The Free Market

April 1987 • The Ludwig von Mises Institute

Gold Socialism or Dollar Socialism?

by Murray N. Rothbard

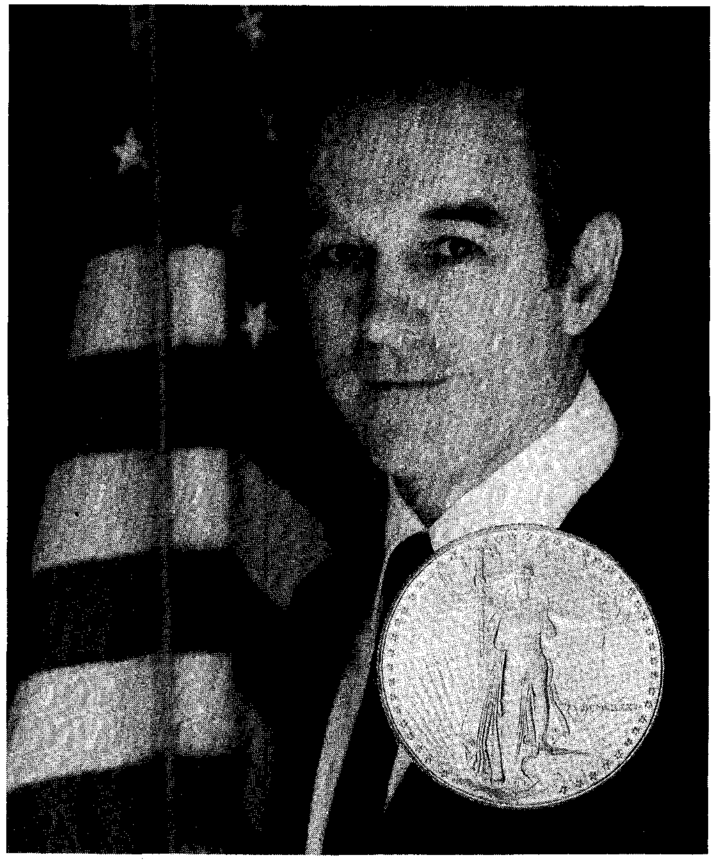
Not all hard-money supporters favor the gold-coin standard or any Treasury minting of gold coins. A few "purists" charge those of us who advocate a gold standard with being "gold socialists" because the Treasury would, at least initially, be minting the gold coins. Why not, they say, simply start minting gold coins privately by weight (in one ounce, half ounce, etc. denominations), and encourage people to use these coins as money, thereby bypassing the entire statist monetary system?

One critic, a man from Kansas City, has, for almost a decade, been minting such coins, only to find that his "Hayeks," "Harwoods," "Friedmans," etc. have most decidedly not come into use as media of exchange, much less graduated to the general use that would make them money.

The problem with this critic, as with the proponents of many other monetary schemes such as F.A. Hayek's private (non-gold) currency unit, the "ducat," is that they all ignore Ludwig von Mises' critically important "regression theorem," the *pons asinorum* of monetary theory.

Mises demonstrated, as early as 1912, that no good can become a medium of exchange, much less a money, *unless* it has a previous non-monetary usefulness on the market. In short, money can only emerge as a commodity on the market, and cannot be imposed by the government, by social contract, or by various schemes of economists or other observers. Such plans have elsewhere been labeled correctly by Hayek himself as "constructivist." In short, media of exchange and therefore money can only arise "organically" out of market processes and cannot be imposed by outside schemers.

It is, of course, true that gold and silver were, when available, always chosen by the market in preference to all other useful commodities to serve as media of exchange. And it is also true that every currency unit, past and present, originated as units of weight of gold or silver. In the last half of the 19th century, economists and statesmen organized several international monetary conferences, which, in contrast to the socialistic paper-money schemes of the 20th century, attempted to transform all currency units from "dollars," "marks," etc. into units of



Former Congressman Ron Paul, Distinguished Counsellor to the Mises Institute and a member of our board, was responsible for the U.S. Treasury's minting of the new one-ounce gold American Eagle, which Professor Rothbard has called the "first step towards a gold standard."

weight of gold or silver. Unfortunately, these conferences foundered on the bimetallist gold-silver problem, and the attempts were soon forgotten when World War I ushered in a century of statist and fiat-money international schemes.

