

Michael R. Milken vs. the Power Elite

by Murray N. Rothbard

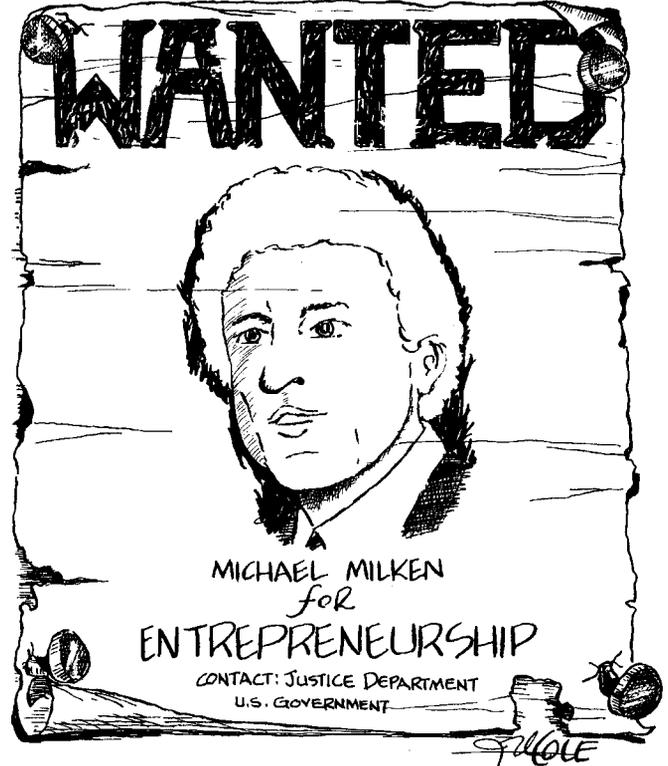
Quick: what do the following world-famous men have in common: John Kenneth Galbraith, Donald J. Trump, and David Rockefeller? What values could possibly be shared by the socialist economist who got rich by writing best-selling volumes denouncing affluence; the billionaire wheeler-dealer; and the fabulous head of the financially and politically powerful Rockefeller World Empire?

Would you believe: hatred of making money and of “capitalist greed”? Yes, at least when it comes to making money by one particular man, the Wall Street bond specialist Michael R. Milken. In an article in which the august *New York Times* was moved to drop its cherished veil of objectivity, and shout in its headline, “Wages Even Wall St. Can’t Stomach” (April 3), these three gentlemen each weighed in against the \$550 million earned by Mr. Milken in 1987. Galbraith, of course, was Galbraith, denouncing the “process of financial aberration” under modern American capitalism.

More interesting were billionaires Trump and Rockefeller. Speaking from his own lofty financial perch, Donald Trump unctuously declared, of Milken’s salary, “you can be happy on a lot less money,” going on to express his “amazement” that his former employers, the Wall Street firm of Drexel Burnham Lambert “would allow someone to benefit that greatly.” Well, it should be easy enough to clear up Mr. Trump’s alleged befuddlement. We could use economic jargon and say that the payment was justified by Mr. Milken’s “marginal value product” to the firm, or simply say that Milken was clearly worth it, otherwise Drexel Burnham would not have happily continued the arrangement from 1975 until this year.

In fact, Mr. Milken was worth it because he has been an extraordinarily creative financial innovator. During the 1960s, the existing corporate power elite, often running their corporations inefficiently—an elite virtually headed by David Rockefeller—saw their positions threatened by takeover bids, in which outside financial interests bid for stockholder support against their own inept managerial elites. The exiting corporate elites turned—as usual—for aid and bailout from the federal government, which obligingly passed the Williams Act [named for the New Jersey Senator who was later sent to jail in the Abscam affair] in 1967. Before the Williams Act, takeover bids could occur quickly and silently, with little hassle. The 1967 Act, however, gravely crippled takeover

Continued on page 7



The Free Market vs. the Managerial Elite

by Llewellyn H. Rockwell, Jr.

The broadly held corporation was one of the most important developments of the 19th century. The capital of thousands and then millions of stockholders made possible the profitable development of large firms, which enriched not only their owners, but society as a whole.

The railroads were the first to develop this mass-based ownership. They were also the first to develop the unfortunate management-government collaboration that has done so much to harm customers and stockholders.

