

Edward Plant

Dissertation

Liberty Lost?

To What Extent Have The United States Of  
America Become Collectivist To The Detriment Of Individualism?

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**or**

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Abstract

*This dissertation charts the changes throughout history in the balance between collectivism and individualism in United States federal government policy. It is argued that collectivism has become more prominent to the detriment of individual liberty, especially since the twentieth century. Particular attention is paid to the relationship between collectivist policies and an inflationary monetary system. The issue of military conscription is also examined. The dissertation concludes that the trend towards collectivism, though alarming and harmful, is neither sustainable nor inevitable.*

## Chapter One – Introduction

Have the citizens of the United States of America lost their liberty? Are the United States now, or have they ever been, truly the “land of the free”<sup>1</sup>? To answer these questions, this dissertation will examine which among two philosophies, individualism and collectivism, is more prevalent in the historical and current policies of the United States.

It will not be possible here to furnish a complete discussion of the merits and criticisms of individualism and collectivism. However, this dissertation will move forward after having expressed strong reservations about collectivist methods and policies. One case study, the United States of America, will be examined from the states' declared independence from British colonial rule in 1776 to the present year of 2009. The issues under discussion in this dissertation are (a) whether collectivism has become more prominent in this country over time and (b) if individual liberty is under threat from collectivism.

Before American policy can be examined in detail, individualism and collectivism must first be defined. Individualism is the central tenet of liberalism and all individualists are liberals. Liberalism is the only tradition of thought that places the individual at the heart of its philosophy. Liberalism developed in Europe in the eighteenth century, during a period known as the Enlightenment. Individualist philosophy holds that the main component unit of society is the individual person. Some individualists believe that every person has – whether gifted from the Christian God, as part of his own innate humanity or even from his inclusion within civil society – certain 'natural rights', although others reject the idea of 'rights' but believe in maximising individual freedom in general. Particular rights are often specified, such as the

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1 Key, Francis Scott, “The Star Spangled Banner”, National Anthem of the United States of America, 1814, accessed online at the National Anthem Project on 09/04/09 at <http://www.thenationalanthemproject.org/lyrics.html>

right to own property, the right to fair trial and the right to hold any religion and publish any opinion. Individualists will only accept that individual freedom or rights can be violated in accordance with Mill's 'harm principle': the state does not have the moral authority to interfere with any individual's freedom of action unless that individual is causing actual harm to the rights of others<sup>2</sup>.

For Locke, a society of free individuals may consensually and legitimately establish a republican government for the purpose of protecting rights and private property from domestic criminals, enforcing contracts and defending the territory of the citizens from foreign powers<sup>3</sup>. Individuals as citizens must be free to stand for election to the representative legislature, enfranchised to vote for their own representatives and yet the legislature is not permitted to violate any individual's rights except through the rule of law. All individuals are equally treated by an independent and impartial judiciary, are assumed innocent until proven otherwise and permitted to defend themselves of charges made against them in open court before of a jury of their peers.

Collectivism, by contrast, is a way of thinking that defines society in terms of conflict or cooperation between groups. All of an individual's political, economic or moral characteristics are determined by, and may be inferred from, inclusion to some social group. It is the interplay between these groups that collectivists see as the important mechanism of society.

Collectivism can refer to ideologies as divergent as racism and Marxism. Racists believe every individual belonging to a certain group, as defined by language, skin colour or place of birth, is inherently different and superior or inferior to members of other racial groups. Marxists

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2 Mill, John Stuart, "On Liberty" in "On Liberty and Other Essays", Oxford University Press, 1998 (first published 1859), pp. 83-105

3 Locke, John, "The Second Treatise" in "Two Treatises of Government", Cambridge University Press, Cambridge, 2005 (first published 17th Century), §123

perceive there to be two classes of people in modern society, as defined by their economic relationship to each other and the means of production, one exploiting the other. In both cases, any individual's own personal characteristics are thought to be of secondary relevance to whatever collective identity defines that person. Other variations of collectivist thought include feudalism, statism, utilitarianism, nationalism, sexism, socialism and fascism. The intentions of collectivists may be to fight perceived injustice or to reorder the group relationships in society towards a conception of the common good.

The assumption or assertion of collectivist ideology may be either: the individual is insufficiently moral, rational or intelligent to be capable of managing his own affairs but can be improved by service towards a higher purpose; or that people are inherently good but liberal social structures promote selfishness and the breakdown of community values. It is undeniably true that most people from time to time act irrationally, immorally or foolishly. Yet it does not follow that a powerful government will solve this problem. Locke critiques this assumption: “For he that thinks absolute power ... corrects the baseness of human nature, need read but the history of this, or any other age, to be convinced of the contrary”<sup>4</sup>.

Individualists have grave concerns about collectivists' choice of methods, if not always their motives. Friedrich Hayek identifies this debate when he asks “whether ... it is better that the holder of coercive power should confine himself in general to creating conditions under which the knowledge and initiative of individuals is given the best scope so that *they* can plan most successfully; or whether rational utilisation of our resources requires *central* direction and organisation of all our activities according to some consciously accepted 'blueprint'”<sup>5</sup>.

Individualists argue that the unfettered free market, rather than being a system of exploitation

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4 Ibid., §92

5 Italics in original

Hayek, Friedrich, “The Road to Serfdom”, Routledge Classics, Abingdon and New York, 2008 (first published 1944), pp. 37

as some socialists believe, is on the contrary the institution that provides the best possible standard of living for every member of society.

Moreover, Hayek argues that concentrated power over individuals' economic and social affairs creates a great risk of tyranny, although this is not necessarily the collectivists' intention. He notes that “while to the great individualist social philosophers of the nineteenth century ... power itself has always appeared the arch-evil, to the strict collectivist it is a goal in itself”<sup>6</sup>. Without economic freedom or a tradition of the rule of law, even nominally protected constitutional rights are worthless: for example, despite that a Russian proletarian was guaranteed freedom of speech, press and assembly under the 1936 Soviet Union Constitution<sup>7</sup>, critics of the Communist Party could be sent to prison camps or executed without fair trial. Mises understood that “a free press can exist only where there is private control of the means of production. In a socialist commonwealth ... the government alone determines who should have the time and opportunity to write and what should be printed and published”<sup>8</sup>.

In more general terms, Mises' criticism may be restated: “what gives to the individuals as much freedom as is compatible with life in society is the operation of the market economy. The constitutions and bills of rights do not create freedom”<sup>9</sup>. When the state is the primary benefactor of its class members, nothing can check its power to become judge, jury and executioner. Frédéric Bastiat could see this clearly in 1850, before the atrocities committed by communist and fascist regimes in the twentieth century. He wrote: “socialists ... desire to

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6 Ibid., pp. 148

7 1936 Constitution of the USSR, Bucknell University, Lewisburg PA, accessed online on 23/02/09 at <http://www.departments.bucknell.edu/russian/const/1936toc.html>

8 Mises, Ludwig Von, “The Anti-Capitalistic Mentality”, Libertarian Press, Grove City PN, 1981 (first published 1956), pp. 44, accessed online at the Ludwig von Mises Institute on 23/02/09 at <http://mises.org/etexts/mises/anticap.asp>

9 Ibid., pp. 79

make the law their own weapon. And when once the law is on the side of socialism, how can it be used against socialism? For when plunder is abetted by the law, it does not fear your courts, your gendarmes and your prisons. Rather, it may call upon them for help"<sup>10</sup>. Collectivists, writes Mises, "are forced to ask people to accept credulously their ideological system and to surrender to the authority they consider the right one; they are intent upon silencing dissenters or upon beating them into submission"<sup>11</sup>.

It might be tempting to assume that collectivism and individualism are inversely correlated i.e. that an increase of collectivism in society must be offset by a decrease of individualism. Leaving aside the interesting but diverting dissent from anarcho-capitalists<sup>12</sup>, most individualists would agree that a coercive nation-state is a necessary evil to protect individualism in society. Having reluctantly conceded the necessity of a state, it must be possible in principle for collectivist actions to promote individual rights, although creating a minimal state may be the only example where this is the case. Some collectivist policies will undermine individualism. It may be possible, however, that short-term collectivist policies can defend or promote individualism in the long-term; this possibility will be examined in the seventh chapter discussing conscription.

Having introduced the concepts of individualism, collectivism and liberty in the United States, the second chapter "The Blessings of Liberty" shall explain the Constitution and institutional features of the United States. Then a broad overview of the history of the United States shall

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10 Bastiat, Claude Frédéric, "Socialism is Legal Plunder" in "The Law", Filiquarian Publishing, 2006 (first published 1850), accessed online at Bastiat.org on 27/03/09 at [http://bastiat.org/en/the\\_law.html#SECTION\\_G1811](http://bastiat.org/en/the_law.html#SECTION_G1811)

11 Mises, Ludwig Von, "The Fallacy of Collectivism", in Chapter 8 of "Human Action", accessed online at the Ludwig Von Mises Institute on 01/04/09 at <http://mises.org/story/2528>

12 Long, Robert T.; Machan, Tibor. R., "Anarchism/Minarchism: Is a Government Part of a Free Country?", Ashgate, Aldershot, 2008

focus only on the most salient policies that either demonstrate or changed the balance between individualism and collectivism. There are several policy issues that almost certainly deserve more attention but unfortunately can not be discussed in the space available. The third chapter “A Republic, If You Can Keep It” shall cover the battles between the forces of centralisation and individualism from Independence until the Civil War. The fourth chapter “National Union and Empire” shall examine the transitional period from the end of the Civil War in 1865 to the 'Revolution of 1913' and the fifth chapter “The Growth of Leviathan” shall finish the historical overview from 1913 to the present year of 2009. It will be argued that the twentieth century saw, rather than a political divide between individualism and collectivism, an ascendancy of collectivism at the expense of individual liberty. The sixth chapter “Monopoly Money” will define money and inflation then discuss the relationship between economic freedom and individualist policies. The seventh chapter “The Demented Philosophy of Conquest” will examine conscription in the United States. The conclusion will argue that collectivism has become stronger in the United States in the twentieth century, that what does remain of American individualism and personal liberty is under continual threat; but that this situation may not be able to continue for much longer.



## Chapter Two – The Blessings Of Liberty

Machiavelli, writing in Italy nearly three hundred years before the American Revolution, explains: “it is necessary to whoever arranges to found a Republic ... to presuppose that all men are bad and that they will use their malignity of mind every time they have the opportunity”<sup>1</sup>. This distrustful sentiment may be observed in the attitudes of Americans towards government in the late eighteenth century. It was not intended that the United States be directly democratic, which implies a popular assault on liberty<sup>2</sup> (as was sadly observed in the French Revolution) but a republic of limited scope.

The way in which the former colonies established government for themselves was a pivotal moment in human history, when the despotism of the Old World was defeated and classical liberalism was given expression. The revolutionaries held “these Truths to be self-evident, that all Men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness. That to secure these rights, Governments are instituted among Men, deriving their just Powers from the Consent of the Governed”<sup>3</sup>.

