

The FreeMarket

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A Letter to the President of IBM

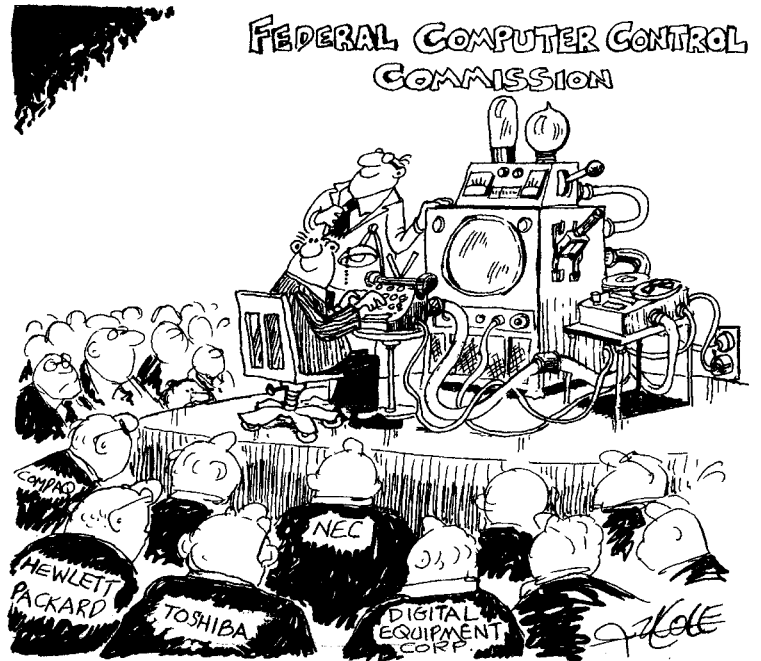
FROM: JAMES OSTROWSKI

Dear Sir:

I noticed the following headline in the *New York Times* recently: "Earnings Plunge at IBM—Quarterly Sales Fall Across Most of Line." Another *Times* story reports that IBM "has been pushed out of the personal computer and software spotlight by its software partner, the Microsoft corporation." A third article reports that 21 computer makers are forming an alliance—Advanced Computing Environment (ACE)—to create new standards for computer work stations in direct competition with IBM.

Poor IBM. Apparently big isn't necessarily better in the relatively free computer market. How will IBM ever get the public to buy its fancy, expensive personal computers or pick its new operating system—OS/2—over the more popular Windows which is selling ten times faster? How can IBM stop ACE?

I have an idea. Why doesn't



IBM do what other business giants have done when they can't get their way in the market—get the government to clobber its competitors? The U.S. sugar industry did it. Harley-Davidson did it. The legal profession does it to the paralegal profession. The medical

profession does it to the nursing profession and the pharmacists. In fact, it's been the American way since at least the turn of the century.

This is what IBM should tell the public:

"There is a dangerous gap in

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From Socialism to Social Democracy

BY LLEWELLYN H. ROCKWELL, JR.

When socialism collapsed, as Ludwig von Mises had shown it would, we all hoped for a free market. We knew that entrenched communist elites would oppose any diminution of their power, but few of us suspected that Western institutions would aid the *nomenklatura* in its fight.

For the last 18 months, however, Keynesian economists and the National Endowment for Democracy, as well as the International Monetary Fund and the World Bank, have been promoting that other

name for democratic socialism, "social democracy."

In Warsaw recently, street-stall owners were arrested for not having business licenses. And the Polish government, with Western advice, is establishing an IRS, FTC, SEC, and labor laws modeled on our own. It was also told to go slow on privatization, and it is following the advice, as I confirmed on a recent trip to Warsaw and the Baltic Republics with Howard Phillips's Conservative Caucus Foundation. Through the efforts of the CCF, the anti-Soviet forces were bolstered, and I

was grateful for the chance to talk about private property and free markets to government officials and private leaders.

Keynesian economists tell us that these countries cannot become capitalist because they have very little capital. But that is just the point. Capital formation doesn't precede markets; markets must be established to generate capital.

Socialism can be fixed, say the best of these establishment economists, by freeing prices and nothing else. But free prices are not enough. They cannot

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From Socialism to Social Democracy

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reflect real conditions in the economy unless they also reflect actual exchanges between private property owners. To the extent that government owns the means of production, or intervenes in any way, it distorts prices and hobbles the economy.

