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A Radical Prescription for the Socialist Bloc



BY MURRAY N. ROTHBARD

It is generally agreed, both inside and outside Eastern Europe, that the only cure for their intensifying and grinding poverty is to abandon socialism and central planning, and to adopt private property rights and a free-market economy. But a critical problem is that Western conventional wisdom counsels going slowly, "phasing-in" freedom, rather than taking the always-reviled path of radical and comprehensive social change.

Gradualism, and piecemeal change, is always held up as the sober, practical, responsible, and compassionate path of reform, avoiding the sudden shocks, painful dislocations, and unemployment brought on by radical change.

In this, as in so many areas, however, the conventional wisdom is wrong. It is becoming ever clearer to East Europeans that the only practical and realistic path, the only path toward reform that truly works and



works quickly, is the total abolition of socialism and statism across-the-board.

For one thing, as we have seen in the Soviet Union, gradual reform provides a convenient excuse to the vested interests, monopolists, and inefficient sluggards who are the beneficiaries of

socialism, to change nothing at all. Combine this resistance with the standard bureaucratic inertia endemic under socialism, and meaningful change is reduced to mere rhetoric and lip service.

But more fundamentally, since the market economy is an intri-

CONTINUED ON PAGE THREE

Mises in Moscow! An Interview with an Austrian Economist from the U.S.S.R.

BY JEFFREY A. TUCKER

Dr. Yuri Maltsev was a professor at the University of Marxism-Leninism in Moscow, a member of the Soviet Academy of Sciences, and an economic advisor to the Central Committee of the Communist Party of the U.S.S.R. He defected during an academic meeting in Finland last year and now lives in Washington, D.C. He is a consultant to the Jamestown Foundation, an adjunct scholar of the Ludwig von Mises Institute, and this summer, he will be a faculty member at our Mises University.

FM: You were recently teaching economics in Moscow, yet you are an advocate of private property and the free market. Shouldn't we be surprised?

Maltsev: No. After decades of enslavement, almost no one in the U.S.S.R. is interested, for example, in the views of John Maynard Keynes. People, both in and out of academics, are looking for freedom, not an alternative method of government control. Even if they haven't read Mises, Hayek, and Rothbard, they are instinctive libertarians.

FM: People see government as

the problem?

Maltsev: Everyone knows that the government is responsible for giving them a Third-World economy. We joke that inside the Kremlin walls there is communism (no money, just prosperity); inside the Moscow beltway, there is socialism (money and some goods and services); and outside the beltway, there is feudalism. Three of Marx's stages, of course.

A lot of intellectuals in the U.S. think there is some sort of plan behind the Soviet system.

CONTINUED ON PAGE FOUR

Mises Vindicated

From the President



BY LLEWELLYN H.
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If Ludwig von Mises were alive today, he could say: "I told you so." For in 1920, he wrote a long article on socialism, followed by a book two years later, that crafted socialism's tombstone.

In all the debates over socialism, he alone cut to the heart of the matter. Socialism doesn't qualify as an economic system because it seeks to abolish economics, he said. Without private property in the means of production, there can be no economic calculation and no price system. There can only be chaos.

"Whoever prefers life to death, happiness to suffering, well-being to misery," he said, must fight socialism and defend, without compromise, capitalism: "private ownership in the means of production."

As syndicated columnist Warren T. Brookes recently pointed out, "the real godfather of communism's European crackup" is Ludwig von Mises, whose "penetrating mind gave intellectual birth to Hayek, Friedman, and Buchanan, and rebirth to Adam Smith."

"Yet von Mises was completely shut out of the socialist/fascist-minded Austrian and German universities in the 1920s and 1930s," Brookes notes, "and was never offered any American post after exile by Nazism. Why? He wrote a book titled *Socialism*" and "showed with precise logic why socialism could never work." And "he coined the phrase 'statolatry' for the new Western irreligion."

The Wall Street Journal's editorial page noted that "At the recent Comecon meeting, the strongest opposition to the communist status quo came from the Czechs—and in particular, their new finance minister Vaclav Klaus. 'The world is run by human action,' Klaus told Comecon, 'not by human design.' Some readers will note that Mr.

