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# The Voluntaryist

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Digital Issue 199    *"If one takes care of the means, the end will take care of itself."*    October 2020

## Chapter 5: Public Services in a Free Society

By Carl Watner (1990)

*(Continued from Digital Issue 198)*

In a free society there is no room for political law-making of this sort. No single agency or institution is charged with providing public services. Instead, individuals in voluntary association with one another would come up with non-coercive solutions to their problems. If there is a sufficient market demand, someone will appear to service it. Take for example, the provision of electricity on the market. If it was left to the State, we would probably still be burning candles and kerosene lanterns under regulations promulgated by a Bureau of Lighting. It was private initiative that invented, merchandised, and made electricity commercially available. Not only that, but electric bulbs must screw into sockets and electrical appliances must be supplied with the proper voltage. Who saw to it that things fit? The State was always far behind new technological developments. Suppliers and manufacturers in the electrical industry agreed on certain standards because it made economic sense, not because of any political laws passed by the State.

The history of industrial and commercial standardization affords an insight into how public services would be provided in a free society. No one was forced to give up their old way of doing things. New inventions and new services would be offered and adopted, only as people realized they would benefit from them. Until the 20th Century, most standards and improvements in industry have come about through this evolutionary process. The main "features of the standardization movement partake of the nature of effective human law in its generic sense, that is, of principles of conduct, based upon a sufficiently broad consent or acquiescence of the groups concerned to assure general compliance with them." [1] There is a close analogy between the early growth of the standardization movement and the development of the law merchant and Brehon law. All were unplanned by any "authority" and all were based on the the voluntary principle - that of seeking a consensus of those concerned through voluntary cooperation. "There is in general no better evidence of the justice of [such] arrangement[s] than the fact that all persons whose interests are affected ... have freely and with full knowledge consented to it." [2]

The history of money and weights and measures aptly illustrates this. Despite healthy doses of State propaganda to the contrary, neither money nor weight-and-measure standards originated in State legislation.

It was not until these activities existed independently of the State, that the State legalized them. No one was forced to use a money which he felt did not serve his purpose. Nor was anyone forced to measure gold or silver flakes by the grain. It was a common-sense thing to do and people did it because it served their interests. To the extent that the State has attempted to alter the course of naturally evolving systems of weights and measures, it has found itself in a fruitless struggle against adherence to custom (witness the compulsory attempt to introduce the metric system in the United States.)

### Money

When gold and silver were first used as money (as a mean of exchange in the buying and selling of goods), they were passed from hand to hand in small ingot form or else as dust and nuggets. According to legend, the first coins were produced in Lydia in western Asia Minor in about 700 B.C. The process by which these early coins were made is the same basic procedure used today. First, a precise quantity of gold or silver was weighed out and then melted in a mold, so as to form a button or blank (the modern disk or planchet). These blanks were placed on an anvil and stamped or struck with an iron die bearing the symbol of the issuer. The production of standardized coins avoided the repetition involved in weighing the precious metals each time they passed from hand to hand. The stamping of impressions on the disks was to provide a form of guarantee as to their weight and purity.

There was nothing inherently mysterious in the process of making coins, but, from the earliest ages, the production and use of precious metals was a jealously guarded prerogative of royalty. Yet, there were times and places in history when the State failed to enforce or maintain its monopoly over the production of coins. What happened in such instances?

People provided themselves with coined money when the State failed to supply it. Individuals or free market companies produced their own coins. For example, any complete numismatic history of the United States will have a section devoted to private or territorial gold coinage. During the 19th Century, many private gold coins were struck in various sections of the United States. One of the earliest of such a series of coins appeared in Lumpkin, Georgia, where, Templeton Reid issued several denominations of coins in the 1830s.

Another of the most famous private mintmasters was Christopher Bechtler of Rutherfordton, North Carolina. The Bechtler family produced well over

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Editor: Carl Watner

Webmaster since 2011: Dave Scotese

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## The Money Really Was Gone!

