The FREEMarket

PUBLISHED 11 TIMES PER YEAR BY THE LUDWIG VON MISES INSTITUTE

Should We Loot the Rich?

Jim Fedako

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A persistent virus is beginning to spread, threatening to sweep the country as the next great epidemic. What is the ill? The *Fourier Complex* of course. The *Fourier Complex*? Yes, it is the mental state—syndrome—identified by its vile symptoms: extreme envy, fear of the free market, belief in redistribution, and the desire to legislate deprivation in order to harm those better off.

Mises coined the term *Fourier Complex* in 1927 to describe the ends sought by those who dream of the world envisioned by Charles Fourier, the utopian socialist of the nineteenth century. Its sufferers desire equality in starvation rather than variation in plenty.

So, how does the *Fourier Complex* play out in the national debate? Simple. Any report that details variations in wealth is greeted with the call for redistribution, an equalization of money and things—value—regardless of the cost. The line of thought runs in this direction: The United States is blessed by resources that are to be used for the benefit of all. Whenever one exceeds his allotted possession or enjoyment of those resources, he must share his excess equally with all others.

For the sake of argument, let's agree that redistribution is the ethical solution to variations of income and wealth. It would then follow that Bill Gates has to sell his possessions and watch them be divided equally among the rest of us.

Given our current system of civil law—a system that has turned its back on the ethics of liberty and property—we could enact redistributive laws and exercise the coercive arm of government to force Gates to hand over his wealth to the ravenous majority. We could do that, but what would be the result?

First, Gates would now be impoverished. So what? Won't we—everyone other than Gates—be better off? Hardly. To understand why requires a discussion of the concept of the margin with regard to net worth.

For simplicity's sake, we will assume that Gates's wealth is comprised solely of Microsoft stock. His net worth is then estimated at $45 billion, based on the 1.5 billion shares he holds times the stock's closing market price of $30.17 on October 19, 2007.

The problem here is that we cannot simply apply a marginal value—the closing price, the price of the last share sold—to the total number of shares outstanding in order to obtain an aggregate value. The margin reflects only the price of the last share sold, nothing more.

We know that 75 million of the 9.4 billion outstanding shares of Microsoft stock (or 0.8 percent) exchanged on October 19 within a small range of the closing price of $30.17 per share. We also know that Bill Gates values the shares in his possession at a price higher than the closing price, since otherwise he would have sold.

And, we know that many individuals —such as myself—value shares of Microsoft at a price lower than the closing price, since otherwise we would have purchased.

Therefore, we know for certain that Bill Gates subjectively values his total amount of stock in excess of $45 billion, while the market values his stock at something less.

We also know that should Gates be forced to sell all of his shares during the next business day, at whatever price the market would bear, he would get much less than both his subjective value and the most recent closing price—the law of demand would rule the day. And, billions of dollars in value and wealth would be destroyed.

For simplicity's sake once more, let us assume that the average market price for the shares he dumps tomorrow is only half of the current marginal price. Therefore, his wealth tomorrow is not the commonly reported $45 billion; it is more like $23 billion.

Next, let us divide the proceeds among the 301 million folks residing in the United States. Therefore, I get $76 in the form of a onetime payment—my slice of Gates's wealth. However, that is not my net increase, as we have to look further to see the unseen effects of such a redistribution scheme.

I have mutual funds that hold Microsoft stock. The reduction in the price of the stock will affect the value of these funds. Given my current investment, I am certain that, through my mutual funds, I own at least six shares of Microsoft stock. I therefore will see a reduction in my net assets due to the redistribution of wealth—I will be worse off.

The claim will be made that I am not in the impoverished class; I will be subject to redistribution in a later round, so who cares about my situation? OK, but keep in mind that many retirees are living off investments that include Microsoft stock. These folks will take a huge financial hit—a hit that they likely cannot sustain.

In addition, many folks are relying on their 401(k) or pension fund to see them through retirement (myself included), while government workers are basing their retirement on state retirement systems, all of which hold at least some shares of Microsoft stock.

We all lose, and lose a lot.

