Senator Daniel P. Moynihan (D-NY) has performed a signal service for all Americans by calling into question, for the first time since the early 1980s, the soundness of the nation's beloved Social Security System. A decade ago, the public was beginning to learn of the imminent bankruptcy of Social Security, only to be sent back into their half-century slumber in 1983 by the bipartisan Greenspan commission, which "saved" Social Security by installing a whopping and ever-rising set of increases in the Social Security tax. Any government program, of course, can be bailed out by levying more taxes to pay the tab.

Since the beginning of the Reagan administration, the much heralded "cuts" in the officially dubbed "income-tax" segment of our payroll taxes have been more than offset by the rise in the "Social-Security" portion. But since the public has been conditioned into thinking that the Social Security tax is somehow not a tax, the Reagan-Bush administrations have been able to get away with their pose as heroic champions of tax cuts and resisters against the tax-raising inclinations of the evil Democracy.

For the Social Security System is the biggest single racket in the entire panoply of welfare-state measures that have been fastened upon us by the New Deal and its successors. The American public has been conned into thinking that the Social Security tax is not a tax at all, but a benevolent national "insurance" scheme into

Harvard professor Jeffrey Sachs was furious. The Warsaw telephone system was overloaded and he couldn't set up Paul Volcker's next appointment with Polish government officials. It was no wonder he couldn't get through: Keynesian Sachs and ex-Fed chairman Volcker are just two of the gurus now swarming over Eastern Europe like locusts on a wheatfield.

Because they disdain capitalism and national sovereignty, global agencies like the International Monetary Fund (IMF) and the World Bank sponsor experts like this, who seek to replace Leninism with the welfare state.

Poor Eastern Europe. Oppressed by the Nazis, tyrannized by the Soviets, and now, with its first chance at freedom and prosperity in more than 50 years, fooled by central bankers and Harvard economists.

Unfortunately, Poland's Solidarity Movement was schooled in economics by the AFL-CIO, courtesy of the U.S. National Endowment for Democracy (and the American taxpayer). So misguided Warsaw politicians want to replace communism with Western-style big government.

The international bureaucrats have talked the Poles into imposing "austerity" through much higher food, housing, and fuel prices. (Why, by the way, is austerity never imposed on the government?) But are these new prices—which have caused great popular unrest—the correct ones? IMF computers are no better at this than Soviet central planners. True prices can only be established with private property and a free market, as Ludwig von
The Internationalist Rip-Off
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Writers
IN THIS ISSUE
Doug Bandow, a syndicated columnist, is author of The Politics of Plunder (Transaction Books).
Robert J. Bateman, an adjunct scholar of the Mises Institute, is a project manager at Eric Marder Associates and an adjunct professor at Marymount College.
James Bovard is author of The Farm Fiasco (ICS Books).
Ben Harrison is a California journalist.
Llewellyn H. Rockwell, Jr., is founder and president of the Ludwig von Mises Institute.
Murray N. Rothbard, academic vice president of the Ludwig von Mises Institute, is the S.J. Hall distinguished professor of economics at the University of Nevada, Las Vegas.

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Making it almost impossible for the Polish government to borrow in the future—another benefit to the Polish people.)

Poland needs, above all, a real-life documentary called: "Honey, I Shrunk the State." That means tossing out not just the Soviets, but also Sachs, Volcker, the IMF, the World Bank, and every other advocate of big government.

The IMF and the World Bank are creatures of John Maynard Keynes. Established at the post-World War II Bretton Woods conference, they were to "stabilize" the global monetary and economic system through government power—an ambiguous, unachievable, and undesirable goal. It was for Keynes, however, a milestone on the road to world government, another of his delusions.

The institutions were also to promote "socialized investment" (Keynes's term) that would make the world safe for state-favored bankers and corporations. This means, wrote Henry Hazlitt at the time, that private investors "would not have to exercise any care or discrimination on their own account." In case of trouble, the U.S. taxpayer would pick up the check.

The Establishment, particularly the Rockefeller family, was in control from the outset. The World Bank's first president was Eugene Meyer, one time Wall Street financier, former Federal Reserve official, and controlling Rockefeller's, who has just promised to loan $350 million to Poland so it can pay off its debts to Chase Manhattan and other big banks.

Is this a conspiratorial observation? No, merely the recognition that government institutions are today set up to advance the self-interest of those who control them, at a high price to the rest of us. Along with exacerbating world inflation, the World Bank and the IMF have subsidized tyranny, poverty, and mass murder, as Jim Bovard and Doug Bandow point out elsewhere in this issue.

The fight is far from over in Poland, of course. After so many years of oppression, most people want liberty, not a "guided economy" courtesy of Western liberals. Our job is to support them, which the Mises Institute does. And in Czechoslovakia, the new free-market finance minister Vaclav Klaus says that Austrian economics "may be dead in Vienna, but it is alive in Prague."