Unfortunately, however, once the dollar, mark, franc,

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From the President

Neo-Conservative Socialism

by Llewellyn H. Rockwell, Jr.

Before his election to the presidency, Ronald Reagan called government medicine "a collectivist illusion promoting a delusion and delivering a boondoggle."

Now, unfortunately, the President is following the lead of the "neo-conservatives," an influential group of ex-Marxist intellectuals headed by Professor Irving Kristol.

The neo-cons endorse big government, but want a "conservative welfare state" whose benefits flow to neo-con interest groups instead of liberal ones.

And indeed—to take but one small area of the federal leviathan—neo-cons have sought not to abolish the Department of Education but to use it to fund their friends. As one neo-conservative told a Mises Institute student: "We don't want to cut the government; we want to take it over."

President Reagan last month proposed federal "catastrophic health insurance" for Medicare recipients. The plan was pushed by White House political operatives who explicitly said it would subsidize and thus gain votes and contributions from the elderly, organized doctors, drug manufacturers, nursing homes, and hospital companies.

Real conservatives were, of course, horrified, as were free-market physicians. But there's little hope now that the plan has gone to Congress. Teddy Kennedy and his allies have always wanted socialized medicine. Add the statist Republicans, and the skids are greased for an expansion of the welfare state.

The President assures us that this scheme will be self-financing. Even if that were true, it would still fortify bureaucrats and politicians against the rest of us in matters of literal life and death. In fact it will—like every other government program—cost vastly more than he says.

Anyone who has studied socialist medicine abroad or in our own country—the Indian Health Service, for example—finds another branch of the same dismal medical post office: rationing by white-coated bureaucrats; high costs to the taxpayer; and heavy non-financial costs to the patient. As in many other countries in the world, the State is eventually put in charge of who shall live and who shall die.

The Tower Commission claimed there is nothing wrong with the "government process"; bad people were responsible for the Irangate debacle. But it is in fact the *big government* process which makes everything bad possible. And without it, no well-connected special interest could legally steal from the rest of us.

In the fight for freedom, we cannot simply seek to install one party over another, or one politician over another. Only free-market scholarship, and the resulting education of the public, will build the necessary coalition for liberty.

Irving Kristol once told me he was "no admirer of Ludwig von Mises." And no wonder. Mises was the greatest enemy of big government, leftwing or neo-conservative, of our century. In his whole life, he never once compromised with statism or statists. So he was criticized—and is still criticized today—as "intransigent," "inflexible," and "obstinate."

Only people who adhere to principle, and so oppose every single state intervention, have the potential to defeat the socialists of left and right. There is no assurance of victory, of course. But compromise with the welfare state means inevitable defeat. That was Ludwig von Mises' great example. And that is why Irving Kristol and his allies fear it. ■

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etc. were established as currency units and habituated among the public, it became easy for governments to go off the gold standard, sever any link with gold as a unit of weight, and continue using the old currency names as independent fiat monies, cut off from weights of gold. Once in general use as money, the dollars, pound, etc. could continue as monies while functioning as independent names, or entities, under the total control of the State. In short, governments managed to nationalize the dollar and all other currencies. The United States has long been suffering, for example, from "dollar socialism."

The question before us, then, is how to denationalize, or "privatize," our currency unit, the dollar; how, in other words, to transfer control of the dollar from the State to private hands.

The trouble with all the constructivist schemes, from the private medallion issuer to Hayek's ducat, is that it leaves the country's money, in our case the dollar, squarely in government hands. The ducat won't become money because the ducat violates the regression theorem; no one knows or cares about the ducat, which has no pre-existing purchasing power or general acceptance. The same is true for the "Hayek" and the "Harwood." In the first place, as estimable as Hayek and Harwood et al. are, far fewer people have heard of them than have heard of the U.S. or other governments, much less have they heard of the man who issues these would-be coins.

More important, the public hasn't used gold ounces as the day to day currency unit for centuries. At this point the public would never directly use gold ounce coins as media of exchange. The public has been habituated to dollars, they want dollars, and will only use dollars. Only a hyperinflationary holocaust will ever induce them to give up dollars, and even then, most people still cling to the dollar or mark, even though its value is virtually vanishing at the very moment of contemplation.

All these plans, then, violate the regression theorem and are therefore profoundly irrelevant. They fail because they do not even begin to address the main problem: how to denationalize the dollar or pound or mark.