By Carl Watner

As I write this, mid-March 2020, the stock market has lost almost 30% in dollar value from its nominal high of nearly 30,000 as measured by the Dow Jones Industrial Average Index, and oil has fallen from about \$60 a barrel to around \$30. It brings to mind Bob Prechter and his 2002 book, CONQUER THE CRASH, in which he described "how to survive and prosper in deflationary depression." In looking over Issue 145 in which I discuss his ideas on social mood, I found a quote I had taken from a book on the effects of the Great Depression of 1929.

When the bottom dropped out of the stock market, the wealthy were hit first. But it wasn't long before the Depression came sweeping through our little town. "The banks went broke and closed their doors. It was hard to believe that the money we'd saved there was really gone."

- Cecil Culp in WE HAD EVERYTHING BUT MONEY (Deb Mulvey, editor, Greendale: Reiman Publications, 1992, p. 14).

Listening to a radio interview a few months ago which focused on the effect of the Great Depression in South Carolina, the general consensus was that economic conditions in South Carolina were so bad in the decade before 1929, that the onset of the Great Depression was hardly noticed. In discussing the bank failures that occurred during that time, mention was made of a bank robbery that took place in Walterboro, SC some time during the years 1932-1933. Two men broke into a failed bank, held the cashier up with shotguns, and "took the exact amount of money, [they the robbers] had on deposit." They went out and buried the cash, and then turned themselves over to the sheriff. A local jury refused to indict them, "and they became folk heroes."

When I mentioned this story to a friend who was born and has lived in the upstate of South Carolina all

his 74 years, he mentioned two further episodes regarding bank closures of that era. The first involved his mother who worked in a cotton mill and had accumulated \$5.00, which would have been worth about one-fourth of an ounce of gold. She deposited that money in a bank in Clifton, SC, near the mill where she worked. When the bank failed, she lost her savings, and after that she swore she would never again trust a bank in her life. "Mattress savings" became her new "bank."

The second episode is more apocryphal, but nonetheless to the point. An individual, who may have been a local merchant, deposited cash money in an Inman, SC bank late on a Friday afternoon. Monday morning the bank announced it had failed and would not re-open. The depositor - on discovering these circumstances - roused the bank manager and threatened to shoot him if he did not open the bank and return the cash he had deposited the previous Friday. The money couldn't have disappeared that fast.

Bob Prechter in his previously mentioned book discusses how "Financial Values Disappear" in a declining stock market. For example, an investor who had a million dollar account in stocks and bonds could easily find their value quickly diminished. Once a buyer and seller agree on a lower price for a share of stock, unless there are other investors who will pay more, the value of everyone's shares decrease. The same analysis applies to loans between debtor and creditor. After a lender and borrower consummate a \$1000 loan, the one has an IOU he values at a \$1000 and the other has \$1000 in ready money. Between the two of them, they believe they have two thousand dollars, but before the loan there was only one thousand dollars of value. If the borrower defaults, that "extra value disappears."

The "million dollars" that a wealthy investor thought he had can rapidly become [\$500,000 or less]. *The rest of it just disappears.* You see, he never really had a million dollars; all he had was IOUs or stock certificates. The idea that it had a certain *financial value* was in his head and the heads of others who agreed. When the point of agreement changed, so did the value. Poof! Gone in a flash of aggregated neurons. This is exactly what happens to most investment assets in a period of deflation. [pp. 93-95]

The earlier stories related here about bank closures also illustrates the point that depositors "trusted" their banks. Obviously, when their banks failed the financial value of their accounts disappeared. However, in their minds they were not loaning their money to the banks. They believed they were depositing their money with the banks for safekeeping, much as when you check your bag with

the airline or your car with a parking valet. The two men with shotguns and the individual who brandished his pistol at the bank manager believed they were simply retrieving what they previously had left with their banks to protect from thieves. In legal terminology they did not see themselves as creditors of the bank, but rather partaking in what lawyers would call a bailment. "A bailment may be defined as the transfer of personal property to another ... with the understanding that the property is to be returned when a certain purpose has been completed." It is often represented by a warehouse receipt which describes the property on deposit and the circumstances under which it will be returned to its owner.

