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Why the Intervention in Arabia?

BY MURRAY N. ROTHBARD

A midst the near-universal hoopla for President Bush's massive intervention into the Arabian Peninsula, a few sober observers have pointed out the curious lack of clarity in Mr. Bush's strategic objective: is it to defend Saudi Arabia (and is that kingdom really under attack?); to kick Iraq out of Kuwait; to restore what Bush has oddly referred to as the "legitimate government" of Kuwait (made "legitimate" by what process?); to dispose and/or murder Saddam Hussein (and to replace him with whom or what?); or to carpet-bomb Iraq back to the Stone Age?

There has been even less discussion, however, about a somewhat different and even more puzzling question: why, exactly, are we suddenly hip-deep into Saudi Arabia? Why the hysteria? Why the most massive military buildup since Vietnam, and the placing of almost our entire army, air force, navy, marines, and a

chunk of reserves in this one spot on the globe where there is not even a U.S. treaty obligation?

(1) Big guy, little guy. What is



UNCLE SAUD
WANTS YOU

puzzling to some of us is crystal clear to General H. Norman Schwarzkopf, commander of

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War Is Socialism

BY JOSEPH P. SOBRAN

W hen Iraq seized Kuwait on August 2, official circles in the U.S. reacted immediately. President Bush began making preparations for war, with the full support of Congress (as far as audible indicators went, given that Congress was in summer recess). As for unofficial circles, there was remarkably little opposition from political commentators, many of whom were as eager for war this time as they were opposed to it during the Vietnam years. And no mass antiwar movement materialized.

The few who did argue against war with Iraq found themselves stigmatized as "isolationists." In a way, this was the most notable datum of all. The leading "isolationist," Patrick J. Buchanan, had in fact supported every recent American military intervention since Vietnam. His very first reservation about a proposed U.S. military action abroad earned him the reproachful epithet.

Nobody defined the word "isolationist" or explained why it was such a bad thing to deserve it. Nobody had to. That's the point. "Isolationist" is what Richard

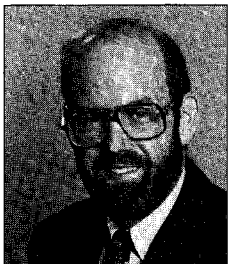
Weaver called an "uncontested term": a term packed with abstract meanings and values which, however questionable philosophically, embody the prejudices of a particular society.

The relevant prejudice here is a presumption in favor of war. Iraq posed no serious threat to the U.S.; those who favored war were driven to rather desperate predictions that its dictator would someday menace the U.S. with nuclear weapons and long-range missiles, neither of which he possesses now. The costs of

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A Marxoid "Oops"

From the President



BY LLEWELLYN H.
ROCKWELL

When a congressman cites the Constitution, I'm glad to hear it mentioned, but I know he's subverting it with every vote he casts. That's how I felt when left-wing economist Robert Heilbroner said in the *New Yorker* that "Mises was right" about socialism.

Ludwig von Mises was never able to get a paid academic post in the U.S. He was shut out of American economic journals, and boycotted and ridiculed by the establishment—all because he told the truth, without fear or compromise, when it wasn't fashionable to do so.

Heilbroner, however, has never been anything but fashionable. A professor at the New School for Social Research, his lecture fees are high and his books sell well, especially his history of thought, *The Worldly Philosophers*, which glorifies Marx and Keynes and never mentions the Austrians.

Like John Kenneth Galbraith, Heilbroner has gotten rich by attacking capitalism. And also like Galbraith, every time he writes a book, the reviews in the top media read like sales copy.

In his *New Yorker* article, Heilbroner mentions the debate of the 1920s and 1930s on the workability of socialism. Mises started it by saying, in his 1920 article on "Economic Calculation in the Socialist Commonwealth" and 1922 book on *Socialism*, that socialism was impossible. For more than two decades, the left sought to refute this, and the conventional wisdom held—until the collapse of communism in 1989—that Mises had been wrong.

Now Heilbroner says Mises was right: "no Central Planning Board could ever gather the enormous amount of information needed to create a workable eco-

nomic system."

Although true, that was not Mises's point. His critique was far more radical: that an economy couldn't function properly, i.e., economically, without a free price system. Socialism in particular couldn't work because there are no free prices for its commonly owned means of production.