The American War of Independence was fought in defence of traditional liberties for self-

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1 Machiavelli, Niccolò, “Discourses on Livy”, Oxford University Press, Oxford, 2008 (first published 1517)

2 Madison, James, Federalist X “The Same Subject Continued: The Union as a Safeguard Against Domestic Faction and Insurrection” in Madison, James; Hamilton, Alexander; Jay, John, “The Federalist Papers”, Penguin Classics, London, 1987 (first published 1788), accessed online at the University of Oklahoma College of Law on 23/02/09 at <http://www.law.ou.edu/hist/federalist/federalist-10-19/>

3 An earlier draft held that the truths were “sacred and undeniable”

Jefferson, Thomas; Continental Congress, “The Declaration of Independence”, The United States Statutes at Large, Volume 1, pp. 1-3, accessed online at the Library of Congress on 01/04/09 at <http://lcweb2.loc.gov/cgi-bin/ampage?collId=llsl&fileName=001/llsl001.db&recNum=124>

government and freedom from oppressive and unrepresentative British rule and taxation. The Articles of Confederation and the United States Constitution were agreements between the thirteen sovereign states to establish a limited federal government with enumerated powers for their mutual protection. “The Constitution itself is a testimonial to the temper of the times”<sup>4</sup>, meaning it reflects only what could be accepted by the state legislators or electors of that generation. There is plenty of evidence from the Philadelphia Convention debates to know that the intent of most framers was to create a government with “all the power necessary to protect the people, without having enough to oppress and exploit them”<sup>5 6</sup>.

The Constitution is designed to limit the federal government's power, not to serve as “a rubber stamp for approving almost any governmental activity imaginable”<sup>7</sup>. As limited a role as it gives the federal government, many were fearful at the time of ratification that it could lead to a powerful centralised tyranny, which demonstrates how liberty was cherished by early Americans. Many of the Federalist Papers<sup>8</sup> were written to allay those fears. Several states ratified the Constitution reserving the right to secede, while others pressed for amendments to protect individual rights. The first ten amendments to the Constitution, commonly known as the Bill of Rights, were a compromise to allay fear of power concentration at the federal level. They provided a non-exhaustive list of the 'natural rights' of the people and forbade federal and/or state jurisdiction over these areas. Most of the subsequent amendments to the

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4 Chodorov, Frank, “The Income Tax: Root of all Evil”, the Devin-Adair Company, New York, 1954, pp. 16, accessed online at the Ludwig Von Mises Institute on 01/04/09 at <http://mises.org/etexts/rootofevil.asp>

5 Flynn, John Thomas, “The Decline of the American Republic”, the Devin-Adair Company, New York, 1955, pp. 43

6 Madison, James, “Notes on the Debates in the Federal Convention”, 1787, The Avalon Project, accessed online at the Avalon Project on 02/04/09 at [http://avalon.law.yale.edu/subject\\_menus/debcont.asp](http://avalon.law.yale.edu/subject_menus/debcont.asp)

7 DiLorenzo, Thomas James, “Hamilton's Curse: How Jefferson's Archenemy Betrayed the American Revolution — and What It Means for America Today”, Crown Publishers, New York, 2008, pp. 197

8 Madison, James; Hamilton, Alexander; Jay, John, “The Federalist Papers”, Penguin Classics, London, 1987 (first published 1788)

Constitution make minor changes or specifically list liberties over which government has no authority, whereas only two of the twenty-seven amendments to the Constitution grant new powers to the federal government, one of which, the eighteenth (prohibition of alcohol), was repealed. The sixteenth amendment permitting a federal income tax receives more detailed discussion in the sixth chapter.

The Constitution was very liberal for its time. It guaranteed every state a republican government, thus forbidding monarchy; *habeas corpus* and the right to jury trial were assured; there was to be no federal tax on income and only gold and silver could be lawful money; the federal government could not impose any particular Christian creed onto the states. The second amendment protects individuals' right to resist tyranny, pursuant with Lockean doctrine<sup>9</sup>. The ninth amendment makes clear the freedom and rights of the people: the government cannot redefine, gift or withdraw individuals' inalienable rights. The tenth amendment binds the federal government only to those powers given up by the States in Article 1 Section 8: "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people"<sup>10</sup>.

There were two main institutional features intended to decentralise power in the United States Constitution: separation of powers and federalism. The separation of powers is designed to prevent power concentrating in few hands, based on the presupposition "When the legislative and executive powers are united in the same person, or in the same body of magistrates, there

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9 Locke, John, "The Second Treatise" in "Two Treatises of Government", §219-220

10 Tenth Amendment to the United States Constitution, The United States Statutes at Large, Volume 1, pp. 21-22, accessed online at the Library of Congress on 01/04/09 at

<http://lcweb2.loc.gov/cgi-bin/ampage?collId=llsl&fileName=001/llsl001.db&recNum=144> and

<http://lcweb2.loc.gov/cgi-bin/ampage?collId=llsl&fileName=001/llsl001.db&recNum=145>

can be no liberty”<sup>11</sup>. For this reason Congress, not the President, was given the power of declaring war and the Senate must consent to foreign treaties<sup>12</sup>. At both federal and state levels, the executive, legislature and judiciary were all separately constituted, given specific responsibilities and expected to resist encroachments on their powers by either of the other two branches of government. The legislatures all consisted of two separately constituted chambers of equal power. Representation in the House of Representatives was apportioned according to population, whereas every state has an equal number of seats in the Senate. Elected officials are not all due for re-election in the same year, insulating the levers of power from sudden popular shifts in opinion.

As the tenth amendment so clearly states, apart from the powers expressly ceded to the federal government, the several states remain sovereign and self-governing. The several pre-existing colonial peoples, boundaries and governments were a historical reason for American federalism, but the system was also designed to decentralised power. Federal Senators were appointed by and responsible to their state legislatures. In this manner the Senate was expected to resist an expansion of federal power, represent the interests of the states and prevent the federal government from becoming a national government.

This American system of federalism is described by John T. Flynn: “in America the government consists of a number of republics – 49, to be exact. There are the 48 states and the central government. The individual state is a recognized republic endowed with all the authority of

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11 Montesquieu, Charles de Secondat, “The Spirit of the Laws”, 1748, Book XI Chapter 6, accessed online at the Constitution Society on 01/04/09 at [http://www.constitution.org/cm/sol\\_11.htm#006](http://www.constitution.org/cm/sol_11.htm#006)

12 Madison, James, Federalist XLVI “The Influence of the State and Federal Governments Compared” in Madison, James; Hamilton, Alexander; Jay, John, “The Federalist Papers”, Penguin Classics, London, 1987 (first published 1788), accessed online at the University of Oklahoma College of Law on 23/02/09 at <http://www.law.ou.edu/ushistory/federalist/federalist-40-49/federalist.46.shtml>

government save such faculties as it has deliberately delegated to the central government. Its powers are great, but limited in their territorial extent. The federal republic, on the other hand, is equipped with severely limited powers, but extending over the entire nation”<sup>13</sup>. The purpose of this division was to ensure “that no single administration could take into its hands all of the dread authority of government”<sup>14</sup>. The most incredible effect was, writes Chodorov, that “this division of powers established the nearest thing to competition in government the world has ever known”<sup>15</sup>.

Robert Dahl reminds us that the Constitution was an imperfect creation of political compromise<sup>16</sup>. Notwithstanding his contemporary recommendations for reform, his one point most relevant to this discussion is to remind the reader that, while the Constitution was an admirably liberal and individualist document, this was not true of American society at large, which was choked by collectivist attitudes towards women, negroes, Native Americans and non-British immigrants. Rights, though in principle universal, in practice were mostly enjoyed by white males. Even white women were the legal property of their father or husband whereas most negroes on the continent were slaves.

It may be worth pointing out, however, that Article 1, Section 2 of the Constitution is often misrepresented to mean that a black person was defined as being worth only three fifths that of a white person. This was actually a compromise to *limit* the representation of slave states in the federal government. Nor should one mistakenly assume that the North was colour-blind or

13 Flynn was writing before the admission of Alaska and Hawaii as states in 1959, so there are fifty states and fifty-one republics in total.

Flynn, John Thomas, “The Decline of the American Republic”, pp. 25

14 Ibid., pp. 159

15 Chodorov, Frank, “The Income Tax: Root of all Evil”, pp. 62

16 Dahl, Robert Alan, “How Democratic is the American Constitution?”, Yale University Press, 2003 (first published 2002)

that there were no abolitionists in the South<sup>17</sup>.

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<sup>17</sup> Woods, Thomas, "The Politically Incorrect Guide to American History", Regnery Publishing Inc., Washington D.C., pp.

43-59

Chapter Three – A Republic, If You Can Keep It

In 1775, the Continental Congress and some of the colonial governments printed *fiat*<sup>1</sup> paper currency in an attempt to finance the Revolutionary War. Irredeemable in any real commodity and with no restraint on its new creation, it predictably collapsed in value, leaving economic chaos. Revolutionary soldiers resorted to taking food and supplies from civilians by force if they refused to accept the worthless paper<sup>2</sup>. Future generations of Americans could be grateful, however, that this early experience of monetary inflation caused the framers to provide in the Constitution that “No State shall... emit Bills of Credit<sup>3</sup> [or] make any Thing but gold and silver Coin a Tender in Payment of Debts”<sup>4</sup>.

The War of Independence officially ended in 1783 with the Treaty of Paris. It was in 1789 that the Constitution, already discussed, was ratified to replace the Articles of Confederation. Former General George Washington was unanimously elected President and the First Congress was sworn into office. Within Washington's administration “was the most important debate in American history because its results would set the template ... of the young American government ... forever”<sup>5</sup>. Secretary of the Treasury Alexander Hamilton and Secretary of State Thomas Jefferson were of opposite political temperaments. Jefferson was an arch-individualist who believed that mischievous government should be “bound by the chains of the Constitution” whereas Hamilton viewed the Constitution as “a frail and worthless fabric” if ever

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1 *Fiat* is Italian for “let there be”. *Fiat* money is backed up by government coercion.

2 Paul, Ron; Lehrman Lewis, “The Case for Gold”, Congressional Record, Government Printing Office, Washington D.C., 1982, pp. 26-28

3 Bill of Credit refers to fiat paper money.

4 The United States Constitution, Article 1 Section 10, The United States Statutes at Large, Volume 1, pp. 15, accessed online at the Library of Congress on 01/04/09 at <http://lcweb2.loc.gov/cgi-bin/ampage?collId=llsl&fileName=001/llsl001.db&recNum=138>

5 DiLorenzo, Thomas James, “Hamilton's Curse”, pp. 12

it prevented the central government from broadly exercising its “political energy”<sup>6</sup> in the public interest. Hamilton was no socialist, but he was a nationalist<sup>7</sup> in so far as he wanted America to establish its own Empire, and a collectivist in so far as he believed that state funds should be used to benefit one particular group (New England merchants and financiers) at the expense of others. He and his Federalist Party followers perceived these policies to be in their private and the public interest. Jefferson's biographer Albert Jay Nock writes: “[Hamiltonian institutions] effectively safeguarded the monopolist, the capitalist and the speculator. ... The only interest which it left open to free exploitation was that of the producer”<sup>8</sup>.

Hamilton and other corrupt merchants such as Robert Morris<sup>9</sup> wanted the new federal government to charter a central bank i.e. “to reimpose in the new United States a system of mercantilism and big government similar to that in Great Britain, against which the colonists had rebelled”<sup>10</sup>. Thomas Jefferson pointed out that the federal government had not the Constitutional authority to charter a central bank, but Hamilton responded by deliberately obfuscating the clear meaning of the Constitution. He single-handedly invented the bizarre but resilient notion of “implied powers”, meaning that under the appropriate interpretation the Constitution could be seen to grant more power to the centre than merely reading the text makes apparent. In particular, he sought to redefine the meaning of the eighth section of the first article of the Constitution, which reads “The Congress shall have Power ... To make all Laws

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6 Ibid., pp. 14-15

7 Clyde Wilson defines nationalism as “the unhealthy love of one's government, accompanied by the aggressive desire to put down others”.

