

## Yankee Steve's Column

for the Week of February 5, 2009

### The Same Old, Same Old

I truly hoped that Obama would bring change but he is a Socialist, and as such he can only do what Socialists do - tax, tax, tax, then spend, spend, spend. They will even spend when they have not taxed.

There is little or no hope of positive change.

**Hr.1**, A stimulus package, recently passed by the U.S. House of Representatives, and now being decided on by the Senate, is loaded with expenditures some of which are a procrastinator's delight; it puts off until tomorrow what should be done today - putting people back to work. And there is no doubt that Obama will sign it. He wants to look busy.

Obama has that FDR mentality which is that you should do something, anything, to get the economy moving, anything just as long as if you look like your trying, and who knows you just might hit on the incentive.

The latest stimulus package, and certainly not the last one, is no joke. It is an insult to our intelligence. We now have in place a government that does not know how business works, and what will be needed if jobs are going to be created sooner rather than later. I can't believe that Obama, a dyed-in-the-wool Socialist, became the president at a time when we needed an economist. What were we thinking?

**The bail-outs will need a bail-out; they will not work!**

### Central Planning: The Angel of Death

A recent news item is worth noting. It says that while people are being sent pink slips all over America, the government is hiring. What does that mean? It means that the Socialists are in control.

Socialists have convinced our leaders that *interventionism*, or government action, will be needed if the economy will ever recover. A vibrant economy in their opinion is one in which there is heavy participation of government. Central planning of the economy is a must because a hands-on government, or if you like a "growing government," is the only good government.

According to Socialists good governments find something to do. In essence they become employment agencies because the agencies they create must be staffed. When their efficiency is questioned the subject is changed.

A good government engages in bail-outs (a euphemism for when a government takes over a company). The same kind of government refuses to permit a favored business to fail. If you're the right kind of company, with a large number of employees, or if you have to do with the way in which money flows through the economy, you need not worry. The government will be there for you when things go flip-flop or even if they go flim-flam which just might be the case.

There are those of us who believe that the central planning of the economy, if it is allowed to continue, will bring about the end of the free market, the system which has made America the most prosperous nation in history.

The free market system was strongly recommended by Adam Smith in his *Wealth of Nations* [1776], a book that received input from Benjamin Franklin. I would have liked to have been a fly on the wall when those two giants met.

Smith preached the doctrine of *laissez-faire* [French for leave alone] economics. Simply stated laissez-faire means that the government should not plan the economy nor regulate business unnecessarily. The government, as economist Ludwig Von Mises said, should plan to stay out of business. In that way it will be planning for freedom. In other words, governments that interfere in business and the free market wind up exercising too much authority over its citizens.

A close look will reveal that the free market is now being threatened and that Smith has once more been given the cold shoulder.

Red flags should go up when the government takes over struggling banks, and when it assumes that it should go into business by saving companies whose CEOs instructed their companies to live off credit because the supply of credit would never diminish. The take-over of banks means that we are suffering from a brutish kind of cronyism. Is Wall Street without shame? All of a sudden the free market crowd wants to have its losses paid for by taxpayers. How convenient!

Alas, capitalism has fallen into evil hands. The same weasels who complained when regulators almost crippled the free market now want a bail-out from the government. In other words they want it both ways. When companies make money they want little government; when they lose money they call for a big intrusive government, one with deep pockets.

They should thank their lucky stars that Adam Smith is not the president. His role in government, after he wrote his famous work on economics, showed him to be one tough Scotsman. He would have bloodied Wall Street.

### **Leave businesses and the working people alone!**

The enemies of laissez-faire economics are always ready to present us with a litany of complaints about what happens when private investors are left to their own devices. Poisoned streams, polluted air, bad working conditions, and low subsistence wages are the usual complaints. They have not at the same time shown that private investing is like science: it is self-correcting. It is safe to say that in those countries where laissez-faire is observed workers

are treated better and the health of its citizens is noticeably superior than in Socialist countries. Socialist China is a prime example of abuse.

A laissez-faire investor with half a brain will realize that he must get the most out of his employees, and that to do this he should welcome those changes that benefit workers. Smith while calling for less and less interference from government also said that we must have a police. If a corporation or business poisons the air it stands to reason that it will at some time face the authorities. Not only that, a market-driven economy which sets prices because of consumer demands, (which is the opposite of an economy in which the government sets prices and runs businesses from a centrally located bureau) will have to deal with the creed of the consumer which is self-protection. At this very moment cheaply made Chinese products have fallen into disrepute because they were not made with the consumer in mind. What is bad for employees and consumers is bad for business.

We have to wonder whether the end of the free market system is just ahead of us, and whether this could be the reason why Obama wanted to be president.