In the United States, there is only one way to denationalize the dollar: to tie it once again to a weight of gold. In 1933, the U.S. government confiscated virtually all the gold in the country, exchanged it for dollars, and buried it at Fort Knox under the ownership of the Federal Reserve System. Certainly any believer in private property or the free market would advocate denationalization of the Fed's gold hoard. How is this to be done?

There is only one way to denationalize both the gold stock *and* the dollar at the same time: to retie the dollar to gold as a definition of weight, and then to abolish and liquidate the Federal Reserve System. Liquidation of the Fed, as of any organization, means the distribution of its assets to its creditors. In this case, it means disgorging the Fed's hoard of gold by (a) redeeming all the Federal Reserve notes in gold coins denominated in dollars and minted, yes, by the Treasury, and (b) redeeming Federal Reserve deposits in gold coin or bullion, which would go to the commercial banks.

The public, then, would still have its dollars, which would remain as the currency unit, except now the *form* of the dollars would not be the now-liquidated Federal Reserve notes, but in gold coins, and, we would hope, private bank notes and demand deposits with gold at 100 percent reserve to these demand dollar claims. Note that the Treasury minting of coins need only be a one-shot affair. Once the gold is in the hands of the public, there is no reason why the Treasury could not leave the minting business and throw it open to private competitors, who would tend to produce a better and cheaper product.

I hope that, over the decades, as the public became used to dollar-denominated gold coins tied firmly to a unit of weight, they would eventually be ready to scrap the dollar, mark, etc. altogether and fulfill the promise of the late 19th century by being willing to use only "ounce" or "gram" denominated coins. The ideal would be one economic world, all using only weight-denominated gold and silver coins as money. But that day is long a-coming. Right now, we are stuck with dollars, pounds, etc. and they must be denationalized and tied to gold.

The money question is but one illustration of a general point. Where governments have nationalized and seized control of much of the economy, there are often no easy or self-evident solutions on how to go about denationalizing. There have been thousands of anti-Communist theorists and writers in the last forty years, for example, yet none of them have in any way prepared themselves for the question: how to de-Communize.

If Gorbachev or some successor were someday to read Mises and then say, "you're right, I quit," and handed the reins of power over, say, to the U.S. government, how would we go about de-Communizing? What would happen to the land, the factories, etc., much less to the ruble? I am not, of course, saying that these problems are insoluble, only that they have received very little thought. Those, such as the Mises Institute, who are trying to find a way out of the mess, whether in money or some other key area, are doing extraordinarily important work. ■

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Stanford University's Memorial Church

Misesian Instructional Conference

The Ludwig von Mises Institute's O.P. Alford III Center for Advanced Studies in Austrian Economics is sponsoring an instructional conference at Stanford University from June 21-27, 1987.

This program—the first of its sort that can be called Misesian—is designed primarily for graduate students. However, it will also be useful to Institute Members who wish to build on their basic knowledge of Austrian economics, scholars in other disciplines, economic journalists, and advanced undergraduates planning a career in university economics.

The faculty, outstanding teachers and scholars, are: Pro-

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fessor Charles Baird of California State University at Hayward; Dr. Walter Block of the Fraser Institute; Professor Roger W. Garrison of Auburn University; and Professors Hans Hermann Hoppe and Murray N. Rothbard of the University of Nevada, Las Vegas.

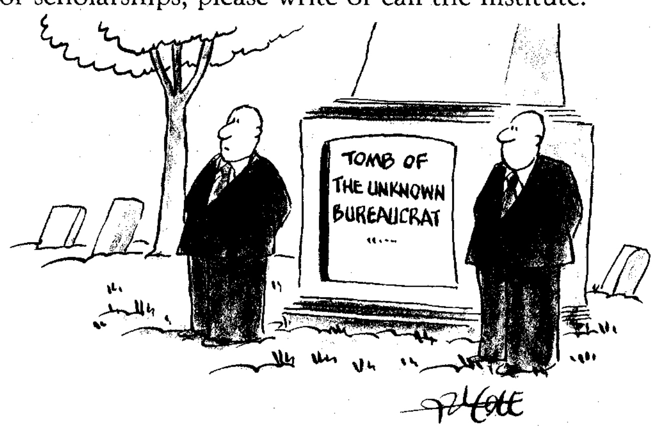
The program, directed by Professor Rothbard—famed Misesian economist and the Institute's vice president for academic affairs—will consist of 20 lecture-seminars and extensive planned discussions and informal gatherings. It can qualify for one hour of graduate credit at many universities, as well as being the intellectual experience of a lifetime.