Nothing comes from nothing. Fake money produces fake prosperity. Take away the fake money ... and the fake prosperity goes "poof."

- Bill Bonner in CASEY DAILY DISPATCH, July 15, 2017.

Banks still fail, although the federal government insures most deposits against financial loss. People living during the Great Depression still probably had some experiences handling real money, as in gold or silver coins. Today, however, we have morphed into more esoteric forms of electronic money of which there is no tangible evidence except computer entries. For further reading, these issues may be explored in Murray Rothbard's monograph on money listed below.

### References

Walter Edgar, SOUTH CAROLINA, A HISTORY (1998), p. 499.

Ben Robertson, RED HILLS AND COTTON (1942, and reprint 1990), p. 282.

Murray Rothbard, THE CASE FOR A 100 PERCENT GOLD DOLLAR (Reprinted 1974), p. 24. 

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100,000 coins from 1831 to 1847, though they faced competition from the federal mint in Charlotte, North Carolina, which was established in 1838. Their coins were not legal tender but passed at face value all over western North Carolina, South Carolina, western Tennessee, Kentucky, and parts of Virginia, because people were confident of their quality and content.

The Bechtler operation was dwarfed by the operation of the private mints which appeared after the discovery of gold in California in 1848. The Gold Rush produced a need for coin which the central government in Washington could not satisfy. Gold was readily available to all, so the free market provided its own solution to the shortage. At least twelve private mints coined gold coins in California during the

period from 1849 to 1855.

The last of the private mints in the western United States was literally bought out by the United States government during the Civil War. Between 1860 and 1862, the firm of Clark, Gruber & Co. was engaged in the manufacture of their own coins in the city of Denver. Here again, the demand for a circulating medium was satisfied by private means before the government was able to establish its own mint. The Clark and Gruber coins were of high quality and always either met or exceeded the gold bullion value of similar United States coins. In a period of less than two years, this firm minted approximately three million dollars worth of coin, and promised to outdo the government's own production. To get rid of them, the government bought them out in 1863 for \$ 25,000, and in the following year passed a law to outlaw the private manufacture of gold coins. [3]

Since there were no legal tender laws in effect (political regulations requiring certain coins to be accepted in payment of debts, regardless of whether their intrinsic value equaled their face value), no one was required to accept these private coins. In California, some of the private coins were actually short-weight, but there were other minters who prided themselves on issuing coins with a few extra grains of gold, just to insure their assay accuracy and reputations. The issues of the over-weight minters were soon in demand, and those of the under-weight mints were eventually melted down. This will serve as the first of many examples, where - in the absence of political intervention in the market - people choose to use the most naturally suited merchandise, methods, or systems to satisfy their needs and reject those less naturally suited.

### Weights and Measures

The State has been involved with weights and measures ever since it began minting coins. Like coins, weights and measures were not originally created by State legislation. The State preempted the field once custom had paved the way. Nearly all of the customary standards of weights and measure used in the Western world evolved from the systems originated by the ancient empires of the Middle East. The Beqa Standard has by far the longest history of any of the ancient standards, being used throughout 3000 years of dynastic rule in Egypt and being adopted by the Greeks as their standard about 700 B.C. Ultimately it became the basis of the English troy weight system, being transmitted to medieval Europe by way of the ancient Greek city of Troy.

The metric system, on the other hand, has since its very beginning been a State imposed standard (beginning in 1791 with its adoption in France). Despite the great resistance of Americans to adopt and use the metric standard, no one has ever been prevented from doing so (it has never been contrary to political law to

do so). It simply has not met the needs or suited the convenience of the man on the street as well as the conventional standards inherited from the English. If two parties dealing in cloth wished to use the meter, or for that matter, a cane or a broom handle as their standard of measure, so long as they both assented to it, there is no reason why they may not do so. For the scientist or mathematician, the metric system may be a perfectly suitable way of measuring, but there is no more reason to force the man on the street to use the scientist's measure than to force the scientist to use the measurements of the man on the street.