Wilson, Clyde, “The Yankee Problem in American History” in Wilson, C., “Defending Dixie: Essays in Southern History and Culture”, Foundation for American Education, South Carolina, 2006, pp, 136-137

8 Nock, Albert Jay, “Jefferson”, the Ludwig von Mises Institute, Alabama, 2007 (first published 1926), pp. 188

9 French, Douglas. E., “The Scoundrel Robert Morris”, The Free Market 1995, Volume 13 Number 2, accessed online at the Ludwig von Mises Institute on 27/03/09 at [http://mises.org/freemarket\\_detail.aspx?control=261](http://mises.org/freemarket_detail.aspx?control=261)

10 Rothbard, Murray, “The Mystery of Banking”, The Ludwig von Mises Institute, Alabama, pp. 192, accessed online at the Ludwig von Mises Institute on 08/04/09 at <http://mises.org/mysteryofbanking/mysteryofbanking.pdf>



which shall be necessary and proper for carrying into Execution the foregoing [specifically enumerated and extremely limited] Powers”. In effect, Hamilton argued that by understanding the hidden implications of this clause it should instead be understood that Congress may pass *any* law it thinks expedient.

Hamilton's centralising Federalist Party passed the Bank charter through Congress, opposed by Jefferson's Democratic-Republican Party and the President signed the bill into law in 1791. As might be expected, “the Bank of the United States promptly fulfilled its inflationary potential by issuing millions of dollars in paper money and demand deposits [i.e. checking accounts] pyramiding on top of \$2 million in *specie* [gold and silver] ... wholesale prices [increased by] 72 percent”<sup>11</sup>. In other words, the Bank fraudulently created three times as much paper money than for which there was real backing. Most of this new money bought government debt or was lent to favoured businessmen at below-market interest rates. As the new money began to circulate more widely, the result was massive price inflation. The great mass of people, especially outside of New England, never experienced the benefits of the new money but were punished with higher prices. Their liberty to receive the fruits of their labour was being expropriated by the price inflation coming from the central bank. This was the first but not last disastrous experience with central banking, which shall be discussed in more depth in the fifth and sixth chapters.

Despite Federalist success in extending cheap credit to themselves at public expense, two other notable aspects of their collectivist nationalist programme were successfully resisted. In order to raise federal revenue to service the government debt held by the eastern merchants, as well as centralise power in the federal government, Congress passed a tax on whiskey

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11 Rothbard also contributed the same analysis to Paul, Ron; Lehrman, Lewis, “The Case for Gold”, pp. 33-34

ibid., pp. 196-197

production. It was disproportionately harmful to western and southern farmers who used the spirit as barter currency. Moreover, as an 'internal tax', it was no different to the much hated British taxes that contributed to the Revolution. The tax was almost universally ignored or resisted. Hamilton, Washington and officers from wealthy New England families led an army of conscripts into Pennsylvania, the only state where anyone dared try to enforce the tax<sup>12</sup>. The army – approximately as large as the revolutionary army that defeated the British Empire – was formed to “frighten the states with the threat of a military takeover”<sup>13</sup>. Finding evidence against anyone proved difficult, but Hamilton tried to have the few identified protesters hanged without fair trial. To his dismay, Washington pardoned the only two convicted men. The whole episode was a failure for the Federalists: “the whiskey rebels prevailed. They did *not* pay the whiskey tax; *no one* was successfully prosecuted; and once Jefferson became president, the hated whiskey tax ... was abolished”<sup>14</sup>. This defence of private property is in sharp contrast to later developments, as shall be shown in the sixth chapter.

Amid international tension and the possibility of war between Great Britain and France, President John Adams and the Federalist Congress passed four Alien and Sedition Acts in 1798 to punish partisan criticism of the Federalist government and to deport distrusted foreigners, in blatant disregard of the first and tenth amendments. Vice President Jefferson and James Madison both anonymously helped the Virginia and Kentucky legislatures to respond by asserting their political sovereignty and announcing that, since those Acts of Congress were contrary to the Constitution, they were not laws at all and that each state reserved the right

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12 Rothbard, Murray, “The Whiskey Rebellion: A Model For Our Time?”, *The Free Market* 1994, Volume 12 Number 9, accessed online at the Ludwig Von Mises Institute on 01/04/09 at [http://mises.org/freemarket\\_detail.aspx?control=206&sortorder=articledate](http://mises.org/freemarket_detail.aspx?control=206&sortorder=articledate)

13 Hogeland, William, “The Whiskey Rebellion”, Scriber, New York, 2006, pp. 189

14 DiLorenzo, Thomas James, “Hamilton's Curse”, pp. 33-37

not to enforce them within their borders<sup>15 16</sup>. The laws could in theory be 'nullified'. Hamilton, again, would have liked to quash this dissent by violent military force, but three of the Alien and Sedition Acts either expired or were repealed by Jefferson and his allies in Congress after the next election.

The main significance of the 'Principles of '98' was its proposed answer to the question of who had the authority to interpret the Constitution. The Resolutions and their legacy up until 1860 show that individualist opposition to concentrated power remained strong. The federalist-controlled Supreme Court in the 1803 case *Marbury vs. Madison* established the precedent that the Court had the power of judicial review. Whether it had an *exclusive* right to determine the constitutionality of any law was disputed by the 'Principles of '98'. Jefferson and others knew that federal judges could not be relied upon to check the power of the federal government. The reasoning is as follows: "the [federal] government created by this compact [the Constitution] was not made the exclusive or final judge of the extent of the powers delegated to itself; since that would have made its discretion, and not the Constitution, the measure of its powers"<sup>17</sup>. Several states, including those that criticised the Kentucky and Virginia Resolves at the time, later cited their arguments as soon as their legislatures felt unfairly treated by federal government policy<sup>18 19</sup>. The Jeffersonians who accepted the nullification doctrine saw federalism as the most effective check on the tyrannical powers of government and the

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15 Morison, Samuel Eliot; Commager, Henry Steele; Leuchtenburg, William E., "A Concise History of the American Republic", Oxford University Press, pp. 143-144

16 Watkins, William. J., "Reclaiming the American Revolution: The Kentucky and Virginia Resolutions and Their Legacy", Palgrave MacMillan, New York, 2004

17 Jefferson, Thomas; Kentucky Legislature, "The Kentucky Resolution of 1798", 1798, accessed online at the Constitution Society on 02/04/09 at <http://www.constitution.org/cons/kent1798.htm>

18 Woods, Thomas, "33 Questions About American History You're Not Supposed to Ask", Crown Forum, New York, 2007, pp. 28-37

19 Trask, H. A. Scott, "Thomas Jefferson: Classical-Liberal Statesman of the Old Republic" in Denson, J. V. (ed), "Reassessing the Presidency: The Rise of the Executive State and the Decline of Freedom", the Ludwig von Mises Institute, Alabama, 2001, pp. 98-100

defence of individual liberty, but it would be destroyed by the centralising Civil War.

Though a champion of American individualism while out of office, Jefferson was elected President and was forced to compromise his principles somewhat. In 1803 the federal government bought the vast Louisiana territory from France. Technically, however, the power to purchase land had not been granted to the federal government. Jefferson's initial reaction was to propose a constitutional amendment, but he changed his mind on hearing that Emperor Napoleon might withdraw the offer if the United States delayed<sup>20 21</sup>. In his second term, Jefferson placed an embargo on foreign trade in an attempt to change the foreign policy of Great Britain and France. He enforced this unpopular policy with the military, notwithstanding the fourth, fifth and sixth amendments<sup>22</sup>. Though the benefits of purchasing Louisiana could hardly be questioned and the folly of the failed embargo could hardly be defended, this episode shows that even the best of men may, when in power, choose expediency over legality or consistent principle.

Similarly, Jefferson's successor President James Madison allowed the charter of the First National Bank to expire in 1811. However, the cost of the war with Great Britain in 1812-1815 prompted President Madison and Congress to abandon their individualistic economic policies and instead to encourage “the formation of new and recklessly inflationary banks in the Mid-Atlantic, Southern and Western states, which printed huge quantities of notes to purchase government bonds”<sup>23</sup>. This expansion of credit was unsustainable, but when a correction might have come in 1815, the government allowed the banks not to redeem their notes in *specie*.

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20 Morison, Samuel Eliot; Commager, Henry Steele; Leuchtenburg, William E., “A Concise History of the American Republic”, pp. 150

21 Trask, H. A. Scott, “Thomas Jefferson: Classical-Liberal Statesman of the Old Republic”, pp. 59-63

22 Ibid., pp. 89-90

23 Paul, Ron; Lehrman, Lewis, “The Case for Gold”, pp. 36

Congress thought they were protecting the economy, but the abrogation of the banks' contracts amounted to legally sanctioned theft<sup>24</sup>. Moreover, Congress chartered the Second Bank of the United States in 1816, not to restrict this bank inflation, but to sustain it.

This acceptance of collectivist economic policies by the formerly individualistic Democratic-Republican party delayed the inevitable collapse of the inflationary 'house of cards', but not for long. Rather than protecting the financial system, it only created a moral hazard and encouraged more inflation: "the number of banks and bank credit, expanded rapidly during 1815 as a result of this governmental *carte blanche*"<sup>25</sup>. Fraud and inflation flowed from the Bank to other banks and businesses. Like the effects of alcohol, it lowered lending inhibitions and stimulated risky activity. By 1819, however, the effect was wearing off, malinvestments were revealed to be unprofitable and the hangover began: "the first nationwide 'boom-bust' cycle had arrived in the United States, impelled by rapid and massive inflation, quickly succeeded by contraction"<sup>26</sup>.

Central banking is an instrument of collectivist central economic planning, a rejection of free market principles and one of Marx's transitional steps towards communism<sup>27</sup>. The main purposes of central banks are to finance to government warfare or welfare that would not be borne by taxation and also to enforce a cartel of commercial banks<sup>28</sup>. This episode with central banking in American history to some extent showed the strength of collectivism in late

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24 Rothbard, Murray, "The Mystery of Banking", pp. 197-198

25 Paul, Ron; Lehrman, Lewis, "The Case for Gold", pp. 38

26 Ibid., pp. 48

27 Marx, Karl, "Manifesto of The Communist Party" or "The Communist Manifesto", Penguin Classics, London, 2005 (first published 1848), accessed online at the Marxists Internet Archive on 03/04/09 at <http://marx.org/archive/marx/works/1848/communist-manifesto/ch02.htm>

28 Rothbard, Murray, "The Case Against the Fed", the Ludwig Von Mises Institute, Alabama, 1994, pp. 57-62, accessed online at the Ludwig Von Mises Institute on 03/04/09 at <http://mises.org/books/fed.pdf>

eighteenth century economic thought but still many in the media and legislatures understood that the banks' over-expansion of credit was the true cause of the panic of 1819<sup>29</sup> and that further government intervention could not restore prosperity. The fallout from central banking's failure encouraged an individualist resurgence from Andrew Jackson's Democratic Party.

