

# THE FreeMarket

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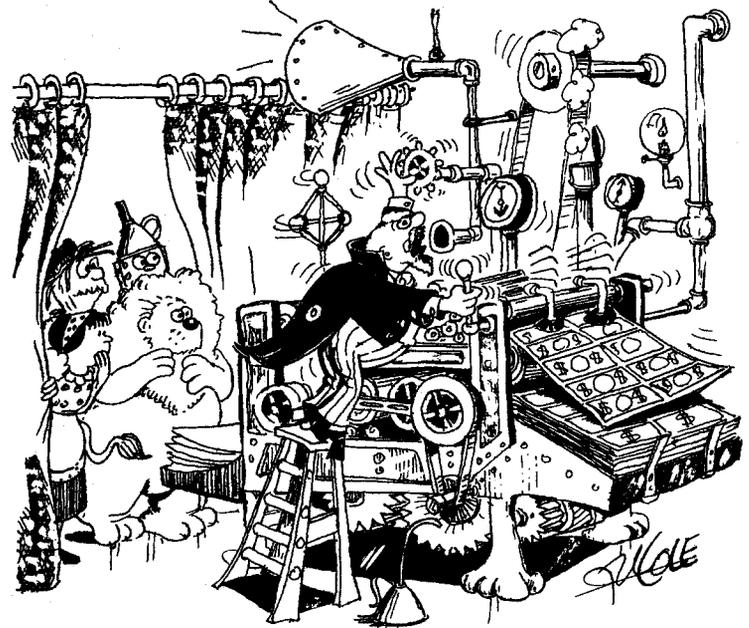
APRIL 1991

## Deflation, Free or Compulsory

BY MURRAY N.  
ROTHBARD

Few occurrences have been more dreaded and reviled in the history of economic thought than deflation. Even as perceptive a hard-money theorist as Ricardo was unduly leery of deflation, and a positive phobia about falling prices has been central to both Keynesian and monetarist thought.

Both the inflationary spending and credit prescriptions of Irving Fisher and the early Chicago School, and the famed Friedmanite "rule" of fixed rates of money growth, stemmed from a fervid desire to keep prices from falling, at least in the long run. It is precisely because free markets and the pure gold standard lead inevitably to falling prices that monetarists and Keynesians alike call for fiat money. Yet, curiously, while free or voluntary deflation has been invariably treated with horror, there is general acclaim for the draconian, or compulsory deflationary, measures adopted



"PAY NO ATTENTION TO THE  
MAN BEHIND THE CURTAIN..."

recently—especially in Brazil and the Soviet Union—in attempts to reverse severe inflation.

But first, some clarity is needed in our age of semantic obfuscation in monetary matters. "Deflation" is usually defined as

generally falling prices, yet it can also be defined as a decline in the money supply which, of course, will also tend to lower prices. It is particularly important to distinguish between changes in

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## The Faith of an Age

BY JOSEPH SOBRAN

The Middle Ages are sometimes referred to as the Age of Faith. Not that the record suggests that everyone then spent his waking hours in prayer; far from it! If anything, the personal morals even of churchmen were more scandalous then than now.

Still, the social order of the West in those days was, to an extent that seems remarkable to us, organized around the Church, whose authority affected and colored even secular institutions. And the Church's authority derived from ultimate

beliefs that were commonly shared, or at least rarely challenged.

As we look back on that era, this implicit faith in the Church is what impresses us most—the believers among us no less than the unbelievers. We find it amazing that something so controversial as Catholic doctrine should have been a matter of consensus. How could teachings so subject to inward doubt and open dispute be taken for granted as the basis of social order?

Within this wonderment lurks the assumption that our own age

and its institutions are more rationally grounded. But what might people of the future (or, for that matter, of the Middle Ages) say of the organizing beliefs of the 20th century? Is it possible that we have our own unquestioning faith—one that might seem strangely irrational to a detached outsider?

I choose the phrase "detached outsider" carefully. It is notoriously hard to shake the beliefs and attitudes you grow up with and are (as we say) "socialized" into you. In fact, it is hard even to

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# Dictatress of the World?

## From the President



BY LLEWELLYN H.  
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The last time I was in the voting booth, New World Order wasn't one of the choices on the ballot. But ready or not, here it comes.