In the absence of coercion, those weights and measures system which prevail are necessarily the most satisfactory to the actual users (for there is nothing to prevent them from changing if they wish). The advantage of market-oriented weights and measures is that they are responsive to changes in consumer demand, as well as new technological developments. Compulsory government standards can only be changed by fiat and must be imposed by force. (Under metrification laws, one in effect becomes a criminal for dealing in cubic feet rather than cubic centimeters.) One of the main arguments raised against forcible metric conversion was that since compulsory laws are required to bring it about, the metric system must have no advantages which would lead people to voluntarily adopt it.

The evolution of weights and measures is a trial and error process, whose outcome cannot be known in advance. Two examples will serve to illustrate how the scientific community and the free market work. The temperature measuring instruments we know today as thermometers began being constructed in the 1660s. No one could have foretold that we would be using Fahrenheit or Celsius degrees to measure heat.

Early thermometers, unless they were identical in construction, did not read similarly. To add to the confusion, each maker adopted his own scale of calibration. Robert Hooke (1635-1703), an English scientist, first suggested adopting a fixed point, such as the temperature at which water freezes, as a means of calibrating thermometers. When Gabriel Fahrenheit (1686-1736), an Amsterdam instrument maker, brought the mercury thermometer into commercial production in 1717, he used both the freezing point and boiling point of water as absolute calibration points for his units. Fahrenheit took a scale previously used by Isaac Newton (based on the temperature of the human body - which Newton thought was constant) and extended it linearly on his new thermometers. Using this new scale, Fahrenheit determined that the freezing point of water was 32 degrees and its boiling point, 212 degrees. Based on Fahrenheit's and Newton's original gradations, average body temperature should have been 96 degrees, but due to the imperfect construction of early thermometers, average

body temperature turned out to be 98.6 degrees.

Other instrument makers continued to devise their own scales. In 1731, a French scientist, Remaumur, introduced a temperature scale with an interval of 80 degrees between boiling and freezing points. A Swedish astronomer, Anders Celsius (1701-1742), first proposed the decimal division of the scale in 1742, with an interval of 100 degrees between the two natural points. His freezing point was at 100 degrees and the boiling point of water was at 0 degrees. A survey of thermometers in 1778, showed that there were 27 different temperature scales in use. Of these, only two survived by agreement of the scientific community and acceptance in general usage: our Fahrenheit scale and the metric gradients of Celsius, which were reversed to coincide with the directional scale of Fahrenheit.

#### Why Gold? – Because It Works

The use of gold [and] silver ... predates the use of writing; ... . When standardized in 2150 B.C. during the Akkadian Empire ... the mina was about 504 grams – similar to the modern [avoirdupois] pound of 454 grams. The shekel was one-sixtieth of a mina, around 8.40 grams. ... In Mesopotamia, for centuries, a shekel was a measure of actual weight. It was never “devalued.” Arguably, it could not be [devalued, any more than an inch could be “devalued” by deleting 1/8 of its length].

People [have] had different languages, different religions, different traditions of philosophy, different forms of economic organization, and different forms of government, but they did not have different money. We can only surmise as to why this was so. It was certainly not a “superstition,” “mania,” “obsession,” or “fetish.” The simplest reason is the same reason why the Japanese and Portuguese of the sixteenth century both carried swords made of steel: because it was the best thing for the job.

- Nathan Lewis, GOLD: THE FINAL STANDARD (2017), pp. 16, 22, 230.

The history of thermometer scales shows how the free play of market forces and scientific knowledge will determine the most appropriate standards of measurement. There was no need for the politicians or bureaucrats to pass a law mandating that a certain temperature scale be used. Experimenters and scientists gravitated towards those standards which they judged to be most beneficial and most easy to work with. Scientists and inventors simply determined what was the most suitable standard for themselves and acted accordingly.