The Second National Bank would finally be defeated by President Andrew Jackson and his individualist 'hard money' Democratic party. He vetoed a bill to re-charter the Bank in 1832 and ordered tax revenue withdrawn from the Bank the following year. Under Jackson's libertarian administration, the national debt was fully paid for the last time in America's history. From 1832 to the civil war, banking was decentralised, but far from a perfect 'free banking' system<sup>30</sup>. Not all state governments were consistently controlled by the free-market Democrats and would occasionally intervene to violate the contracts and obligations of failing banks. Nevertheless, this period marked the beginning of low inflation and immense economic growth, though interrupted by the Civil War, that would vastly increase the standard of living for Americans. More importantly for the purposes of this discussion, the Jacksonian era was, perhaps, the freest and most individualistic in American history in economic terms.

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29 Rothbard, Murray, "The Panic of 1819: Reactions and Policies", the Ludwig von Mises Institute, Alabama, 2007 (first published 1962), accessed online at the Ludwig von Mises Institute on 10/04/09 at <http://mises.org/rothbard/panic1819.pdf>

30 Paul, Ron; Lehrman, Lewis, "The Case for Gold", pp. 39-40

Chapter Four – National Union And Empire

The American Civil War occurred after the election of Republican Abraham Lincoln as President in 1860, because “the Republicans were no longer a party of one idea, but a party of the North”<sup>1</sup>. Seven Southern states seceded from the Union, followed by four more at the commencement of hostilities. The protection of the institution of slavery was, of course, one of reasons for Southern secession. The reason for the Northern invasion was, perhaps, not the preservation of the Union or the abolition of slavery<sup>2</sup>, but rather the protection of the Northern economy through unfair tariffs<sup>3</sup>. The United States had defeated the Southern Confederacy by 1865 and a programme of military rule over the South was established until 1877. However, “at no time in American history has the Constitution been subjected to so severe or prolonged a strain as during the era of reconstruction. ... If the states were still in the Union ... by virtue of what authority did Congress proceed to impose military government upon Southern states and set up military courts?”<sup>4</sup>.

Reconstruction brought the Thirteenth Amendment eliminating slavery, but it did not and probably could not reverse the collectivist mindset regarding negroes that pervaded the South. The freed negroes were soon treated little better than before. Other consequences of the war were mostly triumphs for collectivism and statism. 'National union' had defeated self-government; states' rights were indelibly associated with racism; the quasi-free Jacksonian banking system was replaced by the National Banking System, which created economic

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1 Morison, Samuel Eliot; Commager, Henry Steele; Leuchtenburg, William E., “A Concise History of the American Republic”, pp. 267

2 Ibid., pp. 277

3 Adams, Charles, “When in the Course of Human Events: Arguing the Case for Southern Secession”, Rowman and Littlefield Publishers Inc., 2000

4 Morison, Samuel Eliot; Commager, Henry Steele; Leuchtenburg, William E., “A Concise History of the American Republic”, pp. 344

instability and was “tied ... intimately to the federal government and more particularly, to its expansion of public debt”<sup>5</sup>; military conscription and a federal income tax were introduced for the first time; the economy was destabilised with *fiat* money ('greenbacks'); high protective tariffs were introduced<sup>6</sup>; civil liberties were quashed during wartime<sup>7 8</sup>. The weakening of one form of collectivism, slavery, was merely replaced with stronger collectivism and more power to the national government: “almost everything, in short, that is currently evil on the American political scene, had its roots and its beginnings in the Civil War”<sup>9</sup>.

Between the end of the Civil War in 1865 and the United States' entry into the First World War in 1917, “the age was memorable not for statesmen ... but for titans of industry. ... No income tax impeded the swift accumulation of fortunes; no government official told them how to run their business”<sup>10</sup>. The accomplishments of free enterprise combined with sound money and limited intervention from government in this period are astounding<sup>11</sup>: “Machinery, science and invention enabled man to increase his productivity a thousandfold”<sup>12</sup>. John D. Rockefeller's

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5 Paul, Ron; Lehrman, Lewis, “The Case for Gold”, pp. 89

6 “The skyhigh Civil War tariffs were originally accepted as emergency revenue measures; protected industries soon came to regard them as permanent.”

Morison, Samuel Eliot; Commager, Henry Steele; Leuchtenburg, William E., “A Concise History of the American Republic”, pp. 348

7 “Lincoln ... was nonetheless a dictator from the standpoint of American constitutional law and practice.”  
Ibid., pp. 284

8 DiLorenzo, Thomas James, “The Real Lincoln: A New Look at Abraham Lincoln, His Agenda and an Unnecessary War”, Random House, 2004

9 Rothbard, Murray, “The War Against the South and Its Consequences”, accessed online at the Ludwig Von Mises Institute on 31/03/09 at <http://blog.mises.org/archives/007937.asp>

10 Morison etc. are critical of this

Morison, Samuel Eliot; Commager, Henry Steele; Leuchtenburg, William E., “A Concise History of the American Republic”, pp. 371-372

11 Woods, Thomas, “The Politically Incorrect Guide to American History”, pp. 93-108

12 Morison, Samuel Eliot; Commager, Henry Steele; Leuchtenburg, William E., “A Concise History of the American



Standard Oil reduced the price of kerosene for consumers by 90%, while inventing hundreds of other consumer goods out of the waste product. Andrew Carnegie's company drove down the price of steel by 90%, resulting in a cascade of lowered costs for all kinds of other goods higher in the capital structure. This period was a high point of individualism in American history, where talent and innovation could receive huge rewards in a competitive marketplace. Economic liberty enabled advances in the standard of living that would have been difficult for the founding generation to imagine. All kinds of modern advances including electricity, the automobile and telecommunications were brought to mass consumption during this time.

Some businesses grew large legitimately in a competitive marketplace by satisfying the demands of many customers. Both the consumers and the producers benefited from this voluntary trade. After all, “the fundamental principle of capitalism is mass production to supply the masses. It is the patronage of the masses that makes enterprises grow into bigness. The common man is supreme in the market economy. He is the customer 'who is always right'”<sup>13</sup>. Unscrupulous businessmen need the government to prevent competition by lobbying for subsidies, tariffs or regulations; American businessmen who tried to form monopolies or cartels were generally unable to do so without government assistance. Indeed, “It was found so difficult to maintain these rudimentary oligopolies that a 'gentlemen's agreement' came to be defined as one that was certain to be violated”<sup>14</sup>. Kolko wrote that “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”<sup>15</sup>.

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Republic”, pp. 364

13 Mises, Ludwig Von, “Economic Freedom and Interventionism”, Foundation for Economic Education, Irvington-on-Hudson, New York, 1990, accessed online at the Ludwig Von Mises Institute on 31/03/09 at <http://mises.org/efandi/ch3.asp>

14 Morison, Samuel Eliot; Commager, Henry Steele; Leuchtenburg, William E., “A Concise History of the American Republic”, pp. 368

15 Kolko, Gabriel, “The Triumph of Conservatism”, Free Press, New York, 1963, pp. 4-5

As the beginning of the twentieth century approached, the United States had finished its land expansion from East to West and grown to forty-eight states. Perhaps not coincidentally, it was around this time that a shift in United States foreign policy took place. In 1878, the Senate ratified a treaty regarding a remote Pacific island: “unimportant as this episode was, it constituted nevertheless, in the words of Secretary of State Greham, 'the first departure from our traditional policy of avoiding entangling alliances with foreign powers in relation to objects remote from this hemisphere'”<sup>16</sup>. Somehow, “Americans of the eighteen-nineties had come to share with the British, Germans and French a willingness to take up 'the white man's burden'”<sup>17</sup>. The United States intervened into the affairs of Spanish Cuba in 1898 and as a result acquired a number of territories in the Pacific Ocean. By the turn of the century, the United States had become an imperial power<sup>18</sup>.

It is indicative of a mainstream move towards collectivism that Theodore Roosevelt was the first President to be elected in the twentieth century. He said that “every man holds his property subject to the general right of the community to regulate its use to whatever degree the public welfare may require it”<sup>19</sup>. Roosevelt was fascinated by war, detested inactivity and in his presidency showed scant regard for federalism or separation of powers<sup>20</sup>. He believed

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16 The island was Pago Pago.

Morison, Samuel Eliot; Commager, Henry Steele; Leuchtenburg, William E., “A Concise History of the American Republic”, pp. 479

17 Ibid., pp. 483

18 “Henceforth, for good or evil, America was a world power with an overseas empire.”

Ibid., pp. 492

19 Roosevelt, Theodore, “The New Nationalism” (speech), Osawatomie, Kansas, August 31 1910, quoted in Ibid., pp. 527

20 Woods, Thomas, “Theodore Roosevelt and the Modern Presidency” in Denson, J. V. (ed), “Reassessing the Presidency: The Rise of the Executive State and the Decline of Freedom”, the Ludwig von Mises Institute, Alabama, 2001

that he alone, elected by the whole American people, was the true guardian of the public interest. 1896 had seen a political realignment of both the Democratic and Republican parties “and with both parties offering an echo not a choice, public interest in politics steadily declined. ... Statism arrived after 1900 ... because a unique set of conditions had destroyed the Democrats as a laissez-faire party and left a power vacuum for the triumph of the new ideology of compulsory cartellization through a partnership of big government, business, unions, technocrats and intellectuals”<sup>21</sup>. Woods concludes that “Roosevelt solidified trends toward centralization that had been at work since the 1860s and institutionalized what amounted to a revolution in the American form of government”<sup>22</sup>.

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21 Paul, Ron; Lehrman, Lewis, “The Case for Gold”, pp. 117-118

22 Woods, Thomas, “Theodore Roosevelt and the Modern Presidency”, pp. 361

### Chapter Five – The Growth Of Leviathan

The so-called 'Progressive' era of the early twentieth century did make one important contribution to expanding the scope of liberty. The nineteenth amendment ratified in 1920 extended the suffrage to women. Ostensibly the seventeenth amendment, which provided for the direct election of federal senators, makes the institution more democratic, but in fact it marked the transition from federal to national government<sup>1</sup>. The Progressive triumph in the 'Revolution of 1913', which will be discussed in more detail in the sixth chapter, was, perhaps unintentionally, a *coup d'etat* for collectivism and the loss of liberty. A third central bank, the Federal Reserve Bank, was established to manage the national economy and the sixteenth amendment to the Constitution was ratified to allow the federal government to tax personal incomes. The Federal Reserve's inflationary monetary policy led to the Wall Street Crash of 1929<sup>2</sup>. In response, Presidents Hoover and Roosevelt instituted unprecedented government control of economic and social affairs in the New Deal, stifling individual liberty and preventing recovery until 1946. The New Deal and World Wars were watersheds for collectivism in the United States, in that all men's lives became forfeit to the national interest. The federal government decided that its people needed to be conscripted in order to defend freedom abroad. All economic transactions became subject to price controls enforced by government agencies and government-sponsored business cartels. The Great Depression and New Deal will be discussed in more depth in chapter six.

In order to defeat collectivist nations in Europe and Asia, the United States allied with the most collectivist of all. The Soviet Union followed the ideology of Marxism and became the ultimate

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1 Paul, Ron; Lehrman, Lewis, "The Case for Gold", pp. 151-159

2 Rothbard, Murray, "America's Great Depression", The Ludwig Von Mises Institute, Alabama, 2005 (first published 1963), Chapter 4, accessed online at the Ludwig Von Mises Institute on 01/04/09 at <http://mises.org/rothbard/agd/chapter4.asp#4>

manifestation of the collectivist state. No sooner had the Axis powers been defeated by the Allies than the marriage of convenience between United States and Soviet Union was dissolved. With the intention of containing communism and spreading democracy, the United States military and intelligence agencies intervened all around the world, causing unintended consequences<sup>3</sup>. Although thousands of American servicemen have died in combat since 1945, Congress has never made a formal declaration of war since then but abdicated its responsibility for conducting foreign policy to the President alone. This concentration of power in the Executive branch of government encourages precisely the sort of despotism the framers sought to avoid. The economic system of the Soviet Union collapsed under its own weight in 1991, as Mises predicted in 1920 that it must<sup>4</sup>, leaving the United States as the most wealthy and influential empire in human history.