In a question and answer session at the Economic Club of New York, George Bush confirmed that by this phrase he means world rule by the U.S. government through the Security Council of the U.N. Or, as he once defined the purpose of the recent war, making sure that "what we say, goes."

The U.S. government—which can't balance the budget or make Washington, D.C., safe—now seeks global domination. "Globaloney," Clare Booth Luce called it.

The Founding Fathers would have recognized this as the hubris that destroyed ancient Rome. From their study of history and politics, the Founders knew we could not have limited government at home and imperial sway overseas. A State that claimed the right to topple other governments would hardly abstain from running our homes and workplaces.

Alexis de Tocqueville wrote that "In no other country in the world is the love of property keener or more alert than in the United States, and nowhere else does the majority display less inclination toward doctrines which in any way threaten the way property is owned." That was the foundation of America's economic greatness. The welfare state obliterates our property rights. The New World Order (NWO) targets what's left.

The cost of bribing and bombing other countries—added to an already gigantic military and foreign aid budget—will bankrupt us. During the Iraq war, there were 33 other wars going on. Is the U.S. going to cure them too?

Since bureaucracies exist to devour what is private, the NWO provides a new excuse. From HHS ("ensuring healthy soldiers for the world") to the Department of Education ("teaching children to bear any burden, pay

any price, for global democracy"), every agency will bloom.

Worse, the NWO breeds deference to the government. If D.C. can run the world, why not our families and companies too?

Some libertarians say: Don't worry, be happy. The global economy, because it's global, hampers interference by domestic bureaucrats. In fact, it gives the government incentives to expand internationally, as we already see in securities, banking, and tax law.

Some conservatives, seeing the linkage between global trade and global government, urge protectionism. But this wealth-destroying policy makes no more sense than outlawing American industries because the government will aggress against them. In addition, the institution deciding who does what to whom under protectionism is the executive, the very branch of government seeking world hegemony.

Left-liberals like Robert Kuttner in his *End of Laissez-Faire* champion a NWO and its politically managed trade, world currency and central bank, global EPA, and universal welfare—exactly the arrangement John Maynard Keynes advocated in the 1940s.

Ludwig von Mises called this "the delusions of world planning."

While politicians may talk of world law and world peace, their regulatory and financial apparatus must create conflict, Mises demonstrated. "Government can give to one group only what it takes from another." Thus it merely creates at the world level what it began at home: "bounty receivers" and the "more numerous class of bounty payers."

"All talk" about a "world authority" to bring "world peace" is "in vain," wrote Mises. It would simply divide nations into two groups: "the exploiting and the exploited; those restricting output and charging monopoly prices, and those forced to pay monopoly prices." The "inevita-

ble result" must be "new wars."

It need not be that way, of course. George Washington urged us to "observe good faith and justice toward all nations. Cultivate peace and harmony with all."

"The great rule of conduct for us in regard to foreign nations is, in extending our commercial relations to have with them as little *political* connection as possible."

"Why, by entangling our destiny" with foreign governments, should we "entangle our peace and prosperity" in the toils of their "ambition, rivalry, interest, humor, or caprice?"

In this century, we have heeded that advice about as often as we have obeyed his injunction to "cherish the public credit" by using it "as sparingly as possible."

Some urge, wrote John C. Calhoun, that it is the mission of America to spread "liberty over all the globe by force." He called this "a sad delusion" that would threaten *our* liberty. Instead he urged "moderation and justice toward all nations" and the avoidance of "war whenever it can be avoided."

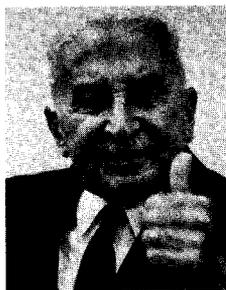
America should send "her benedictions, and her prayers" to "wherever the standard of freedom has been or shall be unfurled," said John Quincy Adams. But "she goes not abroad in search of monsters to destroy" lest she be entangled "beyond the power of extrication, in all the wars of interest and intrigue, of individual avarice, envy and ambition, which assume the colors and usurp the standard of freedom. The fundamental maxim of our policy would insensibly change from liberty to force."

