a single, one-month trough; a straight line expansion, divided into three parts by time; reaching a single-month peak; and then going down in a similar linear, jagged-line contraction. In short, National Bureau methods inevitably force the economy to look falsely like a series of jagged, sawtoothed, straight lines upward and downward. The triumphant conclusion that "life is a series of sawtooth lines" is imposed by the way the Bureau massages the data in the first place.

That massaging is bad enough. But then the Bureau compounds the error by averaging all the specific cycles, its leads and lags, etc. over numerous specific cycles, as far as the data will go back, say from the 1860s to the 1980s. It is from that averaging that the Bureau has developed its indices of "leading," "coincident," and "lagging" indicators, the first of which are supposed to (but not very successfully) forecast the future.

The problem with this averaging of cycle data over the decades is that it assumes a "homogeneous population," that is, it assumes that all these cycles, say for copper prices or housing starts in California, are the same thing, and operate in the same context over all these decades. But that is a whopping assumption; history means change, and it is absurd to assume that the underlying population of all this data remains constant and unchanging, and therefore can be averaged meaningfully.

When the National Bureau set forth this methodology in Arthur F. Burns and Wesley C. Mitchell, *Measuring Business*

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## *The Regulated Consumer* —17 Years Later

by Mary Bennett Peterson

Long ago and far away—the year was 1971, the place Princeton, New Jersey—I wrote a book. Not a bestseller, even if it did go from hardback to paperback, but, I hope, a thoughtful book, thanks to Ludwig von Mises, who taught and inspired me. I was privileged to attend his New York University seminar at Washington Square, and I have read and reread his *Human Action*.

One lesson that especially hit home, in that era of Ralph Nader and his advocacy of a U.S. Consumer Protection Agency, was that of consumer sovereignty—the Misesian idea that the consumer rules the marketplace through providing incentives, through conferring profits or losses. The entrepreneur either toes the mark set by King/Queen Customer or he goes *kaput*.

But, as I tried to say in the book, regulate business and you wind up regulating the consumer. Consumer sovereignty, I submitted, is at odds with government intervention, with government regulation of commerce and industry (which inexorably then becomes politicized), and especially with regulation involving price interference or production allocation. As Mises noted, every government intervention into peaceful activity makes things worse rather than better. In the case of business regulation, *worse for the consumer*.

Accordingly I sought to give the case for deregulation and privatization. I took a hard look at seven representative agencies—the Food and Drug Administration (FDA), the Antitrust Division of the Justice Department, the Federal Trade Commission (FTC), the Interstate Commerce Commission (ICC), the National Labor Relations Board (NLRB), the Civil Aeronautics Board (CAB), and the Federal Communication Commission (FCC).

Well, 17 years later, how are we doing? Not too well. But not too badly either. In 1975, for example, the Securities and Exchange Commission (SEC) terminated fixed brokerage fees on stock market trades. In 1977 air freight was deregulated and government restraints on air fares and routes were eased. In 1978 the CAB was abolished. In 1980 the Stagger Rail Act empowered railroads to change freight rates without government approval. In 1981 the White House speeded up the previous administration's decontrol of crude oil prices. In 1986 the Government sold off CONRAIL to private investors for \$1.9 billion. And champions of privatization continue to put forth sweeping recommendations, for example that the U.S. Postal Service be privatized and face competition from rival mail carriers.

Yet, as noted, we have a long way to go. Interventionism is still widespread, both in theory and practice. Powerful constituencies and interest groups—educators, corporations, farmers, senior citizens, oil producers, welfare mothers, you

name them—treat government as a free resource, as a huge cow to be milked, gratis. They couldn't care less that government is not a producer but a giant trillion-dollar maw, that it is a mismanager par excellence, that it has nothing to give save what it first takes away (minus a lot of which it spends on itself).

My pet example in *The Regulated Consumer* of government intervention abrogating consumer sovereignty was Prohibition. This was the Noble Experiment in the 1920s and early 1930s when Uncle Sam addressed the consumer and proclaimed the Eleventh Commandment—"Thou Shalt Not Drink."

What we got was racketeering, gangsterism, rum-running, police corruption, and, very likely, more speakeasies than there had been saloons. Mercifully, in 1933 reason finally prevailed and the 21st Amendment repealed the Prohibitionist 18th Amendment.