Klaus was paraphrasing the famed Austrian economist Ludwig von Mises, whose 1949 book *Human Action*, is among his classic works on free-market economics. Mises, of course, was also a relentless critic of economic planning. We can't help but note the many Western intellectuals now proposing to teach the East Europeans how to live and work. It appears that the Czech finance minister has that well in hand."

And, as Yuri N. Maltsev, late of the U.S.S.R., points out elsewhere in this issue, dissident Soviet economists look to Mises and his followers, not to Paul Samuelson, John Kenneth Galbraith, and other fellow travelers of socialism. And from similar testimonies, we know the same is true in Eastern Europe.

Look for committees to investigate un-Bulgarian, un-Rumanian, and other activities.

Other leftists still cling to a mythical "third way" between communism and capitalism. But social democracy is inherently unstable. It pretends that some sectors of the economy—such as medicine—can be socialized, while others are left private, with no detriment to the economy. Such systems, as Mises pointed out, must trend towards freedom or totalitarianism, while wrecking economic havoc all the while.

Even Sweden—welfare-queen of the social democracies—is learning this lesson. Public opinion polls show that 78% of the people want much more privatization of state child care and socialized medicine. They're sick

Dissident Soviet economists look to Mises and his followers, not to Paul Samuelson, John Kenneth Galbraith, and other fel- low travelers of socialism.

Austrian economics may undergo a second spring because of these emigre economists, who—like Mises—battle socialism and all other forms of statism without compromise.

In this country, we have never been subjected to full-blown socialism, but statolatry has still taken a dreadful toll: a spastic economy, a perverted culture, a swelling underclass, a declining standard of living, and a monstrous government.

As the freedom revolution leapt from country to country in Eastern Europe, some leftists claimed—as they whistled past their own graveyard—that the people were repudiating Stalinism, not Marxism. That's baloney, of course. People who have lived under Marxism make Joe McCarthy look like a pinko.

of having bureaucrats raise their kids and care for their sick.

In America, events seem to move at an Eastern-European pace, but in the opposite direction. While statism is being dismantled abroad, it is being constructed here at home.

Exhibit A: President Bush and the Democrats want to make the Environmental Protection Agency a cabinet department.

The EPA—a quintessential big business welfare agency—was founded by Richard Nixon through an unconstitutional executive order. Ever since then, it has achieved bureaucratic success by handing out special-interest construction contracts while catering to the most anti-capitalist, indeed anti-human, forces in our society. The EPA should

Mises Vindicated

CONTINUED FROM PAGE TWO

be dismantled, not exalted.

We have yet to learn that the environmental vision is just as impossible as the socialist one, and just as dangerous in the attempt.

Exhibit B: Sen. Joe Biden (D-Plagiarism) and unnamed "White House staff," not to speak of Drug Shah William Bennett, want to create a cabinet department of drugs, as if more government will win the unwinnable.

Exhibit C: The bipartisan S&L bailout will surpass \$350 billion, which is a moral outrage. Why should this industry be funded on the backs of the American taxpayer?

If we are to have a bailout, along with picking the executives and directors clean, why not sell government assets for the rest? The feds own 40% of U.S. land. How about auctioning some of it? Taxpayers aren't responsible for the S&L fiasco, and they shouldn't pay for it.

Exhibit D: The Bush administration attacks Sen. Daniel Patrick Moynihan's (D-Phony British Accents) Social Security

tax cut of \$600 per American family as intended to raise other taxes.

Moynihan's motives may very well be bad (unlike the other senators, presumably), but so what? Any tax cut, any time, is a good idea. If anyone in D.C. had any guts, he'd be calling for a reevaluation of the entire Ponzi SS scheme.

(Note: if tax cuts can be smoke-screens for tax increases, what does one say about the 1981 Reagan cuts that were followed by five Reagan increases, including the monstrous SS increases?)

Exhibit E: The Bush administration has just put an entire country—Panama—on welfare. The cost, we're told, is "only \$1 billion," but don't believe it. We have only begun to pay the costs of Operation Noriega.

Given the way the Bush administration talks here at home, we might think it's encouraging a Panamanian capital-gains tax cut, privatization, less government, and more free enterprise. Instead, the administration is bilking us for Panamanian welfare

checks and a gigantic public works program, plus subsidies to U.S. big business through the egregious Export-Import Bank, founded by FDR as part of the New Deal.