Areas to be covered, in the Menger-Böhm-Bawerk-Mises tradition, include: the gold standard; praxeology (and the *intended* effects of human action); the business cycle; the importance (and limits) of subjectivism; competition and entrepreneurship; 100% reserve banking; central banking and the Federal Reserve; taxation; the pure time-preference theory of interest; equilibrium theory and the ERE; welfare and utility theory; capital theory and the structure of production; the origin and nature of money (the regression theorem); the pre-Austrian economists, Keynesianism, socialism, monetarism, and supply-sidism; the bright future of the Austrian school; and a Misesian view of public policy: "the free and prosperous commonwealth."

Taking place on the magnificent 8,200-acre Stanford University campus in Palo Alto, California, 30 miles south of San Francisco, the all-inclusive price for this five-and-a-half-day conference includes: dormitory housing; three meals a day; study materials; library privileges (4.5 million volumes); the student union; and extensive recreational and athletic facilities.

Dress is casual. The days are warm and sunny. Nights are cool. Humidity is low. Participants should plan to arrive on Sunday afternoon, June 21st, and depart on Saturday morning, June 27th.

The conference fee is $595. Student scholarships are available, however. For more information on registration or scholarships, please write or call the Institute. ■



The Myth of the Trade Deficit

by Sam Wells

Almost daily we read and hear demands from leaders of industry and demagogic politicians to increase restrictions on foreign imports because of the "unfavorable balance of trade" that America is supposed to have with other countries. Although the Reagan administration has paid lip service to free trade, it has drastically increased political obstructions to foreign imports. In 1981, approximately 25 percent of all goods imported into the United States were subject to some kind of U.S. government restrictions. Today, that figure has risen to 40 percent.

And now the President has sent to Congress legislation to stiffen restrictions on imports and pile another layer of controls on top of the bunch we already have. Since 1982 the administration has, through government-to-government negotiations and arm-twisting, secured 18 agreements that limit steel exports to the United States. Last year, the administration pressured Japan and Taiwan into agreeing to limit their exports of machine tools to the U.S. for the next five years. After failing to secure "voluntary" trade restraints from Switzerland and Germany, the administration set new quotas which rolled back exports from those countries. Also last year, it used threats to obtain agreements with South Korea, Hong Kong, and Japan that limited the growth in the quantity of textiles they could export to the U.S. to only 1% or less per year. And these are only a few examples of increasingly prevalent protectionism.

In ominous tones, we are told that the United States has incurred a "trade deficit" and that this means disaster. In late January, the government—from whom all such numbers flow—revealed that the trade deficit for 1986 had amounted to $169.8 billion, a record level. Gosh! But what does it mean? Was the President right when he referred to us as "trade patsies"? Are Americans being taken advantage of by the opportunity to buy low-priced, foreign-made products? Are the trade policies of the Japanese "cheating" us? The answer is a clear No.

The great Ludwig von Mises, writing in 1946, showed how free trade works to the benefit of all parties:

> Under free trade the Swiss watchmakers would expand their sales on the American market and the sales of their American competitors would shrink. But this is only a part of the consequences of free trade. Selling and producing more, the Swiss would earn and buy more. It does not matter whether they themselves buy more of the products of other American industries or whether they increase their domestic purchases and those in other countries, for instance, in France. Whatever happens, the equivalent of the additional dollars they earned must finally go to the

United States and increase the sales of some American industries. If the Swiss do not give away their products as a gift, they must spend these dollars in buying.

So, in the long run, trade can never take jobs away, but only add them to the American economy as a whole.

Moreover, artificially trying to prop up inefficient industries through protectionist trade policies hurts us all by driving up prices and holding down quality. These policies also hurt other, efficient U.S. industries by tying up resources and capital in the protected sectors, which would otherwise flow to more efficient uses and satisfy consumer needs less expensively.

How many Americans have any notion of the high costs imposed by auto import restraints? Despite its laudable free-market rhetoric, the current administration pushed for "voluntary" restraints on the number of Japanese automobiles sold to Americans. This had the effect of narrowing the alternatives from which American consumers could choose—and hiked the price by nearly $2,000 per car. That's a total cost to American consumers of more than $250,000 for each U.S. auto-industry job supposedly saved. If you multiply that example by the number of other "protected" U.S. industries and jobs, the total burden to U.S. consumers amounts to $30-40 billion. And neo-mercantilist policies invite similar measures in retaliation from foreign governments whose leaders are also deluded by mercantilist myths.

