DEFAULT NOW!

When I published *Man, Economy, and State* in 1962 there were two positions that I took, which—though occupying only a few sentences in the book—provided enough of a shock to many conservatives and even libertarians to damn the entire two-volume work. One was my pro-blackmail stand (or rather, anti-anti blackmail), of which more some other time. The other was my call, following the late libertarian theorist Frank Chodorov, for the repudiation of government bonds. Little did I know that that lonely and seemingly absurdly unrealistic stand should now be in the course of coming true—at least for New York City, and possibly for other states and localities as well. Of course, mere default on one or more debt payments is scarcely total repudiation, but it is surely a giant step down that path.

There are two classes of objections to default or repudiation: moral and economic. The moral argument holds that, after all, the government agreed to a contract with the bondholders, and that it is a libertarian truth that contractual obligations ought to be obeyed. That is all very well, but it errs in making a moral absolute out of redeeming any and all contracts, regardless of what kind of contracts they might be. Suppose, for example, that A and B enter into a contract to commit a crime—murder or robbery—against C. Are we to say that both A and B are morally bound to carry out their contract? But this would be nonsense, since the contract is for criminal ends, and is therefore not only immoral but also criminal and invasive of individual rights to begin with. The only moral, non-invasive course for either A or B, then, is to *break* that contract forthwith, so as to refrain from committing an act of crime.

But I submit that this is precisely what has happened with contracts for government debt. The individual or firm who buys a government bond is buying an anticipated share in the return from criminal loot, i.e. from the massive robbery and expropriation known as taxation. To say, therefore, that the government must be duty-bound to redeem its debt to bondholders is to advocate increasing expropriation of the taxpayers, and hence aggressive violation of their property rights. The bondholders are eager participants and investors in the crime of taxation, and deserve no tears shed about their "expectations." Default, repudiation will teach these people a salutary lesson: never again to participate as voluntary investors in the crime of taxation. Perhaps they will learn some libertarian principles through hard experience.

Economically, it is easy to see that default will have several immediately beneficial effects. First, the absurd process of throwing debt after bad debt into the rathole, of pouring the state's credit down the drain with New York City's, of endangering pension funds, will stop short once default arrives. It is also easy to see that New York City will be forced, at long last, to slash its profligate spending and live within its budget. But the big economic argument is the "domino effect"—that default by New York City will endanger the credit of *all* states and cities throughout the land. So much the better if it did! What a wonderful thing the domino effect would be; throughout the land, indeed, city after city, state after state, would have to cut their budgets drastically, would have to live within their means, would not be able to turn to the bond and money markets for deficit financing. Those of us who want to desocialize America, should *rejoice* at the prospect of destroying the credit of state and local governments.

Another bonus from that destruction would be to alleviate the growing "shortage" of private capital in America, a scarcity aggravated by inflation and by the draining off of private funds into the unproductive and parasitic government sector. The forced withdrawal of states and cities from the bond market would free private capital for truly productive private investments, which would add to the standard of living of everyone.

Conservatives have been pretty good about opposing Federal aid to New York City, seeing that the result would be an enormous expansion of Federal expenditures, and a grave impetus to Federal-caused inflation. But they have not seen the moral and economic glories of general default, because, being conservatives rather than "radicals," they are all too content to hold the pass against further statization, rather than opt for a drastic rollback in the State Leviathan. And that is why libertarianism must be radical rather than conservative in order to succeed.

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trends

FCC ROLLBACKS

The stranglehold that the Federal Communications Commission exerts over U.S. broadcasting may be loosened in the years ahead, if recent events are an accurate indicator of changing sentiment. Increasing criticism of FCC regulation of program content is being heard from such sources as the Office of Telecommunications Policy (OTP), the FCC itself, the Federal Trade Commission, members of Congress, and television performers.

First, John Eger, the OTP's acting director, has proposed legislation allowing the FCC to partially deregulate radio broadcasting in the top 10 markets. The bill would suspend enforcement of the Fairness Doctrine and FCC regulations on program format and percentage of programming versus commercials. Eger proposes a five-year test of the plan, with a report to Congress on the results. The OTP is proposing a *legislative* approach in order to avoid excessive court wrangles if the FCC attempted to carry out the experiment on its own authority.

But earlier the FCC's chairman Richard Wiley proposed to do just that: discontinue enforcement of the Fairness Doctrine in large radio markets, on an experimental basis. He is also supporting proposals by Sen. John Pastore and Rep. Torbert MacDonald to suspend the equal time rule (Section 315) for presidential and vice presidential campaigns. In a speech to the International Radio and Television Society Wiley noted that even with "no governmental oversight," an extensive range of viewpoints would be presented in large cities due to the large number of radio stations.