This all looks pretty discouraging, but it could be the final gasp of the securitate. I believe the global revulsion against big government will finally reach the country where it all started 200 years ago: America.

Just as the Great Depression set us back decades—because the ideological scam-meisters succeeded in pinning the result of central bank inflation on capitalism—the freedom revolution will advance us decades.

With ideological history, a paradigm seems entrenched, until tossed out overnight through a thought revolution. Now the paradigm has shifted towards our side. Our job is to overthrow the idol of statolatry, and install in its place respect for the free market, for individual liberty, for private property, and for sound money. Ludwig von Mises told us so. ◀

A Radical Prescription for the Socialist Bloc

CONTINUED FROM PAGE ONE

cate, interconnected latticework, a seamless web, keeping some controls and not others creates more dislocations, and perpetuates them indefinitely.

A striking case is the Soviet Union. The reformers wish to abolish all price controls, but they worry that this course, amidst an already inflationary environment, would greatly aggravate inflation. Unfortunately, the East Europeans, in their eagerness to absorb pro-capitalist literature, have imbibed Western economic fallacies that focus on price increases as "inflation" rather than on the monetary expansion which causes the increased prices.

In Soviet Russia and in Poland, the government has been pouring an enormous number of roubles and zlotys into circulation, which has increased price

levels. In both countries, severe price controls have disguised the price inflation, and have also created massive shortages of goods. As in most other examples of price control, the authorities then tried to assuage consumers by imposing especially severe price controls on consumer necessities, such as soap, meat, citrus fruit, or fuel. As an inevitable result, these valued items end up in particularly short supply.

If the governments went cold turkey and abolished all the controls, there would indeed be a large one-shot rise in most prices, particularly in consumer goods suffering most from the scarcity imposed by controls. But this would only be a one-shot increase, and not of the continuing and accelerating kind characteristic of monetary expansion. And, furthermore, what consola-

tion is it for a consumer to have the price of an item be cheap if he or she can't find it? Better to have a bar of soap cost ten roubles and be available than to cost two roubles and never appear. And, of course, the market price—say of ten roubles—is not at all arbitrary, but is determined by the demands of the consumers themselves.

Total decontrol eliminates dislocations and restrictions at one fell swoop, and gives the free market the scope to release people's energies, increase production enormously, and direct resources away from misallocations and toward the satisfaction of consumers. It should never be forgotten that the "miracle" of West German recovery from the economic depths after World War II occurred because Ludwig Erhard

CONTINUED ON NEXT PAGE

A Radical Prescription for the Socialist Bloc

CONTINUED FROM PAGE THREE

and the West Germans dismantled the entire structure of price and wage controls at once and overnight, on the glorious day of July 7, 1949.

In addition, the East European countries are starved for capital to develop their economy, and capital will only be supplied, whether by domestic savers or by foreign investors, when: 1) there is a genuine stock market, a market in shares of ownership titles to assets; and 2) the currency is genuinely convertible into hard currencies. Part of the immediate West German reform was to make the mark convertible into hard currencies.

If all price controls should be removed immediately, and currencies made convertible and a full-fledged stock market established, what then should be done about the massive state-owned sector in the socialist bloc? A vital question, since the overwhelming bulk of capital assets in the socialist countries are state-owned.

Many East Europeans now realize that it is hopeless to try to induce state enterprises to be efficient, or to pay attention to prices, costs, or profits. It is becoming clearer to everyone that Ludwig von Mises was right: only genuinely private firms, private owners of the means of pro-

duction, can be truly responsive to profit-and-loss incentives. And moreover, the only genuine price system, reflecting costs and profit opportunities, arises from actual markets—from buying and selling by private owners of property.

Obviously, then, all state firms and operations should be privatized immediately—the sooner the better. But, unfortunately, many East Europeans committed to privatization are reluctant to

with all the money, as well as the moral question of why the state deserves to amass this money from its long-suffering subjects.

The proper way to privatize is, once again, a radical one: allowing their present users to “homestead” these assets, for example, by granting pro-rata negotiable shares of ownership to workers in the various firms. After this one mighty stroke of universal privatization, prices of ownership shares on the market will fluctu-

Many East Europeans now realize that it is hopeless to try to induce state enterprises to be efficient.

push for this remedy because they complain that people don't have the money to purchase the mountain of capital assets, and that it seems almost impossible for the state to price such assets correctly.