Mises also made an even more significant point for those of us in the West: free prices are what make an efficient economy possible. Therefore, every step away from the free market subverts economic calculation. Mises's arguments about socialism therefore also apply to the American economy of today.

Therefore Heilbroner's misstatement serves a purpose. If he really believed that Mises was right, he could hardly endorse "socialist capitalism" as the answer to our problems.

As late as 1970, Heilbroner was apologizing for Stalin. Sure, old Joe made mistakes, usually "self-defeating" ones, poor guy, but "we must bear in mind that industrialization on the grand scale has always been wrenching, always accompanied by economic sacrifice, and always carried out by the more or less authoritarian use of power." This is Stalin as the Soviet Henry Ford.

Also in 1970, Heilbroner ridiculed Mises (without naming him) as the reactionary dolt who claimed "in the first days of chaos following the Russian Revolution" that "socialism" was "impossible."

Ha ha, said Heilbroner. The U.S.S.R. has grown "roughly twice as fast as the United States," and Soviet socialism "continues to produce at good rates."

In the midst of a government-caused depression in 1978,

Heilbroner had the answer: "a powerful, and I think irresistible, force for planning the economic process"—"a general sticking of the public nose into private life."

In 1980, Heilbroner praised Communism for "the immense material and cultural improvement that these regimes have brought to their peoples." History cannot be pushed back. "In our times and henceforth, change is upon the world, in large part inspired and guided by Marxism itself. The task now is to understand it."

He endorsed world government as necessary for economic justice in 1988, since "the nation is in some way the ultimate barrier that has to be transcended before something like socialism may be reached."

Like other rich leftist intellectuals, Heilbroner is a trimmer. Even his *New Yorker* piece is all *mea* and no *culpa*. He wasn't wrong when he disagreed with Mises; the times have changed.

Mises was right at the wrong time. This is in contrast to Heilbroner, who was right then and right now.

Heilbroner, like all leftists, doesn't believe in economic law. What worked in 1920 may not work in 1990, but might work again in 2000. Socialism may not be feasible now, but that doesn't tell us anything about the future—if it comes back into fashion in Manhattan salons.

In Eastern Europe, the Baltics, and Russia, Heilbroner—like Galbraith—is scorned as an apologist for totalitarianism, while interest is high in the unabashed capitalists like Mises, Hayek, and Rothbard.

But in the U.S., the situation is less encouraging. What conservative or libertarian could be published on Mises or any other subject in the *New Yorker*? In intellectual America, now as in the past, only the left is respectable—whether it repents its sins or not. ◀

Writers IN THIS ISSUE

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Why the Intervention in Arabia?

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U.S. forces for "Operation Desert Shield." Growing testy under media questioning, the general replied: "Don't you read the papers? You all know why we're here. A big guy beat up a little guy and we're here to stop it." The general was obviously using the Police Action metaphor. A big guy is beating up a little guy, and the cop on the corner intervenes to put a stop to the aggression.

Unfortunately, on further analysis, the Police Action metaphor raises far more questions than it answers. Aside from the obvious problem: why is the U.S. the self-appointed international cop? The cops, seeing the bad guy flee and lose himself in his neighborhood, do not surround that neighborhood with massive force and starve out the entire neighborhood looking for the bad guy. Still less do cops carpet-bomb the area hoping the bad guy is killed in the process. Cops operate on the crucial principle that innocent civilians do not get killed or targeted in the course of trying to apprehend the guilty.

Another crucial point: governments are not akin to individuals. If a big guy sets upon a little guy, the aggressor is invading his victim's right to his person and to his property. But governments cannot be assumed to be innocent individuals possessing just property rights in their territory. Government boundaries are not productive acquisitions, as is private property. They are almost always the result of previous aggressions and coercion by governments on both sides. We cannot assume that every existing state has the absolute right to "own" or control all the territory within its generally arbitrary borders.

Another problem with the alleged principle of the U.S. cop defending all borders, especially those of little states: what about the big U.S. government's own

invasion of decidedly little Panama only a short time ago? Who gets to put the manacles on the U.S.? The usual retort was that the U.S. was "restoring" free elections in Panama. An odd way to justify intervention against Iraq, however, since Kuwait and Saudi Arabia are each absolutist royal oligarchies that are at the furthest possible pole from "democracy" or "free elections."