Continued on page 6

INSIDE

- Afraid to Trust the People With Arms... 2
- Mises on the Age of Collectivism..... 3
- Kemp at HUD: A Time for Optimism? .. 4

“Afraid To Trust the People With Arms”

by Stephen P. Halbrook

On April 5, 1989, at the instigation of drug shah William Bennett, the Bush administration violated its campaign promise against further gun control by arbitrarily decreeing a ban on the importation of most semiautomatic rifles. The same day, the House of Representatives held hearings on the Stark bill, which would impose as much as 80 years imprisonment for mere possession by a law-abiding citizen of a semiautomatic firearm.

There are some 70 million gunowners in the United States, and roughly one-third of all new guns are semiautomatics. Semiautomatic firearms, which require a separate pull of the trigger for each shot fired, have been in common use for about a century. And despite media doubletalk, semiautomatic rifles are not “assault weapons,” a term exclusively reserved for machineguns.

The frenzy to ban semiautomatics began when Patrick Purdy gunned down elementary school children in Stockton, California. Yet this case better illustrates the failure of the criminal justice system. The only reason Purdy was roaming

Proponents of firearms bans—like King George III before the Revolution—simply do not trust the American people with arms.

the schoolyard, instead of the penitentiary yard, was that prosecutors had allowed him to plea bargain away robberies and other felonies. A judge gave him a few days instead of a few years to serve in jail.

Writers in the June 1989 *Free Market*

Richard M. Ebeling holds the Ludwig von Mises chair at Hillsdale College in Michigan and is an adjunct scholar of the Mises Institute.

Stephen P. Halbrook, an attorney in Fairfax, Virginia, is the author of *That Every Man Be Armed* (Liberty Tree Classics).

Greg Kaza is vice-president of policy research at the Mackinac Center for Public Policy in Midland, Michigan.

Llewellyn H. Rockwell, Jr., is founder and president of the Mises Institute, and editor of *The Free Market*.

Murray N. Rothbard is academic vice president of the Mises Institute and holder of the S.J. Hall chair at the University of Nevada, Las Vegas. *Forbes* magazine recently named him the “Happy Warrior of American economics.”

Politicians who favor no punishment for violent criminals saw the Purdy incident as a way to divert blame onto the millions of law-abiding gunowners of America.

The same politicians have also sought to blame gunowners for the violence between drug pushers. Yet this violence is the inevitable result of the New Prohibition on drugs. The same happened in the 1920s, when the Old Prohibition of alcohol led to wars between bootleggers fighting over turf. Then, the alcohol prohibitionists tried to blame the violence on law-abiding citizens who owned firearms.

FBI data show that semiautomatic rifles are only rarely used in crime and are used less frequently even than sporting shotguns. Yet firearm prohibitionists have initiated a Big Lie campaign depicting such rifles as the favorite tool of drug pushers.

Under the Gun Control Act of 1968, Congress severely restricted firearm imports. It was a protectionist measure sponsored by Senator Thomas Dodd of Connecticut—home of the domestic firearms industry. Even so, the Act required the federal Bureau of Alcohol, Tobacco, and Firearms (BATF) to authorize imports of firearms generally recognized as particularly suitable for sporting purposes.

Every one of the rifles banned from importation on April 5th had for several years been classified as sporting and the BATF allowed their importation. These rifles include the AKS, which has the cosmetic appearance of an AK-47 machinegun, but is redesigned internally so as not to be convertible to fully automatic. The Uzi, FN FAL, and AUG are similar examples of guns that have a military appearance, but which functionally are no different than typical hunting rifles.

Drug kingpins have no use for these sporting rifles, when they have their choice of millions of AK-47 and M-16 machineguns available on the black market from south of the border. Nor would a ban on rifles possessed by sportsmen affect successful narcotics smugglers.

Proponents of firearms bans—like King George III before the Revolution—simply do not trust the American people with arms. James Madison, arguing for adoption of the federal Constitution in *The Federalist No. 46*, spoke of “the advantage of being armed, which the Americans possess over the people of almost every other nation.... Notwithstanding military establishments in the several kingdoms of Europe..., the governments are afraid to trust the people with arms.” If the people were armed, “the throne of every tyranny in Europe would be speedily overturned in spite of the legions which surround it.”

