

# The Free Market

July 1985 • The Ludwig von Mises Institute

## The Crusade Against South Africa

by Murray N. Rothbard

For many years, America's campuses have been sunk in political apathy. The values of the 1950s are supposed to be back, including concentration on one's career and lack of interest in social or political causes.

But now, suddenly, it begins to seem like a replay of the late 1960s: demonstrations, placards, even sit-ins on campus. The issue is apartheid in South Africa, and the campaign hopes to bring down apartheid by pressuring colleges and universities to disinvest in South Africa. Coercion against South Africa is also being pursued on the legislative front, including drives to embargo that country as well as prohibit the importation of Krugerrands.

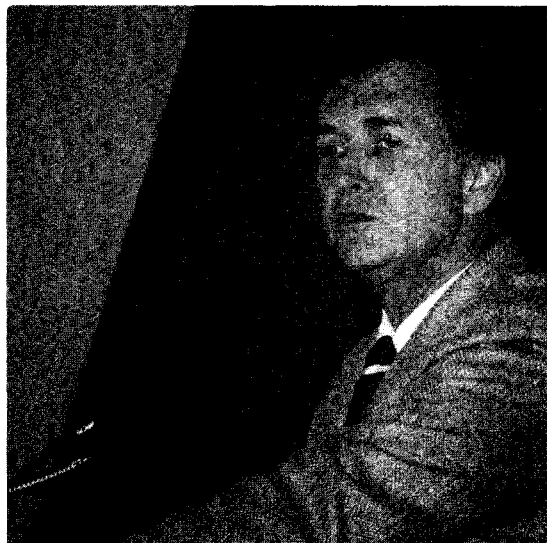
I yield to no one in my abhorrence of the apartheid system, but it must never be forgotten what the road to Hell is paved with. Good intentions are scarcely enough, and we must always be careful that in trying to do good, we don't do harm instead.

The object of the new crusade is presumably to help the oppressed blacks of South Africa. But what would be the impact of U.S. disinvestment?

The demand for black workers in South Africa would fall, and the result would be loss of jobs and lower wage rates for the oppressed people of that country. Not only that: presumably the U.S. firms are among the highest-paying employers in South Africa, so that the impact on black wages and working conditions would be particularly severe. In short: the group we are most trying to help by our well-meaning intervention will be precisely the ones to lose the most. As on so many other occasions, doing good for becomes doing harm to.

The same result would follow from the other legislative actions against South Africa. Prohibition of Krugerrands, for example, would injure, first and foremost, the black workers in the gold mining industry. And so on down the line.

I suppose that demonstrating and crusading against apartheid gives American liberals a fine glow of moral righteousness. But have they really pondered the consequences? Some American black leaders are beginning to do so. A spokesman for the National Urban League concedes



Investment advisor and author Howard J. Ruff addresses an Institute program on the meaning of Ludwig von Mises.

that "We do not favor disinvestment. . . . We believe that the workers would be the ones that would be hurt." And Ted Adams, executive director of the National Association of Blacks Within Government, warns that disinvestment would "come down hard on black people," and could wind up "throwing the baby out with the bath water."

But other black leaders take a sterner view. A spokesman for Chicago Mayor Harold Washington admits "some concern that the most immediate effect of disinvestment may be felt by the laborers themselves," but then adds, on a curious note, "that's never an excuse not to take action." Michelle Kourouma, executive director of the National Conference of Black Mayors, explains the hard-line position: "How could it get any worse? We have nothing to lose and everything to gain: freedom."

The profound flaw is an equivocation on the word "we," a collective term covering a multitude of sins. Unfortunately, it is not Ms. Kourouma or Mr. Washington or any

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# LETTERS

JOHN P. EAST  
NORTH CAROLINA

**United States Senate**  
Washington, D.C. 20510

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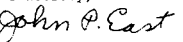
Dear Lew:

Thank you for your letter inviting me to join the Council of the Mises Institute.

Ludwig von Mises was one of the great economists and social philosophers of our time. I have long been a student of his works, and I have written on his thought myself.

I am therefore honored at your invitation, which I am pleased to accept. I look forward to working with the Mises Institute and to assisting its work in whatever way feasible.

Thank you again for your letter and invitation.

Sincerely,  
  
John P. East  
United States Senator

JPE:sfj

MICKY EDWARDS  
FIFTH DISTRICT, OKLAHOMA

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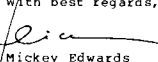
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Dear Lew:

Thank you for the kind invitation to join the Mises Institute's Council of Statesmen. I've long been an admirer of Dr. Mises and an advocate of the Austrian school of economics. I would consider it a great privilege to serve with Ambassador Middendorf on the Council, and I am pleased to accept.