Yes, America "might become the dictatress of the world," but "she would no longer be the ruler of her own spirit."

Is this not the New World Order? Give me the old American republic. ◀

# Deflation, Free or Compulsory

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## Fighting for the Free Market

When you help the Ludwig von Mises Institute, you support internationally recognized educational programs dedicated to the free market, sound money, individual liberty, and private property.

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prices or the money supply that arise from voluntary changes in people's values or actions on the free market; as against deliberate changes in the money supply imposed by governmental coercion.

Price deflation on the free market has been a particular victim of deflation-phobia, blamed for depression, contraction in business activity, and unemployment. There are three possible causes for such deflation. In the first place, increased productivity and supply of goods will tend to lower prices on the free market. And this indeed is the general record of the Industrial Revolution in the West since the mid-eighteenth century. But rather than a problem to be dreaded and combatted, falling prices through increased production is a wonderful long-run tendency of untrammelled capitalism.

The trend of the Industrial Revolution in the West was falling prices, which spread an increased standard of living to every person; falling costs, which maintained general profitability of business; and stable monetary wage rates—which reflected steadily increasing real wages in terms of purchasing power. This is a process to be hailed and welcomed rather than to be stamped out. Unfortunately, the inflationary fiat money world since World War II has made us forget this home truth, and inured us to a dangerously inflationary economic horizon.

A second cause of price deflation in a free economy is response to a general desire to “hoard” money, that is, to see people's stock of cash balances have higher real value in terms of purchasing power. Even economists who accept the legitimacy of the first type of deflation react with horror to the second, and call for government to print money rapidly to prevent it.

But what's wrong with people desiring higher real cash balances, and why should this desire

of consumers on the free market be thwarted while others are satisfied? The market, with its perceptive entrepreneurs and free price system, is precisely geared to allow rapid adjustments to any changes in consumer valuations. Any “unemployment” of resources results from a failure of people to adjust to the new conditions, by insisting on excessively high real prices or wage rates. Such failures will be quickly corrected if the market is allowed freedom to adapt—that is, if government and unions do not intervene to delay and cripple the adjustment process.

A third form of market-driven price deflation stems from a contraction of bank credit during recessions or bank runs. Even economists who accept the first and second types of deflation balk at this one, indicting the process as being monetary and external to the market. But they overlook a key point: that contraction of bank credit is always a healthy reaction to previous inflationary bank credit intervention in the market. Contractionary calls upon the banks to redeem their swollen liabilities in cash is precisely the way in which the market and consumers can reassert control over the banking system and force it to become sound and noninflationary. A market-driven credit contraction speeds up the recovery process and helps to wash out unsound loans and unsound banks.

Ironically enough, the only deflation that is unhelpful and destructive generally receives a favorable press: compulsory monetary contraction by the government. Thus, when “free market” advocate Collor de Mollo became president of Brazil in March 1990, he immediately and without warning blocked most bank accounts, preventing their owners from redeeming or using them, thereby suddenly deflating the money supply by 80%. This act was generally praised as a he-

roic measure reflecting “strong” leadership; but what it did was to deliver the Brazilian economy the second blow of a horrible one-two punch.

After governmental expansion of money and credit had driven prices into severe hyperinflation, the government now imposed further ruin by preventing people from using their own money. Thus, the Brazilian government imposed a double destruction of property rights, the second one in the name of the free market and “of combatting inflation.”

In truth, price inflation is not a disease to be combatted by government; it is only necessary for the government to cease inflating the money supply. That, of course, all governments are reluctant to do, including Collor de Mello's. Not only did his sudden blow bring about a deep recession, but the price inflation rate, which had fallen sharply to 8% per month by May 1990, started creeping up again.

Finally, in the month of December, the Brazilian government quickly expanded the money supply by 58%, driving price inflation up to 20% per month. By the end of January, the only response the “free-market” government could think of was to impose a futile and disastrous price and wage freeze.

In the Soviet Union, President Gorbachev, perhaps initiating the Brazilian failure, similarly decided to combat the “ruble overhang” by suddenly withdrawing large-ruble notes from circulation and rendering most of them worthless. This severe and sudden 33% monetary deflation was accompanied by a promise to stamp out the “black market” i.e., the market, which had until then been the only Soviet institution working and keeping the Soviet people from mass starvation.