Stepped-up protectionism in the U.S. Congress just in the last two years has already resulted in some very harmful foreign reprisals. While all American (and foreign) consumers are hurt by this war between governments, the American farmer has been especially hard hit. An editorial in *USA Today* noted:

> A typical wheat, soybean, or cotton farmer gets fifty percent of his income from foreign sales. And recent U.S. efforts to protect specialty steel, textiles, and other industries have led to heavy retaliation by other countries against our grain exports. We've lost farm sales worth many times what we saved in the protected industries.

When Americans choose to buy lower-cost imports, they have more money to spend or invest in other ways. This means they have more of their wants and needs satisfied for a given income.

The freedom of Americans to buy goods made in other countries gives them a wider choice, and that's all to the good. Not only has buying Japanese products not hurt Americans, but the money earned by the Japanese from their sales to us of VCRs, cars, stereos, cameras, and computer chips has come back to us in the form of Japanese investments.

Dr. Walter Block, co-editor of our Review of Austrian Economics, *recently gave an Institute seminar on "What's Wrong With the Economics Profession."*

If it were not for the inflow of this foreign capital (from Europe as well as Japan and elsewhere), the "crowding out" of domestic borrowers in our credit markets by big government's gargantuan budget deficits would have slammed us into a deep repression long before now. So, it has given us a little more precious time to put our own house in order. Instead of expressing gratitude for this salutary consequence, our demagogic politicians are trying to make the Japanese and other foreigners the scapegoats for ills which the politicos themselves created.

What about "dumping" (selling goods to Americans at prices allegedly "below the cost of production") or the Japanese keeping out U.S. goods? Japan is actually less protectionist than is the United States. And nobody can sell his products at below-cost for long without going out of business—much less making any profit. Besides, costs can only be subjectively determined, and they cannot be aggregated between or among industries, let alone countries. If "dumping" does occur, it is a great boon to Americans who take advantage of such bargains. (Why, by the way, isn't Safeway attacked by Giant for dumping when it sells ketchup at a nominal loss to attract customers?)

But what if the Japanese government subsidizes some of its exporting companies so they can increase their American market share by selling at below-cost prices? Since consumption is the end of production, and since consumers clearly benefit by such a good deal, why should we care? If foreigners are foolish enough to allow their governments to tax them to subsidize their exporting companies, we should take full advantage of their generosity. It won't last forever! (The only thing that apparently lasts forever is the U.S. government's massive subsidization of our exporting companies through the Export-Import Bank and other examples of corporate welfare.)

One of the most important notions underlying the calls

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for stifling foreign imports is the "balance of trade" concept and the idea that a "trade deficit" (your country imports more goods than it exports) is bad and that a "trade surplus" (your country exports more than it imports) is good. This is pure superstition and goes back to the mercantilist days of the 17th century.

The terms "deficit" and "surplus" are accounting terms that apply to budgets. But they have been misappropriated from the context in which they have meaning and used to describe international trade. A "trade surplus" means a "favorable balance of trade" (exports greater than imports), while a "trade deficit" is supposed to denote an "unfavorable balance of trade" (imports greater than exports). This is what we are told by the modern mercantilists and Keynesians. But this notion is as false as it is widespread in current discussions on international economics. Although this fallacy was refuted by the great French economist (and pre-Austrian) Richard Cantillon 275 years ago, many have not learned the lesson.

There is no reason why trade should "balance out" between countries at any specific moment—any more than it should balance out between individuals or companies doing business with each other. If you walk into a supermarket and buy a loaf of bread by exchanging money for it, you don't expect that particular supermarket to turn around and buy an equal amount of goods from you. It may take the money you gave for the bread and buy goods from somebody else, like a supplier or a truck farmer; but there's no reason that goods should balance out in trade between two parties. The buyer gives up money for goods, and the seller gives up goods for money. Both sides benefit. The same applies to people or firms living in different countries.