Madison drafted what became the federal Bill of Rights, including the Second Amendment, which says that “the right of the people to keep and bear Arms, shall not be infringed.” Madison endorsed the widely published, contemporaneous, and uncontradicted explanation by federalist leader Tencé Coxe. He stated that “civil rulers, not having their duty to the people duly before them, may attempt to tyrannize,” and “the

Continued on page 5

Ludwig von Mises on the Age of Collectivism

by Richard M. Ebeling

Seventy years ago the Western world seemed torn asunder. From 1914 to 1918, the major nations of Europe had been at war with each other. Millions had died, the great central European empires of Germany and Austria-Hungary were no more, and the Bolsheviks were in power in Moscow. The Great War appeared to have swept away all the traditions, values, and beliefs that had stood as the foundation of Western culture.

How had this come about? And how could this disaster have been followed, just 20 years later, by another world war even more destructive than the first? Ludwig von Mises devoted two books to answering these questions, and to offering the alternative of freedom and prosperity. The first was published in 1919 under the title of *Nation, State, and Economy*. The other appeared in 1944 as *Omnipotent Government*.

The viruses of destruction, Mises explains, have been nationalism and socialism. In *Nation, State, and Economy* he presents an analysis of the European basis of nationalism by

The planning ideal manifested itself in Germany and Italy as fascism, and in the United States as the New Deal.

language. This need not have caused friction, but interventionist government allowed each group to try to use the state to make their language and culture dominant over the others, and thus to gain economic privileges.

The emergence of nationalism was joined by an increasing rejection of free trade at the end of the 19th century. Protectionism and imperialism set the stage, Mises demonstrates, for world war. And with the emergence of imperialism, Mises said, came the end of individual liberty: "For fully developed imperialism, the individual no longer has value. He is valuable to it only as a member of the whole, as a soldier of an army.... The imperialist wants a state as large as possible; he does not care whether that corresponds to the desire of the people." But for a state to conquer and rule, it must control the means of production. Thus with nationalism and imperialism came socialism.

In a series of blistering chapters in *Nation, State, and Economy*, Mises discusses the economic policies of the warring nations during 1914-1918. Wages, prices, and production all came under the control of the government, most completely in Germany. Entrepreneurs were no longer guided by consumer demand, but by political command. And governments

tried to hide the true cost of the war by resorting to inflation. An artificial war boom created the illusion of prosperity. But all the while, inflation was distorting prices, destroying money as a means for economic calculation, bringing about capital consumption, and unjustly redistributing income from those unable to stay ahead of inflation to those who could successfully play the political game.

At the end of the First World War, the only real victor was socialism. And "war socialism was only the continuation at an accelerated tempo of the state-socialist policy that had already been introduced long before the war," Mises emphasized, under the stimulus of nationalist and imperialist ideas.

In the years following the war, high tariff barriers went up, governments maintained numerous controls over the economic activities of their citizens, "managed money" became the ideal, and nationalist, fascist, and communist revolutions aroused the enthusiasm of millions.

With the coming of the Great Depression in the early 1930s, masses of people were convinced that capitalism was doomed and "planning" the salvation of the future. The planning ideal manifested itself in Germany and Italy as fascism, and in the United States as the New Deal. As the 1930s progressed, war socialism—in the form of military spending and war preparedness—became the collectivist answer to the problem of unemployment.

When war broke out again, Ludwig von Mises came to America as one of countless refugees from Nazism. His reflections on that war appeared in 1944 as *Omnipotent Government*. Mises presented a detailed critique of economic collectivism in all its forms—socialism, interventionism, autarky, protectionism, Soviet communism, Italian and German fascism—and demonstrated their fallacies and destructive consequences.

Mises also assessed the prospects for peace and prosperity after the war. And here he saw that rather than solutions, the "planners for peace" in the United States and in Great Britain were proposing policies that would lead to world tension and economic conflict.

Their ideal, Mises showed, was not free trade, but trade managed by governments. Their conception of a new monetary order was not a sound gold standard, but managed national currencies under Keynesian international agreements. Their view of economic development was not an international capital market guided by free-market forces, but world government organizations allocating capital. In other words, a continuation of the collectivist ideal under a less-ugly label.