A further claim will be made that the stock price will rebound, so the hit will be short lived. However, remember that the name of the scheme is redistribution. No one can hold too many shares since all wealth will be distributed equally. Therefore, Warren Buffett (say) could not buy the shares Gates dumped because Buffett will also be subject to redistributive laws. And, as mentioned above, middle-class folks such as myself cannot invest in the now lower-priced stock since we will be subject to redistribution in later rounds.

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Jeffrey M. Herbener, Robert Higgs, Mark Thornton.
Publisher: Llewellyn H. Rockwell, Jr.
The *Free Market* is published 11 times a year.
Note: the views expressed in the *Free Market* are not necessarily those of the Ludwig von Mises Institute.

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The stock price will fall and the company that was Microsoft will fade as quickly as Enron. But that will not be the end. The destruction will reverberate throughout the economy. Tens of thousands of Microsoft employees will end up unemployed, disrupting markets everywhere. Hedge funds and investment houses will close, sending panic to The Street. And, as additional wealthy individuals are subject to redistribution, other companies will soon fold, and more workers let go. The economy will collapse as no one is allowed to hold more wealth than the average or gain an advantage by purchasing undervalued stocks; we can only sell, we cannot buy.

Adherents to the principles of Austrian economics recognize that capital and wealth are fragile, and can easily disappear with the implementation of laws that enforce redistributive measures. In addition, the division of labor that allows us all to enjoy an advanced economy is not guaranteed; it can quickly disappear due to the effects of envy.

Does anyone win? Only those who are willing to suffer in order to make the wealthy worse off. These folks will win and may even be happy, for a while anyway. But, as wealth is destroyed, society will quickly collapse around them. Starvation will be their epitaph, as well as our fate. We will all be reduced to trying to grow food for survival in our urban windowsills or suburban backyards.

You say these folks are not looking to harm the economy and destroy society; they simply want all to share in the wealth that is America. Don't bet on it. Their desire roots from extreme envy and fear of the free market. Impoverishing Gates is more important than life itself, since otherwise they would celebrate the achievements of Gates and other entrepreneurs—men and women who have allowed 301 million Americans to enjoy unprecedented material wealth and longevity.

Redistribution is not ethical; it's theft and destruction. It is simply a means to satisfy the envy of some who seek to harm those who have obtained greater wealth through the satisfaction of the wants of consumers. If we succumb to its siren song, the gravestone will read: "For the want of Bill Gates's money, the world wrought its end." ■

The Dollar Crisis

Llewellyn H. Rockwell, Jr.

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No matter how many warnings have been issued, an economic crisis always takes a country by surprise. The most urgent task is to somehow prevent policymakers from doing evil things to "correct" the crisis. Every form of intervention can only make matters worse. The best policy is to adopt a *laissez-faire* policy through regulatory cuts, sound money, and eliminating legal restrictions on trade. The liquidation must be allowed to happen on its own to provide a suitable foundation for a future recovery.

How can we help this happen? One way is to make sure that the right books are front and center. We might start by reviewing the great event that still inspires today's most fallacious countercyclical policies: the Great Depression.

It turns out that Ludwig von Mises was the great prophet of the event, with a series of essays on the nature of the business cycle and the urgency of sound

money. After the Depression hit, he urged a free-market policy for the world. These wonderful essays are collected in *The Causes of the Economic Crisis*. It was a tragedy that it took so long for them to appear in English. What they show is that he, not Keynes, was the person who had it all figured out.

When I speak of a *laissez-faire* policy, many people's first reaction is: that's what Herbert Hoover did! But the truth is quite the opposite. Hoover was actually the first New Dealer. He tried to reflate the economy and attempted ill-fated jobs and spending programs. In fact, FDR's presidential campaign of 1932 argued that Hoover was a big spender who was driving up the debt and making matters worse through his intervention!

Never heard that before? Have a look at Murray Rothbard's *America's Great Depression,* which remains the best overall account of why the stock market crash happened and what Hoover did to make everything worse. Murray shows that the depression was not a crisis of capitalism but the result of a disastrously loose monetary policy in the 1920s. A special treat of this book is how Rothbard takes you through the theoretical underpinnings of the crisis, and shows precisely how the central bank distorts the structure of production and unbalances the relationship between consumption and investment.

