The Founding Fathers: Smugglers, Tax Evaders, and Traitors?
by Richard J. Maybury

During patriotic holidays, the news media applaud the Founding Fathers. But rarely does anyone mention some important facts about them: that they were smugglers, tax evaders, and traitors.

Not only is this important, it is also praiseworthy; it produced the most advanced civilization ever known.

The Revolution is often said to have begun in 1775 at the Battle of Lexington. In truth, it began in the 16th century when the first colonists began traveling to the New World. Consider the hardships these people faced. Abandoning their relatives and friends, they boarded small leaky boats like the Mayflower—which was only as long as six automobiles—to spend months crossing 3,000 miles of storm-tossed ocean.

Many of these tiny, primitive vessels went down, yet as the years passed, more and more colonists risked their lives to make the journey. In The Oxford History of the American People, historian Samuel Eliot Morrison tells us:

Gottlieb Mittleberger, who came to Philadelphia in 1750, described the misery during his voyage: bad drinking water and putrid salt meat, excessive heat and crowding, lice so thick that they could be scraped off the body, seas so rough that hatches were battened down and everyone vomited in the foul air; passengers succumbing to dysentery, scurvy, typhus, canker, and mouth-rot. Children under seven, he said, rarely survived the voyage, and in his ship no fewer than thirty-two died. One vessel carrying 400 Palatinate Germans from Rotterdam in August 1738 lost her master and three-quarters of the passengers before stranding on Block Island after a four-month journey.

Why? What in Europe could have been so horrible that rational people would risk their lives and their children's (Continued on page 4)
From the President
by Llewellyn H. Rockwell, Jr.

The Fraud of GNP

"The Gross National Product grew at an annual rate of 4.4% for the first quarter of 1987," the Commerce Department recently said. But corporate profits and people's earnings dropped. We're all supposed to be better off when the GNP grows. Why aren't we? The reason, as shown by Professor Murray N. Rothbard, is that the GNP is a phony statistic.

The GNP records the dollar amount of goods and services produced in the economy during a period. But it equates government spending with private spending. And it ignores the wealth and potential growth destroyed by taxation.

Imagine that the economy consisted of two small, productive towns. The government decides to destroy one of them—a hotbed of tax resistance—by aerial bombardment, and to tax the other to pay for the clean-up. After a year, the destroyed town is restored. Calculating the net effect of this process, the Commerce Department would say that the GNP of the two-town economy grew by 50%.

GNP records the money spent on goods and services, not the wealth destroyed by bombs, taxation, regulation, or other government activities. So GNP would act as if a third town had been added to the economy, when in fact one had been deducted.

As Professor Rothbard has pointed out, subtracting government spending from GNP, and then adjusting for taxation, gives us a much better idea of the real economy. His "Private Product Remaining (to Producers)" or PPR does exactly that.


The gap shown on the chart between GNP and PPR represents the horrendous growth of government. And the gap is huge and growing, despite promises to get Washington off our backs.

The growth in GNP is almost all attributable to increased government spending, which represents capital consumption, not progress. As shown by the PPR, the economy has barely moved, thanks to the government's incredible taxation, deficits, welfare, borrowing, subsidies, and controls.

Real growth in the U.S. registered a mere 1.3% last year.

On the average, the GNP figure is about 52% higher than real growth. And the more government grows, the higher that percentage.

Always be wary of government statistics. They are usually designed to mislead, and GNP is part of that game.

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Theory and History. (Both are available from the Mises Institute. See page 5.)

The Communist Manifesto (1848) famously states: "The history of all hitherto existing society is the history of class struggles." Each social system, in the Marxist view, is characterized by a different variety of class conflict. In the capitalist system, of course, the protracted conflict finds capitalists opposed to proletarians. In the course of the social struggle between the classes, members or friends of each class elaborate theories of various sorts to advance the interests of that class. These theories, whatever they may claim, do not stem from the search for objective truth. Like all "ideological" thought, economic, social, and political theories reflect class interest.