Unmercifully, the lesson of Prohibition is unlearned in the case of today's lost War on Drugs. (Ditto, for that matter, the War on Poverty.) The Coast Guard, the Drug Enforcement Administration, and state and local authorities are outmanned and outgunned by the drug traffickers. Once again, considerable police corruption is evident in our cities as the traffickers buy off susceptible officers. Too, the FBI reports about half of all violent crimes are drug-related. And drug abuse in the U.S., according to the Drug Enforcement Administration, exceeds that in any other western industrialized country.

To be sure, drug abuse is dangerous, even, for some, suicidal. But ends and means have to be in harmony. Decriminalization and education, not Prohibition, is the wiser answer. And the only one with a chance of working. As Mises observed in *Human Action*:

Opium and morphine are certainly dangerous, habit-forming drugs. But once the principle is admitted that it is the duty of government to protect the individual against his own foolishness, no serious objections can be advanced against further encroachments. A good case can be made out in favor of the prohibition of alcohol and nicotine. And why limit the government's benevolent providence to the protection of the individual's body only? Is not the harm a man can inflict on his mind and soul even more dangerous than bodily evils? Why not prevent him from reading bad books and seeing bad plays, from looking at bad paintings and statues, and from hearing bad music? The mischief done by bad ideologies, surely, is much more pernicious, both for the individual and for the whole society, than that done by narcotic drugs.

Now, more than ever, we need to deregulate the consumer.

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Mrs. Peterson is a Washington, D.C., consultant, a member of the Mont Pelerin Society, and author of *The Regulated Consumer* (Green Hill, 1971, introduction by Milton Friedman).

**Postal Monopoly...from page 2**

Moe also said that rural delivery would stop. That's nonsense, of course, but people in sparsely populated areas might have to pay more for some services, just as city dwellers have to pay more for fresh vegetables and firewood. The free market would reduce the difference to transportation costs, however, thanks to arbitrage and entrepreneurship, and there would be constant competition to make transportation cheaper. And UPS delivers 25% of its packages to rural routes and makes a profit at it.

Moe also claimed that only the U.S. government can secure our privacy and guarantee access to the mails. But this is Newspeak. Government is the great *invader* of our privacy, mail and otherwise. In the 1970s, the CIA routinely opened mail. And the same thing is happening now to opponents of the administration's foreign policy. And recently the Post Office has started searching the mails for contraband.

As to freedom of access to the mail service, the Post Office has frequently claimed the right to decide what can be mailed. It's banned novels, refused to deliver National Health Federation booklets because they conflicted with the "weight of scientific opinion," and censored advertising.

Moe claimed the Post Office is a "natural monopoly." But here is no such thing, only the natural tendency of people who want to live off the taxpayers to claim there is. If any monopoly were actually natural, it wouldn't need a government gun to enforce it.

The Post Office is a socialist organization. It is inconsistent with the American vision of liberty. It's time to end socialized mail delivery, allow free-market competition, and

thereby encourage government union bosses to do something socially useful.

Before *Crossfire*, I had always wondered who really ran the Post Office. I met Moe. My only question is: where are Larry and Curley? ■

*Mr. Rockwell is founder and president of the Ludwig von Mises Institute.*

**Nat'l Bureau & Business Cycles...from page 3**

*Cycles* (National Bureau of Economic Research, 1946), it was correctly criticized by a distinguished econometrician for being "Measurement without Theory" in the *Journal of Political Economy*, but still it quickly swept the board to achieve oracular status.

Particularly irritating were the claims of the Bureau that those of us who held definite business cycle theories were partial and arbitrary, whereas the Bureau spoke only from the facts of hard, empirical reality. Yet the Bureau has had far less respect for empirical reality than have allegedly "anti-empirical" Austrians. Austrians realize that empirical reality is unique, particularly raw statistical data. Let that data be massaged, averaged, seasonals taken out, etc. and then the data necessarily falsify reality. Their Baconian methodology has not saved the Bureau from this trap; it has only succeeded in blinding them to the ways that they have been manipulating data arbitrarily. ■

*Dr. Rothbard is vice president for academic affairs of the Mises Institute and the S.J. Hall distinguished professor of economics at the University of Nevada, Las Vegas.*