Unfortunately, these free-marketeters are not thinking radically enough. Not only may private citizens under socialism not have the money to buy state assets, but there is a serious question about what the state is supposed to do

ate in accordance with the productivity and the success of the assets and the firms in question.

Critics of homesteading typically denounce such an idea as a “giveaway” of “windfall gains” to the recipients. But in fact, the homesteaders have already created or taken these resources and lifted them into production, and any ensuing gains (or losses) will be the result of their own productive and entrepreneurial actions. ◀

Mises in Moscow! An Interview with an Austrian Economist from the U.S.S.R.

CONTINUED FROM PAGE ONE

And there is, but not what they think: it is simple political power. Imagine the U.S. if the Democratic Party ran everything, and I mean *everything*, down to the tiniest detail, and everybody was a post office employee. That's the Soviet Union. As Mises demonstrated so many years ago, such a system cannot work because there are no market prices and no profit and loss signals.

FM: What about the morality of central planning?

Maltsev: It fails on that ground as well. If you impose a Single Will on the citizenry, everybody who deviates from

this Will must be exterminated. Between the 1930s and the 1950s, 40 million people were slaughtered to carry out the Plan. Today, the government seldom shoots people, but it does deprive them of their jobs. And because it is a monopolistic economy, they cannot get another one.

FM: How are prices set?

Maltsev: This is the most absurd part of the Soviet economy. They pretend to use a cost-plus basis for pricing. But the profit is planned for you. Say you have a planned profit rate of 15%, and the cost of a good is 1 rouble. The price of the good will be 1.15 rou-

bles. But if you include the costs of your own mismanagement in the base, then you can make a higher profit. So the system favors the maximization of inputs, not outputs, spending not production.

There are 22 million prices in the Soviet Union, most of them are computed on the local level. The State Committee on Prices issues the “methodological materials,” which are rules on what must be included in the price, for example, the costs of material inputs and labor inputs. These costs are based on other costs. Then you have to submit the

Mises in Moscow!

An Interview with an Austrian Economist from the U.S.S.R.

CONTINUED FROM PAGE FOUR

price to the Committee and they will check it and sometimes revise it. When the price is approved, it is never changed.

One of the strongest points of Austrian economics is the logical theory of the business cycle. You cannot think of a recession as a bad thing. It cleanses the economy of everything it does not need. Everything that is not wanted by consumers goes by the wayside. But imagine this: in 72 years, the Soviet Union has never closed a single enterprise.

FM: But they know they should?

Maltsev: Sure, they know they must. But how do you do it? There are too many vested interests. The only thing the Soviet government has left to brag about is that they have no unemployment. Last year, about 40% of all the enterprises could not meet the planned profit target. Theoretically, that means they operated with losses. Say they introduce so-called market socialism—a concept which really has no meaning—then these enterprises must be self-supporting. That means 40% of the enterprises would have to go belly-up. Some good economists say these enterprises are a burden and should be eliminated. But the point is you can't trust the profit and loss figures. They don't reflect consumer preferences and they can be miscalculated. There are plenty of enterprises that are essential, like farming, that always operate at losses. The overall agricultural productivity is minus 6%. This shows absolute ignorance of economics and social science.

FM: Who benefits from phony figures?

Maltsev: The managers of the Soviet enterprises. The only measure of your success is how you meet the planned target. The output target is the most important, and sometimes it is even nice to pretend you are making a profit.

It is hilarious to attend the annual meetings of the ministers. They rush to the podium to brag about how much they have produced and how they fulfilled the plan. All the while they are looking at the higher-level minister they answer to. But they are faking it. If you have been ordered to produce 10,000 widgets, but you only produce 9,000, you have a very strong incentive to lie about it. And moreover, to say you produced 11,000. It is very difficult to calculate these things, and nobody really cares. That's why they have to rely on foreign statistics so much.

Gorbachev has admitted that he expects agricultural losses to be about 40% in this year's harvest. And people there say, oh, how open and honest he is. But I

steel and count that. Then they make pig iron and count that. On and on it goes, with steel, spare parts, etc., until the final tractor. At each stage they have counted the product in its entirety, not just the value that is added. I approximated the value-added cost of the tractor to be 870 roubles. But the enterprise was reporting the cost at 11,870 roubles. That is what goes into GNP calculations.