In a free market, the property owner can invest where and when he wants, can assume the risks and rewards of entrepreneurship, can manage his enterprise as he thinks best, can sell his property when and to whom he wants, and can safeguard his earnings from state depredation.

Instead of striving for this ideal, which built America, these countries are being exhorted to shun it and create instead social democratic welfare states, the road to permanent poverty and new tyranny.

As a result, Poland plans to sell only 30% of the shares of some state enterprises. But when politicians and bureaucrats run most or even part of a company, the enterprise cannot fully serve consumers. Nor can it be cost efficient, for politics will prevent bankruptcy, a necessary process for these black-hole state firms.

Instead of auctioning off state industries, Poland has hired appraisers to set selling prices. Appraisers perform an important function in a free economy, but no one in Poland can know what anything is worth because of socialism. For example, estimates on the huge, archaic Gdansk shipyards ran from \$7 million to \$2 billion. Social democrats use this confusion as an excuse not to sell, when the only way to know what it is worth is through open bidding. The same is true of the immense Nowa Huta steelworks, built on Poland's best farmland in the late 1940s with 1920s Soviet technology. Entrenched interests want to keep these enterprises in the state's hands, and the privatization minister is going along.

In Latvia, the economics

minister told us that he was seeking 30% privatization over the next five years. In Lithuania everyone over 35 years old will get vouchers worth 5,000 rubles to buy shares in state property. But the vouchers cannot be sold and they add up to only 20% of state assets. 80% socialism is better than 100%, but this hardly qualifies as the free-market revolution which Lithuania needs. And under the influence of a social democratic think tank in the U.S., Lithuania is planning high corporate taxes and a graduated income tax to 50%. In Estonia, the ex-communist social democrat who runs the republic is "uninterested" in privatization.

The social democrats claim it is too difficult to establish free markets, and indeed there are problems. The public doesn't fully understand the need for real free markets, but the most serious impediment is the entrenched bureaucrats. Below the top rung, they won't be fired for collaboration, but they will be the petty tyrants of the new welfare states.

But there are free-market parties and citizens' organizations working in Poland and the Baltics, many of which requested aid from the Mises Institute. Economics, like the other social sciences, was avoided by everyone decent, for it consisted only of statist gobbledygook. They need real, Misesian economics, and the Mises Institute will do its best to supply it.

I was especially impressed with the leaders of the Republican and Liberal parties in Poland, the right wing of Lech Walesa's Centrum Party, the Sajudis independence movement in Lithuania, the Latvian National Committee, the Estonian National Independence Party, and the Estonian Christian Democratic Party, and I was able to distribute free-market books to them.

The best people in the Baltics are working to establish their independence, return all

property stolen by the Communists to its original owners or their heirs, give economic rights to Russians living there but no vote (since there is no natural right to vote, and the Russians were sent there on a cultural genocide mission), preserve cultures long attacked by coercive russification, and quickly desocialize. As one Latvian put it, "Independence is not an end in itself, but a means to establish liberty and preserve our national culture."

An Estonian told the story of the young Lenin, who upon being arrested by the Tsarist police, was told, "Do you not see that what you are doing is hopeless? Do you not see the wall that stands before you?" The future mass murderer is supposed to have replied, "Yes, I see it, and I see that it is rotten. A push or two, and it will be gone." That is the U.S.S.R. today, he said. "Do not fund their wall."

No one looks forward to the suffering that will accompany the breakup of the Soviet Union, but even humanitarianism dictates that we help bring it on, or at least not prolong its evil life. Every person we met on the trip, no matter what his place on the political spectrum, pleaded for no aid to the U.S.S.R.

Not only is Gorbachev *not* moving toward the market, he is undoing the small progress made two years ago, and calling for a Western bailout to keep himself in power. Yet the bipartisan juggernaut in Washington wants to bail out this admitted Leninist.

If we do, and he is thereby able to strengthen the military and the KGB and suppress the captive nations, it will be Yalta Two.

The U. S. government is broke. And it is breaking us. Now it seeks to bail out this bloody Soviet dictator, and to fund—through that neocon intern, the National Endowment for Democracy—"democratic socialists" throughout Eastern Europe.