All of these policies would fail, Mises insisted. "All the oratory of the advocates of government omnipotence cannot annul the fact that there is but one system that makes for durable peace: a free market economy. Government control leads to economic nationalism and thus results in conflict." ■

Kemp at HUD: Should Free-Marketeers Be Optimistic?

by Greg Kaza

The Department of Housing and Urban Development is a glaring example of government waste. It robs the taxpayer, promotes special interests, and hurts the poor. And despite his conservative reputation, Jack Kemp's tenure as secretary of HUD is likely to increase, rather than decrease, HUD's damaging role in the U.S. economy.

HUD was founded in 1965 as part of President Lyndon Johnson's statist Great Society. Since then, more than \$150 billion has disappeared down the HUD rathole. HUD bureaucrats have presided over the bulldozing of countless private buildings, while constructing expensive "model city" and "new community" public housing projects. Badly designed and poorly managed, they have quickly fallen into disrepair, acting as breeding grounds for crime and despair.

HUD spending has increased under both Democrats and Republicans. Budget outlays were \$2.4 billion in 1970 under Richard Nixon, but had grown to \$12.7 billion by the time Jimmy Carter left office in 1980. Under Ronald Reagan, HUD budget outlays increased from \$14 billion in 1981 to \$18.6 billion last year.

Typical of HUD waste are the Carter-created Community Development Block Grant (CDBG) and Urban Development Action Grant (UDAG) programs. Both programs resemble federal revenue sharing, launched as a pork-barrel project by Nixon but later abolished.

CDBGs and UDAGs were allegedly started to help the poor, but in fact exist to enrich politically powerful developers. HUD grants the money to community governments, whose officials steer it to pet builders of "infrastructure" projects and other boondoggles. Communities receiving CDBGs include some of the wealthiest in the nation, among them Beverly Hills and Palm Springs, California, Grosse Pointe Shores and Bloomfield Hills, Michigan, and Scarsdale, New York.

In another case, whistleblower David Stith, former manager of HUD's Manpower Economic Development Program in Greensboro, North Carolina, told about bribes being exchanged for HUD grants. Stith's charges were substantiated, but not before he was investigated and fired by his HUD superiors.

Jack Kemp is now in charge of HUD, but don't count on progress toward the free market. Rather than challenge the institution, Kemp has proposed only marginal changes, none of which show much promise. They include enterprise zones, housing vouchers, and tenant management.

Enterprise zones are supposed to reduce regulations, taxes, and other government burdens in depressed urban areas. But the real purpose could be more spending. Designation as an enterprise zone means HUD will give special financial as-

sistance "to the maximum extent possible" with "priority funding" and possible UDAG grants, set asides, and "technical assistance."

Kemp also wants housing vouchers that poor and low-income families could spend on government-approved housing. This is hardly a free-market solution, since it would guarantee housing for some at the expense of others, and increase, not reduce, government involvement in the nation's housing market.

Kemp also advocates "tenant management" in public housing. But the tenants would be under bureaucratic supervision, and the problem is not lack of management, but lack of ownership. A far better idea would be tenant ownership, as undertaken by Margaret Thatcher in England.

Gone are the days when conservatives criticized the waste, fraud, and corruption synonymous with HUD. Many seem to agree with Kemp's statement to the *Wall Street Journal*: "I've never understood why conservatives positioned themselves against the government."

Says Kemp: "I'm going to be an advocate" and will "throw out ideology." As to budget cuts, "I can assure you that I am going to do everything I can to make sure that there is adequate funding."

The National Taxpayers Union scores lawmakers on a spending scale of 0 to 100. For example, when the Mises Institute's Distinguished Counsellor, Ron Paul (R-TX), was in office, he scored from 91 to 99. Wisconsin Democrat Bill Proxmire always scored in the low eighties. Yet in the last legislative session, Jack Kemp (R-NY) got only 44, while liberal Pat Schroeder (D-CO) beat him with a 47.

Appointing people who are associated, even wrongly, with free-market views quiets potential critics on the Right, but the ultimate effect is to discredit the free market.

The classic case is former Education Secretary William Bennett, appointed by a president who promised to abolish the department. Bennett presided over a 51% budget increase and a vast enlargement of federal involvement in education. The *Washington Post* and *New York Times* editorialized on his departure that even though they often disagreed with him, they approved the expanded federal role he engineered. Now bureaucrat Lauro F. Covazos heads the department, which is stronger and more supportive of the National Education Association than ever. Similarly, the likely effect of Kemp's tenure will be to reform the image (but not the substance) of HUD, making it all the more powerful.