(2) Saddam Hussein is a very bad man, the "Butcher of Baghdad." Absolutely, but he was just as much a butcher only the other day when he was our gallant ally against the terrible threat posed to the Gulf by the fanatical Shiites of Iran. The fanatical Shiites are still there, by the way, but they—as well as the dictator of Syria, Hafez Assad,

Unfortunately, on further analysis, the Police Action metaphor raises far more questions than it answers.

the Butcher of Hama—seem to have been magically transformed into our gallant allies against Saddam Hussein.

(3) But some day (three but more likely ten years) Saddam Hussein may acquire nuclear weapons. So what? The U.S. has nuclear weapons galore, the result of its late Cold War with the U.S.S.R., which also has a lot of nuclear weapons, and had them during the decades that they were our Implacable Enemy. So why is there far more hysteria now against Saddam than there ever was against the Soviet Union? Besides, Israel has had nuclear weapons for a long time, and India and Pakistan are at the point of war over Kashmir, and they each have nuclear arms. So why don't we worry about them?

The appeal to high principle is not going to succeed as a coherent explanation for the American intervention. Many observers, therefore, have zeroed in on economics as the explanation:

(4) The Oil War. Saddam, by invading Kuwait and threatening the rest of Arabia, poses the danger, as one media person put it, of being "king of the world's oil." But the oil explanation has invariably been posed as the U.S. defending the American consumer against an astronomical raising of oil prices by Iraq.

Again, however, there are many problems with the Oil Price explanation. The same Establishment that now worries about higher oil prices as a "threat to the American way of life," treated OPEC's quadrupling of oil prices in the early 1970s when we were far more dependent on Gulf oil than we are now, with calm and fortitude. Why was there no U.S. invasion of Saudi Arabia then to lower the price of oil? If there is so much concern for the consumer, why do so many politicians long to slap a huge 50 cents a gallon tax on the price of gasoline?

Indeed, it is clear that the power of OPEC, like all cartels, is strictly limited by consumer demand, and that its power to raise the price of oil is far less than in the 1970s. Best estimates are that Saddam Hussein, even conquering the entire Gulf, could not raise the oil price above \$25 a barrel. But the U.S., by its embargo, blockade, and continuing threats of war, has already managed to raise the price of crude to \$40 a barrel! In fact, it would be more plausible to suppose that the aim of the massive Bush intervention has been to raise the price of oil, not to lower it. And considering Mr. Bush's vice presidential visit to Saudi Arabia specifically to urge them to raise prices, his long-time connections with Texas oil and with Big Oil gener-

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ally, as well as Texas's slump in recent years, this hunch begins to look all too credible.

But the likeliest explanation for the Bush intervention has not been raised at all. This view focuses not on the price of oil, but on its supply, and specifically on the profits to be made from that supply. For surely, as Joe Sobran has emphasized, Saddam does not intend to control oil in order to destroy either its supply or the world's customers whom he hopes will purchase that oil.

The Rockefeller interests and other Western Big Oil companies have had intimate ties with the absolute royalties of Kuwait and Saudi Arabia ever since the 1930s. During that decade and World War II, King Ibn Saud of Saudi Arabia granted a monopoly concession on all oil under his domain to the Rockefeller-controlled Aramco, while the \$30 million in royalty payments for the concession was paid by the U.S. taxpayer. The Rockefeller-influenced U.S. Export-Import Bank obligingly paid another \$25 million to Ibn Saud to construct a pleasure railroad from his main palace to his summer palace, and President Roosevelt made a secret appropriation out of war funds of \$165 million to Aramco for pipeline construction across

Saudi Arabia. Furthermore, the U.S. Army was obligingly assigned to build an airfield and military base at Dhahran, near the Aramco oilfields, after which the multi-million dollar base was turned over, gratis, to Ibn Saud.