In the post-war period, the federal government introduced a range of programmes to combat any manner of perceived social ill, without regard to constitutional restraint or economic reality. Often the programme was named as a 'war', implying that dissent is unpatriotic. Natural rights theory, or 'negative rights', gave way to the idea of having 'positive rights' to compel one group of people to serve another. The new philosophy argues that individuals possess a right to be provided with any desirable service, paid for by the fruits of others' labour<sup>5 6</sup>.

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3 Johnson, Chalmers, "Blowback: The Costs and Consequences of American Empire", Owl Books, New York, 2004 (first published 2000)

4 Mises, Ludwig Von, "Economic Calculation in the Socialist Commonwealth", The Ludwig Von Mises Institute, Alabama, 1990 (first published 1920), accessed online at the Ludwig Von Mises Institute on 01/04/09 at <http://mises.org/econcalc.asp>

5 Paul, Ron, "Freedom Under Siege: The U.S. Constitution After 200-Plus Years", The Foundation for Rational Economics and Education, Texas, 1987, pp. 13-39

6 Patterson, Rachel, "A short history of the social rights myth", the Adam Smith Institute, 25 March 2009, accessed online at the Adam Smith Institute on 08/04/09 at <http://www.adamsmith.org/think-piece/welfare/a-short-history-of-the-social-rights-myth-200903253173/>

The federal government:

- declared 'War on Poverty' and tried to create prosperity through redistribution of wealth and interfering with wage rates. Inflation inherent to the central banking system, however, only made the poor poorer. Subsidising poverty discouraged working and made the poorest forever dependent on government<sup>7</sup>.
- tried to end racial discrimination against African-Americans by forcing schools and employers to positively racially discriminate in their favour<sup>8</sup>. Affirmative action is a peculiarly collectivist way of approaching a problem caused by collectivism and is of dubious effectiveness.
- declared war on those citizens who wished to use harmful drugs. The 'War on Drugs' has had limited effect in reducing the supply or demand of narcotics, but it has asserted the principle that the collective controls what an individual does with his own body. In an identical manner to the failed alcohol prohibition experiment of the 1920s, drug prohibition has encouraged organised crime, meaning that more individuals' life and property are not being protected by the state. Prison populations have increased sixfold since the start of federal drug prohibition<sup>9</sup>. The policy has brought windfall profits to violent criminals and incarceration to many non-violent drug users. The violence created by drug policy is often used as an excuse to restrict the second amendment rights of the lawful.
- forced banks to lower credit requirements for mortgages, wanting to encourage home-ownership among those who could not afford it<sup>10</sup>. As a result, a huge bubble of house

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7 Woods, Thomas, "The Politically Incorrect Guide to American History", pp. 217-230

8 Ibid., pp. 195-212

9 Justice Policy Institute, "The Punishing Decade: Prison and Jail Estimates at the Millenium", Justice Policy Institute, accessed online on 01/04/09 at [http://www.justicepolicy.org/images/upload/00-05\\_REP\\_PunishingDecade\\_AC.pdf](http://www.justicepolicy.org/images/upload/00-05_REP_PunishingDecade_AC.pdf)

10 Woods, Thomas, "Meltdown: A Free-Market Look at Why the Stock Market Collapsed, the Economy Tanked, and

prices was created, the bursting of which in 2008 has created huge economic uncertainty and even more indebtedness for those the programme was supposed to help.

All these collectivist meddlesome activities of the federal government are wholly unconstitutional and have been counter-productive.

The era of confidence following the collapse of the Soviet Union ended suddenly on 11 September 2001 when terrorists, radicalised by U.S. foreign policy<sup>11</sup>, used hijacked aircraft to kill three thousand people. The federal government reacted by passing the Patriot Act 2001 and declaring a 'Global War on Terror', empowering the President beyond any constitutional limitations to defend the 'national security' of the 'homeland'. The President was declared to have the power to secretly and unaccountably reclassify foreign nationals or American citizens as 'enemy combatants' to whom constitutional rights and the rule of law do not apply. The United States and coalition partners started military campaigns to overthrow the regimes of Afghanistan and Iraq, which were suspected of being complicit in the terrorist attacks. Occupation of those two countries continues to the present day. Exploiting fear, the government proposed that in order to defend freedom, freedom itself must be abandoned; in order to defend its citizens from foreign enemies, it must make more enemies abroad. There is a parallel to the Alien and Sedition Acts of 1798 but two very important differences. Firstly, Jefferson's party was outraged and strongly opposed to this violation of liberty, whereas the Patriot Act 2001 and 2005 received bipartisan support. Secondly, the capacity of the modern state apparatus to coerce and spy on its citizens is so much more advanced that in President Adams' time.

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Government Bailouts Will Make Things Worse”, Regnery Publishing, Washington D.C., 2009, pp. 17-21

11 Scheuer, Michael, “Imperial Hubris: Why the West Is Losing The War On Terror”, Potomac Books Inc., Washington D.C., 2005 (first published 2004)

By late 2008, it became undeniable that the United States and world economy were facing a financial crisis. Presidents Bush and Obama have responded by “gathering up all the people who did not see what was coming, denied what was happening and then failed to see the implications of what was indeed happening”<sup>12</sup>. Taking advice from these alleged experts, both parties have pursued a policy of economic hyper-intervention. The Federal Reserve has created trillions of brand new dollars to 'stimulate' the economy. The sixth chapter will further examine the causes and consequences of the crisis. Whereas the cause was an initial contravention of economic liberty through collectivist central planning, the solutions offered have been *more* collectivist central planning and *further* loss of economic liberty. The unintended consequence may be hyper-inflation.

To summarise, from the late eighteenth century until the turn of the twentieth century, the political forces espousing individualism or collectivism fought for power. The twentieth century has seen women and African Americans raised far closer to political equality, but at the same time the federal government has drastically increased its attacks against liberty during every crisis<sup>13</sup>. The discretion of the Supreme Court has slowly legitimised the centralisation of power at the federal level rather than in the states and in the Executive, rather than the Legislature. Congress has abdicated its power to declare war to the discretion of one man. The President maintains that *habeas corpus* and natural rights do not apply to anyone he personally considers to be a threat to the nation. The currency is politically manipulated and loses purchasing power every year to finance the growth of government. The government reserves the right to tax up to 100% of any person's income or conscript them into aggressive wars to 'protect freedom' or 'spread democracy'. Almost all the policies of the leviathan federal

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12 Shedlock, Mike, “Bush To Host Summit of Losers”, accessed online at Mish's Global Economic Trend Analysis on 01/04/09 at <http://globaleconomicanalysis.blogspot.com/2008/10/bush-to-host-summit-of-losers.html>

13 Higgs, Robert, “Crisis and Leviathan: Critical Episodes in the Growth of American Government”, Oxford University Press, Oxford, 1987



government are collectivist, weaken liberty and fail to achieve their stated aims.

### Chapter Six – Monopoly Money

This chapter shall assess the monetary and economic policies of the United States in order to determine to what extent they are now collectivist. A nation's money and financial institutions are a fairly reliable indicator of whether its economy is more or less individualistic. One libertarian thinker has gone so far as to say “money is the barometer of a society's virtue”<sup>1</sup>. Moreover, the intervention of the state into monetary and economic affairs can itself engender further centralising or collectivist interventions. In other words, a collectivist monetary system both reflects and reinforces a society's collectivism, while the same is true for an individualist monetary system. This chapter shall define money and inflation and contrast a pure individualist economic system against the collectivist model. Once the theoretical models are established, the United States, past and present, will be located within this framework. It shall be argued that, since the end of the Jacksonian period, every act to centralise control of money and credit in the hands of the state has not merely demonstrated but also promoted economic collectivism and brought about the next intervention.

Murray Rothbard, libertarian political economist of the Austrian School of Economics<sup>2</sup>, defines money as “a certain commodity, previously useful for other purposes on the market, chosen over the years by that market as an especially useful and marketable commodity to serve as a medium for exchanges”<sup>3</sup>. He insists that it is not “a useless token only good for exchanging”<sup>4</sup>, and that “money did not and never could begin by some arbitrary social contract, or by some

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1 Rand, Ayn, “Atlas Shrugged”, Penguin Modern Classics, 2007 (first published 1957)

2 The Austrian School is named after Austrian founders Carl Menger, Eugen von Böhm-Bawerk, Ludwig von Mises and Friedrich Hayek, but its proponents are not limited by nationality.

3 Rothbard, Murray, “What Has Government Done to Our Money? and The Case for a 100 Percent Gold Dollar”, the Ludwig von Mises Institute, Alabama, 2005 (first published 1963), pp. 27, accessed online at the Ludwig von Mises Institute on 05/04/09 at <http://mises.org/money.asp> and <http://mises.org/story/1829#CASE>

4 Ibid., pp. 27-28

government agency decreeing that everyone has to accept the tickets it issues”<sup>5</sup>. Whether despotic or democratic, governments seek control over the supply of money to increase their revenue and control over economic affairs. Although “government is powerless to create money for the economy”<sup>6</sup>, after “centuries of propaganda and cultivated trust”<sup>7</sup> the public may be induced to entrust their gold to the government and accept paper as a money substitute.

When a government or central bank creates new money without commodity backing, the inflation acts as a hidden tax on the purchasing power of every currency unit<sup>8</sup>. Similarly, if a commercial bank promises to pay all its customers' deposits on demand *and* loans out a fraction of those deposits, the bank has created more claims for the money than can possibly be redeemed. A bank which keeps less than one hundred percent of its reserves in this way is called a 'fractional-reserve bank'. The entire fractional-reserve banking system “is *already* and at all times bankrupt; but its bankruptcy is only *revealed* when customers get suspicious and precipitate 'bank runs'”<sup>9</sup>. Governments, central banks and fractional-reserve commercial banks are all inherently inflationary institutions that engage in “legalized counterfeiting”<sup>10</sup>. The effect of inflation is that “the first receivers of the new money gain most, and at the expense of the latest receivers”<sup>11</sup>. This transfer of wealth is rarely seen: “inflation throws a veil of illusion over every economic process. It confuses and deceives almost everyone, including even those who suffer by it. ... Inflation is the opium of the people”<sup>12</sup>. Note, however, that saving and lending

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5 Rothbard, Murray, “The Case Against the Fed”, the Ludwig von Mises Institute, Alabama, 1994, pp. 12, accessed online at the Ludwig von Mises Institute on 05/04/09 at <http://mises.org/books/fed.pdf>

6 Rothbard, Murray, “What Has Government Done to Our Money? and The Case for a 100 Percent Gold Dollar”, pp. 27

7 Rothbard, Murray, “The Mystery of Banking”, pp. 52

8 Rothbard, Murray, “The Case Against the Fed”, pp. 24

9 Italics in original

Rothbard, Murray, “What Has Government Done to Our Money? and The Case for a 100 Percent Gold Dollar”, pp. 57

10 Ibid., pp. 160

11 Ibid., pp. 65

12 Hazlitt, Henry, “Economics in One Lesson”, the Ludwig von Mises Institute, Alabama, 2008 (first published 1946),

will still exist without a fractional-reserve banking system.