The Kemps and Bennetts help disguise the fact that with agencies like the Departments of Education, Energy, and Housing and Urban Development, there is no acceptable free-market solution short of abolition. ■

Afraid to Trust...from page 2

ilitary forces which must be occasionally raised to defend our country, might pervert their power to the injury of their fellow-citizens." Therefore "the people are confirmed...in their right to keep and bear their private arms."

Madison's philosophy and the Second Amendment are vindicated by 20th-century European experiences. In particular, the clearest example of a society where firearms were limited to the police and military was Nazi Germany. A survey of Nazi statutes and decrees analyzed by the Library of Congress in a 1968 study concluded:

"This sampling of German statutes, decrees, and other documents concerning firearms indicated two points: First, the profound importance the German invaders attached to the possession of firearms. Second, the importance of these proclamations and decrees as a technique used by the Germans to obtain and limit weapons in the possession of the nationals of the invaded country. These proclamations were of course accompanied with searches and severe penalties.

"A totalitarian society, and particularly a totalitarian society occupying a country against its will, simply cannot permit the private possession of weapons to any great extent, except by those who have proven their loyalty.... These directives concerning firearms were consistently issued with varying degrees of penalties. For example during the occupation of Luxembourg, the unlawful possession of arms was punishable by fine, imprisonment, hard labor, or even death. If we take the regulations applicable to Poles and Jews in the Incorporated Eastern Territories of Poland, imprisonment or the death penalty applied not only to those actually possessing unlawful firearms, but also to those who had knowledge that certain people possessed those weapons and failed to inform the authorities."

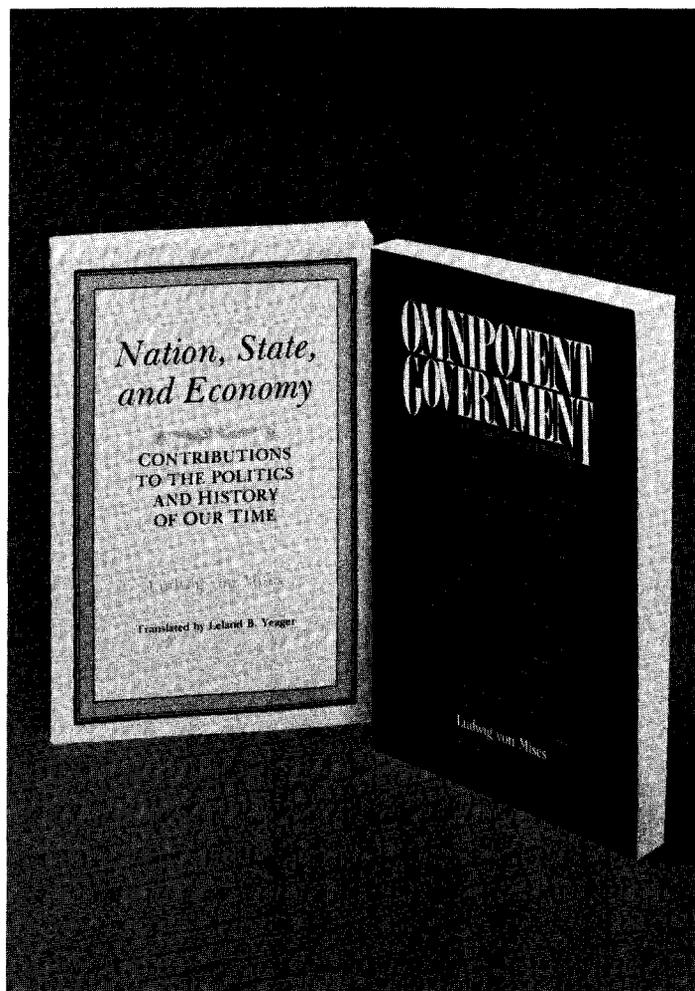
In 1941, Congress understood the difference between a republic and a police state. It passed a law declaring that property requisitioned for war use would not "authorize the requisitioning or require the registration of any firearms possessed by any individual for his personal protection or sport." No law, Congress said, should be construed "to impair or infringe in any manner the right of any individual to keep and bear arms."