Isn't it about time we stood athwart D.C. and yelled STOP?♦

Writers

IN THIS ISSUE

Hans-Hermann Hoppe, a senior fellow of the LvMI, is associate professor of economics at UNLV.

James Ostrowski is a practicing attorney in Albany, New York.

Llewellyn H. Rockwell, Jr., is president of the LvMI.

Murray N. Rothbard, head of academic affairs for the LvMI, is the S. J. Hall distinguished professor of economics at UNLV.

Jeffrey A. Tucker is managing editor of *The Free Market*.

A Letter to the President of IBM

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The computer industry is almost entirely unregulated, governed only by the Darwinian laws of laissez-faire economics.

our consumer protection regulatory structure. What is perhaps our most important industry is almost entirely unregulated, governed only by the Darwinian laws of laissez-faire economics. The computer industry, which makes those little gadgets that run our technological society, has thus far escaped regulation and control.

"In no other regulatory arena is there so little concern for the consumer. Unlike lawyers or doctors, computer manufacturers and retailers need no license. There is no regulatory commission overseeing their activities. Unlike the banking and securities industries, just about anyone is free to set up shop and start making and selling computers. There is no plain language law for computer manuals. Computers need not be tested or approved before they are sold. There are no uniform standards mandated by law. The same computers sell for different prices in different states and cities. Many consumers are unwittingly buying more powerful computers than they really need, while others are buying models that are already obsolete. There are no price controls on computers, so those who introduce new models can charge far more than their competitors and reap grotesque windfall profits. Slick and seductive advertising creates a demand for products that most people could live without. Worst of all, foreign computers are flooding American markets, stealing jobs in the process."

This familiar rhetoric should convince the public to support the creation of a Federal Computer Control Commission (FCCC). The same public that believes that buildings would collapse without building codes will believe that computers will malfunction without government regulation. IBM will reap a huge public relations gain by "selflessly" leading the fight for regulation. The FCCC will begin promulgating and enforcing these regulations on computer manufacturers and retailers.

With the right guidance from future and former IBM executives, the FCCC will quickly overburden the hundreds of smaller computer companies that have been eating away at IBM profits with the kinds of regulations and taxes that have kept many of our other important industries stagnant for years. Particularly devastating would be a "necessary and effective" requirement like the "safe and effective" standard the FDA now enforces for drugs. Each and every megabyte would have to be justified in lengthy public hearings as necessary to meet the consumer's needs. Such a requirement would raise costs, stifle innovation, and cripple small companies with paperwork and legal fees. The lawyers will support you: they know a "Lawyers Full Employment Act" when they see one.

The FCCC will, of course, have the power to reform the chaos of the market and create

mandatory standards for computer hardware and software—with the guidance of an IBM-stacked advisory board. OS/2 will catch up to Windows fast once it is ensconced in the United States Code as the required operating system for all U.S. computers. ACE's effort to establish new computer standards will be challenged as "restraint of trade" under antitrust laws. Finally, the FCCC will have "emergency" powers to limit the number of computers we can import from the pesky Japanese.

After a few years of FCCC control, IBM should have a lock on the computer market for decades. Most of the smaller companies will have been killed off and new companies will be rare, given their enormous start-up costs. IBM's profits will rise. Computers will be prohibitively expensive, of course, but that creates another opportunity. What about government-guaranteed computer loans for the middle class, and computer stamps for the poor? Everybody wins: IBM, the retailers, the hackers, the bureaucracy, and the politicians who thought up the brilliant idea in the first place.

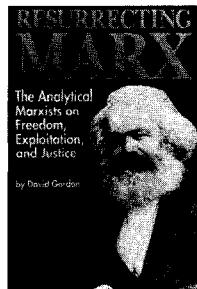
So that's the scam. Let's do lunch and iron out the details (my consulting fee, for example). One more thing, please commit this memo to your memory and your shredder. After all, you have an image to protect.

Sincerely,
James Ostrowski
"Computer Czar" ♦

Book of the Month

Marxism has always been more than an economic doctrine. As Ludwig von Mises showed in 1922, its poison was intended to infect all areas of life. Even today, Marxism is still pervasive in legal theory, literary criticism, sociology, history, and philosophy, most often under the guise of the new "analytical Marxism."