In an article written Michael Levin stated that he was not as optimistic as many of his conservative friends about the future of the free market. He wrote,

**I am not encouraged by confident assurances that the free market can survive anything. Howard Ruff, in one of his cheerfully apocalyptic guides to the future, compares the free market to Rasputin. Rasputin was poisoned, and he was shot, and still he survived. So, writes Ruff, the regulators have done everything to American capitalism, and still it survives. Unfortunately, Ruff overlooks a final detail. Eventually Rasputin's tormentors threw him in the river. That killed him.**

That quote may have been written sometime ago but it certainly fits. Obama and the interventionists just might drown the free market in the Potomac River.

## **Two Ways to Skin a Cat**

Von Mises, the dean of the Austrian School of Economics, and one of the champions of free market economics, tells us that there are two ways in which Socialism can bring about the end of a free economy. It is worth quoting. **“There are two different patterns for the realization of socialism.”** The one pattern is Marxian or Russian in which all **“. . . economic enterprises are departments of the government just as the administration of the army and the navy or the postal system. . . . The whole nation forms one single labor army with compulsory service; the commander of this army is the chief of state.”**

The other pattern is German or what is called *Zwangwirtschaft*. This pattern

. . . differs from the first one in that seemingly and nominally, maintains private ownership of the means of production, entrepreneurship, and market exchange. So-called entrepreneurs do the buying and selling, pay the workers, contract debts and pay interest and amortization. But they are no longer entrepreneurs. In Nazi Germany they were

called shop managers or *Betriebsfuhrer*. The government tells these seeming entrepreneurs what and how to produce, at what prices and from whom to buy, at what prices and to whom to sell. The government decrees at what wages laborers should work and to whom and under what terms the capitalists should entrust their funds. Market exchange is but a sham. As all prices, wages, and interest rates are fixed by the authority, they are prices, wages, and interest rates in appearance only; . . . The authority, not the consumers, direct production . . . This is socialism, with the outward appearance of capitalism. Some labels of the capitalistic market economy are retained, but they signify here something entirely different from what they mean in the market economy.

It is this second pattern leading to Socialism that America is now favoring. Instead, we should simply follow the advice of Adam Smith [1723-90]. According to Smith, one of the best ways to stimulate the economy is to let people keep the salary they make.

If we were to change the way we tax citizens, the economy would boom.

While discussing the need for less and less governmental interference Smith explained why the various colonies established by European powers tended to prosper, especially those belonging to England. To begin with he assured us that by far and away the worst form of government, as far as the economy is concerned, is one in which the merchants are also the governors. Any municipality province or nation that is operated by a single entity or company, will, he stated, fail to prosper in the way it should. Writing in the 18<sup>th</sup> century Smith wrote that “The French colony of Canada was, during the greater part of the last century and some part of the present, under the government of an exclusive company.” [*The Wealth of Nations*, Vol. 2, p. 161].

After drawing our attention to the fact that this one company had exclusive rights in Canada Smith reported that this company never had to contend with competition. Then this telling remark he added, “. . . under so unfavorable administration its progress was necessarily very slow in comparison with that of other colonies; but it became much more rapid when this company was dissolved after the fall of what is called the Mississippi scheme.” [Ibid, p.161]

Smith also makes mention of a company which had exclusive rights to operate in colonies owned by Denmark. At first things went poorly when these colonies were closely identified with a single company closely aligned with the government. Again, there was no competition. However, the monarch stepped in and not a moment too soon. Smith informed us that he “dissolved this company, and since that time the prosperity of these colonies has been very great.” [Ibid, p. 161] In other words the merchants were separated from the government.

Smith believed that he could explain why the English colonies fared better than the other European colonies, and he was not slow to explain. For one thing the mother country footed the bill for their defense and the upkeep of the civil government. Not only that, the great distance between England and her colonies gave rise to a certain amount of freedom which in turn allowed them to prosper. In other words the government took its hands off business. Going further he relates that the laws that were put in place by the mother country were wisely construed as being good for business. However in America today this is not always the case. For example, old English law prohibited the owning of land left uncultivated, which meant that

landowners could not sit idle. Land which was inexpensive and plentiful had to be used. This led to an increase in wealth for landowners.

I hasten to add that low taxes were a contributing factor to the wealth of the colonies. Smith said that the English colonist “**could keep his profits,**” not turning them over to the government. The result: an increase in labor and investment which in turn led to an increase in wealth, and all because the investor, whether small or big, was allowed to keep his profits. As though speaking as a contemporary American, Smith said, “. . . in consequence of the *moderation of their taxes*, a greater proportion of this produce belongs to themselves, which they may store up and employ in *putting into motion* a still greater quantity of labor.” [Ibid, p.163 *emphasis added*]

**Smith should be required reading in every session of Congress.**

Ever yours,

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