Another example of a similar process at work involves the evolution of a new unit of measurement for use in the oil industry. Since oil was not commercially exploited until the last half of the 19th Century,

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all references to “barrels of oil” today refer to a measure which has evolved in the last 100 years. From the 1860s until the 1880s, there was great variation in what was meant by a “barrel” of oil. The three most popular meanings were the hogshead of 63 gallons, whose contents weighed about 500 pounds (which would have been too heavy for two men to easily handle); a barrel of 31 1/2 gallons, whose contents weighed about 250 pounds (which may have been too small in terms of content in relation to the cost of container and its handling); and the tierce of 42 gallons, whose contents weighed about 335 pounds (and which satisfied the requirements of ease in handling and a satisfactory ratio of content value to container value).

There is no definitive history of how the 42 gallon barrel of oil came about. Some credit Samuel Van Syckle for making the first standard barrels in Titusville, Pennsylvania around 1864. Van Syckle specified the size of staves to be used in making a 42 gallon barrel. Another origin given for the 42 gallon barrel relates to an agreement of oil producers in Pennsylvania in 1866. The signing parties bound themselves to sell crude oil only by the gallon and made an allowance of 2 gallons on every 40 gallons sold, in favor of the buyer. During the 1870s, when hard times hit the Pennsylvania oil industry, another producer’s agreement fixed the price of a 42 gallon barrel of oil. Whatever its actual source, by 1875 the 42 gallon unit of measuring oil had been firmly established. [4]

Hardly ever do the advocates of free capitalism realize how utterly their ideal was frustrated at the moment the state assumed control of the monetary system. ... Yet without it the ideal of the state-free economy collapses. A “free” capitalism with governmental responsibility for money and credit has lost its innocence. From that point on it is no longer a matter of principle but one of expediency how far one wishes or permits governmental interference to go. Money control is the supreme and most comprehensive of all governmental controls short of expropriation.

- Gustav Stolper, THIS AGE OF FABLE (1942), p. 59

The history of the evolution of the oilmen’s barrel affords several points of interest. First, even if there ever were actual 42 gallon barrels in existence, they have long since disappeared and been replaced by pipe lines, oil tankers, and tank trucks. Nevertheless, the barrel (42 gallons or 9702 cubic inches) still remains the standard unit of measurement in the oil industry. Secondly, the appraisal of the unit’s history demonstrates that its true origin is really lost, despite the fact that it is firmly established in the United States and over many parts of the world. No political law-making body was needed to create the measuring

standard for a new product.

### **Time Zones and the Railroads**

The history of standardization of weights and measures in industrial America was brought about largely as a result of the movement towards mass production and product integration. One of the earliest businesses to be affected by the need for standardization was the railroad industry. In the early days of railroading, each company was free to set its own standards for track width. By the early 1870s there were no fewer than 20 different track gauges in common use. Interchange of freight cars from one line to another was made practically impossible unless the gauges of two railroads were very similar. This necessitated the unloading and reloading of cargo, and eventually led to a variety of attempts to minimize rehandling costs (some were the use of devices to transfer car bodies from one freight car to another, and the use of extra-wide flanged wheels to accommodate the change in gauges). Long-distance freight lines developed agreements among themselves to interline through freight cars with loads destined for points further than one railroad company could haul them. The adoption of a standard gauge was sped up by the construction of the transcontinental railroads, which used the Stephenson gauge from England, of four feet, eight and one half inches. By the early 1880s, the railroads began to change over to this standard. In the Spring of 1886, the railroads of the South finally adopted this standard gauge. In three weeks, between May 12 and June 2, 1886, twelve thousand miles of 5-foot track in the South were standardized, with no traffic disruption longer than 24 hours. By 1890, nearly all the railroads in the United States had standardized their rail gauge, despite the fact that there was never any formal apparatus for the imposition of such a standard. Standardization was accomplished not as the result of legislation, but of business adjustment, compromise, and cooperation among the many hundreds of private companies which built and operated the railroads. [5]

As interchange of cars among railroads became widespread, it was discovered that there was a great need for uniformity in other matters. Coupling devices had to be standardized if cars of one manufacturer were to hook to those of another. Axles, signal lamps, brakes, and other running parts needed to be made uniformly in order to facilitate repair work on cars operating in interchange service. The Master Car-Builders Association was organized in 1867 to deal with some of these construction problems.

