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of Free-Market Thought

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## Libertarians Seek Rahn's Ideal State



*What is the ideal size of the state? ... The British government is spending 50 per cent of GDP, but taking just 40 per cent in taxes. The coalition's aim is to close that gap over the next five years (still leaving a massive accumulated debt, by the way), partly by raising taxes and partly by cutting spending. The hope is that economic growth will keep the eventual figure closer to 40 per cent than to 50. What, though, is the optimum share? ... The Rahn Curve is to state spending what the Laffer Curve is to taxation. Drawing on a mass of published data and economic models, it suggests that the ideal size of the state is between 15 and 25 per cent of GDP. Less than this and property rights start to look insecure; more and competitiveness suffers. So, how do we go about getting there? Or even half way there? Any suggestions are welcome. – UK Telegraph*

**Dominant Social Theme:** We seek to make both the private sector and government more effective.

**Free-Market Analysis:** Two brand new dominant social themes in a very short space of time, or at least that is the way we see it. The state has come under tremendous attack in the 21st century and we believe the powers-that-be are pushing back. (Why wouldn't they?) In aggregate, the themes make a powerful argument that some level (perhaps a high degree) of state involvement in the economy is at least tolerable if not an unmitigated good.

We explored the first meme just the other day. It was, we believed, a sophisticated socioeconomic perspective promulgated by a brilliant young political observer, one Ian Bremmer – who had the perspicacity to focus on the idea that most of the major powers of the world today are practicing something called state capitalism.

Bremmer, we wrote, contrasts state capitalism to the West's "free-market" model and essentially seems to present this paradigm as a kind of "war." We concluded that Bremmer had intended to manufacture an argument that the West, even today, is free-market oriented (despite many evidences otherwise) and that America especially will come into conflict with state capitalism as represented by China et. al during the 21st century. To read the full DB article, [click here](#).

Bremmer, we decided (whether he knows it or not) is essentially creating a new dominant social theme that justifies Western capitalism not just in previous free-market incarnations but as it is today. The argument he presents, we came to believe, is one that if taken to its logical conclusion implies that instead of criticizing Western capitalism, Westerners ought to devote their energies to combating state capitalism abroad.

This is in our humble opinion analogous to what happened during the Cold War, which demanded that citizens of the West tolerate any necessary engorgement of Leviathan in order to combat the Communist menace. Bremmer's perspective can surely be used to support Western capitalism as it is. Thus we would argue that such perspectives (intended or not) are useful to the power elite; they provide further justification for the status quo in the face of a fairly relentless Internet attack that has pointed out how far from the free-market Western capitalism has actually strayed.

Now the NEW meme (new to us anyway) that we want to cover in this analysis is most interesting, and buttresses what Bremmer is proposing. This suggestion is brought to us from the mainstream libertarian wing of the US sociopolitical dialogue.

As we can see from the above UK Telegraph excerpt, it postulates that data shows governments are most effective at supporting economic growth and free-markets when they comprise no more than 15 to 25 percent of total GDP. Because today governments in the West are consuming so much more of GDP to provide "services," the "Rahn Curve" claims that government is basically out of control.

Why is this a new dominant social theme and not merely a libertarian observation? Fairly or unfairly, we believe there is, in fact, no economic or historical justification to make the claim that government is an effective supporter of free-markets and economic growth at ANY percentage of GDP. We base this conclusion on the dividing line between classical and neo-classical economics, which is known as marginal utility.

Marginal utility points out that only the market can determine prices "at the margin" and if one accepts this postulate (as almost all mainstream economists do today) then any law or regulation becomes a kind of price fix – one that distorts the market and results in a queue, destruction of services, etc. A government which is arbitrarily spending 15-25 percent of a nation's gross national product is therefore, in a sense, misappropriating the same percentage and redistributing it in a way that destroys its value. How is this an advantage to society?

The best government is purely and simply the one that governs least. Seen from this perspective, a government that redistributes only 10 percent of GDP is preferable to one that distributes 15 percent. One that redistributes 5 percent is preferable to one that redistributes 10 percent, and so on. No, the only reason to create this strange new curve in our estimation is to justify the necessity of some sort of baseline government – a justification that the power elite surely believes is sorely needed in an era where every utility and competence of government is under sustained attack.

And here is another point. The Rahn Curve draws inspiration from the Laffer Curve, and we are generally suspicious of these curves ever since George Gilder sat for an interview and explained more clearly the political underpinnings of the Laffer Curve. (Let us emphasize right here that we were pleased to interview George Gilder and consider him to be an original prose stylist and free-market-oriented economist.)