But the black marketeers had long since gotten out of rubles and into dollars and gold, so that Gorbys's meat-ax fell largely on

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the average Soviet citizen, who had managed to work hard and save from their meager earnings. The only slightly redeeming feature of this act is that at least it was not done in the name of privatization and the free market; instead, it was part and parcel of Gorbachev's recent shift back to statism and central control.

What Gorbachev should have done was not worry about the rubles in the hands of the public, but pay attention to the swarm of new rubles he keeps adding to the Soviet economy. The prognosis is even gloomier for the Soviet future if we consider the response of a leading allegedly free-market reformer, Nicholas Petrakov, un-

til recently Gorbachev's personal economic adviser. Asserting that Gorbachev's brutal action was "sensible", Petrakov plaintively added that "if, in the future, we go on just printing more money everything will just go back to square one." And why should anyone think this will not happen? ◀

## The Faith of an Age

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see them. "The style of your time," the critic Hugh Kenner has written, "is always invisible." The distinguishing mark of our age is not necessarily something we are all proud of or ashamed of. It is more likely to be something we are hardly aware of.

My own guess is that future ages will marvel at ours for our sheer, simple faith in the State. Twentieth-century man has believed in the State as firmly and implicitly as medieval man believed in the Church: as an institution whose authority is unquestionable. True, people often complain about the government. But more often than not they are complaining that it has not done enough, that it has left some evil or mere dissatisfaction unaddressed, that it has bestowed its favors unequally. Rarely do they challenge it to the root.

Even today, World War II is spoken of as a decisive contest for the fate of mankind. But that war was a war of the leviathans. At issue was what kind of megastate should exist. Whether any superstate should exist was never in question.

The same assumption operates in smaller questions of domestic policy. An essay by Barbara Ehrenreich in *Time*, for instance, calls for national health insurance. She thinks this would be a good idea for everyone. But it never occurs to her to explain where the State gets the rightful power to compel everyone to subscribe to such a program.

I am endlessly impressed at how meekly most people obey

even the pettiest government officials in their most intrusive functions. Elected officials, who supposedly typify democratic government, still show their constituents some respect. Unelected ones hardly have to. And the unelected ones are growing far more numerous than their putative superiors, the elected ones, while the source and ground of their authority is far less clear. This is the way we live now.

In the Declaration of Independence, Thomas Jefferson concisely stated the classic republican rationale for government: to secure our God-given rights. This rationale implies a strict limitation on government: it must never violate those rights or exceed the just powers the people delegate to it.

But the State has a way of growing beyond its proper bounds and forgetting its original rationale. By gradual and cunning steps, usually on humanitarian pretexts, the servant becomes the master. Instead of merely protecting the independent pursuit of happiness, the State promises to deliver the substance of happiness itself. And it can only do this by diminishing the very freedom it was authorized to defend, as by taxing Peter to subsidize Paul.

If Paul took Peter's money himself, we would recognize his behavior as criminal. But if the State does it for him, we accept the transaction as legitimate—as this is the pivotal point where our faith in the State blinds us to the nature of what we are accepting.

How can we justify taxing Peter to subsidize Paul? The few who still bother to justify it usu-

ally argue that it is somehow sanctified by "democratic process." But democracy is only a method of choosing government officials; it has nothing to do with the powers of the offices it fills. If a practice is inherently unjust, no mere procedure—certainly not a simple vote—can make it right. We may delegate to the State our right of self-defense because we all have a right to defend ourselves in the first place. But we can't delegate our right to rob our neighbors, because we have no such right. Robbery is robbery, whether its instrument is a gun or a vote (which vote is, of course, ultimately backed by guns).

Of course most of us have long since stopped thinking analytically about such matters; we simply assume that the State may do as it pleases. Its functions are legitimated less by any theory than by their confusing complexity and the sheer power that makes it futile to resist them. And most people have obeyed the State with equal servility whether it was fascist, democratic, or communist.