The biggest problem of the early railroad industry, however, was coordinating time schedules, not only between interchange lines, but of setting operating schedules over lines that spanned hundreds of miles themselves. Prior to the early 1880s, mean sun time, or what was referred to as local time, was commonly

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used by most people throughout North America. Local time was dependent on the place of the sun in the sky, but due to the earth's shape, rotation, and placement in the solar system, this meant that noon in one place was not noon in another spot several miles away.

The impact of time differences was minimal when travel distance and speed was limited. With the coming of the railroads this problem was magnified since there were literally hundreds of different communities using different local times. Most of the larger railroads used the standard time of their home terminals. For instance, the Baltimore and Ohio Railroad used Baltimore time for trains out of Baltimore, Columbus time for trains in Ohio, and Vincennes, Indiana time for trains running west of Cincinnati. In some terminals it was not uncommon to see three or four clocks, all reading different times. At Buffalo, New York, there were clocks set to New York City time (for the New York Central Railroad), Columbus time (for the Lake Shore and Michigan Southern railroad), and to local Buffalo time.

The railroads were cognizant of these problems. Not only did various time standards pose a problem for travelers, who might miss their trains, but the multiplicity also presented safety problems because of the risk of crews and dispatchers using the wrong time standard and getting trains out on the same track at the wrong time. In May 1872, an association of railroad superintendents met in St. Louis to discuss summer train schedules. This meeting led to the formation of a permanent organization successively known as the Time-Table Convention, the General Time Convention, and the American Railway Association, which eventually became the Association of American Railroads.

One of the earliest suggestions for a solution to the problem of using local times was made by Charles Ferdinand Dowd in 1869. He proposed a plan of standard time zones based on a meridian passing through Washington, D.C. During the 1870s, Dowd agitated for his plan, but it was not until a decade later that any significant momentum was created for an industry-wide standard. In 1883, the General Time Convention appointed William Frederick Allen, a prominent railroad executive, to report on the various time zone plans being circulated. Allen came up with a practical plan based on the 75th and 90th meridians, and one which was structured to minimize the amount of changes needed in order to implement it. The sensibility of Allen's plan prompted the railroads running from Montreal to Boston to inaugurate the use of Eastern standard time on October 7, 1883. Other members of the General Time Convention designated November 18, 1883 as the day of "two noons," since all clocks governing operation of trains were to be adjusted at exactly 12 o'clock noon. Many communities experienced "two noons," as they adjusted their

time from local mean time to railroad time.

This was how a peaceful revolution took place. From the Atlantic to the Pacific, from the Arctic to the Gulf of Mexico, people voluntarily moved the hand of their clocks and watches to railroad standard time. Near unanimity existed because the utility of the new time plan appealed directly to the good common sense of all. The change was simply part of the spontaneous order: a voluntary affair of a great many people who had a vested interest in doing away with the inherent confusion of local times. There was no resort to political legislation or threats of penalties if one did not want to use the new time. (Some in fact refused to, but they were at risk in missing train arrivals and departures and other appointments.) People were left to themselves to solve their own problems and the national government, either because of inertia or political resistance, refused to become involved in the voluntary movement to establish time zones.

### **Who Is the Final Authority?**

As we have seen, the voluntary principle allows for a balancing out of the interests of people in a given society. Books have been written about the history of industrial standardization brought about through commercial consensus rather than legislative fiat. [6] The list of examples is nearly endless; yet we barely ever think about them: the interchangeability of parts when we order any replacement part; standards in the pharmaceutical industry (some of which date back to the 16th Century); trade standards in the commodity markets (cotton and grain standards date back to the early 19th Century); standardization of screw threads, pipes, pipe threads and electrical wire; standardization of water hose fittings and fire hose couplings; setting of standards in the automotive and petroleum industries, including such things as motor oil viscosity, wheel lug placement, and tire size. Numerous voluntary societies and industrial associations have been organized for the purpose of formulating such standards. Some of them include: the Society of Automotive Engineers, the American Pharmaceutical Association, the American Water Works Association, the American Society of Mechanical Engineers, the American Society for Testing Materials, the American Institute of Electrical Engineers, the American Petroleum Institute, the American Automobile Association, Underwriter's Laboratory, and the American Standards Association.