It is true that Aramco was gradually "nationalized" by the Saudi monarchy during the 1970s, but that amounts merely to a shift in the terms of this cozy partnership: over half of Saudi oil is still turned over to the old Aramco consortium as management corporation for sale to the outside world. Plus Rockefeller's Mobil Oil, in addition to being a key part of Aramco, is engaged in two huge joint ventures with the Saudi government: an oil refinery and a petrochemical complex costing more than \$1 billion each.

Oil pipelines and refineries have to be constructed, and Standard Oil of California (now Chevron), part of Aramco, brought in its longtime associate, Bechtel, from the beginning in Saudi Arabia to perform construction. The well-connected Bechtel (which has provided cabinet secretaries George Schultz and Casper Weinberger to the federal government) is now busily building Jubail, a new \$20 billion industrial city on the Persian Gulf, as well as several other

large projects in Saudi Arabia.

As for Kuwait, its emir granted a monopoly oil concession to Kuwait Oil Co., a partnership of Gulf Oil and British Petroleum, in the 1930s, and by now Kuwait's immensely wealthy ruling Sabah family owns a large chunk of British Petroleum, and also keeps enormous and most welcome deposits at Rockefeller-oriented Chase Manhattan and Citibank.

Iraq, on the other hand, has long been a rogue oil country, in the sense of being outside the Rockefeller-Wall Street ambit. Thus, when the crisis struck on August 2, the big Wall Street banks, including Chase and Citibank, told reporters that they had virtually no loans outstanding, nor deposits owed, to Iraq.

Hence, it may well be that Mr. Bush's war is an oil war all right, but not in the sense of a heroic battle on behalf of cheap oil for the American consumer. George Bush, before he ascended to the vice presidency, was a member of the executive committee of David Rockefeller's powerful Trilateral Commission. Mr. Bush's own oil exploration company, Zapata, was funded by the Rockefeller family. So this Oil War may instead be a less-than-noble effort on behalf of Rockefeller control of Middle East oil. ◀

War Is Socialism

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even the preliminary boycott and blockade of Iraq were greater than any projected cost of Iraqi aggression.

But whether or not the call to war was as irrational as this account suggests, the striking fact is that from the very first, a heavy burden of proof has rested on those who opposed war. Surely this is the opposite of the way things should be in normal society. Self-defense is the destruction of a threat; its price, however, is a measure of self-destruction, whether in death and mutilation or mere expense.

The point can be made more vividly. In his book *Wartime*,

Paul Fussell complains that to this day the American public has been kept naive about the actual experience of soldiers in World War II. Fussell remarks that "it would be a mistake to assume that dismembering was more common when warfare was largely a matter of cutting weapons, like swords and sabers. Their results are nothing compared with the work of bombs, machine guns, pieces of shell, and high explosives in general."

He goes on: "You would expect front-line soldiers to be struck and hurt by bullets and shell fragments, but such is the popular insulation from the facts

that you would not expect them to be hurt, sometimes killed, by being struck by parts of their friends' bodies violently detached. If you asked a wounded soldier or marine what hit him, you'd hardly be ready for the answer, "My buddy's head," or his sergeant's heel or his hand, or a Japanese leg, complete with shoe and puttees, or the West Point ring on his captain's severed hand."

Fussell continues amassing details of what he and other combat veterans went through. Even those who suffered no physical harm were often driven insane by the danger and the carnage

All this is
 A natural.
 Both war
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Ludwig von Mises, 1952, in
*Money, Method, and the
 Market Process*

"The only method of reducing poverty and of supplying people more amply with consumers' goods is to produce more, better, and cheaper. This is what profit-seeking business aims at and achieves, provided sufficient capital has been accumulated by saving. All that a government can do in this process is to protect the operation of the market economy against violent or fraudulent aggression. What lessens poverty is not taking something away from Paul and giving it to Peter, but making commodities more easily accessible by producing more, better, and cheaper. There is nothing in this sequence of events for the application of which the term "war" would seem to be adequate. A governmental system that spends every year billions of dollars of the taxpayers' money to make essential foodstuffs, cotton and many other articles more expensive should certainly have the decency not to boast of an alleged war against poverty."

around them. Sanity simply can't indefinitely survive the moment-to-moment awareness that at any instant a direct hit may rip your body in unpredictable ways or simply blow it into a red mist. Even the strongest man, Fussell says, will crack under such fear within 200 to 240 days. The shattering noise of artillery is enough to make many lose control of their bladders and bowels. The whole experience is not only terrible; it's also debasing, in a way that makes survivors ashamed to recount it.