FM: The CIA has used Soviet statistics on production for years.

Maltsev: That's sheer irresponsibility. But it is not as if the CIA knew the truth. Nobody, including the Soviets, knows the truth. I know people in Washington think-tanks that think the Soviets are tampering with the figures just to fool Americans.

I imagine this: in 72 years, the Soviet Union has never closed a single enterprise.

don't believe these figures. Much of the harvest will never be seen. The numbers are imaginary. When the time comes, they will say the rats ate the harvest, or it was lost in a storm, or fell out on the railway, or whatever.

FM: We've heard only recently that the Soviet GNP is much lower than we—and the Soviets—were told.

Maltsev: Soviet GNP figures are ridiculous. I have a close friend, a very smart economist, who estimates that the Soviet economy is seventh or eighth in the world. But we can't say for sure. We do know that the standard of living is Third World.

A main problem is double counting. Say someone wants to produce an irrigation tractor. First they excavate the ore for

They think the Soviets know the true figures. The truth is, they don't know themselves. Today the CIA and several think-tanks are recalculating Soviet statistics, but they are doing so on the basis of other phony Soviet statistics.

FM: Much concern over the Soviet military threat was based on these figures.

Maltsev: Sure. There are groups in the U.S. with a vested interest in showing the Soviet economy as larger than it really is. And some people think you can compare U.S. output with Soviet output on a dollar for dollar basis. You can certainly make up some quotient, but it is absurd.

FM: Our government has long said the Soviet economy doesn't

CONTINUED ON NEXT PAGE

Mises in Moscow! An Interview with an Austrian Economist from the U.S.S.R.

CONTINUED FROM PAGE FIVE

produce consumer goods because all resources are poured into the military, a sector which is pretty efficient. Socialism can't produce margarine and soap, but it can make planes and tanks. What do you think?

Maltsev: Socialism cannot produce anything efficiently. The reason they can't produce margarine and soap is not because the resources aren't there, but because the socialist system doesn't work. Plenty of Soviet military officials fabricate figures themselves, as I know from my own army experience.

Gorbachev is trying to reduce military spending this year by 15%. When I was in the Soviet Union, I headed the project on the civil service. The final goal is conversion of 40% of the military to the civilian sector by 1993. Gorbachev thinks this will free resources, and prosperity will bloom in the consumer sector. But it will not, thanks to socialism.

FM: What about the state of economics in the U.S.S.R.?

Maltsev: Most economists there are trained in practical, not theoretical, economics. But Mises is far more respected in the Soviet Union than Paul Samuelson or J.K. Galbraith. The government's official propaganda treats libertarians as Enemy Number One because they openly condemn the socialist system. But the more the government criticizes them, the more they appear interesting. Moreover, ideas condemning the Soviet authorities carry more weight than the official pronouncements themselves. That is why Boris Yeltsin is so popular. It is not his charm and charisma. He was singled out as an enemy by the official propaganda and it backfired.

FM: Does the public believe what the Soviet authorities say about America?

Maltsev: If I went back to the Soviet Union today and said, "I

live in Washington, D.C., and there is widespread street crime, corruption, crack wars, and people without homes," everybody would assume I was a KGB agent.

No one believes the authorities. If a Soviet official says, the economic plan has achieved and exceeded its goals, people know it has failed as usual. There is a joke that if the government forecasts warm weather, people assume it will be cold.

FM: What do you think about America?

Maltsev: I love the American people and American society. Americans are unbelievably good-hearted and generous. This is the most wonderful country in the world. On the other hand, I don't love government, any place,

Foreign aid
will actually hurt
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bureaucrats.

Moscow or D.C. Thanks to democracy, your government is much less extensive, and much less corrupt, but with a very few exceptions, all politicians and bureaucrats are engaged in the same protection of vested interests through economic and political manipulation. And they issue the same sort of ridiculous orders.

One of the first things I encountered in the U.S. was a Soviet system of newspaper pickup. Here is a newspaper which I have bought and paid for. Under the Constitution, I thought I had the right to eat it, burn it, or dispose of it in any way. In the condominiums where I live, we received an order from the D.C. government. Each week you must surrender this newspaper in special bags, which you must get from the local supermarket. If you do

not obey, you can be fined \$400. In other words, I am told to surrender my property free of charge to the government according to their irrational standards. And I thought I was escaping socialism!