When Americans buy imports, they are simply accepting payment for the goods they export (sell) to foreigners. Imports pay for exports and exports pay for imports. There is no reason they should always balance. Taking a statistical snapshot of the flow of goods between countries at any single time and calling that the "balance of trade" is artificial, misleading, and irrelevant. We don't have to be concerned about it since it has no real bearing on the status or health of the economy. Yet, judging from all the media hype, we are supposed to fear a national "trade deficit" (which isn't even a real deficit at all) more than the very real and definitely harmful federal budget deficit!

Americans who wish to preserve and expand their liberty, and maximize their choices in the market, should work to repeal existing restrictions and taxes on imported goods, and vigorously oppose efforts in Congress to impose still more protectionist legislation. Despite what we hear from the politicians, there is no conflict between the principles of freedom and patriotism: free trade is in the best interests of Americans and America.

Instead of clamoring for more political intrusions on our freedom to buy and sell, those genuinely concerned about the struggling sectors of U.S. industry should demand abolition of the taxes and controls which the U.S. government has clamped on our domestic industries. Let American consumers have the freedom to choose to buy Sony and Honda. And liberate American producers from the U.S. government. ■

Sam Wells, a California investment writer, is a policy associate of the Mises Institute.

We the People vs. the Loot Seekers

by Mark D. Hughes

> "We, the loot-seekers of the United States, in order to form more perfectly protected monopolies, impose injustices, insure domestic servitude, provide for our common defense against competition, promote our own welfare by securing the coercive powers of the State for ourselves and our posterity, do ordain and establish this Constitution for the United Special Interest Groups of America."

Those were not the words penned by the Founding Fathers, but who could tell from today's America? Over the last two centuries, we have seen our civil and economic liberties thwarted, despite the clear intent of the Founders. They sought to prevent the concentration of power in the hands of a privileged few. But regulatory legislation has enabled loot-seeking special interests to use the coercive powers of the State against the rest of us.

Ludwig von Mises called this a "caste system":

> Our age is full of serious conflicts of economic group interests. But these conflicts are not inherent in the operation of an unhampered capitalist economy. They are the necessary outcome of government policies interfering with the operation of the market. They are not conflicts of Marxian classes. They are brought about by the fact that mankind has gone back to group privileges and thereby to a new caste system. . . . .
>
> In a free market society . . . there are neither privileged nor underprivileged. There are no castes and therefore no caste conflicts. There prevails the full harmony of the rightly understood interests of all individuals and of all groups. . . .

One caste began in 1937 when a few large New York dairies successfully lobbied the legislature for protective licensing. Under the law, still in effect, new licenses could be issued only if they do not cause "destructive competition."

There is, of course, no such thing as destructive competition for the consumer. Competition means lower prices, higher quality, and better service. To be sure, competition may be a nuisance for inefficient, established dairies. But it is not an annoyance to the milk-consuming public.

While the 1937 licensing law does not openly forbid the entry of new dairies into New York, that was its intent and effect. Until this January, the market was controlled by five large dairies. As a result, New York City consumers have traditionally paid a considerably higher price for milk than any other metropolitan area with a similar supply. In November 1986 the average price of a gallon of milk in New York City (except Staten Island) was $2.42. Philadelphia consumers paid $1.93.

Then in December 1985, after trying for seven years to gain access to the New York market, Farmland Dairies of Wallington, NJ, was reluctantly granted a license to serve Staten Island. The average price immediately dropped 40 cents per gallon and consistently remained about 30 cents cheaper than milk sold in the rest of New York City.

The New Jersey dairy spent the next year unsuccessfully trying to gain access to the rest of the city. On December 11, 1986, Agricultural Commissioner Gerace rejected Farmland's request because "it would tend to destructive competition . . . and would not be in the public interest."

The Commissioners decision immediately became the topic of angry editorials throughout the state. Even statist politicians like New York's Mayor Ed Koch, recognizing the mood of the city's consumers, jumped on the band wagon.

New York Governor Cuomo claimed that he would like to see increased competition among milk dealers, but said he would not intervene in the Commissioners "quasi-judicial" decision.

The Governor had received $58,700 in campaign contributions from the dairy cartel. But the dairies' licensed overcharges have earned them more than $50 million a year, so it is not hard to understand the incentive for such donations, nor Governor Cuomo's decision not to intervene.

Although it is a relatively small example of state intervention, the New York dairy licensing law reflects the isolationist mentality indicative of all loot-seeking interests. It is no different from those seeking tariffs on foreign automobiles, restrictions on foreign investment, or business licensing for entrepreneurs.