Along the same lines, we need to understand that the Great Depression was hardly the first such crisis. In 1920 there was another, but it was resolved rather quickly because the government stayed out of the way. Moreover, banking panics occurred often in the nineteenth century, and always because of the same factor: fractional reserve banking backed by a lender of last resort. Counterfeiting comes to nothing but trouble. Rothbard reviews the whole of this history, complete with an accounting of every crooked banker and every power-mad politician, in *A History of Money and Banking in the United States*.

How serious do you want to get with your theoretical understanding? Do you find yourself tripped up by inflationists throwing intellectual curveballs? Maybe you should sit down with the great treatise on money and banking in our time: *Money, Bank Credit, and Economic Cycles* by Jesús Huerta de Soto.

Yes, it is long. Yes, it has apparatus. But the scholarship is wholly necessary for proving his radical thesis that fractional-reserve banking constitutes an intervention in the market economy and is the foundational reason for the business cycle. Through a close examination of microeconomic law and economy, he finds a link to macroeconomic effects. What we do in the micro sphere echoes in the macro sphere.

It is the thesis of L. Albert Hahn, another forgotten anti-Keynesian, that all excess money creates illusions of prosperity. He was once an advocate of Keynesian-style economic management, but he saw the error then wrote this fabulous and passionate attack on the whole theoretical and political apparatus. Mises was a big advocate of this book: *The Economics of Illusion*.

It doesn't say good things about our world where people in college read the Keynesians, are taught that they were right about free markets, but meanwhile truly great economists like Hahn are forgotten—forgotten so much, in fact, that this book has been out of print for many decades. The Mises Institute has made it available again. Isn't it time we revise our sense of what ideas deserve study, and what ideas deserve to truly drop down the memory hole?

Hahn was not alone among the great economic thinkers of this age. The *New York Times* employed one as its top editorialist: Henry Hazlitt. He warned constantly about the dangers of the dollar creation. His first great book against the Marshall Plan's foreign aid was *Will Dollars Save the World?*

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News from the Institute

Year-end Gifts to the Mises Institute

What's more important than defending liberty? From the point of view of civilization, nothing, since without it, we would be destitute with no way out. For as Mises showed, liberty is the reason for prosperity and the basis of the flourishing of the human population.

For the Mises Institute, the year-end contribution drive is critical. It is the basis on which we plan the expansion of programs in the future, from the books we publish to the conferences we hold to the upgrades we make in our technology.

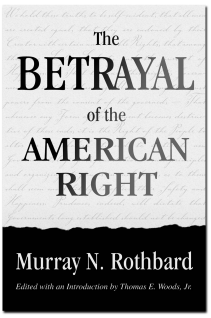
In this 25th year, it is even more critical to look forward to a brilliant future in defense of what we called "Misesian ideals," which are liberty, property, and peace. No research organization in the world is as productive as the Mises Institute, in both scholarship and popular dissemination of ideas.

We are making a difference today and will continue to do so in the future. By investing in the future of the Mises Institute, you are helping to secure a high place for the ideas of liberty for generations to come. ■

25th Anniversary Celebration

We knew that the 25th anniversary conference would be an exciting occasion, but it exceeded our expectations in every way. The talks were wonderful, attendance very high, and it was so encouraging to gather with so many supporters and friends. The conference was also forward looking. Never has the work of the Mises Institute as a beacon of freedom been so necessary. Please consider a generous gift as we look to the next 25 years. ■

The Right was Betrayed



Murray Rothbard's great book on the history of conservatism, from World War II to the seventies, is at last in print. The book is called *The Betrayal of the American Right*, published by the Mises Institute.

This remarkable piece of history will change the way you look at American politics. It shows that the corruption of American "conservatism" began long before George W. Bush ballooned the budget and asserted dictatorial rights over the country and the world. The American Right long ago slid into the abyss.

The Betrayal of the American Right is the full story. Rothbard tells his own story and reveals the machinations behind the subversion of an anti-state movement into one that cheers statism of the worst sort.

The book was written in the mid-1970s and is only now published for the first time. Rothbard's account is not only a critical historical document; it also has explosive explanatory power. ■

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Then he turned his fire on the Bretton Woods agreement, and he was shot down for it—forced out. But who was right? The agreement broke down because it didn't allow dollar convertibility for American citizens.