Fussell is not a pacifist and he stops short of saying that U.S. participation in World War II was unjustified. But he does say, in effect, Here: this is what war is like; and before you send young men into it, you owe it to them to face up to it in all its horror and terror and filth and subhuman dignities.

But otherwise: anyone who proposes war ought to have reasons so compelling as to be almost irresistible. He ought to be required to prove not that war is desirable—it can never be that—but that it's necessary and inescapable.

G.K. Chesterton says somewhere that murder is a sin against thrift: the murderer wastes in a moment a being of irreplaceable complexity who has accumulated a unique ensemble of knowledge and capacities.

War does this thousands of times over. Naturally, none of us wants to die, but even civilians who face no danger and stand to lose no sons or brothers ought to be aware of both the horror and the waste of making war. Even defense is a necessary waste. The policeman is a regrettable necessity; we employ him to risk his life to protect us, when he might be better employed building houses or writing poems. His job is to prevent destruction; he is the overhead we pay against human malice. That is what an army should be too.

Recognizing this, we long ago renamed the Department of War the Department of Defense. But "defense" has simply become a euphemism for anything military. This became ironically evident when some congressmen complained a few years ago that the Soviets were spending menacing sums on "defense."

Like any other government activity, the military function can easily devolve from its instrumental purpose into an end in itself. With the passing of the Cold War, our enormous military budget became enormously excessive; enormous cuts were in order. Such cuts were not forthcoming, and there is no prospect of them now. In fact a much smaller enemy than the Soviet Union has forced new expenditures so great as to pose problems for federal budget-planners.

It's an anomaly of American politics that the fiercest opponents of socialism have by and large been the strongest proponents of military spending. War is the paradigm of the socialist regime, with its combination of strict hierarchy and reductive quality, its unified purpose and centralized authority. In terms favored by F.A. Hayek and Michael Oakeshott, war is a teleocratic, or end-governed, activity, in which all energies are subordinate to a single official goal, as all of life is subject to the state under socialism; whereas civilian life is nomocratic, or rule-governed, and each citizen may pursue his own purposes, provided he observes the rules in doing so.

Fussell's book unwittingly reveals other parallels between war and socialism. One striking one is that both are marvelously efficient on paper, and utterly chaotic in practice. World War II began with much talk, on the American side, of "surgical" and "precision" bombing as the means of victory. The reality was that bombing proved erratic, un-

reliable, feckless, even counterproductive. Allied bombing sometimes killed its own troops; it may also have strengthened the enemy's will to fight. By the end of the war, Fussell notes, "'precision bombing' became a comical oxymoron relished by bomber crews with a black sense of humor." The idea of accuracy eventually yielded to the cruder imperative of sheer "intensification"—culminating in the biggest and crudest of all weapons, the atomic bomb.

Along with this change came a coarsening of sensibility. Fussell's account of the infantry troops, with their unremitting cynicism and obscene speech, recalls Solzhenitsyn's account of the zeks who knew the reality of socialism in the Gulag Archipelago, a reality undreamed of by 19th-century utopians. The whole war, as Fussell describes it, was a gigantic snafu, in which the common experience of the ruled gave the lie to the glorious ideals and aims of the rulers.

All this is natural. Both war and socialism are attempts to impose one's will on resisting populations. The difference is that in war the populace is armed. But in either case, the means are bound to become cruder and cruder, and the necessity of those means will inevitably discredit any "ideals" in whose name they are used. Any plans are bound to be frustrated to some extent, simply because they are essentially plans for the unwilling, and unwilling human beings can be infinitely resourceful in their resistance.

War has one advantage over socialism: it is knowingly and purposely destructive. The socialist intends to build—even to "build a new society"—and is usually unaware of how much destruction this will entail. War can occasionally be justified, in the honest and clear-eyed recognition that the alternative is even worse. But with socialism, the alternative—human freedom—is always better. ◀

A 500-Day Failure?