If people learned from experience, the 20th century should have made us all ultra-Rothbardians. The evils of organized religion, however they are reckoned, are dwarfed by the evils of the modern State; and yet we are still taught to congratulate ourselves on having emerged from the Middle Ages! If they could see us, the men of the Middle Ages might wryly congratulate those of us who have escaped concentration camps, purges, death marches, and world wars to face nothing worse than the tax police. ◀

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# Did World War II End the Depression?

BY ROBERT HIGGS

Almost everyone thinks that World War II got us out of the Great Depression. In fact, the war prolonged the depression.

The standard interpretation relies on three statistics: 1) unemployment, which declined dramatically, 2) the GNP, which increased enormously, 3) and private consumption, which grew slightly.

If credible, these statistics would vindicate the Keynesian model: to reverse a depression, all the government would have to do is vastly increase military spending, and finance it with newly created money and increased debt. The "multiplier effect" would then raise real output, employment, and consumption in the civilian sector.

The data, however, are highly misleading. Keynesianism doesn't work even in its classic case.

## Employment

According to the standard measure, unemployment fell from 14.6% in 1940 to 1.2% in 1944. Another measure, which excludes New Deal "emergency government employment" (the so-called Darby measure), shows unemployment falling from 9.5% to 1.2%. But neither measure demonstrates what it is alleged to.

The buildup of the armed forces to 12 million by mid-1945 made an enormous decline in the standard measure inevitable. The government pulled 18% of the total labor force, and 22% of the prewar labor force, into the military. Voilà, virtually no unemployment.

But this does not imply that workers or the economy were better off. Of the 16 million people who served in the armed forces, 10 million were conscripted, and many of the volunteers joined to avoid being drafted into the infantry.

Moreover, military "jobs" differed radically from regular ones, ranging from the disgusting to the boring to the horrifying. Often they entailed risk of death or dismemberment. Sustained combat drove many men insane. Physical casualties included 405,399 dead and 670,846 wounded. To equate military and civilian jobs, as most economists do, is to betray a monumental obtuseness.

To get a better idea of what happened to employment, consider the so-called residuum: civilian unemployed, uniformed armed forces, civilians employed by the armed forces, and everyone employed in the military supply industries. The residuum rises from 17.6% in 1940 to more than 40% in 1943-45, then drops abruptly to 10% during 1946-49.

## World War II prolonged the Great Depression.

The extraordinarily high level of the labor residuum during 1942-45 signals that the "prosperous" condition of the labor force was spurious. The steep drop in 1945-46 marks the return of genuine prosperity.

## Output

The standard measures of inflation-adjusted GNP show almost a doubling of output from 1939 to 1944.

A leading skeptic was Simon Kuznets. Writing in 1945, he warned economists that "a major war magnifies" the "conceptual difficulties" in assessing economic performance. The key problem is that prices, especially of munitions, are unreliable. He later produced a study that adjusted for the steep decline in relative prices of munitions during the

war, and subtracted the pay and subsistence of the armed forces from his estimate. The result was to eliminate most of the bulge of real GNP during the war years.

He should have gone further, and deleted all government outlays for war. After all, war expenditures do not produce final goods, which belong in GNP, but rather intermediate goods, which do not.

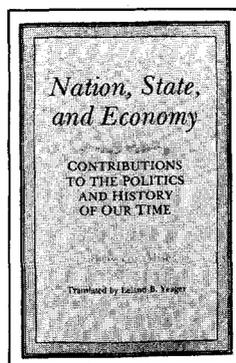
Using the logic of the Measure of Economic Welfare (MEW) of William Nordhaus and James Tobin, and deleting *all* war spending from the calculations, shows there was no wartime prosperity whatsoever. In fact, by 1944, output was 12% lower than in 1941. Only with the end of the war did the economy break out of its 15-year slough, jumping nearly 27% between 1945 and 1946.

And there is an even stronger argument for rejecting orthodox GNP during war. Outside a competitive market, prices are meaningless. Therefore it becomes impossible to estimate national output.

## Private Consumption

Seymour Melman said the war economy produced "more guns and more butter. Americans never had it so good." But this mainstream view is wrong. It fails to take into account that: official price indexes don't show the actual inflation; many consumer goods disappeared from the market; many consumer goods were rationed; and consumers had to sacrifice more for less. When the data are corrected for these points, we find that real consumer well-being declined during the war.