This point has been stressed by FTC chairman Lewis Engman, who has called for total abolition of the Fairness Doctrine, for both radio and TV, in all markets, on a permanent basis. "The average American probably has access to at least eight radio stations, two newspapers, all the magazines he can carry . . . and at least seven TV channels," Engman argues, making the scarcity argument ludicrous. More importantly, Engman has pointed out that the Fairness Doctrine is a blatant violation of the First Amendment's free speech and free press guarantees. He notes that when broadcasters must weigh the prospect of carrying enough opposing viewpoints to be "fair," they may choose to ignore an event or even a whole issue. Thus, the Doctrine "becomes a prior restraint," which is not encouraging but is *discouraging* the broadcast of diverse views. As for the argument that the FCC should regulate program content because the public owns the airwaves, Engman retorts that "the government can, with equal logic, claim the right to regulate the content of newspapers and magazines because they are delivered over publicly owned streets or through the publicly owned post office."

Finally, even TV performers are getting in on the act. Mary Tyler Moore, Carroll O'Connor, Alan Alda, and a number of producers, directors, and scriptwriters have filed a Federal suit challenging the FCC's "family hour" rule as a form of censorship. The suit filed by the Writer's Guild, Director's Guild, and Screen Actor's Guild names as defendants the FCC, the three networks, and the National Association of Broadcasters.

SOURCES:

- "Radio Deregulation Bill Being Drafted," AP (Washington), Oct. 7, 1975.
- "Two Changes Urged in FCC Political Rules," Sander Vanocur, *Washington Post,* Sept. 17, 1975.
- "FTC Chief Raps Fairness Doctrine," *Los Angeles Times,* Oct. 30, 1975.
- "TV Figures Join in Suit Over 'Family Hour' Rule," UPI (Los Angeles), Oct. 31, 1975.

NEW LIGHT ON FEDERAL BUDGET

It is not just New York City that engages in funny-money bookkeeping that conceals its true financial condition. According to Arthur Andersen & Co., one of the country's largest CPA firms, the Federal government's actual 1974 deficit was 30 times larger than what was reported by the government. And if modern corporations kept track of their costs and revenues the way most American governments do, company officers would be hauled off to jail or the firms would end up bankrupt.

The Andersen firm analyzed fiscal 1973 and 1974 Federal financial affairs, developing a corporate-type income statement, balance sheet, and cash flow report. The study took six months and involved six Andersen accountants. According to *Business Week* the study raises major questions about how the Federal government keeps its books. For the first time, the study collects in one place the results of all Federal operations, including "off budget" agencies and trust funds. Also, it uses accrual accounting rather than the obsolete cash basis which the government still uses. This enables taxpayers to see clearly not merely the current year's income and outgo, but also the future commitments that are not funded out of current revenues. One example: the \$95.7 billion charge that Andersen shows for 1974 for accumulated retirement and disability benefits (\$75.1 billion for Social Security and \$20.6 for military and civil service retirement and benefits).

Andersen's analysis of the "national debt" is especially revealing. Starting with the 1974 official debt figure of \$486 billion, the study first subtracts out the portion held by other government entities to obtain a net debt outstanding with the public of \$263 billion. But to this are added a variety of other liabilities: \$93 billion in Federal Reserve liabilities, \$50 billion in accounts payable and accrued liabilities, \$19 billion in other liabilities, \$299 billion in retirement and disability benefits, and \$416 billion of accured Social Security contingencies, for a total of \$1.14 trillion in Federal liabilities. On the other side of the balance sheet are only \$329 billion in assets: \$18 billion in cash and equivalents, \$11.6 billion in gold (at the official \$42.22 rate), \$86 billion in receivables, \$50.6 billion in stockpiles and supplies (at cost), \$147 billion in property and equipment (at cost less accumulated depreciation), and \$15 billion in deferred charges and other assets. Restating the value of some of these assets to a more realistic basis—e.g. gold at \$150 per ounce and Federal lands at market value rather than cost—would add some \$53 billion to the asset figure. Even with this change, if the Federal government were liquidated, its assets would cover only 33¢ for every dollar of liabilities. Clearly, the Federal government should let the taxpayers, and its bondholders, in on the true picture.

SOURCES:

- "Overhaul of Federal Bookkeeping Urged," *Chicago Sun-Times,* Sept. 22, 1975.
- "If the U.S. Kept Books the Way a Business Does," *Business Week,* Sept. 29, 1975, p. 74.