Mises, more forcefully than any other critic of Marx, at once penetrates to the essence of this fallacious view. If all thought about social and economic matters is determined by class position, what about the Marxist system itself? If, as Marx proudly proclaimed, he aimed at providing a science for the working class, why should any of his views be accepted as true? Mises rightly notes that Marx's view is self-refuting: if all social thought is ideological, then this proposi-
tion is itself ideological and the grounds for believing it have been undercut. In his *Theories of Surplus Value*, Marx cannot contain his sneering at the "apologetics" of various bourgeois economists. He did not realize that in his constant jibes at the class bias of his fellow economists, he was but digging the grave of his own giant work of propaganda on behalf of the proletariat.

Mises never tired of emphasizing a theme he expresses tersely in *Liberalism*: "Man has only one tool with which to fight error: reason." By "reason," he meant a logical procedure claiming universal validity. To deny the power of reason is in effect to refute oneself. If reason must be subordinated to some other faculty, whether class interest, hermeneutic understanding, or whatever nonrational intellectual fad one pleases, the result can be nothing other than stultifying. Without logic, what reason can be given for the acceptance of the postulated account?

Mises did not confine his assault on Marxism to the essential, yet arcane, area of epistemology. He also analyzed in detail the principal themes of Marx's interpretation of history. According to Marx, the key to history lies in the forces of production. (Very roughly, the forces of production of a society consist of the society's technology.) These forces, throughout history, have a constant tendency to develop. As they do so, they compel changes in the relations of production, i.e., the economic and social system existing in a particular society. At one time, e.g., feudalism was best adapted to develop the forces of production. When it ceased to be the most efficient system, capitalism replaced it, breaking what Marx called the "fetters" on production imposed by the manorial economy of feudalism. In turn, at the dictate of the forces of production, capitalism will be replaced by socialism, a system Marx anticipated would be enormously more productive than its predecessor.

Mises in *Theory and History* posed a simple query that proved lethal to the alleged "science of historical materialism." As just explained, growth of the forces of production is supposed to explain all else of importance. But what determines this very growth? As Mises often reminds us, only individuals act: classes, "forces of production," "relations of production," etc., are in themselves but abstractions. Apart from the action of human beings, they are void and powerless. Like Hegel's Geist (Spirit), Marx's forces of production are a self-developing phenomenon governing human will. Marx never bothers to explain how such forces, in themselves the effects of human action, can exclusively determine all important human action.

Once one has grasped the point that it is individuals, not the forces of production, who act, the entire Marxist scheme of historical evolution falls by the wayside. If human beings create by their acts the forces of production, rather than the (Continued on page 6)

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**Soviet Expert Says “Mises was Right!”**

*by Mark Thornton*

Dr. Gertrude Schroeder, professor of economics at the University of Virginia, recently spoke at the Institute's Austrian Economics Colloquium at Auburn University. She said: "Mises was right!" 80 years ago when he predicted the inevitable failure of central planning.

Professor Schroeder is an expert in the Soviet economy and the pitiful standard of living it produces. Her latest book, *The System vs. Progress* is about central planning and communism, and draws from her experience as a resident of the Soviet Union and a senior government economist in Washington. She is currently the president of the Association of Comparative Economic Studies.

In her talk, Professor Schroeder exploded the myth of Soviet economic progress, and quoted Mises as showing why. As an example, "growth" during the 1950s and 1960s came by forcing more people to go to work. But still the standard of living is 1/3 of the U.S.'s (except, of course, for government officials). And Soviet technology is backward because, as Mises predicted, the government controls prices. The recent "reforms" instituted by head kleptocrat Mikhail Gorbachev will fail, she said, because prices are fixed through aggression.

The Austrian colloquium at Auburn attracts university faculty, graduate students, and local Members of the Institute. Tapes of Professor Schroeder's talk are available for $6.00.

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Mark Thornton, an instructor in economics at Auburn University, administers the Institute's center there.

"I just told him about taxes and social security—It's better than having him pick it up on the street."
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lives to escape it?

Socialism. It wasn't called socialism in those days, but that is what it was—unlimited government control and taxation of everything and everybody. There were no free markets and no free enterprise. Regardless of how honest or hard working a person was, it did him little good unless he was in bed with the government.

Out of desperation many rebelled. They evaded the controls and taxes, creating an underground economy. In Roots of Capitalism, historian John Chamberlain writes that in France:

For example, it took more than two thousand pages to print the rules established for the textile industry between 1666 and 1730. Weavers had to negotiate with the government for four years in order to obtain permission to introduce "blackwarp" into their fabrics. The effect of the regulations was to freeze French textile production at a certain level, though smuggling and evasion of manufacturing regulations did alleviate the situation somewhat. The violation of the rules often brought terrible penalties: for breaking regulations governing printed calicoes some 16,000 people were either executed or killed in armed brushes with government agents.