Standards in industry represent not merely a way of doing something, but a vast and growing capital investment. Nevertheless, the inertia of any existing standard is not absolute. At times, two or more standards can co-exist (VHS and Beta in video cassette recorders, for example). It is the free market and the price system which converge all the information needed to determine what economic course to take. This principle is applicable to all areas

of production. What is the optimum size of a car - the Rolls Royce or the Ford Fiesta, or some size car in between? What is the optimum size of a commercial passenger plane - the smaller Boeing 707, or the larger, and more fuel efficient Boeing 747 or perhaps some new type of plane? What is the optimum number of firms delivering police protection, delivering the mail, or providing phone service? There is no permanent answer to the question of optimum size or proper number of firms for anything because technology, economy, and tastes constantly change. The closest we can ever come to determining this for anything produced on the market will be "the test of the market," and even then there will be disagreement.

Who decides what is right or wrong in electronics or in any other field of endeavor? Who decides what is the right way to make a locomotive or to cure an illness? "Any man who cares to acquire the appropriate knowledge and to judge, at and for his own risk and sake." [7] His criterion of judgment is reason and his ultimate frame of reference is reality. The argument against State provision of public services - whether it be in providing systems of weights and measures, coining money, settling disputes, setting standards, or building municipal stadiums - proceeds exactly along the same lines. Whether it be police or judicial services, road building, mail service, trash collection, or any of the many other services governments now provide, there is no legitimate reason for government monopolization or government sponsorship of such services. Since man is capable of acting in the real world on the basis of his reason, there is no need for any government activity. Not only do the individuals in government have no special knowledge, they often have less knowledge than the person most concerned with a particular set of circumstances. Furthermore, governments have nothing but what they first take from "their people" in the way of taxes and property. Governments don't really build roads, deliver the mail, etc. They hire individuals or firms to do this for them. If the government can do it, we - the people - can do it better. As Joe Robie, owner of the Miami Dolphins put it when he built a \$ 100 million coliseum with private funds: "People working together can accomplish anything they set their minds to." [8]

#### Footnotes

[1] Howard Coonley and P. G. Agnew, "The Role of Standards in the System of Free Enterprise," in Paul G. Agnew (ed.), POLICY AND HISTORICAL PAPERS: n.p.: American Standards Association, 1920-1952, p. 3, April 1941 article.

[2] Sir John Salmond, JURISPRUDENCE (7th edition), London: Sweet and Maxwell, 1924, p. 364 (cited in Section 122 on Titles).

[3] For bibliographic information on private coinage see Carl Watner, "'Hard Money' in the Voluntaryist

Tradition," THE VOLUNTARYIST, No. 23, January 1987, p. 7.

[4] For more detailed information see Robert Hardwicke, THE OILMAN'S BARREL, Norman: University of Oklahoma Press, 1958.

[5] For more information on rail standardization see, Peter Samuel, "Tracking A Curious Fact: How US Rails Got Their Track Together," REASON Magazine, February 1984, pp. 37-39.

[6] INDUSTRIAL STANDARDIZATION, New York: National Industrial Conference Board, 1929; John Gaillard, INDUSTRIAL STANDARDIZATION, New York: H. W. Wilson, 1934; C. Douglas Woodward, BSI: The Story of Standards, London: British Standards Institution, 1972.

[7] Ayn Rand, "Who is the final authority in ethics?" Vol. 4 THE OBJECTIVIST NEWSLETTER, February 1965, p. 7.

[8] See INSIGHT Magazine, September 21, 1987, p.8.