MAKING THEM PAY

Aid to Families with Dependent Children (AFDC) accounts for a large portion of today's huge welfare bill. And one reason there are so many needy, dependent children is that some 2.6 million parents (mostly fathers) have abandoned their children, leaving them to be supported by the taxpayers. Since it has been estimated that some 1.3 million absent parents could and would pay child support if there were strong enforcement programs, Congress has enacted the Child Support Enforcement Law as Title IV-D of the Social Security Act. The National District Attorneys Association (NDAA) has mounted a large-scale effort to assist local prosecutors in setting up enforcement programs to track down absent parents.

The new law requires every state government to have a specific program to enforce support obligations owed by absent parents to their children. It provides that a parent requesting AFDC payments must cooperate in identifying and locating the absent parent, in order to be eligible for assistance. It requires interstate cooperation for enforcing support obligations.

Further, one provision of the law waives sovereign immunity, allowing the Federal government to be sued to enforce support obligations, thereby enabling garnishment of wages or benefits of military and civil service personnel who have abandoned their children.

A recent study of child support enforcement programs carried out by Arthur Young & Co., found that typically these programs are highly cost-effective. The five programs in three states that were studied by the company all collected more money than they cost to operate (including all indirect and "external" costs). A typical program reviewed by Arthur Young returned $9.13 in collections for every dollar of direct program expenditures; when all other costs were included, it still returned $5.05 for every dollar expended. This favorable benefit to cost ratio held true over all 10 years studied. Thus, child support enforcement appears to be both moral and practical.

SOURCES:
- News release, NDAA Project on Child Support Enforcement, Oct. 1, 1975.
- "Cost Effectiveness of a Child Support Enforcement Program," Arthur Young & Co., 1975.

IRS UNDER THE GUN

Thanks in part to Watergate-era disclosures of the police state methods employed by the IRS, a number of actions aimed at reforming the agency are under way. A bill cosponsored by Rep. Charles Vanik and Sens. John Tunney and Warren Magnuson would clamp a number of restrictions on the way the IRS operates. The Federal Taxpayers Rights Act of 1975, if passed, would create an ombudsman-like office of taxpayer services, with agents stationed at IRS field offices to aid taxpayers. The ombudsmen could halt IRS action for up to 60 days if they found a taxpayer was "suffering from an unusual, unnecessary, or irreparable loss." The bill also provides for the following:

- The IRS would have to provide taxpayers with detailed pamphlets outlining their rights and duties in various types of IRS proceedings.
- All IRS investigations and surveillance not directly related to tax law enforcement would be prohibited, with both criminal penalties and civil damages available as remedies.
- Taxpayers subject to jeopardy assessments and other seizure procedures would be given time to seek relief in Federal District Courts before any seizure could take place.
- The GAO would be given broad powers to monitor and investigate IRS performance, something GAO does not now possess.
- Rules permitting IRS tax data to be shared with states and other Federal agencies would be tightened.

In a related move, Rep. Steve Symms has introduced a bill to eliminate the IRS's paid informer program. The bill would repeal Sec. 7623 of the Internal Revenue Code, under which the IRS pays bounties of up to 10 percent of the amounts collected to persons who inform on their neighbors. Last year the IRS made $468,000 in bounty payments to informers, whose identities are kept secret from those they accuse.

Despite the IRS's gestapo tactics, a large number of people are evading some or all of their taxes. The agency estimates that five million people illegally failed to file returns in 1972, and 40 percent of all who do file understate the amount of taxes owed. Of the latter group, 97.5 percent are never asked for the additional money, because the IRS figures it would be too expensive to collect. These figures come from a 1973 IRS study, made public only last summer as a result of a suit filed by Mr. & Mrs. Philip Long under the Freedom of Information Act. The IRS kept the study secret because it feared that disclosure would encourage additional tax evasion.

SOURCE:
- "Taxpayers May Get a Friend at IRS," *Los Angeles Times,* Sept. 21, 1975.
- "IRS Informant Program Hit," Steve Symms press release, Oct. 22, 1975.
- "IRS: Cheating Is Easy," *Moneysworth,* July 7, 1975.