Now that the origin of money and inflation are properly understood, it is necessary to ask how to identify an individualist or collectivist economic system. All activity in a purely individualist *laissez-faire* economy must be based on the consent and voluntary agreement of private property owners. Therefore, all markets and even the coining of money would be free from coercive government control. Private mints have shown themselves to be just as capable of providing sound money as governments, if not more so<sup>13 14</sup>. Slightly less ideal would be a classical gold standard where the national currency is merely a name for a legally defined weight of gold and/or silver. Because citizens can redeem their paper banknotes for *specie* at any time, the gold standard “is a truly effective check [i.e. restraint] on the power of the government to inflate the currency”<sup>15</sup>. Either fractional-reserve banking would be punishable as fraud, or at least every such bank would have to stand alone on its own reputation. Fear of losing the confidence of its customers would mean that “free banking would lead not to the infinite supply of money ... but rather to a much 'harder' and sounder money than exists when banks are controlled by a central bank”<sup>16</sup>. A direct tax on income would not be permissible, since direct taxes “imply the denial of private property”<sup>17</sup>.

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pp. 154

13 George Selgin, “Good Money: Birmingham Button Makers, the Royal Mint, and the Beginnings of Modern Coinage, 1775-1821”, the University of Michigan Press, Michigan, 2008

14 Paul, Ron; Lehrman, Lewis, “The Case For Gold”, pp. 143-146

15 Mises, Ludwig Von, “The Theory of Money and Credit”, The Liberty Fund, 1981 (first published 1912), pp. 452, accessed online at the Ludwig Von Mises Institute on 05/04/09 at [http://mises.org/books/Theory\\_Money\\_Credit/Contents.aspx#\\_sec4](http://mises.org/books/Theory_Money_Credit/Contents.aspx#_sec4)

16 Rothbard, Murray, “What Has Government Done to Our Money? and The Case for a 100 Percent Gold Dollar”, pp. 166

17 Chodorov, Frank, “The Income Tax: Root of All Evil”, pp. 8

A purely collectivist economy, by contrast, ultimately requires state ownership of property so that all resources may be directed towards the national interest. Less extreme would be the private ownership of business, regulated by government, while the state has a monopoly over the supply of money: “money ... is the nerve center of the economic system. If, therefore, the state is able to gain unquestioned control over the unit of all accounts, the state will then be in a position to dominate the entire economic system, and the whole society”<sup>18</sup>. This control over the supply of money is performed by the creation of a central bank, which is granted a monopoly on the creation of legal tender and which forms banks into a cartel. Through legal tender laws, the government would be able to force individuals to accept its paper 'monopoly money'<sup>19</sup>. In this case, in addition to taxing subjects' income, the state can inflate the money supply to surreptitiously finance favoured political groups or programmes. Only with control of economic affairs through paper money and inflation can collectivist goals be pursued, whether they are redistribution of wealth to benefit certain superior groups, achieving social justice, or funding wars to civilize foreign groups. Social liberties cannot long exist without economic liberty, for they are but different aspects of individualism.

It will now be shown how the United States of America relates to these theoretical individualist or collectivist economic models. The word 'dollar' is a corruption of 'thaler', a Spanish silver coin circulating in the American colonies before independence<sup>20</sup>. Where gold and silver coins were unavailable, in the countryside for example, tobacco, beaver skins or whiskey served as money. Moreover, a variety of foreign coinage circulated throughout the early United States. The Constitution of the United States forbids the federal or any state government from issuing paper money. The second Congress authorised the minting of gold and silver coins by the

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18 Rothbard, Murray, "What Has Government Done to Our Money? and The Case for a 100 Percent Gold Dollar", pp.

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19 Not only must a central bank have a monopoly over the issue of banknotes, it takes no more capital to produce them than a printing press (or electronic equivalent), scarcely different than the Hasbro board game Monopoly.

20 Paul, Ron; Lehrman, Lewis, "The Case For Gold", pp. 18

federal government, declared that debasing the coinage from the defined purity was a crime punishable by death<sup>21</sup> and declared foreign coins to be legal tender<sup>22</sup>. The federal government did not have the authority to tax incomes, whereas states were limited in so doing by competition between each other for citizens and business. In short, then, the early American monetary system was very close indeed to this individualistic ideal: there were competing sound monies, the government did not monopolise the minting business and Congress recognised that inflation was a capital crime – *especially* if committed by the government.

This state of affairs did not last, however. In the third chapter it was shown how the collectivist Hamiltonians and the individualist Jeffersonians fought over the issue of establishing an inflationary central bank. The consequence of the First and Second National Banks' inflation of the money supply was the first boom-bust cycle. The 'era of good feeling'<sup>23</sup> ended in the panic of 1819. In the 1830s, the libertarian Jacksonians abolished central banking and severely curtailed commercial banks' ability to inflate. Thus the Jacksonians set the United States back on a more individualist and sound financial footing until the Civil War of the 1860s.

The Civil War made three crucial changes to promote collectivism in the United States economy. The first was the *fiat* (i.e. backed by government coercion rather than any commodity) 'greenback' currency issued by Congress to pay for the war. Though it was eventually retired in 1879, it “set a momentous precedent ... particularly for the post-1971

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21 Second Congress, "An act establishing a mint, and regulating the Coins of the United States", 1792, The United States Statutes at Large, Volume 1, pp. 246-251, accessed online at the Library of Congress on 05/04/09 at <http://lcweb2.loc.gov/cgi-bin/ampage?collId=llsl&fileName=001/llsl001.db&recNum=369>

22 Second Congress, "An act regulating foreign Coins, and for other purposes", 1793, The United States Statutes at Large, Volume 1, pp. 300-301, accessed online at the Library of Congress on 05/04/09 at <http://lcweb2.loc.gov/cgi-bin/ampage?collId=llsl&fileName=001/llsl001.db&recNum=423>

23 Maloney, C.J., "1819: America's First Housing Bubble", Mises Daily, 7th April 2009, accessed online at the Ludwig von Mises Institute on 07/04/09 at <http://mises.org/story/3395>

experiment in *fiat* money”<sup>24</sup>, spread undeserved economic hardship to the late-receivers<sup>25</sup> and created a lobby for more inflation among the early-receivers<sup>26 27</sup>. Whereas an individualist society would not allow a *fiat* currency (Oregon and California, for example, refused to enforce the legal tender status of the 'greenback'<sup>28</sup>), those who benefited from the initial inflation – in particular, the Republican Party and those businessmen involved with subsidised rail-roads – agitated for the continuation of the collectivist policy of theft by inflation. In this way a crisis prompted a 'temporary emergency' policy of intervention, which once begun was difficult to reverse.

The second change was the precedent of levying a federal income tax from 1861 to 1872. Congress tacitly admitted it knew the tax to be unconstitutional but treated it as a war necessity<sup>29</sup>. Once instituted it was reluctantly abandoned; between 1872 and 1913 there were abortive efforts to reintroduce it. Thirdly and of most importance was the abandonment of the Jacksonian banking system in favour of a “quasi-centralized”<sup>30</sup> system. The National Banking System removed most restraints on continual and uniform inflation, resulting in a string of business cycles. Wall Street banks at the base of the inverted pyramid system were encouraged to purchase federal debt as an asset upon which they could extend credit to other banks<sup>31</sup>. In this way the government exercised power over the banking system so they could grow and inflate together<sup>32</sup>.

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24 Paul, Ron; Lehrman, Lewis, “The Case For Gold”, pp. 74

25 Ibid., pp. 74-81

26 Ibid., pp. 93-98

27 Ibid., pp. 100-102

28 Ibid., pp. 78-79

29 Unfortunately Chodorov misunderstands about the boom-bust cycle and 'war prosperity' on the same page.

Chodorov, Frank, “The Income Tax: Root of all Evil”, pp. 24

30 Paul, Ron; Lehrman, Lewis, “The Case For Gold”, pp. 74

31 Ibid., pp. 89

32 Ibid., pp. 84

Building on the transitional advances of the Civil War, the principal victory for collectivist forces over the federal government was won in 'The Revolution of 1913' with the sixteenth amendment to the Constitution and the Federal Reserve Act. The sixteenth amendment empowered the federal government to tax incomes directly and without limit. This was a crucial policy change that opened the floodgates to the growth of government and decline of liberty in the twentieth century. All the political parties (Socialist, Populist, Democratic and Republican) supported this collectivist control of the state to decide the winners and losers in society but "none of the advocates of income taxation spoke of expanding the functions of government ... those who advocated the tax ... were not aware of what they were doing, and would probably have stopped in their tracks if they could have foreseen the consequences of their proposal"<sup>33</sup>. The motivation was still a collectivist envy towards a despised group, or a 'soak the rich' attitude<sup>34</sup>, but the later consequences that the federal income allowed were tragically unintended. It was by everyone assumed that only the super-rich would be subject to this tax at a very low rate, while it was promised that the tariff on imported goods would be lowered. Yet the income tax supporters were foolish to trust the government to help them, as "the historic fact is that tariffs rose higher than ever after income taxation was ultimately constitutionalized"<sup>35</sup>. The applicability of the income tax was soon broadened substantially and the rates increased many-fold.

The revenue from the income tax has led to a great concentration of power in the hands of the federal government and the subjection of the American citizen to the invasive Inland Revenue Service. Federalism, the system which decentralises power and undermines the potential for tyranny, has been severely weakened by the income tax amendment. State governments have

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33 Chodorov, Frank, "The Income Tax: Root of all Evil", pp. 29

34 Ibid., pp. 27

35 Ibid., pp. 28



become so beholden to the federal government for the federal income tax revenue that they must comply with the policy wishes of the centre or risk severe revenue shortfalls<sup>36 37</sup>.

Furthermore, “The citizen is sovereign only when he can retain and enjoy the fruits of his labor. If the government has first claim on his property he must learn to genuflect before it. When the right of property is abrogated, all the other rights of the individual are undermined, and to speak of the sovereign citizen who has no absolute right of property is to talk nonsense”<sup>38</sup>.

The income tax amounts to involuntarily labour for the state and the denial of private property. The history of income taxation is one of the clearest single indicators of the rise of collectivism and the decline of liberty in the United States. Americans of the eighteenth century fought for their independence, in part, because of unfair taxation. They did not accept further attacks on private property when carried out by Hamilton's party in 1794. But today citizens are forced to testify against themselves to the Inland Revenue Service and are assumed guilty of tax evasion unless they can prove their innocence.

Liberty is attacked threefold. First, the individual must pay tribute at a rate dependent on the need of government. Second, the ill-gotten gains enables the growth of the state to pursue aggressive wars or other policies that further restrict the individual's liberty. Thirdly, the individual can no longer rely on his state government to defend his interests, since it too has lost its power to Washington D.C.. In the 'Revolution of 1913' the United States unknowingly afflicted upon themselves an evil far greater than those which prompted the revolution of 1776.