Should the opportunity arise, I would welcome the opportunity to visit the Auburn campus and visit the Institute. You have undertaken a very worthwhile and important project, and I appreciate the opportunity to be associated with it.

With best regards,

  
Mickey Edwards  
Member of Congress

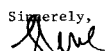
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FORBES MAGAZINE

MALCOLM S. FORBES, JR.  
PRESIDENT & CHIEF OPERATING OFFICER  
DEPUTY EDITOR-IN-CHIEF

Dear Llewellyn:

I just heard the wonderful news that you have been awarded the George Washington Honor Medal for Excellence in Economic Education. Warmest congratulations! And please keep up the good -- and much-needed -- work.

Sincerely,  
  
Malcolm S. Forbes, Jr.

MSF:b

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## From the President Confidence and Money

by Llewellyn H. Rockwell, Jr.

In Ohio and Maryland, state-run savings and loan insurance schemes failed when depositors asked for their money. The crises came to an end, at least on the surface, with coverage from the Federal Savings and Loan Insurance Corporation.

The FSLIC was seen as a cure, not because of its assets—they cover less than .8% of deposits—but because of the Federal Reserve's implicit promise to print enough dollars to cover any FSLIC (or Federal Deposit Insurance Corporation) crisis. To stop just the Continental Illinois bank run, the Fed created \$3.5 billion to avoid draining the FDIC, which also has assets covering less than .8% of deposits.

The S&Ls industry is shakier than ever before, thanks in part to real-estate and junk-bond speculation. The city of Washington, D.C., for example, has seven federally insured S&Ls. Only two meet the FSLIC's minimal requirement of a net worth equal to 3% of liabilities—and this is calculated using very liberal accounting standards. When you apply slightly stricter ones, two of the seven have a negative net worth.

This is true despite FSLIC gimmicks—such as “net-worth certificates”—designed to paper over S&L problems. Subtract these, and rate old mortgages at the mark, rather than the face value, and virtually the entire industry would be technically bankrupt.

“Technically” is the key word, however, because so long as the Fed stands ready to make cheap loans through the discount window—a subsidy S&Ls now share with banks—and to bail out the FSLIC, the industry will be kept afloat. (The value of the dollar will be another matter, however.)

In Ohio and Maryland, loss of confidence was blamed for the runs on the S&Ls. That is, depositors—after reading about fraud involving one state-insured institution—worried that their money might be at risk in all of them, and sought to withdraw it.

It's hard to imagine a similar problem in any other business. The computer industry, for example, couldn't go out of existence overnight because of fraud at one company causing a “loss of confidence.” Of course, IBM doesn't pledge to have customers' property available on demand, while at the same time loaning it to others.

Justifiable confidence in the dollar, the S&Ls, and the banks will only come with a gold standard, and with savings and lending institutions built upon it: ones that would not—in the absence of federal subsidies—go belly up upon being asked to keep their word. ■

## Government Businesses: A Capital Offense

by John Semmens

Government at all levels spends heavily on money-losing operations like providing water and electricity and operating bus and train lines. Even a brief look at the financial performance shows us the dismal record of political management.

Inevitably, these services need massive subsidies because of their persistent losses. Amtrak, for example, had an operating margin of *minus* 50% on its passenger trains for fiscal year 1984. The performance of urban public transit was even worse. Its operating margin for FY 1983 was *minus* 63%.

Typically, government-run services ignore capital costs in reporting performance. If we include them, the operating performances become even worse (Amtrak, *minus* 57%; transit, *minus* 72%).

In the marketplace, such horrendous results would lead to the healthy diversion of capital to more productive uses. In the public sector, however, huge losses are only a rationale for increasing the subsidies.

Some even take great pride in this. They claim that losses are a sign of devotion to service instead of profit. But the notion that service at a loss is more socially beneficial than making a profit is one of the most harmful myths of contemporary public policy.

The only way we can measure the benefits of any product or service is through the revenue received. Only this shows us how much consumers value it. Profits are earned when revenues exceed cost, and these profits are the only certain knowledge we can ever have, in a world of subjective values, that social benefits are being generated.

When costs exceed revenues, we have losses, which show us that consumers don't believe the product is worth the cost. This simple message is not well-received in the public sector.

Advocates of public-sector services are more impressed by gross volume statistics. Increasing patronage, regardless of the marginal cost of each new customer, is deemed a better measure of social benefit.

Sometimes even higher costs are called a measure of increased benefit. Thus, it is a public service to spend scarce resources keeping buses running even if no one is using them. This notion is of course ludicrous, but the cost is real. The resources wasted must be obtained from somewhere.

If government taxes consumers, it makes them less able to satisfy their own needs as they think best. If government taxes profit-making businesses, it reduces their ability to meet consumers' needs. If government runs a deficit and

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borrow the money, less credit is available to fund profit-making, job-creating services in the private sector. If government creates money, this inflation "taxes" all savings and leads to the misallocation of investment that, as Ludwig von Mises demonstrated, causes recessions and depressions.