AIRLINE DEREGULATION PROGRESS

The Administration's long-awaited bill to partially deregulate commercial aviation was submitted to Congress in October. Its passage would be a major step in opening the industry to competition, breaking up the present cartel-like structure. Fundamentally, it would change the CAB's legislative mandate from one of promoting and protecting the airline companies to that of "maximum reliance on competitive market forces and on actual and potential competition to provide the needed air transportation system." Over a five year period it would phase out most of the present rules prohibiting new airlines from entering the industry, phase in much greater latitude by airlines in choosing which routes to serve or abandon, and provide a gradually widening "zone of reasonableness" within which fares could be set by the carriers without CAB approval. It would also make it possible for supplemental (charter) airlines to engage in scheduled service, and make it easier for scheduled lines to offer charter service. And it would increase the size limits of aircraft which unregulated commuter airlines could operate, thereby making possible a considerable expansion of this segment of the industry.

Reaction to the bill was interesting. Sen. Edward Kennedy announced that he would "work with the Administration in a bipartisan effort to improve and enact this important legislation." CAB chairman John Robson cautiously endorsed "some responsible remolding of the structure" of airline regulation, while the Air Transport Association (the industry trade association) bitterly denounced the bill for "adversely affecting . . . the welfare of 300,000 airline employees, millions of shareholders, investors holding billions of dollars of airline debt . . ." etc. Several airline presidents gave speeches denouncing the bill, as well. Congressional hearings on it are scheduled for January in the Senate Commerce Aviation Subcommittee, chaired by Sen. Howard Cannon.

Meanwhile, the CAB's Bureau of Economics, anticipating the bill's eventual passage, recommended that the Board adopt zone of reasonableness pricing freedom for air freight rates. Air freight company reactions ranged from "scary" to "simple and logical." Most airline managements see the air freight proposal as a test run for future application to passenger fares.

In another related move, the Administration disingenuously announced its regret that British Secretary of State for Trade Peter Shore has recommended withdrawal of British government permission for Laker Airways' low-cost ($180 roundtrip) Skytrain transatlantic service. The plan was approved by the British government in 1972, but has been held up for three years by the CAB's initial stalling, its 1974 recommendation to the White House to disapprove the service, and the president's subsequent inaction. Laker, however, thinks it has enough support in Parliament to overrule Shore's ruling, which would put the ball back in the CAB's court. It would be an interesting test of the sincerity of Washington's new support for airline competition.

SOURCES:
- "Ford Would Curb U.S. Regulation of Airlines," *Los Angeles Times,* Oct. 9, 1975.
- "Deregulation Support Rises in Congress," *Aviation Week,* Oct. 13, 1975, p. 26.
- "Freight Rate Zone System Urged," *Aviation Week,* Sept. 29, 1975, p. 21.
- "Freddie Laker's Shuttle Is Alive Again," *Business Week,* Nov. 3, 1975, p. 83.

MILESTONES

- *Communications.* The U.S. Supreme Court has let stand an FCC ruling that for the first time permits other companies to compete with American Telephone and Telegraph and Western Union in providing long-distance communications services, both voice and data. One of the competitors, MCI Telecommunications Corp., is already advertising "Competitive Long Distance" service, claiming to save businesses from 15 to 60 percent on their long distance bills if their monthly call volume is $1000 or more. Customers include such firms as Chrysler, Emery Air Freight, B. F. Goodrich, E. F. Hutton, Lever Brothers, Pillsbury, and REA Express. (Source: "At Last, Competitive Long Distance," *Los Angeles Times*, Sept. 18, 1975)

• *Antitrust.* The efforts of the FTC to restructure the soft drink bottling industry have been ended by the ruling of an FTC Administrative Law Judge. In its 1971 complaint, the FTC sought to force Pepsi Cola and Coca Cola to cease granting exclusive licenses to their bottlers, alleging anti-competitive effects. But Administrative Law Judge Joseph Dufresne ruled that such agreements actually promote competition by protecting the territories of many small bottlers, thereby helping keep them in business. (Source: "Judge Dismisses Coke, Pepsi Suit," UPI (Washington), Oct. 8, 1975)

• *Garbage.* The Citizens Budget Commission of New York City has estimated that using private garbage collectors instead of the Sanitation Department would save the city's taxpayers $77 million a year. The Commission is urging the mayor to experiment with three or four one-year contracts with private refuse firms, to obtain comparative cost data. WCBS/FM recently endorsed the proposal. (Source: "Private vs. Municipal Garbage Collection," WCBS/FM, Oct. 2, 1975)

This column reports trends in the advancement of individual liberty and the rediscovery of economic freedom. Readers are invited to submit material of potential interest.

book review

THE POWER BROKER: ROBERT MOSES AND THE FALL OF NEW YORK. By Robert A. Caro. New York: Alfred A. Knopf. 1974. 1162 pp. $17.95.