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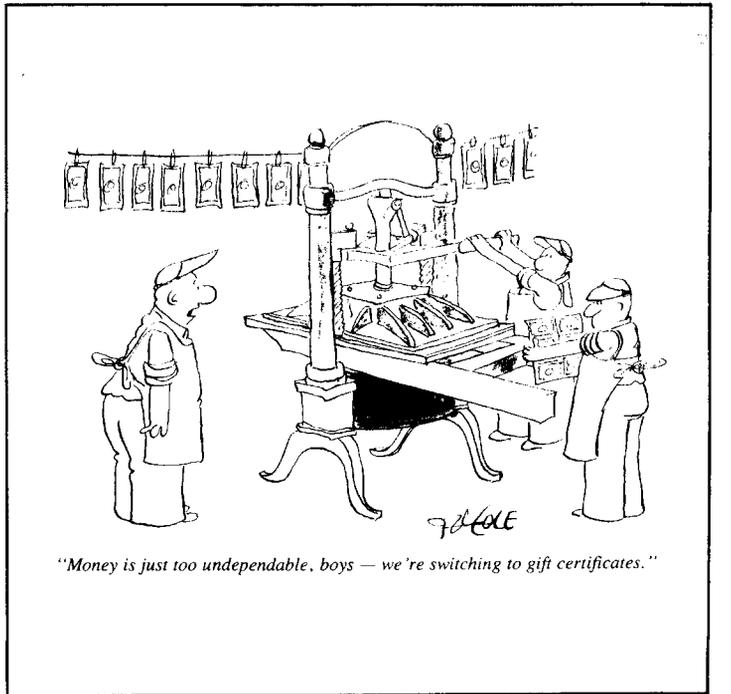
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## The Regulatory-Industrial Complex

by Sam Wells

The free market is great for consumers and producers, but some businessmen find government regulation an easier road to profits. That's why they try to use government to protect them from the rivalry of the market.

There is nothing wrong with wanting to be on top, of course, so long as it is done peacefully. But when businessmen use the government to gain a monopoly, they cease being market competitors and become a political pressure group.

Some businesses advocate "fair trade" laws against "unfair competition," government price floors, licenses, taxes on competitors, and other political measures.

Taxi monopolies are powerful on the city level. They lobby government to make new drivers go through lengthy procedures or acquire expensive licenses to own a taxi. These laws don't exist to protect the public; they protect a privileged industry from competition and work against the public interest.

Dairy monopolies and utility companies are powerful on the state level. In New York, the dairy industry lobbies for protection from its New Jersey competitors who sell milk at a cheaper price. Utility companies get special privileges to be the sole provider of water, electricity, and natural gas. In all these cases, the consumer loses his freedom to choose.

At the national level, to take just two examples, the Post Office has a monopoly on mail and the Federal Reserve has a monopoly on money and banking.

Socialism is the final monopoly. Here the government allows no competition and only limited trade. Nationalizing an industry puts monopolists in power by merging their competitors under their control. Nationalizing an entire economy gives those on top the biggest boon of all. It's no coincidence that statist U.S. industrialists like Dwayne Andreas of Archer-Daniels-Midland and Armand Hammer of Occidental Petroleum get along so well with the elites that run the Soviet economy.

In each case—local, state, and federal monopolies and under socialism—monopolists find that they gain more through special privileges from the government than they do from the free market. And they do so at our expense.

This isn't something new. At the turn of the century, as historian Gabriel Kolko explains in the *Triumph of Conservatism* (1963):

Competition was unacceptable to many key business and financial interests.... As new competitors sprang up, and as economic power was diffused throughout an expanding nation, it became apparent to many important businessmen that only the national government could "rationalize" the economy. Although specific

conditions varied from industry to industry, internal problems that could be solved only by political means were the common denominator in those industries whose leaders advocated greater federal regulation. Ironically, contrary to the consensus of historians, it was not the existence of monopoly that caused the federal government to intervene in the economy, but the lack of it.

One classic example is the Interstate Commerce Commission, a federal agency set up at the behest of the railroad industry in 1887, which has been a menace to consumers ever since. The ICC was this nation's first "independent" regulatory agency, charged with preventing "cut-throat" competition in the transportation industry. The railroad industry sold it as a boon to consumers.

During the hearings on the Interstate Commerce Act of 1887, the leaders of the railroad industry lobbied hard for the ICC. Why? They wanted the government to outlaw price competition, which threatened established, old-line railroads. The ICC's first action was to do exactly that. Over the years, the ICC brought less competition, higher prices, and lousy train service. Like a pact with Satan, the ICC eventually helped ossify and then destroy the railroad industry, but by that time, the original owners and managers had long since gone to their reward far richer than they would have been in a world of free competition.