FM: What do you predict for *perestroika*?

Maltsev: It will be a failure. The overwhelming problem is the monopoly of the Communist Party. They are running the reforms. There are a myriad of vested interests. That is why I am more optimistic about Eastern Europe. They have all but eliminated their Communists. For years, the people living under socialism didn't know how bad they had it. Only with *glasnost* did people realize that socialism is built on lies.

FM: Does Gorbachev deserve any credit?

Maltsev: Yes, for *glasnost*. And he went all over Eastern Europe telling the people that the U.S.S.R. would not intervene militarily. That was the signal to throw the governments out. And they did. His foreign policy has been right on target.

In fact, many people in the Soviet Union believe Gorbachev is an anti-communist. If you are General Secretary of the Communist Party, you cannot just say, "This system is baloney." You must go about it slowly and covertly. If he is not an anti-communist, then he is a fool.

FM: How can the U.S. help the capitalist revolution?

Maltsev: Not through foreign aid! It will actually hurt by entrenching bureaucrats. The more money they get, the less eager they are to reform. And diplomatic missions to murderous regimes are disastrous too, both practically and morally. The best thing the U.S. can do is to export good economic thought, as the Mises Institute does, and set a good example by reducing the size of government here. ◀

The Last Bastion of Marxism

BY ROBERT A. SIRICO, C.S.P.

The last bastion of Marxism is not the Soviet Union or even the economics departments of American universities, it's "liberation theology," a Marxian version of Christianity that focuses on the Latin American poor (even

though it's based in the seminaries of North America and Western Europe). But like Moscow itself, liberation theology is losing ground.

A society that respects private property and free markets is the most liberating, for the poor and everyone else, but the liberation theologians take a different view. The Rev. Gustavo Gutierrez, originator of this school of thought, claims that a "capitalist economy" leads to "greater wealth for the few and greater poverty for the many." The Rev. Leonardo Boff says that capitalism is a power conspiracy against the poor.

But, points out Ludwig von Mises, "The ownership of material factors of production as well as entrepreneurial or technological skills to not—in the market economy—bestow power in the coercive sense. Ownership of capital is a mandate entrusted to the owners, under the condition that it should be employed for the best possible satisfaction of the consumers."

But liberation theologians make no distinction between the free market and the politicized economies of Latin America, where big government subsidizes crony businessmen and outlaws their competition, to the horrendous detriment of the poor and all other consumers, as well as

entrepreneurs.

Getting permission to start a small company in Peru, says Hernando de Soto, takes 289 days and \$1,231 in license fees, an unimaginable sum of money to a poor Peruvian. As a result, there is a massive underground economy—a real liberating force, as de Soto has shown in *The Other Path*.

There is horrifying poverty in Latin America, but it is the result not of capitalism but of government intervention in the name of planning. Economic freedom, on

Real liberation theologians are anti-Marxist to the core.

the other hand, diffuses planning through the whole of society.

F.A. Hayek writes that "planning" has come to mean "central planning—direction of the whole economic system according to one unified plan. Competition, on the other hand, means decentralized planning by many separate persons." The "half-way house between the two, which many people talk about but few like when they see it, is the delegation of planning to privileged industries, or in other words, monopolies." That is Latin

America, for as Ludwig von Mises has shown, destructive monopolies are always and everywhere the creation of government.

Not all is dark, however. On a recent visit to Central and South America, I talked with many priests in and out of academia, and not one was a liberation theologian, not even in Nicaragua! In fact, the majority of liberation theologians are Jesuits from Spain, even though they claim to be indigenous to the "oppressed Latin American masses."

Even Gutierrez has retreated. In the first edition of his *A Theology of Liberation* (1971), he quoted Marx extensively. The most recent edition deletes most of the quotes and even criticizes a "determinist approach based on economic factors." He's still no potential member of the Mises Institute, but it's progress.

Most exciting: priests from all over Central America—including Nicaragua—are learning Austrian economics at the free-market Francisco Marroquin University in Guatemala. The core curriculum has four courses in economics, two on Hayek and two on Mises! These clerics take genuinely liberating ideas back to their own countries, and help inculcate others against Marxism. This process is aided by the Mises Institute, which has sponsored students from Francisco Marroquin at its teaching programs as well.