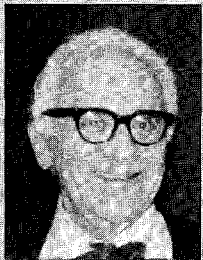
To refute this, our senior fellow David Gordon has written



Resurrecting Marx: the Analytical Marxists on Freedom, Exploitation, and Justice. In it, he demolishes the analytical Marxists and defends the Misesian view of the market economy and the free society. This serious and important hardback (155 pp.) is \$29.95, which—for this month only—includes U.S. postage and handling. ♦

Lessons of the Recession

BY MURRAY N. ROTHBARD



It's official! Long after everyone in America knew that we were in a severe recession, the private but semi-official and incredibly venerated National Bureau of Economic Research has finally made its long-awaited pronouncement: we've been in a recession ever since last summer. Well! Here is an instructive example of the reason why the economics profession, once revered as seers and scientific guides to wealth and prosperity, has been sinking rapidly in the esteem of the American public. It couldn't have happened to a more deserving group. The current recession, indeed, has already brought us several valuable lessons:

Lesson #1: You don't need an economist... One of the favorite slogans of the 1960s New Left was: "You don't need a weatherman to tell you how the wind is blowing." Similarly, it is all too clear that you don't need an economist to tell you whether you've been in a recession. So how is it that the macro-mavens not only can't forecast what will happen next, they can't even tell us where we are, and can barely tell us where we've been? To give them their due, I am pretty sure that Professors Hall, Zamowitz, and the other distinguished solons of the famed Dating Committee of the National Bureau have known we've been in a recession for quite a while, maybe even since the knowledge percolated to the general public.

The problem is that the Bureau is trapped in its own methodology, the very methodology of Baconian empiricism, meticulous data-gathering, and pseudo-science that has brought it inordinate prestige from the economics profession.

For the Bureau's entire approach to business cycles for the past five decades has depended on dating the precise month of each cyclical turning point, peak and trough. It was therefore not enough to say, last fall, that "we entered a recession this sum-

mer." That would have been enough for common-sense, or for Austrians, but even one month off the precise date would have done irreparable damage to the plethora of statistical manipulations—the averages, reference points, leads, lags, and indicators—that constitute the analytic machinery, and hence the "science," of the National Bureau. If you want to know whether we're in a recession, the last people to approach is the organized economics profession.

Of course, the general public might be good at spotting where we are at, but they are considerably poorer at causal analysis, or at figuring out how to get out of economic trouble. But then again, the economics profession is not so great at that either.

Lesson #2: There ain't no such thing as a "new era." Every time there is a long boom, by the final years of that boom, the public press, the economics profession, and financial writers are rife with the pronouncement that recessions are a thing of the past, and that deep structural changes in the economy, or in knowledge among economists, have brought about a "new era." The bad old days of recessions are over. We heard that first in the 1920s, and the culmination of that first new era was 1929; we heard it again in the 1960s, which led to the first major inflationary recession of the early 1970s; and we heard it most recently in the later 1980s. In fact, the best leading indicator of imminent deep recession is not the indices of the National Bureau; it is the burgeoning of the idea that recessions are a thing of the past.

More precisely, recessions will be around to plague us so long as there are bouts of inflationary credit expansion which bring them into being.

Lesson #3: You don't need an inventory boom to have a recession. For months into the current recession, numerous pundits proclaimed that we couldn't be in

a recession because business had not piled up excessive inventories. Sorry. It made no difference, since malinvestments brought about by inflationary bank credit don't necessarily have to take place in inventory form. As often happens in economic theory, a contingent symptom was mislabeled as an essential cause.

Unlike the above, other lessons of the current recession are not nearly as obvious. One is:

Lesson #4: Debt is not the crucial problem. Heavy private debt was a conspicuous feature of the boom of the 1980s, with much of the publicity focused on the floating of high-yield ("junk") bonds for buyouts and takeovers. Debt per se, however, is not a grave economic problem.

When I purchase a corporate bond I am channeling savings into investment in much the same way as when I purchase stock equity. Neither way is particularly unsound. If a firm or corporation floats too much debt as compared to equity, that is a miscalculation of its existing owners or managers, and not a problem for the economy at large. The worst that can happen is that, if indebtedness is too great, the creditors will take over from existing management and install a more efficient set of managers. Creditors, as well as stockholders in short, are entrepreneurs.