BY YURI N. MALTSEV

The American media seem to think that the Soviet 500-day plan will usher in a new era of free markets and prosperity. And indeed, the plan looks fine in its broad outlines, but on closer inspection, it is obvious that it does not move fast enough or far enough to save a society deteriorating before our eyes. And there is another problem: it counts on the Soviet elite.

A few years ago, the non-Soviet world thought perestroika would save the country. But now the West knows what we radical economists in the Soviet Union knew all along: perestroika was just another attempt to improve socialism.

"Everything that could go wrong went wrong," said one of my former colleagues from the Soviet Academy of Sciences. "Even what *couldn't* go wrong went wrong."

Perestroika should simply be seen as the final stage of the century's most dramatic event: the rise and fall of socialism. When a society is on the verge of collapse, and when entire peoples are suffering unbearable hardship, it is a cruel joke to call such measures a "reform."

There is a growing tendency among even official Soviet economists to face the truth about socialism. This 500-day plan is the first Soviet economic document to be free of Marxist-Leninist rhetoric, for example. It talks of privatization, debureaucratization, deregulation of prices, denationalization of land, and monetary reform.

According to the document—originally written for the Russian republic—during the first 100 days, 50 to 60 state-run corporations will be privatized. Over the course of the plan, 70% will be privatized, excepting the military and other "public goods." The budget deficit will be cut from 100 billion rubles to five billion. Major subsidies to industry will be abolished. The State Bank of

the U.S.S.R. will become a Federal Reserve-style banking cartel. The first stock exchange will be opened.

Near the end of the 500 days, housing will be privatized, foreign currency trading set free, transportation made private, and wages freed. But the plan will not establish the kind of free market Austrian school economists know is needed.

The author of the original plan for Russia, Grigory Yavlinsky, and the economist who remade it for the entire Soviet economy, Stanislav Shatalin, are both econometricians whose training is typical. Their lives have been spent in mathematizing the delusions of Marxism-Leninism. They are both long-time central planners who became disillusioned with full-blown socialism.

To illustrate the dryness of Shatalin's mind, consider his recent summary of the Soviet economic problem: "A permanent exceeding of the effectual demand over the supply."

They lean toward capitalism more than socialism, but Shatalin describes himself as a "social democrat," and he has recently written about "the insufficiency of the market mechanism for regulating the processes of economic development." The failures of "established forms of planning are not at all indicative of the necessity to give it up.... It has to be radically improved."

G. Yavlinsky, S. Shatalin, G. Popov, N. Petrakov, and the rest of the reformers still have a central-planning mindset. They cling to such myths as: the Industrial Revolution exploited workers; the Great Depression was a crisis of capitalism; capital formation and technological development must be guided by the government; quality and safety should be regulated by the state.

The reformers understand that Mises was right about socialism, but they do not understand that

he was also right about "social democracy," the mixed economy. It is not enough to have private property in the means of production. Prices for all goods and services must be free to reflect real conditions. Regulations, taxes, tariffs, and credit manipulation all distort the price system. They also allow bureaucrats to retain their power over the economy.

When the Soviets say privatization, however, they don't mean what we do by the term. The plan would mandate that 80% of the stock of any enterprise be owned by other enterprises in the same field, not the public. To use a U.S. analogy, it would be as if General Motors owned 80% of Ford's stock and visa versa, and it were illegal to have it otherwise.

This means the creation of state-protected cartels. They won't compete with each other in any conventional sense, but only protect each other, both economically and politically. It also prevents enterprises from being taken over by new owners intent on kicking out bad management. And without this option, some pressures toward efficiency are eliminated.

And there are severe problems on the wage front. The 500-day plan establishes minimum wages for every laborer, based on the level of skill and length of experience. This works as a kind of welfare program. A factory worker will be guaranteed a certain wage, whether he deserves it or not. Minimum wages for low-skilled laborers are bad enough, but across-the-board controls could spell doom for the entire program.