In thousands of ways, consumers were made worse off. The quality of consumer goods deteriorated, and to get the goods that were available, millions of people had to move, many of them long



Ludwig von Mises was more than a theoretical economist; he was also a great historian and social theorist, as his 1919 *Nation, State, and Economy* shows. In this book, he discusses World War I, individual liberty, nationalism, language, race, pacifism, imperialism, immigration, secession, international utopianism, and the economics of war. He refutes—long before Keynesian arguments to the contrary—the notion that war is good for the economy. This all-too-contemporary work is \$17, including postage and handling.

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# Did World War II End the Depression?

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distances, to centers of war production. They often found themselves crowded into poorer housing, which got worse each year because rent control led landlords to reduce or eliminate repairs.

Transportation became much more difficult. No new cars were produced, used cars were hard to find, gasoline and tires were rationed, and public transportation was overcrowded, and often preempted by the military.

To find employment, teenagers left school, women left the home, and older people came out of retirement. The average workweek in manufacturing increased from 38.1 hours in 1940 to 45.2 hours in 1944. The workweek in bituminous coal mining increased more than 50%. The rate of disabling injuries per hour increased more than 30%.

Consumers were getting less and working harder, longer, and in more perilous conditions for a

reduced flow of goods. This is increased consumer welfare?

## Some Theoretical Problems

There are even more problems with the mainstream understanding of the war economy. All standard macroeconomic theories presume the existence of genuine markets, but the American economy during WWII was a command economy, the opposite of a free market. It was hindered by price controls, rationing, prohibitions, priorities, conservation and limitation orders, quotas, set-asides, scheduling, allocations, and other restrictions on raw materials, components, and capital. Taxes were raised enormously, and some foods and raw materials were heavily subsidized. Credit markets were totally controlled, as the Fed

allocated consumer credit and pegged the interest rate. Two-thirds of manufacturing investment was financed by the government.

Thus, to suppose that the economy allocated resources in response to prices set by supply and demand, as the standard account does, is to suppose a fiction. The World War II economy bore no resemblance to prosperity; only the government flourished. Rather than ending the depression, the war made it longer.

"War prosperity," as Ludwig von Mises wrote in 1919, "is like the prosperity that an earthquake or a plague brings. The earthquake brings good business for construction workers, and cholera improves the business of physicians, pharmacists, and undertakers; but no one has for that reason sought to celebrate earthquakes and cholera as stimulators of the productive forces in the general interest." ◀

## The Economics of The Economist

BY JEFFREY A. TUCKER

Britain's *The Economist*, the world's most influential news weekly, was founded in 1843 to battle protectionism, such as the legendary Corn Laws, and other government interventions in the economy. Nearly 150 years later, it has lost its classical liberal moorings.

On free trade, *The Economist* (*TE*) still looks pretty good, but on other, more important, issues—from fiscal policy and taxation to the environment and monetary policy—the magazine offers only "market-oriented" statism.

In some ways, this is worse than pure and simple statism, for it legitimizes intervention, and helps achieve undesirable anti-consumer goals more efficiently.

Consider *TE*'s recent paean to Adam Smith as "a pragmatist" who favored government intervention in many areas. They're right, of course. Smith was no Mises. Still, it is disturbing to see

him enlisted in the cause of alleged market-based interventions: "tariffs are better than quotas; taxes on pollution are better than bans or direct controls; allocating [public] resources by price is better than allocating them by fiat." It's also better, as *TE* might say, for the state to contract with private builders to build public housing instead of doing it itself. But this smears over the real issue. There shouldn't be any public housing.

When war broke out in the Middle East, all financial pages fretted about oil markets. The big question was: should the U.S. have an "energy policy," i.e., should it subsidize inefficient forms of energy and penalize efficient ones? The Left beat the drums for government controls, and *TE* joined them.

Instead of advocating free-market solutions—deregulation and development, if not selling, of oil-rich government lands—*TE* wants the government to favor

natural gas. They also want to force everyone, especially Americans, to use less energy. They call for higher taxes on gasoline, the "gas-guzzler" tax extended to all cars getting less than 27 MPG, and higher automobile insurance premiums for people who drive more than they "should."