The problem, therefore, is not debt but credit, and not all credit but bank credit financed by inflationary expansion of bank money rather than by the genuine savings of either shareholders or creditors. The problem in other words, is not debt but loans generated by fractional-reserve banking.

Lesson #5: Don't worry about the Fed "pushing on a string." Hard-money adherents are a tiny fraction in the economics profession; but there are a large number of them in the investment newsletter business. For decades, these writers have been split into two warring camps:

It is now widely known that the FDIC simply doesn't have the money to insure all deposits, and that it is heading rapidly toward bankruptcy.

the "inflationists" versus the "deflationists." These terms are used not in the sense of advocating policy, but in predicting future events.

"Inflationists," of whom the present writer is one, have been maintaining that the Fed, having been freed of all restraints of the gold standard and committed to not allowing the supposed horrors of deflation, will pump enough money into the banking system to prevent money and price deflation from ever taking place.

"Deflationists," on the other hand, claim that because of excessive credit and debt, the Fed has reached the point where it cannot control the money supply, where Fed additions to bank reserves cannot lead to banks expanding credit and the money supply. In common financial parlance, the Fed would be "pushing on a string." Therefore, say the deflationists, we are in for an imminent, massive, and inevitable deflation of debt, money, and prices.

One would think that three decades of making such predictions that have never come true would faze the deflationists somewhat, but no, at the first sign of trouble, especially of a recession, the deflationists are invariably back, predicting imminent deflationary doom. For the last part of 1990, the money supply was flat, and the deflationists were sure that their day had come at last. Credit had been so excessive, they claimed, that businesses could no longer be induced to borrow, no matter how low the interest rate is pushed.

What deflationists always overlook is that, even in the unlikely event that banks could not stimulate further loans, they can always use their reserves to purchase securities, and thereby push money out into the economy. The key is whether or not the banks pile up excess reserves, failing to expand credit up to the limit allowed by legal reserves. The crucial point is that never have the banks done so, in 1990 or at any other

time, apart from the single exception of the 1930s. (The difference is that not only were we in a severe depression in the 1930s, but that interest rates had been driven down to near zero, so that the banks were virtually losing nothing by not expanding credit up to their maximum limit.) The conclusion must be that the Fed pushes with a stick, not a string.

Early this year, moreover, the money supply began to spurt upward once again, putting an end, at least for the time being, to deflationist warnings and speculations.

Lesson #6: The banks might collapse. Oddly enough there is a possible deflation scenario, but not one in which the deflationists have ever expressed interest. There has been, in the last few years, a vital, and necessarily permanent, sea-change in American opinion. It is permanent because it entails a loss of American innocence. The American public, ever since 1933, had bought, hook, line and sinker, the propaganda of all establishment economists, from Keynesians to Friedmanites, that the banking system is safe, SAFE, because of federal deposit insurance.

The collapse and destruction of the savings and loans banks, despite their "deposit insurance" by the federal government, has ended the insurance myth forevermore, and called into question the soundness of the last refuge of deposit insurance, the FDIC. It is now widely known that the FDIC simply doesn't have the money to insure all those deposits, and that in fact it is heading rapidly toward bankruptcy.

Conventional wisdom now holds that the FDIC will be shored up by taxpayer bailout, and that it will be saved. But no matter: the knowledge that the commercial banks might fail has been tucked away by every American for future reference. Even if the public can be babied along, and the FDIC patched up for this recession, they can always remember this fact at some future crisis, and then the

whole fractional-reserve house of cards will come tumbling down in a giant, cleansing bank run. To offset such a run, no taxpayer bailout would suffice.

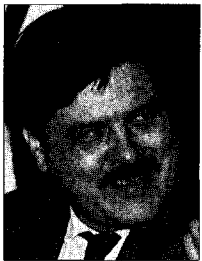
But wouldn't that be deflationary? Almost, but not quite. Because the banks could still be saved by a massive, hyper-inflationary printing of money by the Fed, and who would bet against such emergency rescue?

Lesson #7: There is no "Kondratieff cycle," no way, no how. There is among many people, even including some of the better hard-money investment newsletter writers, an inexplicable devotion to the idea of an inevitable 54-year "Kondratieff cycle" of expansion and contraction. It is universally agreed that the last Kondratieff trough was in 1940. Since 51 years have elapsed since that trough, and we are still waiting for the peak, it should be starkly clear that such a cycle does not exist.