If the freedom fighters of former socialist countries succeed in beating the IMF and the World Bank, not to speak of the Communists, maybe we can ask for their help. I wonder if they can spare any free-market missionaries for Washington, D.C.? 

The Social Security Swindle
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which everyone pays premiums from the beginning of their working lives, finally "collecting" benefits when they get to be 65. The system is held to be analogous to a private insurance firm, which collects premiums over the years, invests them in productive ways that yield interest, and then later pays old-age annuities to the lucky beneficiaries.

So much for the facade. The reality, however, is the exact opposite. The federal government taxes the youth and adult working population, takes the money, and spends it on the boondoggles that make up the annual federal budget. Then, when the long-taxed person gets to be 65, the government taxes someone else—that is, the still-working population, to pay the so-called benefits.

Be assured, the executives of any private insurance company that tried this stunt would be spending the rest of their lives in much-merited retirement in the local hoosegow. The whole system is a vast Ponzi scheme, with the difference that Ponzi's notorious swindle at least rested solely on his ability to con his victims, whereas the government swindlers, of course, rely also on a vast apparatus of tax-coercion.
But this covers only one dimension of the Social Security racket. The “benefits,” of course, are puny compared to a genuine private annuity, which makes productive investments. The purchasers of a private annuity receive, at the age, say of 65, a principal sum which they can obtain and which can also earn them further interest. The person on Social Security gets only the annual benefits, void of any capital sum. How could he, when the Social Security “fund” doesn’t exist?

The notion that a fund really exists rests on a “creative” accounting fiction; yes, the fund does exist on paper, but the Social Security System actually grabs the money as it comes in and purchases bonds from the Treasury, which spends the money on its usual boondoggles.

But that’s not all. The Social Security System is a “welfare” program that levies high and continually increasing taxes (a) only on wages, and on no other investment or interest income; and (b) is steeply regressive, hitting lower wage earners far more heavily than people in the upper brackets. Thus, income earners up to $51,300 per year are forced to pay, at this moment, 7.65% of their income to Social Security; but there the tax stops, so that, for example a person who earns $200,000 a year pays the same absolute amount ($3,924), which works out as only 2% of income. That’s a welfare state?!

Over the years, the government has vastly increased the tax bite two ways: by increasing the percentage, and by raising the maximum income level at which the tax ceases. As a result, since the start of the Reagan administration, the rate has gone up from 5.80% to 7.65%, and the maximum tax from $1,502 to $3,924 per year. And that’s only the beginning.

The final aspect of the swindle was contributed by Reagan-Greenspan & Co. in 1983. Observing the high and mounting federal deficits, our bipartisan rulers decided to raise taxes and pile up a huge “surplus” in the non-existent Social Security fund, thereby “lowering” the embarrassing deficit on paper, while continuing the same stratospheric deficit in reality. Thus, the projected federal deficit for fiscal 1990 is $206 billion; but the estimated $65 billion “surplus” in the Social Security account officially reduces the deficit to $141 billion, thereby appeasing the ghosts of Gramm-Rudman. But of course there is no surplus; the $65 billion are promptly spent on Treasury bonds, and the Treasury adds that to the stream of general expenditures on $20,000 coffeemakers, bailouts for S&L crooks, and the rest of its worthy causes.

But Senator Moynihan, one of the authors of the current swindle as part of the Greenspan Commission, has blown at least part of the lid off the scam. At which point, the Republicans happily took up the traditional Democratic chant that their opposition has set out, cruelly and heartlessly, to throw the nation’s much revered elderly into the gutter.

Senator Moynihan’s proposal for a small roll-back of the Social Security tax to 6.55% at least opens the entire matter for public debate. Moynihan’s motives have been called into question, but after we recover from our shock at a politician possibly acting for political motives, we must realize that we owe him a considerable debt. The problem is that, while many writers and journalists understand the truth and tell it in print, they generally do so in subdued and decorous tones, drenching the reader in reams of statistics.

The public will never be rouged to rise up and get rid of this monstrous system until they are told the truth in no uncertain terms: in other words, until a swindle is called a swindle.

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The World Bank Scam

BY JAMES BOVARD

The World Bank was supposedly founded to encourage development. Yet it has promoted increased political and bureaucratic control over the lives of billions of people.

And, since the U.S. government has paid in or provided guarantees for over $25 billion to the World Bank, the Bank’s failures have not been cheap for the American people.

Tanzania has received more Bank aid per capita than the vast majority of Third World nations, and the Bank’s unconditional support of the murderous socialist regime of Julius Nyerere from the late 1960s to the early 1980s was a major cause of the Tanzanian people’s misery. In the early 1970s, with Bank aid and advice, Nyerere sent the Tanzanian army to drive the peasants off their land, burn down their huts, load them onto trucks, and take them where government thought they should live. This program helped destroy Tanzanian agriculture.