They say this "embraces market forces" because it places the costs directly on resource users rather than the economy as a whole. But this is nonsense. Such bureaucratic interventions must make the economy less efficient, and consumers less free.

Their position on "global warming" and the ozone layer is no better. This threat is unproven, to put it charitably, but *TE* wants vital chlorofluorocarbons (CFCs) phased out completely, "deforestation" outlawed, and a treaty adopted that would set energy consumption levels for all countries.

How would such a treaty be enforced? The U.S. government

**The Economist is a champion of market Keynesianism, no praise of a publication with such capitalist roots.**

should pay foreigners to comply.

Here, as elsewhere, *TE* claims to rely on market-oriented emission limits that could be traded among countries. For example, "rich countries that found it costly to curb their gas-puffing could pay poorer countries to do part of the job for them." Instead of driving less, Japan would "pay Brazil to plant trees and thus mop up carbon dioxide emitted elsewhere." Britain would pay for "energy-saving investment in Poland." The purpose is to balance the earth's temperature for all time—this from governments that can't balance next year's budget.

Higher income taxes are popular with *TE*, which praised Bush's increase, while opposing a capital gains cut as "benefiting the rich."

On Eastern European desocialization, the magazine urged an approach so gradualist it was too slow for Keynesian Jeffrey Sachs. Even Poland's limited reforms have caused wages to rise and exports to boom, with limited layoffs. More and faster desocialization would accelerate this process, while delays only give the nomenklatura time to toss more monkey wrenches into the works, and prolong any pain,

causing political problems.

Few interventions are as damaging as tinkering with the labor market. Yet *TE* sympathizes with anti-market "comparable worth."

Of Ontario's draconian system, which regulates 8,000 firms, the magazine celebrates the "greater awareness of the value of many jobs done by women" and the "handsome benefits" accruing to politically favored classes. Ignored are the injustices and inefficiencies that must come with bureaucratic egalitarianism.

Keynesians used to argue that war has economic benefits because it raises "aggregate demand." But rising demand is only good when consumers have more savings to spend. That indicates real prosperity. War prosperity is false, as economists from Mises to Higgs have shown.

Yet *TE* argues the Keynesian line on the Gulf War: "A war that goes well will do economic good in many more ways than releasing a glut of cheap oil." It will inspire renewed "confidence" in the economy and put off a recession.

*TE* is at its worst, however, on monetary policy. In early 1991, Gorbachev instituted a KGB-supervised confiscation of large-de-

nomination ruble notes, which destroyed the pathetic savings of millions. *TE* endorsed it before it happened, echoing a World Bank recommendation in December 1990. Afterwards, they praised the totalitarian action as taking inflationary pressure off the Soviet government!

In contrast to Mrs. Thatcher, *TE* has also been a big supporter of the 1992 European cartel of governments, and especially of the creation of a single European currency to be issued by a new European central bank.

If this makes sense, however, so does a single world currency, so it's not surprising that they favor this old dream of Keynes as well, only changing his name (the *bancor*) to their own, the phoenix.

*The Economist* is a champion of market Keynesianism. Yes, among similar magazines, it is relatively free market. But that's no praise of a publication with such capitalist roots, only a sad commentary on the present ideological spectrum. Regardless of that, however, *TE*'s "market-orientation" isn't going to steer the world economy out of the miasma of big government; more likely, it will push us toward social democracy. ◀

## Losing the Other War

BY MARK THORNTON

Since October 1989, the government has issued four public statements claiming victory in the war on drugs. In fact, the government is losing this war.

Should drug warriors feel victorious when they seize a multi-ton, multi-billion dollar shipment of cocaine? Or should they feel defeated that black marketeers can operate such large scale drug enterprises right under their noses? It should be particularly "defeating" to notice that the price of cocaine barely budges after such immense seizures.

The administration touts a statistic claiming cocaine use is down 72% since 1985, and down

45% since 1988. They also like to point out that marijuana use among high-school students is down. Would that this were true.

These statistics come from surveys of high-school students and settled households. These are among the groups most likely to change from illegal to legal drugs (e.g., alcohol). Second, both groups have become more skeptical about volunteering information on their drug habits to the U.S. government. Third, the administration has not surveyed high-school dropouts, homeless people, and prisoners, all of whom are more likely to use drugs.