America was a vast, uncharted wilderness beyond the reach of the politicians and tax collectors. It was nominally under the control of the European governments, but everyone knew it was too big and too far away for laws to be enforced there.

In short, America was a huge underground economy. Here trade was free and enterprise unrestricted. Taxes were so often evaded that for all practical purposes there were none; a person could keep everything he earned. He could save and invest, and eventually have his own thriving business or farm that would provide jobs for the next wave of immigrants.

Inhabited by rebellious, individualistic smugglers and tax evaders, America quickly became the most prosperous place on earth.

You may have seen pictures of the Pine Tree Flag flown by American warships during the Revolution. Why would the colonists put a pine tree on their battle flag?

The government had enacted a regulation saying no colonist could cut down tall, straight trees; these trees were to be reserved for masts on Navy ships. This meant the best, most valuable trees on a person's land had, in effect, been confiscated by the government.

When a government tree inspector would come through the forest to select and mark the best trees, colonists would follow him. These inspectors were highly trained experts, good at identifying the best trees for Navy ships—the Navy ships that were constantly pursuing smuggling ships.

When the government's lumberjacks then came through the forest to collect the marked trees, they would find the trees had already been cut and sold—for use on the smuggling ships.

One of these ships was The Liberty, owned by John Hancock. Hancock was a successful wine merchant known throughout the colonies as "The Prince of Smugglers." His reputation eventually earned him the honor of being the first to sign the Declaration of Independence.

Unfortunately, as the story of the Pine Tree illustrates, America did not remain beyond the reach of government. As the colonists' wealth increased, politicians began making more and more efforts to steal—"tax"—this wealth. More and more bureaucrats and troops were sent to the colonies to enforce laws and shut down the underground economy.

The colonists' reaction was dramatic. The infamous Stamp Tax, for instance, was greeted by armed rebellion; tax collectors were tarred and feathered, a procedure which usually resulted in death. When John Hancock was arrested, the people rioted and the government's agents barely escaped with their lives.

This brings us to one of the most important but forgotten events in American history. In his 1818 analysis of the Revolution, John Adams spoke of it when he asked,

But what do we mean by the American Revolution? Do we mean the American War? The Revolution was effected before the war commenced. The Revolution was in the minds and hearts of the people, a change in their religious sentiments of their duties and obligations.

The key word here is religious. In Adams' analysis, he said a sermon delivered by Reverend Jonathan Mayhew on January 30, 1750, was "read by everybody" and was crucially important in leading to revolution.

In that sermon Mayhew argued that there is a Higher Law than any government's law. The people, he said, are required to obey their government's law only when it is in agreement with Higher Law. Indeed, he argued, if the government violates Higher Law, "we are bound to throw off our allegiance" and "to resist."

What was this Higher Law? The ancient Common Law, which most colonists understood and obeyed faithfully even though they ridiculed and ignored the laws and taxes enacted by politicians.

Common Law had evolved from two basic principles: 1) do all you have agreed to do, and 2) do not encroach on other
people or their property. These are the two principles on which all major religions and philosophies agree. Each expresses them a bit differently, but all agree on these two laws and not much else).

These two laws are the source of all our essential prohibitions against theft, fraud, murder, rape, etc. "Do all you have agreed to do" is the basis of contract law; "do not encroach on other people or their property" is the basis of criminal and tort law.

Common Law was the law to which the American colonists were dedicated, and it was the law the politicians and bureaucrats were breaking—they were encroaching. So the colonists overthrew their government; they committed treason.

This is what the American Revolution was all about—treason. And this treason was regarded as moral, ethical, and right in every way. It was derived straight from Common Law which was based on the people's religious beliefs. Wrote the great legal scholar Sir William Blackstone, "This law of nature, being coeval with mankind and dictated by God himself, is of course superior in obligation to any other...no human laws are of any validity if contrary to this."