Congressman Edwin Arthur Hall explained at the time: "Before the advent of Hitler or Stalin, who took power from the German and Russian people, measures were thrust upon the free legislatures of these countries to deprive the people of the possession and use of firearms, so that they could not resist the encroachments of such diabolical and vitriolic state police organizations as the Gestapo, the OGPU, and the Cheka."

Even as late as 1986, in the preamble to the Firearms

Owners' Protection Act, Congress reasserted "the rights of citizens to keep and bear arms under the second amendment" and "to security against illegal and unreasonable searches and seizures under the fourth amendment." Passage of the Protection Act was prompted by the lawless behavior of the Bureau of Alcohol, Tobacco, and Firearms against law-abiding gunowners. The abuses sparked Congressman John Dingell (D-MI) in 1983 to call the BATF "a jack-booted group of fascists who are perhaps as large a danger to American society as I could pick today."

Madison introduced the Second Amendment and the rest of the Bill of Rights to Congress on June 8, 1789. Yet today, at the bicentennial of this great event in the history of human rights, proposals are racing toward passage that will ban firearms and destroy privacy rights. These proposals are more characteristic of a police state than a republic. And the media frenzy generated by the Purdy incident and the drug crusade only serves to mask that fact. It is unclear how long the Bill of Rights will endure this unconstitutional assault on seventy million American citizens. ■



Books of the Month: Quality paperbacks of Mises's Nation, State, and Economy and Omnipotent Government are available for \$22, including U.S. postage and handling. Please see the enclosed return form.

Free Market vs. Managerial Elite...from page 1

Railroad lawyers lobbied for, and then staffed, the Interstate Commerce Commission, the first federal regulatory agency. The ICC—which Congressional propaganda said would protect farmers and other shippers from high prices—as its first act outlawed price competition.

This devil's pact led to the long decline and eventual bankruptcy of many railroads, but the managers, politicians, and bureaucrats of the day benefitted, and they took a Keynesian view of the long haul.

"A successful corporation is ultimately never controlled by hired managers," observed Ludwig von Mises in 1946. Instead, the "conduct of business" should be "exercised by the stockholder."

Compelling the managers of big corporations to abide by this principle has been much harder in the 20th century than in the 19th. Too often leaders of big business have lobbied for anti-competitive laws and regulations, as well as outright subsidies and privileges. They have also sought to keep stock-

When a free market in corporate control threatened politically powerful corporate elites, they lobbied for legislation to hamstring the market.

holders from exercising their will over management. The consequences have been relative economic stagnation and the growth of corporate bureaucracy, as well as a transfer of wealth from stockholders to managers, who are able to enhance their power and income.

In 1957, C. Wright Mills, in *The Power Elite*, said that "over the last half a century, in the economy as in the political order, there has been a remarkable continuity of interest, vested in the types of higher economic men who guard and advance them." They have worked for "a continuation of a world that is quite congenial to the continuation of the corporate rich. For in this stratum are now anchored the ultimate power" and it rests upon "managerial control."

Mills was a leftist, but his power-elite analysis was correct. Especially during the latter half of this century, a managerial elite has dominated the corporate world (and much of U.S. government policy), often to the detriment of entrepreneurs, customers, and stockholders.

Ludwig von Mises also saw the problem of a managerial elite and understood its source: "the emergence of an omnipotent managerial class is not a phenomenon of the unhampered

market economy. It [is], on the contrary, an outgrowth of the interventionist policies consciously aiming at an elimination of the influence of the shareholders and their virtual expropriation." This is, he said, the "preliminary step on the way toward the substitution of government control of business for free enterprise."

Only unhampered competition can check the power of a managerial elite. In a free market, if the managers are not running a company at its potential, the stockholders—as the owners of the company—have the right to fire them and hire new ones.

In a free society, then, there is a market for corporate control. In this market, even top managers face constant competition for their positions. Any entrepreneur who thinks he sees a profit opportunity is always able to make a tender offer to buy enough shares to replace incumbent management, and reform the company. Even the threat of such a move is often enough to change the way a company is run. To successfully compete in a free market for corporate control, management must seek to do everything possible to enhance stock values, and dividends to the owners.