The ICC—and other similar Progressive Era agencies like the FTC—set the stage for more cartelization under FDR's National Industrial Recovery Act, which was drafted by Gerard Swope of General Electric, the Chamber of Commerce, the American Bar Association, and dozens of other business groups and leaders. As E.W. Hawley shows in his classic study, *The New Deal and the Problem of Monopoly* (1966), big business lobbied for the NIRA because they had a "vision of a business commonwealth, of a rational, cartelized business order in which the industrialists would plan and direct the economy, profits would be insured, and the government would take care of recalcitrant 'chiselers.'"

In America, special interests are the minority. They are greatly outnumbered by taxpayers, voters, and competitors. But the interests get what they want in politics because they are well-organized, have well-defined goals, and can reward those in government who do their bidding. Consumers and taxpayers are spread out, disorganized, and pay a small marginal cost per intervention. Unfortunately, an interventionist economy tends to grant favors to well-organized minorities at the expense of the majority, even in a democracy where the will of the majority supposedly triumphs.

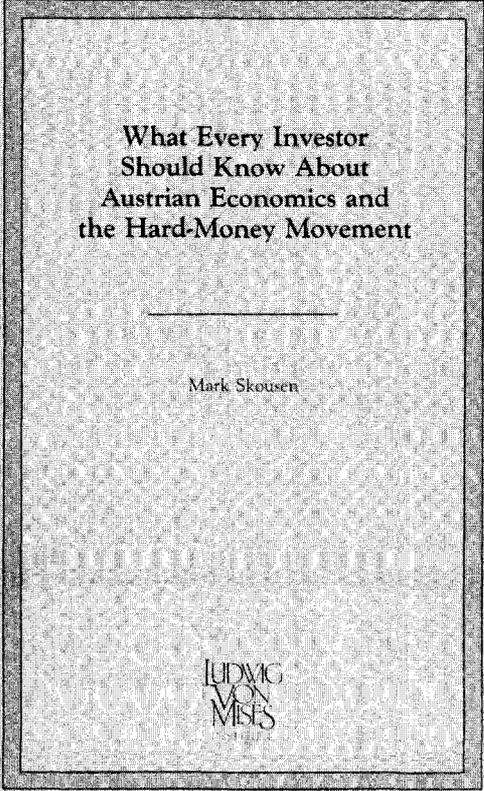
The special interests created the Interstate Commerce Commission, the Federal Reserve System, the Food and Drug Administration, the Federal Trade Commission, the Export-Import Bank, the Commodity Credit Corporation, the Securities and Exchange Commission, the Environmen-

tal Protection Agency, the Consumer Product Safety Commission, and a host of other agencies. In case after case, the agency served the special interests by promoting oligopoly and monopoly and retarding competition to the detriment of consumers.

The way to avoid such abuses is not by giving even more power to the political regulators who, after all, are already comfortably in bed with the vested interests.

The way to quash the regulatory-industrial complex is through a separation of Market and State, a strict adherence to the policy of laissez-faire. Only a purely free market will stop privilege-seeking businessmen from clustering around Washington like flies around a garbage can. Under a free market, the only road to profits will be to please the consumer. ■

Mr. Wells is a Southern California writer and a media fellow of the Ludwig von Mises Institute.



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## Lies & Social Security...from page 1

matched by the employer.

In the post-war years Social Security grew as Congress and presidents added more benefits until the program became an Omnibus Vote-Buying Act. Congress passed across-the-board benefit increases of 7% (1965), 13% (1967), 15% (1969), and then in 1972 tied benefits to the Consumer Price Index, yielding an annual "cost-of-living adjustment."

The SS taxes also grew larger, of course. In 1937 the maximum was \$30 annually. By 1970 it was \$374.40, an increase of over 1,000%. In 1971 Abraham Ellis—author of the prescient *Social Security Fraud*—was called a right-wing alarmist for predicting that by 1987 the tax would rise to 5.9% of the first \$15,000, or \$885. He was wrong; actual 1987 rates were 7.15% of the first \$43,800, or \$3,131. Even this pessimist was 300% too optimistic.

When the program began, there were 100 workers paying into the system for every three people drawing benefits. By 1985 those 100 workers supported 32 retirees. Barring drastic changes in the birthrate, by 2030 there will be 52 retirees drawing benefits for every 100 workers paying in. Over time, then, the ratio of workers to retirees has shifted from 33-1 to 3-1, with worse to come.

In July 1987 the median age was 32.1 years in the U.S., the highest ever. The fastest-growing group was that between 35-44 years: the baby boomers. By 2010 the first of these will be retiring. Will there be any benefits to collect? Maybe, but only at tremendous cost to the rest of us.