The reformers want to exempt certain goods from the real economy, such as bread. Their idea is to allow the poorest to eat unaffected by the inevitable rise in prices that will accompany the liberalization. But that will make bread and other staples relatively

**Ludwig von Mises, 1951, in
Money, Method, and the
Market Process**

"We must comprehend that it is impossible to improve the economic conditions of the underdeveloped nations by grants in aid. If we send them foodstuffs to fight famines, we merely relieve their governments from the necessity of abandoning their disastrous agricultural policies. In the past, for instance, Yugoslavia's main problem was how to find foreign markets for its considerable surplus of cereals, pigs, fruits, and lumber. Today the country that includes the most fertile land of Europe outside Russia and Romania is famine stricken. If we send to the poor countries manufactures or "lend" them dollars, we virtually pay for the deficits of their nationalized transportation and communication systems and their socialized mines and processing industries. The truth is that the United States is subsidizing all over the world the worst failure of history: socialism. But for these lavish subsidies the continuation of the socialist schemes would have become long since unfeasible."

unavailable. If the state protects a product from increasing in price even if it should rise—because of inflationary pressure or high consumer demand—businessmen will not be able to make a market profit, and they will turn to more remunerative items.

The reformers face a choice. Either free the price of bread and have it available at a higher price, or control it and have no bread on the shelves. And a lack of bread

and other staples could derail the entire reform process.

Also exempted is medical care. As I wrote in *The Free Market* recently, the population is being sickened and killed by socialized medicine. Only private medicine can cure this problem.

More questions arise. Why is the establishment of private property given priority over free prices? Both are necessary; one without the other, even for a

short time, will create disorder.

Why wait so long to free currency markets? A reliable currency is as necessary as private property and a free price system.

What about black markets, which are thriving? Legalize them, and you have tapped a powerful source for economic growth.

And why should the reform process take so long? A year and a

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The Maltsev One-Day Plan

I. The economy shall be privatized.

A) This includes all industry, agriculture, housing, construction, communication, the social infrastructure used by the Nomenklatura, and all other sectors of the economy.

B) The public shall be able to homestead state-owned resources, with preference given to workers and farmers closest to those resources. Where this isn't possible, certificates can be distributed to the entire public which can in turn be exchanged for homesteading rights, as suggested by Czech finance minister (and Mises-admirer) Vaclav Klaus.

C) In health care, education, and transportation, entrepreneurs shall be allowed to provide unregulated alternatives to the dilapidated state system.

D) If the state needs revenue, it shall sell such remaining non-privatized assets as military and space equipment and buildings, as well as the private assets of the Nomenklatura (e.g., limos, summer residences).

E) Publicly provided services, which will naturally be replaced over time by private provision, shall be the exclusive province of local governments.

F) All hospitals, clinics, and

sanatoriums used by government officials shall immediately be given to the public.

G) Revenues deemed necessary for funding remaining public services shall be collected and spent only at the local level. Their imposition shall be subject to local referendum.

II. The state budget shall be drastically cut.

A) The cuts shall start with the elimination of such bloated and destructive bureaucracies as the committees on state security (KGB), planning, prices, foreign trade, wages, safety, science, and technology.

B) Drastic cuts in military spending and foreign aid shall not be exempt from the process.

III. Prices shall be freed.

A) Free prices will govern the distribution of consumer and capital goods and services, so that prices reflect relative scarcities and consumer demand.

B) There shall be no controls on wages or other prices.

C) No official distinction shall be made between staple and luxury goods.

IV. The monetary system shall be drastically reformed.

A) All restrictions on the free exchange of currencies shall be eliminated, and currency

speculation shall be legalized.

B) Through the elimination of these restrictions, the ruble shall become freely convertible into other currencies.

C) All currencies shall be legal for monetary purposes. The privatization of the capital stock, housing, land, etc., and the resulting growth in their value, will increase both domestic and foreign demand for rubles, helping to eliminate the ruble "overhang."

D) The State Bank of the U.S.S.R., and other government bodies, shall be constitutionally prohibited from expanding the supply of money and credit.

E) A new financial sector should be allowed to develop according to the dictates of interested private parties.

V. To secure this program, a judicial system shall be established based on the rule of law, the security of private property, and the enforcement of contracts.

A) The judiciary shall be independent of the state's legislative and administrative bodies, both of which shall be subject to judicial review.

B) Private parties shall have the option to settle their disputes through private arbitration.

C) Private courts shall be allowed as an alternative to, and check on, the state system. ◀

A 500-Day Failure?