(To be continued)

### Insult Upon Injury

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services. "In reality, buyers do not purchase products with their money, but rather with the output of their own production. First someone produces something, then he obtains money by selling his productions, and then he buys someone else's production with that money." As people have found out in hyperinflationary circumstances, government money is worth only what goods and services people will give in exchange, and if they will give nothing, the government money is worthless.

Governments tax the rich because that's where the money is.

Clearly, capital gain taxes are theft, just like every other tax levied by governments. But things are even worse than that, if you can imagine that possible. As Franklin Sanders observed, a nominal increase in the price of a share of stock does not necessarily represent a real increase as measured against gold or other goods or services. This is why inflation (an increase in the money supply - which is the sole responsibility of the government) is called a hidden tax. An investment that yields a profit of \$ 10,000 after twenty years is taxed on that gain. However, in the meantime the principal amount of the investment, say \$ 50,000, does not have the purchasing power that it did twenty years ago. So, to add insult to injury, besides suffering the loss of purchasing power in his initial investment, the investor is still liable for the capital gains tax on \$ 10,000, which could easily amount to 15% or more. Not only do capital gains taxes and inflation "take a big bite out of your investment returns," but they are insidious, deceitful, and evidence of government perfidiousness. V

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## Insult Upon Injury: Measuring in Dollars

By Carl Watner

What are capital gain and capital gains tax, which are the subject of this brief article? “A capital gain refers to profit that results from the sale of an asset, such as a stock, bond, or real estate, where the sale price exceeds the purchase price.” A capital gains tax is a compulsory levy by the government of the jurisdiction where the sale took place based on “the profit realized from the sale” of certain designated assets.

Three items within my recent purview have brought them to my attention. First of all, the sale of our family businesses last year generated capital gains on the sale of their assets. Second, I read a comment by Franklin Sanders in a Moneychanger blog that observed that although the hyperinflation lifted the German stock market in 1923, it only rose in *nominal* terms, not in real terms as measured by gold. Third, in the Charles Dupont story that I published some week ago, I mentioned that the French tax authorities overlooked the capital gains resulting from the purchase of gold coins in 1920 for 20 francs each, and their sale in 1988 for 495 francs each.

So far as I can determine, capital gains taxes are a 20<sup>th</sup> and 21<sup>st</sup> century phenomenon. In the historical tax literature that I accessed, there is no discussion of capital gains tax before 1913. The earliest mention I found refers to the enactment of the United States federal income tax in 1913, under which capital gains were taxed. In some countries, such as Great Britain, it was not until 1965 that this occurred. The whole subject of how to treat long term and short term gain, depreciation, inherited property, stepped-up basis, and capital losses has spawned a tax-consultant industry that is highly dependent on very convoluted tax codes in every country where it is collected. For an introduction to some of this arcane information, one need

simply visit “Capital gain,” and “Capital gains tax in the United States” at wikipedia.org.

The most common capital gains tax is on stocks and bonds. Anyone with investments in the stock market realizes that their broker or financial adviser is, under penalty of law, obliged to issue a year-end report to both the investor and the Internal Revenue Service that provides full information for each financial security sold during the year, and the totals for short term, long term, gains and losses. The IRS is entirely dependent on these reports because there is no other way for them to monitor the millions upon millions of sales that occur every year.

The problem with capital gains taxation (apart from it being a tax) is determining how it is to be measured. When all purchases and sales are done in units of government money, no adjustment is made for the ever-diminishing value of its purchasing power. This determination is especially vital to consider in an environment where the government continually increases the number of monetary units. The continual debasement of the money supply makes it very difficult to ascertain if one is depleting one’s true capital. In an economy where prices are generally falling and the purchasing power of money increasing, it would be impossible to assess a capital gains tax. Shares of stock might be worth less than they cost (as measured in dollars), but still exchange for more goods and services than at the time they were purchased.

Currently, government control over the money supply weakens the ability of market participants to engage in economic calculation. An advanced economy based on the international division of labor requires some universal means of exchange which cannot be manipulated by the government. Many people confuse government money with real wealth. An increase by the government in the supply of money and credit does not result in more goods and

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