The economic isolationists claim that restricting entry into a market will "save jobs." They argue that added

Institute President Lew Rockwell and Greg Kaza of United Press International at a Mises Seminar.

competition from an external source will force local producers out of business and thereby cause irreparable damage to the economy of the region (whether a city, state, or nation). But clearly they know nothing of a market economy. As Henry Hazlitt wrote in his great *Economics in One Lesson*:

> This is the persistent tendency of men to see only the immediate effects of a given policy, or its effects only on a special group, and to neglect to inquire what the long-run effects of that policy will be not only on that special group but on all groups. It is the fallacy of overlooking secondary consequences.

The secondary consequence of economic isolationism is simple—it reduces the actual and potential wealth of the community involved. By preventing competition in the New York dairy industry, the milk licensing law allows the dairy cartel to charge a higher price for milk than would exist in a free market. This is money the consuming public would spend on other goods and services in the community. It is true that added competition might force some of the inefficient dairies out of the market and some dairy workers would then be unemployed. However, contrary to what the economic isolationists claim, the story does not stop there, since more than $50 million a year of added consumer spending translates into *new* jobs in other businesses.

Even if the new jobs created just replace the old ones lost (probably not the case), the wealth of the community is still increased. After the price of milk is reduced the consumer can do one of two things: 1) purchase the same amount of milk as usual for less money and spend what's left on other goods and services, or 2) spend the same amount of money on milk and take more milk home. Regardless of the choice, the amount of goods and services consumed by the public will increase even though the amount spent by each consumer did not change.

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Someone understood at least part of this, however. On January 8, 1987, Federal Judge Leonard D. Wexler held that the decision to prohibit Farmland Dairies from distributing milk in all of New York City was unconstitutional. "It is clear," he said, "from Gerace's report that this decision to deny Farmland's license application was based on economic protectionism."

Farmland started delivering milk to seven supermarkets in the city on January 9. Each immediately lowered the price it charged the consumer by 20 cents a gallon. By January 17, prices had dropped between 30 and 71 cents per gallon.

Unfortunately, Judge Wexler did not declare the law itself unconstitutional, although he did say that this "would not be without foundation." The judge suggested this be left "to the discretion of the State Legislature."

So, despite the court's ruling, the New York City dairy market is still not free. New York has seen the price of milk drop, but we will never know how much more it will drop until the milk licensing law is repealed and all who want to compete are allowed to try.

The economic and civil liberty we still have in America exist not because legislators are concerned for the welfare of "We the people." Our liberty, and the chance we have to expand it, exist only because a heroic few refuse to stand aside while special interests impose a new two-caste system —the State privileged vs. the rest of us. ■

Mark Hughes, a Mises Institute Fellow at George Mason University, is doing graduate work at the Center for the Study of Market Processes.

Ludwig von Mises' *Bureaucracy*

reviewed by Jeffrey A. Tucker

Ludwig von Mises' small but magnificent volume *Bureaucracy* is a testimony to his intellect, creativity, and brilliance. In it, he critically analyzes the theory and practice of government management, and proves the case for the profit motive and free markets. The volume also illustrates Mises' courage: he wrote *Bureaucracy* in 1944, when everyone else was extolling the virtues of omnipotent government. Because of his views, no American university was open to Ludwig von Mises. Yet that was no deterrent to his work.

If you'd like a copy of the April Publication of the Month, just check the box marked Bureaucracy *on the enclosed form and enclose your check for $7.00, which includes postage and handling, plus any tax-deductible contribution that you can make to help the Institute's pro-free market and anti-bureaucratic work.*

At the time Mises wrote *Bureaucracy*, John Maynard Keynes stood astride economics like a warped colossus claiming that government could correct the alleged failures and excesses of the free market.

Just one of the things ignored in the Keynesian model was the fact that people in government are motivated by self-interest just like everyone else. But success in the private sector means developing and improving your talents, producing products and services that people want, being efficient by conserving resources, and developing skills of social cooperation to serve consumers.

In government, on the other hand, you need only have the right connections, follow the rules and regulations, obey the powers-that-be, and stay on the job a long time.

The modern Public Choice school of economics, which analyzes government and comes to conclusions similar to Mises', is a magnificent development. But we should not forget that Ludwig von Mises anticipated many of their ideas in *Bureaucracy*. He was the first systematically to analyze the economics of government, and he did so eloquently, courageously, and alone. ■

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