CONTINUED FROM PAGE SEVEN

half gives the bureaucrats time to sabotage, the public time to get scared, and the radicals time to lose their resolve.

Why should state assets be sold rather than given away? The workers and peasants have put a lifetime into these enterprises and received nothing in return. Aren't they owed something? Besides, the public worries that if assets are sold, the present elite will buy up all their desirable property with their ill-gotten gains.

(I should add that my remarks above reflect concerns of justice rather than economics. From an economic perspective, it is important not how resources are initially distributed, but only that they be able to be freely bought and sold, and put to their best use, in a free market.)

The reformers' most glaring economic error is to compartmentalize the market economy. It's fine to speak of a new policy for prices, wages, interest rates, monetary policy, property, or bankruptcy, but in their minds, these areas are rigidly divided. They don't seem to know that the economy is a seamless web.

Not that this error is confined to the Soviet Union; you find it in most Western economics texts. But at least the Soviets have an excuse: the bureau that handles consumer prices is on a different floor from the one that handles wages. It is a delusion of a centrally planned economy that experts can run one part of the economy and neglect the rest.

I suspect they will eventually understand this error, but only after painful experience.

Another tendency is to adopt the rhetoric of free-market eco-

nomics while avoiding its substance. Consider, for example, matters of bankruptcy. We read in the papers that the 500 day-plan will subject enterprises to the test of profit and loss; if they fail, they go out of business. This would be extraordinary, since no enterprise in the U.S.S.R. has been allowed to fail since 1917.

Shatalin has said that to start an enterprise, the entrepreneur should appeal to the government for approval and satisfy extensive requirements of licenses and regulations. If the enterprise begins to fail, he may appeal for a subsidy. If the business is still failing, the bureaucrats should be able to change any aspect of it. If, after all this, it is still not breaking even, the businessman should be able to apply for permission to go out of business. This is hardly a capitalist system of profit and loss.

Mikhail Gorbachev wants to subject the selling of land to a national referendum, which would mean losing a year and a half. This only confuses the issue. It's as if a gang looted a city block and brainwashed its inhabitants, then had an election on whether the loot ought to be returned. The Communists are the gang that has brainwashed an entire population. If the Soviets want to do the right thing, they will immediately return all stolen land and not bother with a popular vote.

The most serious problem the reformers face is implementation. More than 18 million bureaucrats will devote their lives to derailing the program. As even Shatalin admits, no "serious changes...can be ensured by giving administrative instructions."

In the New York subway, signs

everywhere proclaim that anyone who eats, drinks, smokes, or spits can be fined up to \$5,000. Not only do people do these things, they do worse. The law is rendered meaningless because it is not enforced.

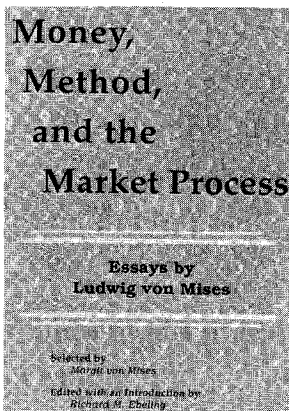
I'm afraid that the Shatalin 500-day plan will go the way of the Gramm-Rudman balanced-budget law. It will be evaded by corrupt politicians and bureaucrats willing to use deception to save their skins.

The other day, a Soviet diplomat in Washington reminded me of Nikolai Gogol, the 19th-century Russian intellectual, who said that no reform in Russia will work because the people will never believe in the reforms, and for good reason. The officials imposing the reform are the same criminals who destroyed the society in the first place.

This diplomat also said that he trusts the new leaders even less than the old. The old leadership, he said, is somewhat satiated by all it has stolen. But the new is hungry and ambitious, anxious to build empires through whatever means possible.

"If your plan does not work I will cut your throat," a Soviet man on the street called out to Shatalin. And it is not only the reformers who face personal danger if the plan fails, but also Gorbachev, his family, and his cronies. (A recent demonstration sign read: "Ceausescu—drop the mask of Gorbachev.")

To save themselves as well as their country, the leadership should enact another revolution, but this time in favor of a really free market. It is the only hope for saving this great country, its culture—and the lives of the reformers. ◀



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