Most Kondratieffists confidently predicted that the peak would occur in 1974, precisely 54 years after the previous peak, generally accepted as being in 1920. Their joy at the 1974 recession, however, turned sour at the quick recovery. Then they tried to salvage the theory by analogy to the alleged "plateau" of the 1920s, so that the visible peak, or contraction, would occur nine or ten years after the peak, as 1929 succeeded 1920. The Kondratieffists therefore fell back on 1984 as the preferred date of the beginning of the deep contraction. Nothing happened, of course; and, now, seven years later, we are in the last gasp of the Kondratieff doctrine. If the current recession does not, as we have maintained, turn into a deep deflationary spiral, and the recession ends, there will simply be no time left for any plausible cycle of anything approaching 54 years. The Kondratieffist practitioners will, of course, never give up, any more than other seers and crystal-ball gazers; but presumably, their market will at last be over. ♦

The Bungling of German Unification

BY HANS-HERMANN HOPPE



The Mises University gets even better! Syndicated columnist, critic-at-large for *National Review*, and media fellow of the Ludwig von Mises Institute Joseph Sobran will teach writing this year.

The collapse of East German socialism presented a magnificent opportunity to dismantle the state interventionism that plagued East and West.

Instead, the German elite sacrificed that opportunity on the altar of the West German welfare state, and the reunited German economy will pay the price in growing welfare liabilities and economic stagnation.

It all began with a misdiagnosis of East Germany's fundamental problem, which was not a lack of democracy, but a lack of private property. This helped distract attention from West Germany's own increasing invasions of private property rights, and it benefitted West Germany's tax-funded political parties. Immediately following the events of November 9, 1989, they extended their presence to East Germany and established sister organizations.

The East German public widely welcomed the West German party invasion. The public was familiar with the West German system of government through West German government television, and public attitudes overwhelmingly favored a welfare state. The territory of East Germany has traditionally been a stronghold of social-democratic and communist support. When East Germany held its first multi-party election on March 18, 1990, the victor was the West German party system.

The former communist party, reconstituted as the Democratic Socialists, was ousted from power (though it remained the third-largest party with a remarkable 15% of the vote). The East German Christian Democrats were boosted by their affiliation with West Germany's ruling party, and they became the strongest political force in a newly formed conservative-liberal-social-democratic coalition representing more than two thirds of the popular vote.

The key to this vote was the

ruling party of West Germany's bribe-like promise of a "generous" exchange rate for East marks through the West German central bank. The most frequently proposed rates were 1:1 or 2:1, making the East mark rise immediately to 4:1 against the deutsche mark. Indirectly, the West German elite had gained control of East Germany and its future desocialization.

Eventually, East marks were exchanged against the D-mark at a 1:1 rate, up to 4,000 per person, and at 2:1 in excess of this limit. The inflationary consequences were predictably minor, but the redistributionary effects were not. First, there was a compulsory redistribution of purchasing power from West Germans to East Germans, even though the former were in no way responsible for the plight of the latter (and had been sending money voluntarily for years). And it caused a coercive redistribution from West Germany's private sector to the West German government—which printed the required deutsche marks essentially at no cost—and indirectly its East German government affiliate.

With the D-mark as its foundation, the socioeconomic integration of Germany began. Having supplied East Germany with "sufficient" initial purchasing power, the East German government, directed by its Western senior partner, and as if it were the legitimate owner, began selling state property. East Germans were given special treatment as buyers, and they even demanded that West Germans be prevented for about a decade from buying land in East Germany. That was defeated, but other restrictions remained in place.

Among the hampered West German buyers, large established government-connected firms enjoyed a systematic advantage (in expectation of this easily predicted event, their stocks significantly increased in value). East Germans with valid

titles to expropriated, socialized assets were reinstated as private owners without having to pay, but with a large number of regulations favoring the current asset users over their original owners. On the other hand, West German holders of East German titles were widely restricted from reclaiming their property and received instead an arbitrary sub-market price.

Although substantial, the re-privatization of East Germany did not include any of the state's command posts. In the end, its extent will be significantly less than in West Germany. Therefore, the relative size of the government sector for united Germany will be above its current level in West Germany alone.