By the beginning of the twentieth century the few Wall Street banks which formed the base of

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36 Ibid., pp. 57-74

37 DiLorenzo, Thomas James, “Hamilton's Curse”, pp. 159-164

38 Chodorov, Frank, “The Income Tax: Root of all Evil”, pp. 75

the inverted pyramid of the National Banking System found their dominance attacked by competitors from outside New York<sup>39</sup>. When the weakness of the fractional-reserve banking system became apparent to the general public in the panic of 1907, the banking interests used the opportunity to promote central banking to the public<sup>40</sup>. Central banking exacerbates everything harmful in the fractional-reserve banking system but promises the banks that their losses will be socialised: the central bank *protects only the bankers* from competition and the boom-bust cycle. A draft of the Federal Reserve bill was drawn up by six prominent bankers in absolute secrecy in Jekyll Island, Georgia, in 1910<sup>41 42</sup>. President Woodrow Wilson signed the Federal Reserve Act two days before Christmas in 1913, creating the United States' third central bank, the Federal Reserve Bank or 'Fed'.

These collectivist victories were significant in themselves, but they were only the first wave of a full scale assault on economic liberty. Contrasting federal government responses to the two downturns of the 1920s demonstrates the success of *laissez-faire* and the tragic failure of interventionism. Allowing market liquidation and readjustment brought about a swift economic recovery; collectivist intervention created the longest and most severe depression in the history of the republic. That today's politicians seek to emulate the collectivist policies, in flat contradiction of sound economic theory and all the evidence of the 1920s, is a clear sign that the collectivist mentality is very strong in Washington D.C..

Both the recessions of 1921 and 1929 were caused primarily by the inflation created by the brand new Federal Reserve System<sup>43</sup>. Inflation to finance the First World War caused the 1921

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39 Paul, Ron; Lehrman, Lewis, "The Case For Gold", pp. 120

40 Rothbard, Murray, "The Case Against the Fed", pp. 108-114

41 Ibid., pp. 116

42 Griffin, G. Edward, "The Creature from Jekyll Island: A Second Look at the Federal Reserve", Amer Media, 2002

43 Rothbard, Murray, "America's Great Depression", The Ludwig Von Mises Institute, Alabama, 2005 (first published

recession. The recession of 1921 was initially more severe than the famous depression of 1929<sup>44</sup> but because neither the federal government nor the central bank interfered with the market's readjustment, it ended very quickly indeed<sup>45 46</sup>. President Harding responded by actually cutting the size of the federal government, thereby returning resources to the productive private sector: “the severe depression of 1921 was over so rapidly, for example, that Secretary of Commerce [later President] Hoover, despite his interventionist inclinations, was not able to convince President Harding to intervene rapidly enough; by the time Harding was persuaded to intervene, the depression was already over, and prosperity had arrived”<sup>47</sup>.

Between the recovery of 1922 and the crash of 1929, the Federal Reserve, in a misguided attempt to maintain a stable price level, inflated the total supply of dollars not backed by gold by sixty-three percent<sup>48</sup>. When the inflationary bubble burst in 1929, this was by no means an exceptional event in the history of fractional-reserve banking, as has already been shown. What was exceptional was the government's *response*. Presidents Hoover and Roosevelt embarked on unprecedented interventions to deny the economic reality of a recession and to control the entire U.S. economy from Washington D.C.. It is no exaggeration at all to say that between the years of 1931 and 1946 the United States economy was modelled after contemporary Mussolini's fascist Italy<sup>49</sup> - the economy was controlled centrally by a corrupt alliance of big government and big business cartels. Not only was the New Deal an outright

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1963), Chapter 4, accessed online at the Ludwig Von Mises Institute on 01/04/09 at

<http://mises.org/rothbard/agd/chapter4.asp#4>

44 Vedder, R.; Gallaway, Lowell, “Out of Work: Unemployment and Government in Twentieth-Century America”, New York University Press, New York, 1997 (first published 1993)

45 Powell, Jim, “America’s Greatest Depression Fighter (No, it wasn’t Franklin Delano Roosevelt)”, LewRockwell, accessed online at LewRockwell on 07/04/09 at <http://www.lewrockwell.com/orig4/powell-jim4.html>

46 Woods, Thomas, “Meltdown”, pp. 94-96

47 Rothbard, Murray, “America's Great Depression”, pp. xxx

48 Ibid., pp. 95

49 Flynn, John Thomas, “The Roosevelt Myth”, Fox & Wilkes, 1998 (first published 1948)

and total victory for collectivism, it was a crushing defeat to liberty and prosperity: “FDR's economic policies made the Great Depression much worse; caused it to last much longer than it otherwise would have; and established interventionist precedents that have been a drag on economic prosperity and a threat to liberty to this day”<sup>50 51</sup>. Indeed, it is hardly possible to conceive what policies would have more surely brought about a long depression than those Hoover and Roosevelt implemented. The New Deal:

- subsidised and supported industries that should have gone bankrupt;
- withdrew the dollar from the gold standard, encouraged more inflation and literally confiscated gold from private citizens' homes and bank deposits;
- forbade wage decreases and strengthened unions, causing unemployment to *increase* even from its initial very high level;
- organised business cartels which fixed all prices in the economy;
- increased taxes (Roosevelt at one point considered a 99.5% income tax<sup>52 53</sup>);
- ordered the destruction of perfectly good food to prevent the price from falling (later, farmers were paid not to produce in the first place, a practice which continues to this day)<sup>54</sup>;

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50 DiLorenzo, Thomas James, "Franklin Delano Roosevelt's New Deal: From Economic Fascism to Pork-Barrel Politics" in Denson, John V. (ed), "Reassessing the Presidency: The Rise of the Executive State and the Decline of Freedom", the Ludwig von Mises Institute, Alabama, 2001, pp. 426

51 Cole, Harold Linh; Ohanian, Lee Edward, "New Deal Policies and the Persistence of the Great Depression: A General Equilibrium Analysis", *Journal of Political Economy* 112, August 2004

52 Reed, Lawrence W., "Great Myths of the Great Depression", the Foundation for Economic Education and the Mackinac Center for Public Policy, accessed online at 07/04/09 at <http://fee.org/articles/great-myths-of-the-great-depression/>

53 Folsom, Burton, "What's Wrong With The Progressive Income Tax?", *Viewpoint on Public Issues*, 3 May 1999, Mackinac Center for Public Policy, Midland, Michigan

54 DiLorenzo, Thomas James, "Franklin Delano Roosevelt's New Deal: From Economic Fascism to Pork-Barrel Politics", pp. 434

- caused “regime uncertainty”, thus driving investors' wealth away from the United States<sup>55</sup>;
- diverted capital away from productive jobs (which were invisibly destroyed or never created<sup>56</sup>), to more visible but wholly unproductive 'make-work' schemes<sup>57</sup>;
- directed funds away from the poorest Southern states in order to buy votes in the more electorally important Western states<sup>58</sup>;
- required some employees of the Works Progress Administration to donate money to the Democratic Party, register as Democrats or canvass for Democratic candidates, or else lose their government job<sup>59</sup>;
- concentrated power in the federal government at the expense of the states<sup>60</sup>;
- bullied the Supreme Court into blessing the New Deal with the aura of constitutionality<sup>61</sup>.

#### Unemployment, government debt and inflation soared and Americans' standard of living

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55 “given the unparalleled outpouring of business-threatening laws ... [and] the oft-stated hostility of President Roosevelt ... toward investors ... the political climate could hardly have failed to discourage some investors from making fresh long-term commitments.”

Higgs, Robert, “Regime Uncertainty: Why the Great Depression Lasted So Long and Why Prosperity Resumed After the War”, *Independent Review* 1, Spring 1997, pp. 586

56 “Therefore for every public job created by the [public works] project a private job has been destroyed somewhere else. ... But there are other things that we do not see, because, alas, they have never been permitted to come into existence. They are the jobs destroyed by the [money] taken from the taxpayers.”

Hazlitt, Henry, “Economics in One Lesson”, pp. 19

57 DiLorenzo, Thomas James, “Franklin Delano Roosevelt's New Deal: From Economic Fascism to Pork-Barrel Politics”, pp. 443

58 *Ibid.*, pp. 446

59 *Ibid.*, pp. 444-445

60 Flynn, John Thomas, “The Decline of the American Republic”, pp. 112-114

61 *Ibid.*, pp. 99-102

plummeted. Roosevelt even managed to create an additional downturn within the Depression. The one and only policy that could have made the depression worse, to Roosevelt seemed highly desirable. The embargo of Japan succeeded in provoking that country to attack the United States out of desperation and so the Congress was forced to bring America into the Second World War.

The New Deal was “one of the most colossal and tragic failures of government and public policy in American history”<sup>62</sup>, a “a ruin unprecedented in length and intensity”<sup>63</sup>, the blame for which rests entirely on collectivist inflation and intervention. Some saw this at the time: “Mencken excelled himself in attacking the triumphant FDR, whose whiff of fraudulent collectivism filled him with genuine disgust. ... His New Deal was a ‘political racket,’ a ‘series of stupendous bogus miracles,’ with its ‘constant appeals to class envy and hatred,’”<sup>64</sup> <sup>65</sup>.

The legacy of the New Deal remains in today's federal government policies of subsidising farmers not to produce and individuals not to work, the transfer of wealth to politically valuable constituencies, militarism, a huge and growing national debt<sup>66</sup>, the “ticking time bomb”<sup>67</sup> that is social security and the moral hazard created by the Federal Deposit Insurance Company<sup>68</sup>. As

62 Reed, Lawrence W., “Great Myths of the Great Depression”

63 Rothbard, Murray, “America's Great Depression”, pp. 336

64 Reed, Lawrence W., “Great Myths of the Great Depression”

65 Sennholz, Hans. F., “The Great Depression”, *The Freeman*, April 1975, pp. 212-213

66 Vedder and Galloway estimate half of federal spending in 2001 could be attributed to FDR's administration (including the Second World War).

Vedder, R.; Galloway, Lowell, “Rating Presidential Performance” in Denson, J. V. (ed), “Reassessing the Presidency: The Rise of the Executive State and the Decline of Freedom”, the Ludwig von Mises Institute, Alabama, 2001, pp. 30-31

67 Higgs, R., “Ticking Time Bomb Explodes, Public Is Shocked”, the Independent Institute, 10th September 2008, accessed online at the Independent Institute on 07/04/09 at <http://www.independent.org/blog/?p=186>

68 “The very essence of fractional-reserve banking is that the bank is inherently insolvent ... an industry consisting of

important, however, is the effect on public opinion. Schools (since recently controlled by the new federal Department of Education) have taught generations of Americans, including today's politicians and voters, that:

- capitalism is unstable;
- the New Deal and/or the Second World War ended the Great Depression;
- government spending can create prosperity;
- Social Security will take care of everyone in their old age without the necessity of saving;
- bank deposits are safely insured;
- the Federal Reserve is a source of financial stability.

These, and more, are all examples of what Mencken defines as a platitude: “an idea (a) that is admitted to be true by everyone, and (b) that is not true”<sup>69</sup>. It comes as no surprise, therefore, that the solutions offered by the leadership of both political parties to the 2008 economic crisis mimic the mistakes of the past: the bailout of the insolvent banking industry, unprecedented government debt and spending blessed with the miracle of Keynes' “multiplier effect”<sup>70</sup>.

The Bretton Woods monetary system established in 1946 “placed its trust, not in the workings of the marketplace, but in the judicious restraint of the American government. It therefore contained within itself the seeds of its own destruction”<sup>71</sup>, which finally occurred in 1971. From

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hundreds of insolvent firms is surely the last institution about which anyone can mention 'insurance' with a straight face.”