In Eastern Europe, real liberation theologians—anti-Marxist to the core—have played a central role in the great anti-communist revolt. In Latin America, churchmen who have real love for the poor will follow that example. ◀

Publication of the Month

With the Bush administration groveling towards Red China much in the news, the Publication of the Month couldn't be more timely. Sheldon Richman's

Working Paper, *The Rise and Decline of Reform in China*, discusses market reform and Marxist regression since 1949. Working from an Austrian perspective, Mr. Richman analyzes the Chi-

nese economy, its prospects for the future, and the significance of the recent student-led uprising. The price of this essential guide is \$5, which includes U.S. postage and handling. ◀

Why Perestroika Must Fail

BY PETER BOETTKE

Mikhail Gorbachev rose to power because the U.S.S.R. was disintegrating. But his economic reforms will probably fail. They may even make things worse.

The ambiguous nature of his reforms can be seen in the writings of Gorbachev's key economic aides, Abel Aganbegyan and Leonid Abalkin.

Aganbegyan argues for a sort of Western-style interventionist economy. Abalkin wants more efficient central planning. But they have recently switched positions, with Abalkin calling for private property rights, and Aganbegyan arguing for central management and more social welfare.

The same ambiguity marks Gorbachev's words and deeds. *Perestroika* is supposed to free-up economic life and stimulate private initiative, but it cannot do so without private property. When Prime Minister Nikolai Ryzhkov advocated slashing state ownership to 30% (railroads, power plants, etc.), Gorbachev said no.

The "Law on State Enterprises," a key part of *perestroika*, supposedly grants financial autonomy. But it orders enterprises to obey price controls, since they "counteract monopoly tendencies" and ensure that "social requirements" are met. In other words, they make sure that the state remains in control.

Radical price reform was supposed to arrive in 1989, but it's been put off until 1991. And every time Gorbachev mentions freeing prices, the public runs to the stores, exacerbating the shortages that already plague the

economy. To alleviate the public's fear, Gorbachev promised to subsidize basic products, and the whole reform hit the skids.

It is not even clear what price reform means. Aganbegyan wants a "radical and total reform." But not free pricing. He only wants it to apply to staple products. "Moreover," he says, prices "will not be set in a voluntaristic fashion. Rather, they will be based on social costs" and will be "tied" to the "five-year plans." Price "increases aimed at excessive profit" will be illegal.

This is a call for better central planning, not free prices, and it must fail.

There is no
middle
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tween
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free market.

Another part of *perestroika*, the 1990 Plan, is just as bad. It claims to shift resources to consumer goods and imports (which presents calculation problems itself), but also demands a "socialist" market. Since the "uncontrolled growth of prices" is a "negative tendency," the state must have taxes and regulations to fill "the management vacuum." For without "proper regulation," the market results in class divisions and lack of "social protection."

None of this has worked, of course. As Aganbegyan notes, three years of *perestroika* haven't

dented any of the shortages. Basic items such as petroleum products, chemicals, fibers, timber, cardboard, hosiery, sugar, and flour are all hard to find.

Gorbachev made a typical Soviet mistake by concentrating on heavy industry. He should have reformed agriculture, with private land ownership and free prices, to put food on people's tables. Instead, he tried to establish a "superministry" within agriculture, *Gasagropom*, which was a disaster.

Gorbachev continues to operate within a bankrupt ideology. To date, in fact, his economic reforms could be interpreted as a diversion of power and money from Brezhnev's special-interest groups to his own.

Soviet economist Vasily Selyunin explains the problem: "The existing bureaucratic machine cannot be incorporated into *perestroika* (restructuring). It can be broken up and eliminated, but not restructured." Succumbing to the pressure from bureaucrats and ordinary people who "fear independence" and, therefore, argue for gradualism, will undermine and discredit the whole reform package. "Losing time means losing everything." It is "useless to gradually introduce new rules into the existing system. The only thing that can be accomplished that way is to discredit *perestroika*. History will not forgive us if we miss our chance. An abyss must be crossed in a single leap—you can't do it in two."

However much Gorbachev may wish it, there is no middle way between socialism and the free market. A bureaucratic system of planning cannot be repaired or streamlined. It must be eradicated, root and branch. ◀

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