Here you can read his analysis of not only Bretton Woods but the whole inflation issue: *What You Should Know About Inflation*. He lays out the entire issue: what is money, what it does, what government does to money, how the economy responds, what it means for your life, and what to do about it. Hazlitt of course advocated the gold standard.

Since Ron Paul has raised the issue of the gold standard, and is being treated like some kind of visitor from Mars for having mentioned the subject at all, we need to know more about the true American heritage of the gold standard. This is why I'm personally very fired up that the Mises Institute has brought back William Gouge's *Short History of Money and Banking*, which I first read while working for Ron in his congressional office.

Gouge lived from 1796 through 1863 and was involved in all the great debates on banking in the nineteenth century. His book is a major attack on all inflationary finance, and reading him underscores just how universal are the lessons on money and banking—universal in the sense that they apply in all times and all places.

Now, Ron Paul stands in this tradition of thinkers in every way. Even on the campaign stump, he speaks about the evil of fiat money and Fed management of the nation's money stock. In a true sense, he says, we've put a cartelized gang of central planners in charge of the good that constitutes half of every economic exchange, and we are paying the price in terms of declining purchasing power, exchange-rate chaos, rampant debt, and growing crises in sector after sector.

Is there a way out? Most certainly! It goes by the name of gold. Make the dollar as good as gold and you eliminate the inflation problem and the business cycles that go along with it. Here is the great secret of the gold standard. The problem is not that it is unviable from the perspective of economics; the problem is that there are many people allied against it: the big banks, the creditor class, and government. You see, gold would provide a hard-core anchor for liberty. Under the right form of the gold standard, government could no longer spend with impunity or run up debt without limit. The resources it spent would have to be raised the old-fashioned way.

It behooves every American to read Ron's book, really his manifesto on the topic. It is called *The Case for Gold*. He covers nineteenth-century monetary history and discusses several plans for instituting a gold standard. Note that I didn't say "going back" to a gold standard, because if you look at past gold standards, there was always a flaw in the form of government intervention.

The gold standard that Ron favors is not complicated: it is the one that would emerge in a world of freedom, a free-market money.

If his large book seems like too much, have a look at this primer: *Gold, Peace, and Prosperity*. You can read it in an hour. It explains why you should care about these issues, and why the government doesn't want you to care about them.

I never expected that, in my lifetime, the money issue would again become central to politics, but Ron—inspired by Mises and Rothbard—has done it.

And why not? The topic was huge in the nineteenth century, when people understood the dangers of putting the government in charge of everything.

Now we take the socialization of money and credit for granted. It is time we rethink all this. The restoration of sound money would be the greatest single stroke for liberty taken in 100 years. ■

AUSTRIAN SCHOLARS *Conference*

March 13–15, 2008
Auburn, Alabama

The Austrian Scholars Conference offers presentations on economics, history, philosophy, and the humanities, with lectures by leaders in the field.

Over the course of three full days, it combines all the opportunities of a professional meeting with the added attraction of hearing and presenting innovative research, and interacting with scholars who share research interests.

To suggest papers and sessions, write **Joseph Salerno** at **jsale@earthlink.net**, or **Jeff Tucker** at **tucker@mises.org**. Submissions will be accepted until all the time slots are taken. Student scholarships are available. Mises Institute Members are welcome to attend.

For more information, see mises.org, call 800-636-4737, or contact Patricia Barnett (pat@mises.org).

UPCOMING EVENTS

- THE MISES CIRCLE IN HOUSTON (Sponsored by Jeremy Davis)
  GREAT ECONOMIC ERRORS
  January 26, 2008 • Houston, Texas
- AUSTRIAN SCHOLARS CONFERENCE
  March 13–15, 2008 • Auburn, Alabama
- THE MISES CIRCLE IN SEATTLE (Sponsored by Curt and Allora Doolittle)
  May 17, 2008 • Seattle, Washington
- MISES UNIVERSITY
  July 27–August 2, 2008 • Auburn, Alabama
- THE MISES CIRCLE IN VANCOUVER (Sponsored by Morgan Poliquin)
  September 2008 • Vancouver, B.C., Canada (date to be announced)
- ROTHBARD GRADUATE SEMINAR
  June 9–13, 2008 • Auburn, Alabama

Register for any conference online at mises.org or by phone at 800-636-4737.
Details for each event are available online at mises.org.

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