These statistics also suffer in

comparison to other government studies. One Senate report found the cocaine-using population to be 2.4 million, four times larger than the administration's estimate, and use to have increased by 10% since August 1990. The number of cocaine addicts is on the rise, and the United Nations has found that world cocaine production continues to increase substantially.

While flaunting alleged successes, the administration is engaging in a coverup. Marijuana use peaked in terms of quantity in 1979, before the drug war began. Even if the number of casual users of soft drugs is down, the

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# Losing the Other War

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use of hard drugs is up dramatically. The government also failed to note the unexpected and dramatic increase in the number of heroin users. Anecdotal evidence indicates that the use of dangerous designer drugs has also increased, yet the administration gathers no data on their production or use.

There is also the connection between prohibition and more potent, more dangerous products. Writing in the *Washington Post*, Richard Cohen labeled this the "Iron Law of Prohibition." The drug war changed the black market. By heightening the risks for both producers and consumers, it led to a desire for more bang for the buck. Less potent, and therefore safer, drugs have been pushed aside.

The *New York Times* recently reported that today's heroin is highly potent because it is mixed with synthetic opiates, increasing the potency by a factor of 27. Ironically, when police officers tried to warn heroin addicts about this drug, they started a buying stampede. Hundreds of users have collapsed, and at least six died. This very dangerous drug came into use during the "huge drug sweeps" of 1989-90, which former New York City police commissioner Patrick Murphy said "didn't accomplish anything."

As to the death and destruction drug prohibition has caused, the government's own statistics show that the number of deaths associated with illegal drugs continues to climb year after year. From 1981 to 1989, medical examiners report a 1,300% increase in people who died with cocaine in their system. Cocaine-related deaths doubled between 1986 and 1989. And even if cocaine-related hospital emergencies decreased

slightly in 1990 (as the administration prematurely claimed), they increased 250% from 1986 to 1989.

Homicides are hitting record levels in most major cities. Yet ex-czar Bill Bennett is still optimistic, and claiming that the rising number of deaths is a good thing, because supposedly the drug dealers are fighting over a smaller customer base.

The deaths associated with drug markets would not occur in a legal environment. When narcotics were legal, as they were in America before 1914, the Coca-Cola and Bayer Companies, both of which used now-illegal ingredients, never killed any customers.

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Drug arrests increased 70% between 1985 and 1989 to 1.36 million. Enough drug arrests were made in the 1980s (8.3 million) to put nearly one in ten adults in jail. The prison system is already overcrowded and the prisoner-on-parole population has increased by more than 50% since the mid-1980s. The U.S. now has a larger percentage of its population in prison than the Soviet Union.

Illegal drugs are available everywhere, including in federal prisons, in the Pentagon, and in front of the Drug Enforcement Administration building in Washington, D.C. In most major cities, and in many surrounding suburbs, open-air drug markets are as close as the local conve-

nience store. Police know if they bust up one block, the trade will simply go to the next.

It is normal for men like Bennett to pretend victory amidst defeat. As Mises noted, a bureaucrat is "fully imbued with the idea that it is his sacred duty to fight" for the State ("his idol"), "against the selfishness of the populace. He is, in his opinion, the champion of the eternal divine law. He does not feel himself bound *morally* by the human laws which the defenders of individualism have written into the statutes." Mises warned that "it is one step only from such a mentality to the perfect totalitarianism of Stalin and Hitler."

Moreover, Hayek, Rothbard, and others have warned us about politicians and bureaucrats chosen largely for their "propaganda ability." But why do most Americans believe the government? Perhaps because their personal experience doesn't contradict the claims. Most people are untouched by illegal drugs and the violence associated with them.

Whatever the facts, however, more and more resources continue to be dumped into a drug war which *cannot* be won, any more than the laws of economics can be repealed. Instead of pursuing a utopian and dangerous path, instead of acting like Saddam Hussein and claiming victory amidst defeat, the government should halt its war on drugs. For those unfortunates who have chosen drugs, alternative economic paths can help lead them out, if we restore a free-market economy, cut taxes, and abolish economic privileges and barriers. Only this, not the drug war, will foster a system of individual responsibility and community stability. ◀

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