Initially, the receipts from the sale of government assets will be used to finance East Germany's welfare system. Prominent among the provisions of this new system will be the complete adoption of West Germany's social security system. Retirement benefits for East Germans, to be paid in deutsche marks, were raised quickly to West German levels. East German wages were converted, 1:1 into deutsche marks, which lifts them to about one half of West German rates.

East Germany introduced the West German unemployment insurance system. They adopted West Germany's highly centralized labor union organization and collective bargaining. Rents were converted 1:1 and rent controls remained in effect. All debts, denominated in deutsche marks, were cut in half. In order to finance current and future government expenditures, the East German government adopted West Germany's tax structure and patterned its tax collection agency on the West German counterpart.

All this would, said Chancellor Helmut Kohl, "cost West Germany nothing." But the results have been disappointing. To be sure, East Germany is better off

than before. Yet recovery has been much slower and more painful than necessary. The preferential treatment accorded established West Germany companies has prevented a quick breakup of oversized East German conglomerates. Yes, a cartelized economy is better than socialism, but it is not as good as it could have been.

Economic stagnation characterizes the unified Germany, caused by a new big government apparatus and climbing social security taxes.

Worst of all for East Germany's economic recovery will be the combined policies of minimum wage laws and unemployment subsidies. By fixing

wage rates several times higher, in real terms, than West Germany, the government will price the East German labor force out of the market. In order to finance the resulting unemployment, massive transfer payments will be required from West to East, and from East Germany's productive sector to its unproductive one.

It did not need to be this way. Government assets could have been given to those who use them: the farmland to the farmers, the factories to the workers, the streets to the street workers, the schools to the teachers, the bureaus to the bureaucrats (insofar as they should not be subject to criminal prosecution). They

could have then proceeded with the uncompromising privatization of East Germany, the adoption of a pure private-property constitution, and reunification with West Germany through a policy of complete free trade.

East Germany could have been a no-tax, free-trade haven, which would have attracted huge numbers of investors and huge amounts of capital, in particular from West Germany. The result would have made the new country amazingly rich. And when immigration began to flow from West to East, the West German elite would have been forced to do what it is trying to avoid doing: desocialize West Germany as well. ♦

Recapturing the Moral High Ground

BY JEFFREY A. TUCKER

Socialist planners and other leftist windbags lost the economic high ground decades ago, but they held the moral high ground much longer. Though their system couldn't work, they did not give up the egalitarian ideal, which is how "social democracy," "market socialism," and "economic democracy" came about.

The religious left has played a key role in this. Never mind that they have helped unleash the tax police and bureaucratize society. Never mind that the welfare state has never benefited anyone but the government itself and its special interests. Left-wing clerics have always worried more about "wealth disparities in the global community" than real families oppressed by big government.

The socialists are now losing the moral high ground as well as the practical argument, however, in part because of the publication of a major new treatise on the morality of free market economics. Its surprising author: Pope John II.

The consequences of the pope's encyclical, *Centesimus Annus* (*One Hundred Years*),

could be huge. An encyclical is an authoritative statement by the pope addressed to the Church and "to all men and women of good will." We don't pay much attention to papal utterances in this country, but in Latin America, the Baltic states, and Eastern Europe, they are taken seriously indeed.

Centesimus Annus commemorates the 100th anniversary of Pope Leo XIII's *Rerum Novarum*, written in the heyday of the "social gospel" movement. Although Leo XIII condemned socialism, he also rejected capitalism, and set the Catholic Church on a path of economic leftism for more than a century. A typical result was the U.S. Catholic bishop's 1986 document on "Economic Justice for All," which advocated much bigger government and more wealth redistribution.

Instead of condemning the profit motive, markets, private property, capital accumulation, and entrepreneurship, however, John Paul II celebrates them, even incorporating insights from Austrian economics.

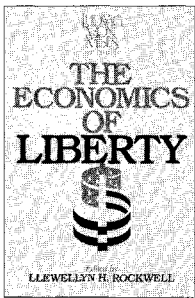
Socialism is always "wrong from an ethical point of view," says the pope, because it shows a "dis-

regard for human nature, which is made for freedom." Socialism is also "impossible" to achieve, since "where society is so organized as to reduce arbitrarily or even suppress the sphere in which freedom is legitimately exercised, the result is that the life of society becomes progressively disorganized and goes into decline."

The alternative to socialism is not the mixed economy, but the free market, "which recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector..." The free market is also "the most efficient instrument for utilizing resources and effectively responding to needs."