Anyway, here is what Gilder said: "[The US Tea Party movement] is a fully beneficial force as long as they stress tax cuts rather than spending cuts. Lower tax rates are good in themselves. Lower spending always ends up focusing on defense." You can read the full interview here: [George Gilder on Austrian Finance, Internet Technology and the Virtues of Supply-Side Economics](#).

We found this statement to be insightful and important because it shows clearly that the Reagan administration made a conscious decision to lower taxes instead of lowering spending. And this is why the size of government did not shrink during the Reagan years but actually grew. The Laffer Curve was therefore as much a political application as an economic and fiscal one. We have no reason to believe that the Rahn Curve is any different.

Nonetheless, to find out who this brilliant libertarian-oriented economist was, we looked up his bio in Wikipedia. Here is what we found: "Richard W. Rahn (born January 9, 1942, in Rochester, New York) is an American economist who ... was the Vice President and Chief Economist of the United States Chamber of Commerce during the Reagan Administration ... [He is] a senior fellow of the Cato Institute ... According to his profile on the IGEG website he is a member of the Mont Pelerin Society, sits on the boards of numerous think-tanks and advocacy groups. ... In 1985, Rahn married Peggy Noonan, then a speechwriter for President Ronald Reagan."

We then looked up the famous Mont Pelerin Society which was in part founded by the great libertarian economist FA Hayek. Since Hayek's day the foundation has even expanded in clout and prominence. Wikipedia lists some alumni of this well-known society as follows:

*Prominent MPS members who have advanced to policy positions include Chancellor Ludwig Erhard of West Germany, President Luigi Einaudi of Italy, Chairman Arthur F. Burns of the U.S. Federal Reserve Board, U.S. Secretary of State George Shultz, Prime Minister Ranil Wickremasinghe of Sri Lanka, Foreign Secretary Sir Geoffrey Howe of the U.K., Italian Minister of Defence Antonio Martino, Chilean Finance Minister Carlos Caceres, New Zealand Finance Minister Ruth Richardson and President Vaclav Klaus of the Czech Republic.*

We have no idea if Rahn knows the above eminent people or if he even discussed the Rahn Curve with them. In fact, as with Bremmer, we have no idea if he had in mind providing the powers-that-be with a promotional tool that can be used to justify big government. (Even at 25 percent of GDP, American governments at various levels would still be spending something like \$US3-4 trillion a year, which is a lot of money.)

It is a persuasive concept, to be sure, and one that can be used by pro-government types to combat the increasingly popular anarcho-capitalist strain of libertarianism supported by radical Austrian economist Murray Rothbard of the von Mises Institute. The ineluctable conclusions presented by Rothbard at the time (30-40 years ago) was that any law or regulation is a price fix and distortive of the economy. From this perspective then, the less government the better, with anarchy (lack of any price fixing at all) being perhaps the preferred state.

Anarchy of course is often conflated with lawlessness, but in fact anarchic societies (those with little or no government) tend to be fairly spiritual and moralistic because the "rules" for society are likely generated out of religious precepts rather than government legislatures. Since, historically speaking, it is impossible to argue against anarcho-capitalism from a logical perspective, the power elite seeks other tools, and has in the past. Today, such arguments are seemingly provided (willingly or not) by gifted idea-manipulators such as Rahn and Bremmer.

We should note once again that the all of the above is likely difficult to internalize if one is certain that no Anglo-American power elite exists. But here at the Bell, we believe that such an elite DOES exist. It is one that attempts to control Western society and its populations and industries; it wishes, in aggregate, to expand Western-style governance around the world. It uses fear-based promotions, dominant social themes, to propagate its control and consolidate wealth.

In the era of the Internet, these carefully prepared memes have been much exposed. As a result elite control is suffering. There are no arguments left to support the kinds of vast, encroaching states that have been created in the West. If arguments are not provided in support of the state, then sooner or later moral authority will be lost, and power-elite societal structures (like central banks) will collapse. The creation of pro-state memes are not merely important, they are absolutely critical to the various fictions that the elite has created to concentrate additional wealth and power on a regular basis.

**Conclusion:** We have not exhausted reasons why the Rahn Curve is likely deficient from an economic standpoint. Another big reason is because the entire past century has been distorted by enormous fiat-money flows. Since present-day mercantilist central-banking is actually a government function, one could logically arrive at the idea that government's role in Western economies is a good deal higher than the 40 or 50 percent that Rahn and his supporters maintain. Without these lava-like money-flows that eventually destroy or remake everything in their path, Western economies would look much different today. Whole industries might not exist and the "consumer society" might be a great deal less pervasive. The Rahn Curve, like the concept of state-capitalism is a concept that sounds quite convincing. But when one peers behind the rhetoric, one begins to get the feeling that, as Gertrude Stein famously said of Oakland California, "there is no there, there."



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