Contrary to what we so often read, the Americans were not fighting the British. The Americans were British. The war broke out at Lexington in April 1775, fifteen months before independence was declared. Therefore, for the first fifteen months of the war, America was still a part of Britain and Americans were still Englishmen fighting their own government. As their many pamphlets and speeches explained, they were fighting for "The Rights of Englishmen!"

They were enforcing Higher Law. This eternal and immutable law said the politicians and bureaucrats were as human as anyone else and they had no special rights or privileges; they could not encroach on others. "All men are created equal," wrote Thomas Jefferson.

So, the most important and praiseworthy fact about the Founders which is rarely discussed is that they believed in a Higher Law than any government's, and they did something about it. They evaded their government's taxes and regulations. They delivered speeches and wrote pamphlets informing others, and they eventually overthrew their government and set up a new one more closely in agreement with Higher Law.

The highly advanced, prosperous civilization we now enjoy was the direct result of their enforcement of Higher Law, and this civilization will continue only if Higher Law is reapplied, soon. Tell others.

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If you'd like copies of our twin Publications of the Month—Ludwig von Mises's magnificent Socialism and Theory and History—enclose your check for $16, plus any tax-deductible contribution you can make to the Institute's fight against those who still draw inspiration from Karl Marx's poisoned pen.
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vented most people from recognizing that the same principles govern both.

Like the consumer of any resource, an employer will pay a wage no higher than the production the worker can generate. If the worker accepts a job paying less than his production, other employers will recognize they can profit by offering a higher wage. Eventually the worker receives a wage equal to the value he contributes.

If the government imposes a minimum wage, anyone who cannot add more than the minimum to the employer's business will not be hired. No employer can pay out more than his business produces for very long. The government's minimum wage law discriminates against the less productive members of society.

According to Professor Walter E. Williams of George Mason University, author of The State Against Blacks:

As late as 1948, black youth labor market participation was higher than that of white youths and their unemployment rate was less. But with each and every increase in the level and coverage of the minimum wage law, that picture was changed. Now the very opposite is the case.

When the State imposes minimum wage laws, it reduces the cost for employers to discriminate racially. It also takes away a minority person's best weapon: the right to lower prices and make racially based discrimination costly.

Suppose there are two young women, one white and one black, both equally qualified. They are the only two people who have applied for a hostess's job in a restaurant owned by a white racist. The employer is willing to pay up to $5.00 per hour. The white woman has been offered a job she likes better at another business at $4.50 an hour, and will accept the restaurant job only if she can get $5.00 per hour.

The black woman knows the boss is a racist. She realizes that her only hope of getting the job is to ask for less than $5.00 per hour. And the less she asks for, the greater her chances of getting the job. If she lowers her price to $4.50, the employer must now pay 50¢ per hour to discriminate racially against her. And at some wage it will be too costly for him to continue his racial discrimination, and he will hire the black woman.

The story is different when the State imposes a minimum wage of $5.00 per hour. Far from aiding the black woman, it forbids her from competing with her white rival. The government has in effect made it illegal for the black woman to work at that restaurant.

This brings us back to "The Development of Racism Under Capitalism." SCAR and groups like it demand that the government intervene in the free market to eliminate racial discrimination. But the free market tends to reduce unethical discrimination; it is the State through its fettering of free enterprise that promotes racism.

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forces determining these acts, then nothing is inevitable about the transition from one economic system to another. Such changes will take place as persons act to create them, no more and no less. If one objects that there are laws determining human action, perhaps the objector would be good enough to produce them for inspection. That the results of what persons create may not be to their liking is another matter.

Marxism, as the Stalinist "philosopher" M. B. Mitin liked to declare portentously, is "a guide to action." And the action the Marxists have in mind is of course the replacement of capitalism by socialism. In a famous passage in Volume III of Capital, Marx foresees a rosy day ahead under the blessings of socialism in which people will be able to devote most of their time to leisure. Work for mere survival will become a thing of the past.

Such is the Marxist promise: the reality, Mises demonstrated, was quite another matter. In his argument, Mises did not principally rely on the results of attempting to turn socialism from idea to reality in Soviet Russia. Instead, as those acquainted with his praxeological method will have anticipated, Mises offered proof that socialism was of its nature impossible.