Today, those who make tender offers against the wishes of entrenched hired managers are scorned as "raiders" and "pirates." Yet they serve an extraordinarily important entrepreneurial function. By seeking out undervalued stocks and bringing them, and their companies, to full market potential, they root out waste and bureaucracy and create value.

Government intervention, however, has hampered such a market in the United States. When a free market in corporate control threatened politically powerful corporate elites in the mid-sixties, they lobbied for legislation to hamstring the market. The result was the Williams Act, which forced anyone who bought 5% of a company's stock to stop and announce his takeover plans. This, as intended, increases the price of the stock, makes the takeover more difficult, and allows management to develop stockholder-financed defensive strategies to keep stockholders from profiting from their holdings.

For more than a decade, the managements of blue-chip companies had virtually no challenge to their positions, and the result was American decline. In the eighties, however, the market found a way around this intervention: the high-yield bond pioneered by entrepreneur Michael R. Milken. The establishment called these securities "junk bonds." But that title is no more apt than calling more speculative equities from new companies "junk stocks." In fact, the real problem with these bonds is that they allow the "raider" to raise enough money—without going through the big banks which cooperate closely with elite managements and the government—to make a successful tender offer.

Also essential to this process have been the “arbs”—the arbitrageurs who seek to make money by speculating on the difference between the price of a stock at the time of a tender offer and the final price. They guarantee a specific number of shares at a certain time and price, and so fulfill the key entrepreneurial function of risk-bearing.

But to function effectively, the arbs need all the information possible. That's where the non-crime of “insider trading”—investing on the basis of non-public information—comes in. As long as the information is honestly acquired, there is nothing wrong with inside information. In fact, all successful investing is based on non-public data. Warren Buffet doesn't release his private analyses. Only because of the Williams Act is there such a high premium on this specific information, however. As entrepreneur-professor Jim Rogers of the Columbia Business School says, “most of the problems with so-called insider trading result from too much government regulation.”

So extreme are the regulations that you could be sitting at a restaurant in New York's financial district, overhear a con-

In the last 10 years, a freer market for corporate control has changed corporate America for the better. So naturally, the U.S. government is trying to impede it.

versation about a planned takeover, buy stock as a result, have the stock go up when the takeover is announced, and be convicted of the felony of insider trading. Such a law makes neither economic nor moral sense.

Insider trading had been a regulatory crime, but to further hamper takeovers, the government made it a legislated crime in the Insider Trader Sanctions Act of 1984. But the Reagan administration and Congress refused to define the crime, supposedly because “raiders” and “arbs” might find technical loopholes. In fact, the feds didn't want to define the law because the right people might then not break it. Authoritarian governments always seek to enact vague laws, which give leeway to the enforcers. Citizens can never be sure where they stand, and special interests can easily bend the vagueness to their advantage.

Not satisfied with all this intervention, people in the Bush administration, Congressmen like Dan Rostenkowski (D-IL) and Jim Wright (D-TX), neo-conservative intellectuals like Irving Kristol, and Wall Street establishment figures like Felix Rohatyn are pushing legislation to effectively abolish stock-

holder rights. These proposals would limit the deductibility of interest on takeover debt; place new restrictions on tender offers; require SEC bureaucrats to approve all deals before they take place; and impose huge taxes on profits derived from the sale of stock held less than a year.

Rostenkowski and Wright claim they're worried about corporate debt, as they help increase the national debt by a quarter trillion every year. As usual, they aren't telling the truth. Congress, the administration, the SEC, and the special interests want to entrench the “omnipotent managerial class” Mises warned about at the expense of middle-class stockholders.

There are, of course, risks with corporate debt, although the dangers have been exaggerated by anti-takeover forces for political purposes. But those who worry should remember that in a free market, takeovers would be cheaper and less risky.

Republican Keynesian Ben Stein recently attacked Michael Milken in *Barron's* as a “betrayer of capitalism” because he “undermined trust...between stockholders and management.” But the issue is not “trust.” It is property rights. The stockholders are the owners of the company and should have the right to work their will on management. Only under state capitalism are stockholders called upon to blindly trust management.

In the last 10 years, a freer market for corporate control has changed corporate America for the better. So naturally, the U.S. government is trying to impede it. If the feds are successful, we will pay the price in our country's deteriorating economic health. ■

Milken vs. the Power Elite...from page 1

bids by decreeing that if a financial group amassed more than 5% of the stock of a corporation, it would have to stop, publicly announce its intent to arrange a takeover bid, and then wait for a certain time period before it could proceed on its plans. What Milken did was to resurrect and make flourish the takeover bid concept through the issue of high-yield bonds (the “leveraged buy out”).