Diverting resources from profit-making activities to loss-generating ones consumes capital. Thus, even if public services are terminated, their bad effects extend into the future, reducing output. Instead of creating jobs, as their proponents suggest, losing public services destroy jobs now and in the years to come.

Government enterprises point to thousands who are employed as a direct result of their subsidies, and to their suppliers who also employ people.

What is not seen, of course, are the larger number of employees who couldn't be hired by other firms because of wasteful diversion of resources.

For simplicity's sake, assume we have \$1 billion of capital. Alternative #1, a private business, earns 10% per year. Alternative #2, a government entity, loses 10% per year.

After one year, alternative #1's capital is \$1.1 billion; alternative #2's is \$900 million. After ten years, #1 has \$2.5 billion; #2 is down to \$350 million. Which amount of capital can support more economic activity and employment?

Real life comparisons bear this out. Amtrak has received more than \$10 billion in capital from the taxpayers. This has been largely dissipated. Amtrak's assets at the end of 1984 were \$3.6 billion. If the \$10 billion wasted on this government railroad had been invested by the Dow Jones industrial firms, it would have grown to \$17 billion.

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**Semmens**...continued from page 3.

The losses generated by government services have reduced the economy's ability to meet the needs of consumers. Each dollar pumped into these losing ventures is a dollar unavailable for meeting current demand. Each dollar of deficit in these losing ventures is capital consumed.

"Production for service rather than for profit," which public officials so admire, is in fact an extinguisher of service, wealth, employment, and growth. Far from being the enhancer of social benefit that its advocates claim, it is a blight and a burden. ■

Mr. Semmens, a charter member of the Mises Institute, is senior policy analyst with the Arizona Department of Transportation. These views are his and not necessarily those of the department (unfortunately).

**Rothbard**...continued from page 1.

American liberal who stands to lose by disinvestment; it is only the blacks in South Africa.

It is all too easy for American liberals, secure in their well-paid jobs and their freedom in the United States, to say, in effect, to the blacks of South Africa: "We're going to make you sacrifice for your own benefit." It is doubtful whether the blacks in South Africa will respond with the same enthusiasm. Unfortunately, they have nothing to say in the matter; once again, their lives will be the pawns in other people's political games.

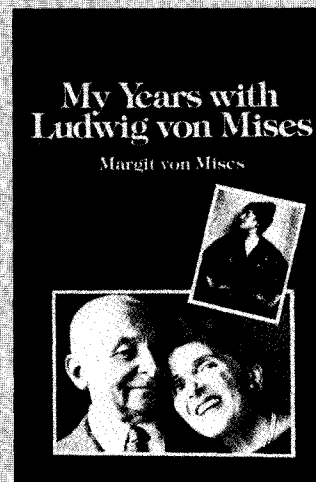
How can we in the United States help South African blacks? There is no way that we can end the apartheid system. But one thing we can do is the exact opposite of the counsel of our misled crusaders.

During the days of the national grape boycott, the economist Angus Black wrote that the only way for consumers to help the California grape workers was to buy as many grapes as they possibly could, thereby increasing the demand for grapes and raising the wage rate and employment of grape workers.

Similarly, all we can do is to encourage as much as possible American investment in South Africa and the importation of Krugerrands. In that way, wages and employment, in relatively well-paid jobs, will improve for the black laborers.

Free-market capitalism is a marvelous antidote for racism. In a free market, employers who refuse to hire productive black workers are hurting their own profits and the competitive position of their own company.

## Publication of the Month



The chairman of the Institute, Mrs. Ludwig von Mises, has done a magnificent job with the expanded version of her moving and eloquent memoir, *My Years With Ludwig von Mises*.

Ludwig von Mises was the greatest economist and champion of liberty in our time. This book also illuminates Mises the man and the teacher in a wonderful blend of history, economics, and a true-to-life thriller. It makes great reading for anyone interested in Mises, Austrian economics, and the free market.

This 230-page, large-format, quality paperback—written simply yet elegantly and chock-full of photos—sells (including postage and handling) for \$10.20 to non-members. Members may purchase it for \$8.75 (including postage and handling).

If you would like a copy of this book, please put a capital M in the upper-right-hand corner of the enclosed form, and return it with your check for \$8.75, plus any tax-deductible contribution for the Institute's work, in the postage-paid envelope. ■

It is only when the State steps in that the government can socialize the costs of racism and establish an apartheid system.

The growth of capitalism in South Africa will do far more to end apartheid than the futile and counterproductive grandstanding of American liberals. ■

Dr. Rothbard, vice president for academic affairs of the Mises Institute, is also editor of its *Journal of Austrian Economics*.