F.A. Hayek used to argue that economic liberty was a cornerstone of the decent society because it harmonizes the interests of the individual and the common good—a critical point ridiculed by the Left.

The document takes the free-market view: a social order is "all the more stable" when it "does not place in opposition



“Every one of the writers in this book can write,” says bestselling author Mary Pride. “Furthermore, they are pugnacious, combative, argumentative—in short, a joy to read. If you like bland, this is not the book for you.” *The Economics of Liberty* is \$17 including U.S. postage and handling. ♦

personal interest and the interests of society as a whole, but rather seeks ways to bring them into fruitful harmony.” In fact, “where self-interest is violently suppressed, it is replaced by a burdensome system of bureaucratic control which dries up the wellsprings of initiative and creativity.”

The price system is essential for determining whether resources are being used efficiently. “When a firm makes a profit, this means that productive factors have been properly employed and corresponding human needs have been duly satisfied.” And, “it is precisely the ability to foresee both the needs of others and the combinations of productive factors most adapted to satisfying those needs that constitutes another important source of wealth in modern society.” And this source of wealth is entrepreneurship. Entrepreneurs are responsible for “organizing such a productive effort, planning its dura-

tion in time, making sure that it corresponds in a positive way to the demands which it must satisfy, and taking the necessary risks.” The ability to do this, says the document, is a “virtue.”

The document points out that the market fosters virtues like “diligence, industriousness, prudence in undertaking reasonable risks, as well as courage in carrying out decisions which are difficult and painful but necessary, both for the overall working of a business and in meeting possible set-backs.”

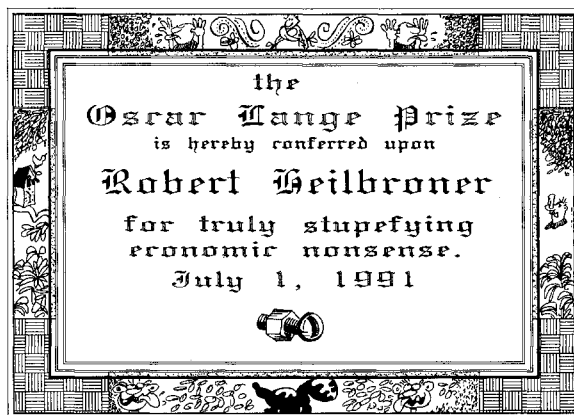
Free trade, too, is important, particularly for the Third World. “Even in recent years it was thought that poorest countries would develop by isolating themselves from the world market and by depending only on their own resources. Recent experience has shown that the countries which did this have suffered stagnation and recession, while the countries which experienced development were

those which succeeded in taking part in the general interrelated economic activities at the international level.”

The document is particularly hard on the modern welfare state. “By intervening directly and depriving society of its responsibility,” the welfare state “leads to a loss of human energies and an inordinate increase of public agencies, which are dominated more by bureaucratic ways of thinking than by concern for serving their clients, and which are accompanied by an enormous increase in spending.” Caring for the poor, the document says, should be handled by “people who are closest to them and who act as neighbors to those in need.” That’s not Health and Human Services.

All in all, the Pope tells us that free markets are imperative for a moral and prosperous society. May the day of the social gospel be ending at last. ♦

The Oskar Lange Prize



This month’s recipient of the Oskar Lange Prize for economic pestilence is Robert Heilbroner, for his life-long war against the free market. Heilbroner—professor of economics at the New School and author of many books—is a veteran socialist who defended Stalin’s “industrialization” and other crackpot schemes, while shamelessly tacking to the prevailing winds of leftwing theory in Manhattan salons.

In a recent and well-publicized *New Yorker* article, Heilbroner admitted that totalitarian socialism perhaps, maybe, possibly, doesn’t work as well as it ought to. He even

invoked Mises’s name, but then denounced him in a follow-up interview with Mark Skousen in *Forbes*. There, Heilbroner showed himself as an unrepentant socialist.

In discussing people like Heilbroner, Thomas Fleming has asked, Why are we supposed to applaud these highly paid intellectuals when it takes them 40 years to discover what “my maid has always known”? Fleming suggests that we should take these people seriously when they sell all their goods, give the money to the poor, and go to work for Mother Theresa in penance for a lifetime of evil. We agree. ♦