Rothbard, Murray, “The Case Against the Fed”, pp. 137

69 Mencken, Henry Louis, “A Mencken Chrestomathy”, Vintage Books, 1982 (first published 1949)

70 Shostak, Frank, “The Myth of the Magical Multiplier”, Mises Daily, 19th August 2005, accessed online at the Ludwig von Mises Institute on 10/04/09 at <http://www.mises.org/story/1889>

71 Paul, Ron; Lehrman, Lewis, “The Case for Gold”, pp. 131

1971 to the present, there has been no link whatsoever between gold and the dollar. Since then, “the Federal Reserve has enjoyed the absolute power to do literally anything it wants ... and inflate credit as much as it pleases. There are no restraints left on the Federal Reserve. The Fed is the master of all it surveys”<sup>72</sup>.

The current economic crisis was directly caused by Federal Reserve's inflation of the early twenty-first century<sup>73</sup>. This inflationary policy was designed to 'paper over' the correction that would have occurred in 2001, itself a result of even earlier monetary expansion and resource mis-allocation. The 2008 crisis has been only the very latest incident in a long cycle of economic and monetary interventions from the collectivist central planners in Washington D.C.. There should be no doubt that more of the same will not fix the problems, since all efforts are directed at consequences while the cause – the Federal Reserve System – is ignored or praised.

Haphazard part-nationalisation of industry, “socialism for the rich”<sup>74</sup>, maintaining bubble prices, abrogating contracts for political reasons, raising barriers to international trade, creating unlimited inflation and growing government spending do not stimulate an economy but *depress* it. The greatest risk is that Federal Reserve's policy of inflating to cure the problems of earlier inflation may ultimately destroy the currency, throw the entire economy into paralysis and steal the entire wealth of anybody holding dollars. Short of this calamity, collectivists in both political parties are leading the country towards a recession deeper and longer than would have occurred had the market been allowed to adjust. Additionally, when the initial interventions fail to produce the desired result, interventionist logic will tend to blame intervention's failure upon whatever freedom remains in the marketplace and promote *more*

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72 Rothbard, Murray, “The Case Against the Fed”, pp. 132

73 Woods, Thomas, “Meltdown”

74 Rogers, Jim, quoted in "Jim Rogers: 'Abolish the Fed'", CNBC, 12 Mar 2008, accessed online at CNBC on 07/04/09 at <http://www.cnbc.com/id/23588079/site/14081545>



central control over economic affairs. In this way, attempts to intervene and fight the economic crisis will make the problem worse and reproduce the causes of the problem on a larger scale.

### Chapter Seven – The Demented Philosophy of Conquest

This chapter shall briefly examine the issue of conscription in the United States. While it is true that there were some instances of attempted conscription in the early history, the shift towards collectivist attitudes at the turn of the twentieth century produced a change in foreign policy from non-intervention to global intervention and the introduction of conscription. It will be asked whether conscription can be justified by an intention to defend liberty. The twentieth century policy of conscription will be argued to demonstrate a rise of collectivism dating from the height of the Progressive era. Clearly it represents a potentially lethal threat to the individual lives and liberty of American citizens.

Military conscription is the ultimate collectivist and totalitarian measure. Whereas direct taxation rests on the assumption of state ownership of the individual's labour, conscription is the "maximum tax"<sup>1</sup>. If conscription is accepted, the individual's very body is not his own; he is not a free individual but a slave of "the great god [called] State"<sup>2</sup>. Statists may try to justify conscription as a necessary but temporary measure to preserve individual freedom in the long term by defeating enemies of freedom and democracy. There are several problems with this argument. Not least of all, conscription is used in the most collectivist states for the purpose of preserving the collective by the sacrifice of individuals.

A free people that valued its liberty and genuinely perceived it to be threatened by foreign enemies would have no qualms about volunteering for service or bearing tax increases for a

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1 Paul, Ron, "Freedom Under Siege", pp. 75

2 This passage is not relevant to conscription. Only the phrase is quoted.

Mises, Ludwig Von, "Human Action: A Treatise on Economics", the Ludwig von Mises Institute, Alabama 2008 (first published 1949), pp. 732, accessed online at the Ludwig Von Mises Institute on 11/04/09 at <http://mises.org/humanaction/pdf/humanaction.pdf>

defensive war. Aggressive wars driven by the “demented philosophy of conquest”<sup>3</sup>, on the other hand, tend to become unpopular. If insufficient numbers of people will either volunteer or lend money to the government, this may well be evidence that the war is ill-considered and not in the national interest.

Besides the dangers to the life and liberty of the unfortunate conscript, the collectivist justification for conscription affects the entire nation. In war, implementing rationing while directing most economic activity towards military requirements is justified by the same logic that sends able-bodied men and women to the front line against their will. In this event, “mobilization has become total; the nation and the state have been transformed into an army; war socialism has replaced the market economy”<sup>4</sup>. The draft destroys social and economic liberty at home, perhaps irreparably<sup>5</sup>.

Using the ends to justify the means is ludicrous when the two are in every way contradictory: “justifying conscription to promote the cause of liberty is one of the most bizarre notions ever conceived by man! Forced servitude, with the risk of death and serious injury as a price to live free, makes no sense”<sup>6</sup>. There is a serious logical problem with an argument that justifies, even

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3 Paul, Ron, “Statement on the Iraq War Resolution”, 14th February 2007, United States House of Representatives, accessed online at Ron Paul's Speeches and Statements on 08/04/09 at <http://www.house.gov/paul/congrec/congrec2007/cr021407.htm>

4 Mises, Ludwig Von, “Interventionism: An Economic Analysis”, the Foundation for Economic Education, New York, 1998 (written in 1940), pp. 69-70, accessed online at the Ludwig von Mises Institute on 11/04/09 at <http://mises.org/etexts/mises/interventionism/section6.asp>

5 Higgs, Robert, “Crisis and Leviathan: Critical Episodes in the Growth of American Government”, Oxford University Press, Oxford, 1987

6 Paul, Ron, “Conscription – The Terrible Price of War”, 21 November 2003, United States House of Representatives, in Paul, Ron, “A Foreign Policy Of Freedom: 'Peace, Commerce, And Honest Friendship'”, The Foundation for Rational

glorifies, the violation of a principle for the sake of defending the principle.

During the United States' first declared war<sup>7</sup>, the House of Representatives debated whether to impose conscription. Although the sound of enemy guns could be heard in Washington D.C., Congressman Daniel Webster attacked conscription: “the people of this country have not established for themselves such a fabric of despotism. ... Where is it written in the Constitution ... that you may take children from their parents, and parents from their children, and compel them to fight the battle in any war in which the folly or the wickedness of government may engage it?”<sup>8</sup>.

If it were known that the federal government possessed the power to conscript, it would have been apparent in the 1780s and debated<sup>9</sup>. Even if there was any doubt in the matter, the thirteenth amendment ratified in 1865 plainly states: “Neither slavery nor involuntary servitude, except as a punishment for crime whereof the party shall have been duly convicted, shall exist within the United States”<sup>10</sup>. Military conscription is clearly contrary to constitutional intent and individualist moral standards. Nevertheless conscription has in various forms<sup>11</sup>

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Economics and Education Inc., Texas, 2007, pp. 279

7 This was the War of 1812-1815 against Great Britain.

8 Webster, Daniel, quoted in Paul, Ron, “Freedom Under Siege”, pp. 65-66

9 “We cannot suppose that at the moment the country had achieved its liberty ... that such a despotism over the lives and liberties of men, would be incorporated into the Constitution as conscription. ... the Constitution was adopted in ignorance, certainly, of any such power, if it does exist, it has required the lapse of three-quarters of a century to develop its latent evils.”

Thompson, James, quoted in Paul, Ron, “Freedom Under Siege”, pp. 80

10 The United States Constitution, Thirteenth Amendment, accessed online at Cornell University Law School on 13/04/09 at <http://www.law.cornell.edu/constitution/constitution.amendmentxiii.html>

11 Although the draft was discontinued in 1973, since 1980, young men are legally required to register with the Selective Service System in case Congress re-instates the draft.

existed in the United States from 1917 to the present day. The Supreme Court has twice ruled that the federal government possesses the Constitutional authority to conscript<sup>12</sup>. Here is clear proof, if it were needed, that Jefferson's fear of judicial despotism was justified. Collectivism has been accepted in every branch of government and imposed upon the people.

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12 "The fact that the Supreme Court has, on two occasions, ruled [that the draft was constitutional] ... gives the conscriptor 'credibility' and power, but it is hardly enough to make it morally correct and Constitutional."  
Paul, Ron, "Freedom Under Siege", pp. 78

Chapter Eight – Conclusion

The question under discussion has been whether collectivism in the United States of America has become more prominent to the detriment of individualism. The historical evidence and analysis offered have argued most emphatically in the affirmative. Regrettably, the roles of the Supreme Court, public education, the media and the political party duopoly, to name a few topics, have not received the attention here that they deserve. Instead, this dissertation has examined the history of the United States focusing in particular on the following policy areas:

- separation of powers between the federal and state levels and between the three branches of government;
- money and banking;
- economic recession response;
- taxation;
- race and gender;
- foreign affairs and military conscription.

In all but one of these studied policy areas, it has been demonstrated that collectivist attitudes and policies have become significantly more prominent. In many cases, the change was first realised at the height of the Progressive era in the early twentieth century, although the wartime policies of Lincoln's administration during the Civil War set some important collectivist precedents.

The relative equality and liberty of women and African-Americans is the only exception where

very significant advances of liberty have been achieved. That said, this is not necessarily due to government action. Current federal gender and racial policy is based on collectivist notions of balancing past racial discrimination with present racial discrimination.

This dissertation has shown that there has always been conflict between individualism and collectivism in American society and government. Nevertheless, the scope, size and power of the central American government today have been demonstrated to have outgrown their constitutional, financial and moral limits. The pace of this trend of centralisation has not been uniform, but it has been shown that it accelerated alongside monetary debasement in 1860, 1913, 1933 and 1971. No government, however, can repeal the laws of economics, any more than it can repeal the law of gravity; this may be the United States government's ultimate undoing when the bill for its empire and immense welfare Ponzi schemes<sup>1</sup> comes due. This *real* financial crisis – the bursting of the dollar bubble – may be expected as a consequence of today's collectivist economic policies. Historically, political turmoil has always accompanied currency collapse. Even if this crisis will provide a definitive answer to the question of “Liberty Lost?”, it is not certain what the answer shall be.

Whereas this dissertation has argued in the affirmative that collectivism has over time become more prominent at the detriment of individualism, future developments are less clear. Ultimately, it depends on the values held by the people, as the Constitution alone has been demonstrated to be insufficient to providing limited government without a corresponding distrustful attitude towards the state. At present, consistent and principled individualists, especially in elected office, are in a minority. The coalition of individuals and organisations campaigning for liberty and sound economic education has experienced rapid growth recently. The bipartisan forces of collectivism, however, have proven themselves strong and have the

<sup>1</sup> Social Security, Medicare and Medicaid are all insolvent. Interest on the national debt is financed by selling more of the same.

whole apparatus of government power and propaganda upon which to draw. Higgs may be right that “great advances of freedom have usually occurred ... because the tyrannies they were resisting destroyed themselves”<sup>2</sup>. There is always cause to hope and fight for the restoration of liberty lost.

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2 Higgs, Robert, “Does Our Weakness Matter?”, LewRockwell, accessed online at LewRockwell on 12/04/09 at <http://www.lewrockwell.com/higgs/higgs80.html>



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