Reviewed by HOWARD MC CONNELL

Robert Moses, when asked to provide some patronage jobs for a state Senate Finance Committee Chairman, listened attentively to the catchpoll's recital. His reply was characteristic of his attitude toward petty politicians in particular and New Yorkers in general: "Jerry, you can take that bill and stick it up your ass."

We have no record of the senator's physiological response; we do have a graph of the anal impaction that confronts New York traffic flow as it attempts excretion from Manhattan to the outlying boroughs on Robert Moses' bridges, Robert Moses' tunnels, Robert Moses' highways—an attempt to escape from the drabness and terror of a Robert Moses housing project, to find a few fleeting hours of relative privacy in a Robert Moses state park. The toll on the spirit which is subtracted from a New Yorker's commuting life is paid in material tribute to an agency of Robert Moses.

In *The Power Broker,* Robert A. Caro documents the life of Robert Moses in the context of six New York mayors, six governors, seven presidents, and thousands of city, state, and Federal officials who stood in awe of The Man on Randall's Island. Caro's work is a remarkable dossier of political pressures, of acquisition of power literally incomprehensible in a democracy, and how Robert Moses used that power to build an economic empire that he ruled for over 40 years. Its fuel was the tolls of Triborough Authority: its morality was altruism through a park and playground system dedicated to the People of New York: its leader was Hero Moses, battling Privilege and Politicians in a press that was slavish in its praise and support. Its goal? Power for Robert Moses.

He built things. At an early stage in his career, the idealist Moses offered the things as ends worthy of attainment: beaches for recreation where before only barren dunes and rotting garbage existed. Then he built bridges to get people to the beaches. He discovered the "gimmick" of Authority bonds that he could perpetuate through refinancing, and as guardian of those bonds, perpetuate himself and his projects in ever-widening spheres of influence. His character altered and impatience gave way to compulsion and vindictiveness as he smashed anyone daring to disagree with his Dream. President Roosevelt, frustrated by his inability to deny Robert Moses Federal money for the Triborough Bridge, plaintively cried, "Isn't the President of the United States entitled to one personal grudge?"

"No," was the recorded answer: not if that grudge meant a confrontation with Robert Moses.

He consolidated power by obtaining state and city commissions hitherto denied ordinary mortals: he was given them because only Robert Moses had the engineering drawings completed, the projects costed, the contractors bonded and the titles assured. His third post, that of New York City Planning Commissioner, allowed him to torpedo anyone who even came close to challenging his rule.

Robert Moses' personal drive and energies would kill other men if emulated. He demanded absolute loyalty and ruined colleagues who dared to disagree with him. He lied. He secreted the books of Triborough so effectively that he could plead poverty for the Authority for years, while netting millions of dollars to build anew elsewhere. The bondholders must have loved the charade as they clipped their coupons for early redemption, but others hated his guts when he closed Battery Park for five years. He had been denied this site for a Brooklyn-Battery Bridge, so he destroyed the Aquarium at that location, and would have razed Ft. Clinton had not Federal authority finally intervened. He assured maximum revenue for his bridges by vetoing subway extensions and building highway overpasses so low that the highway would not allow the passage of a bus.

Mr. Caro contends that Al Smith was the only man Robert Moses admired. At the crest of Moses' popularity, he was warned by Smith that the public's adoration was a slender reed upon which to build. Years later, Robert Moses learned just how slender that reed was when two incidents—The Battle of Central Park and the denial of Free Shakespeare—cost him his "good" press. Central Park, the oasis of greenery nestled in the madness of the metropolis, gave recreational facilities to mothers and nurses who strolled with their carriages on the southern 59th St. border. The Tavern On the Green, a restaurant concession under the Park Service, wanted to expand its parking facilities, and despite neighborhood protests, brought in the bulldozers and began carving up the landscape. A flying squad of mothers, baby carriages, and irate oldsters who envisioned their sunning benches falling beneath the blade of the Cats, rallied in front of the equipment and prevented any further encroachment. Robert Moses, in defiance of his prior discriminating sense of public sensitivity, fought them. He lost. Two years later, Joseph Papp, a Greenwich Village producer and promoter, initiated free Shakesperian drama in a park bandshell that had fallen into disuse. When Moses learned of Papp's leftward leaning politics, he put the squeeze on the entire operation in order to evict them from the park facilities. Again, he ignored press sentiment, public opinion, and more importantly, the local defenders of New York culture who saw Moses' actions as vindictive and destructive: again, he lost.

Unlike the Conqueror heralded in a Roman Triumph, Robert Moses did not have