He presented his argument in a famous article appearing in 1920 that, with much elaboration, was incorporated into his great work Socialism (1922). Characteristic of Mises, his point is in essence a simple one: the great Austrian economist had an unerring instinct for the heart of any issue of theory he considered. Given a list of goods to produce, whether those desired by the members of society in their roles as consumers or those on an agenda concocted by a dictator, any developed economy must have a way to decide how to employ its resources in the best possible way to produced the desired goods.

Under capitalism, this challenge receives a response fully adequate to the difficulty it poses. Resources, whether land, labor, or capital, exist subject to ownership by individuals. These persons, in a fashion elaborated in minute detail in Mises's Human Action and Murray N. Rothbard's Man, Econ-
A reader of Mises's criticism cannot help but apply to Marxism the well-known line from "Ozymandias": "Round the decay of that colossal wreck, . . . The lone and level sands stretch far away."

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Racial Discrimination vs. the Free Market
by Mark D. Hughes

Not long ago I saw a poster at George Mason University advertising a talk on "The Development of Racism Under Capitalism." Sponsored by SCAR (the Student Coalition Against Racism), the implied position was wrong; it is capitalism that hinders racism.

"The term 'discrimination' has acquired an unambiguously negative meaning," writes Dr. Walter Block. "It conjures up the image of racial and sexual prejudice. Strictly speaking, however, the term is neutral."

As human beings, we face an unavoidable scarcity of time and resources: that is, we cannot have everything we want or need whenever we want or need it. To cope with this scarcity, we ration our time, skill, knowledge, and wealth.

This process must involve discrimination. For example, if I choose to read Mises's Human Action rather than the collected poetry of Keats, I am discriminating against Keats. And my choosing to read at all means I am discriminating against every other use of my time.

Different ways of rationing resources have emerged over the centuries. The barbarism of ancient times involved grabbing what you could, when you could, and however you could. In the barbarism of modern times, these same activities are carried out by governments.

But the best and only peaceful method for rationing scarce resources is the price system. Respecting private property and individual rights, the price system puts the power of choice into the hands of the person whose scarce resources are to be rationed.

If the owner of a resource wishes to exchange it with others, and he sets the price at zero, then people who discriminate in favor of it, by choosing to consume it, will want more of it than the owner wishes to exchange. The owner will therefore ration his resource by giving it a positive price. As the price of the resource rises, more and more people will choose to discriminate against it in favor of a less costly resource.

Their desire for the resource has not changed, but the cost of discriminating in favor of it has increased. For example, I will have the same desire for a European sports car regardless of its price, but its price makes discriminating in its favor too costly for me.

The more scarce and desirable a resource, the higher its price. But at some point, the owner will arrive at a price where the total discrimination in favor of it is just equal to the quantity he is willing to exchange.

Prices and the right of ownership give individuals the ability to increase or decrease the level of discrimination against their resources. This is the mechanism that makes free market competition work. And only this competition gives individuals control over their own scarce resources.

A consumer who refuses to purchase resources from a person (i.e. discriminates against that person) solely because of the color of that person's skin is discriminating. The act of discrimination itself is neither good nor bad, but the underlying values can be considered unethical.

Does the person who suffers because of racism have any recourse? He could try to use government power to force an exchange by coercion. But there is a better way: he can use the price system.

If I feel someone is discriminating against me for unethical reasons, then I can make his choice costly by lowering the price I charge. His discrimination then becomes more costly. A person discriminating against me can only continue to do so if he is willing to pay a higher relative price for his choice. I can't change his values, but I can make them more costly to hold.

This very process occurs every day. When a member of a minority group opens a new grocery store in an unfriendly neighborhood, say a Korean in a black area of Washington, D.C., he is likely to be discriminated against. Instead of demanding that the government force shoppers to buy from his store, he chooses the peaceful method: he reduces his prices. This increases the cost to consumers of discriminating against him, because they are now paying a premium to shop somewhere else. As a result, they begin to patronize his store. Racists may still be racists, but they no longer discriminate unethically.

But if the government had set the grocer's prices at the same level as other stores not owned by minorities, there would be no cost to consumers for racially discriminating against him. They would simply continue shopping at Safeway.

Henry Hazlitt wrote in his unforgettable book Economics in One Lesson:

A wage is, in fact, a price. It is unfortunate for clarity of economic thinking that the price of labor's services (labor's scarce resource) should have received an entirely different name from other prices. This has pre-