Then there is the Social Security "trust fund." It works like this: your employer, acting as an unpaid tax collector, deducts 7.5% of your wages up to \$45,000 a year, matches this amount, and sends it all to Washington. The Social Security Administration deposits it into the Treasury, and in return receives IOUs (Treasury Bonds) payable sometime in the future. Congress and the president then spend the cash on endive research and other incumbency enhancement schemes.

What happens in 20 or 30 years when the IOUs are due? The U.S. government has no money of its own, of course. It can pay back the Social Security trust fund only through more taxes, more borrowing, or more inflating. All three come out of the people's pocketbook.

The first person to retire under Social Security was Miss Ida Fuller. When she retired in 1939, she had paid in only \$22. On January 31, 1940, she got her first check: \$22.54. Ida Fuller lived to be 100 years old, and the checks kept coming, just as FDR promised. In 34 years of retirement they totaled over \$20,000.

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## Lies & Social Security...from page 7

Once long-lived people like Ida Fuller were the exception. Now they are the rule. Yet while more and more people live into their 80s and even 90s, the official retirement age remains 65. Why? Because in the 1880s the authoritarian German Chancellor Otto von Bismarck set 65 as the retirement age for his Social Security program. But the average life expectancy in Germany was then 45.

A child born in America in 1776 would, on average, die at 35. Even in 1950, people 65 and over made up only 7.7% of the population. Now that figure stands at 12%, and by 2020 should be 17.3%.

Neil Howe writing in the *American Spectator* says there are no believable projections for public health-care spending in the next century. Even conservative estimates are off the charts. However, he thinks we could easily see 20 or 30% payroll taxes 40 years from now, just to pay for Medicare and Medicaid! Add in the cash benefits and you could lose half your paycheck even before income tax is deducted. No one seriously believes we will see such taxes. More likely we will either change the system drastically or go through an economic collapse.

Social Security is built on lies, thievery, and coercion. Notice that Social Security check stubs refer to FICA (Federal Insurance Contributions Act). In truth Social Security is a tax. You are required by law to pay; if you refuse the government puts you in jail. But they call it a "contribution" as if we were giving to the United Way. Nor is there any "insurance." If a private insurance policy were as unsound as Social Security, its sellers would go to jail.

Private con games like the classic "Ponzi scheme" are illegal. But when the government runs them, they become social and secure. Charles Ponzi was a 1920s swindler whose trick was to sell people an investment that promised a big return, then take their money, pay off earlier customers, and move on. The supply of such investors is finite, so while those who got in early did well, sooner or later it had to come to a screeching halt.

Social Security works the same way, except that the "investors" have no choice. Even Ponzi didn't force people to invest at the point of a gun. The government does. The law makes a distinction between fraud and robbery based on coercion. Since the state has a monopoly on legal coercion, and can ultimately bring deadly force to bear on those who resist it, can we call the required "investment" in Social Security anything less than robbery?

The semantical games don't end there. The government

says that employees pay the FICA tax and employers match it. But this is an accounting trick. The economic reality is that the worker pays it all because the matching payment is just another cost of labor.

Social Security injures the nation's economy and therefore hurts everyone. If the billions drained away by Social Security every year were put to productive use, our economy would be much less troubled than it is today. Instead, capital is wasted on nonproductive government projects.

Keynesians tell us that government spending creates jobs and stimulates the economy. But they forget to look at how the money would have been used otherwise. Taxation destroys jobs, and by taxing employment, Social Security creates unemployment and hurts small business.

What should we do about this dinosaur in our midst? Several plans have been offered. Unfortunately they range from the patch-up Lee Smith outlined in *Fortune* last year to the gradualist scheme offered by Peter Ferrara which calls for government to force people to invest in a "Financial Security Account" or stay in the Social Security system. Free marketeers must oppose both in principle. And only a principled stand has any chance of surviving the lobbying of the American Association of Retired Persons.

In the meantime, we should take care of ourselves and not rely on Social Security, support those who want to change it for the better, warn of the present system's dangers and immorality, and oppose inflationary fix-it schemes and every other intervention in the economy. Advancing lasting solutions based on liberty is the only chance we have of abolishing rip-offs like Social Security. ■

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### Quote of the Month

"Our age is full of serious conflicts of economic group interests. But these conflicts are not inherent in the operation of an unhampered capitalist economy. They are the necessary outcome of government policies interfering with the operation of the market. They are not conflicts of Marxian classes. They are brought about by the fact that mankind has gone back to group privileges [through interventionism] and thereby to a new caste system."

Ludwig von Mises in "The Clash of Group Interests" in *Money, Method, and the Market Process*