The new takeover process enraged the Rockefeller-type corporate elite, and enriched both Mr. Milken and his employers, who had the sound business sense to hire Milken on commission, and to keep the commission going despite the wrath of the establishment. In the process Drexel Burnham grew from a small, third-tier investment firm to one of the giants of Wall Street.

The establishment was bitter for many reasons. The big

Continued on back page

Milken vs. the Power Elite...from page 7

banks who were tied in with the existing, inefficient corporate elites, found that the upstart takeover groups could make an end run around the banks by floating high-yield bonds on the open market. The competition also proved inconvenient for firms who issue and trade in blue-chip, but low-yield, bonds; these firms soon persuaded their allies in the establishment media to sneeringly refer to their high-yield competition as "junk" bonds, which is equivalent to the makers of Porsches persuading the press to refer to Volvos as "junk" cars.

People like Michael Milken perform a vitally important economic function for the economy and for consumers, in addition to profiting themselves. One would think that economists and writers allegedly in favor of the free market would readily grasp this fact. In this case, they aid the process of shifting the ownership and control of capital from inefficient to more efficient and productive hands—a process



Murray N. Rothbard

When creative and productive businessmen are harassed and jailed while rapists, muggers, and murderers go free, there is something very wrong indeed.

which is great for everyone, except, of course, for the inefficient Old Guard elites whose proclaimed devotion to the free markets does not stop them from using the coercion of the federal government to try to restrict or crush their efficient competitors.

We should also examine the evident hypocrisy of left-liberals like Galbraith, who, ever since the 1932 book by Adolf Berle and Gardiner Means, *The Modern Corporation and Private Property*, have been weeping crocodile tears over the plight of the poor stockholders, who have been deprived of control of their corporation by a powerful managerial elite, responsible neither to consumers nor stockholders. These liberals have long maintained that if only this stockholder-controlled capitalism could be restored, they would no longer favor socialism or stringent government control of business or the economy.

The Berle-Means thesis was always absurdly overwrought, but to the extent it was correct, one would think that left-

liberals would have welcomed takeover bids, leveraged buyouts, and Michael Milken with cheers and huzzahs. For here, at last, was an easy way for stockholders to take the control of their corporations into their own hands, and kick out inefficient or corrupt management that reduced their profits. Did liberals in fact welcome the new financial system ushered in by Milken and others? As we all know, quite the contrary; they were furiously denounced as exemplars of terrible "capitalist greed."

David Rockefeller's quote about Milken is remarkably revealing: "Such an extraordinary income inevitably raises questions as to whether there isn't something unbalanced in the way our financial system is working." How does Rockefeller have the brass to denounce high incomes? Ludwig von Mises solved the question years ago by pointing out that men of great inherited wealth, men who get their income from capital or capital gains, have favored the progressive income tax, because they don't want new competitors rising up who make their money on personal wage or salary incomes. People like Rockefeller or Trump are not appalled, quite obviously, at high incomes *per se*; what appalls them is making money the old-fashioned way, i.e., by high personal wages or salaries. In other words, through labor income.

And yes, Mr. Rockefeller, this whole Milken affair, in fact, the entire reign of terror that the Department of Justice and the Securities and Exchange Commission have been conducting for the last several years in Wall Street, raises a lot of questions about the workings of our political as well as our financial system. It raises grave questions about the imbalance of political power enjoyed by our existing financial and corporate elites, power that can persuade the coercive arm of the federal government to repress, cripple, and even jail people whose only "crime" is to make money by facilitating the transfer of capital from less to more efficient hands. When creative and productive businessmen are harassed and jailed while rapists, muggers, and murderers go free, there is something very wrong indeed. ■

The Devil Is Probably Pro-Fed, Too

Former Sheriff Thomas Wedge is the leading law-enforcement expert on Satanism, and recently the *Washington Post* talked to him about it. One of the marks of the Satanists caught our eye, although neither Sheriff Wedge nor the *Post* drew any economic conclusions from it: Satanists, he noted, "never have anything to do with gold because gold stands for purity."