The Bank helped finance brutal policies of the government of Vietnam in the late 1970s that contributed to tens of thousands of refugees dying in the South China Sea. Even though the Bank knew that the $60 million it provided Vietnam would be used...
The World Bank Scam
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The World Bank has loaned the government of Indonesia over $600 million to move—sometimes forcibly—two million people from the densely populated island of Java and resettle them on other comparatively barren islands. Despite widespread reports of violence, a 1985 Bank press release lauded the project as “the largest voluntary migration” in recent history. The Indonesian army has helped clear areas for resettlement by burning the crops and homes of islanders already living there.

Communist China has become one of the largest beneficiaries of World Bank largesse. In June 1989, government tanks crushed peaceful demonstrators in Tiananmen Square in Peking. The World Bank loudly announced that it was ceasing new loans to China. But the Bank did not confess that it was continuing to make disbursements to the Chinese government on previous loans. And in February 1990, the Bank resumed making new loans to China—zero-interest, 50-year loans.

The World Bank has provided massive assistance to the Ethiopian Marxist regime, perhaps the most oppressive government in the world, as Ethiopian soldiers violently drove peasants into cattle cars. A confidential World Bank report observed, “Since the 1974 Revolution, Ethiopia has achieved considerable progress and a moderate economic recovery marked by prudent financial management...” A 1987 Bank confidential report on Ethiopia’s economy considered “the manner in which the efficiency of resource allocation and use might be improved in Ethiopia...with a socialist framework.” Even though Ethiopia is starving the Ethiopian people, the Bank accepts the regime’s fundamental premise. While the bank continues to finance Ethiopia’s collectivist agriculture, the Ethiopian government continues shooting farmers who try to sell their harvest for a higher price than the government allows.

Elsewhere in Africa, World Bank money has financed scores of self-defeating economic policies. The Bank has plowed more than $7 billion into African agriculture, yet per capita food production has fallen almost 20% since 1960. A 1987 World Bank annual review admitted that 75% of World Bank African agricultural projects were failures. A 1987 Bank study by Keith Marsden and Therese Belot concluded that Bank and other foreign aid was a major culprit in the nationalization of African economies. Throughout Africa, World Bank aid has been used to hire legions of additional bureaucrats—who then prey upon the citizenry with regulations, taxes, and extortions.

Bank aid and advice helped African governments create and perpetuate government agricultural boards, which monopolize the buying of crops and the selling of seeds and fertilizer, and thereby largely control the farmers’ fate. Perennially, the governments either pay the farmers less than market prices or fail to pay them promptly; government seed and fertilizer monopolies routinely run out of vital inputs, and leave farmers with nothing but excuses and regrets.

kleptocracy—government by thieves—is the dominant form of government in the Third World. Corruption in Africa is so rampant that there is a new word in Swahili—Wabenzi—“men of the Mercedes-Benz” to describe wealthy government officials. The World Bank recently admitted for the first time that African governments are pervasively corrupt, yet continues to pour money into the coffers of crooked governments.

The World Bank recently admitted its structural-adjustment program as aimed at reducing government dominance of the economy, governments that received the loans increased their spending faster than those that didn’t. And a confidential World Bank analysis of structural-adjustment loans to Ghana admitted the “long term goal is to rebuild the Government’s capac-
The World Bank Scam
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Two (Mis)Leading Indicators
by Robert Bate Maroco

When government "fine-tuning" hasn't generated inflation or unemployment or both, it has eroded our capital stock. And the key to "fine-tuning" theory is aggregate measures of the economy.

Economic statistics, even when accurate, invite failure because they ignore the individual purposes of human beings. When the statistics are false, moreover, they both exacerbate and conceal economic failure. The two statistics most at fault are Gross National Product (GNP) and the Balance of Payments.

GNP

GNP is a measurement of all final, domestic, and current economic output during a one-year period. Yet the actual measurements do not fit that definition—mainly because GNP includes government "output" as part of economic production.

Unlike other goods and services, what the government "produces" is not sold on the market, so its value cannot be calculated on the basis of its market price. Without market prices, the value of government's output is determined by the inputs used to produce it.

This fact alone guarantees that government output tends to be overestimated. Government output is financed through taxation, not out of voluntary market transactions. That relieves government of the need to keep costs down. Moreover, it permits the government to ignore how consumers value the output. The result: one third to one half of all resources enlisted for government purposes are totally unwanted by consumers.

Even if every dollar the government spends yielded a positive return, it would still be wrong to include government spending in GNP. Government output of actual value (e.g., national defense, the court system, roads, and bridges) consists almost entirely of intermediate goods—goods used to produce other goods. Such goods, by definition, should be excluded from GNP on the ground that their value is already included in the value of the final goods to whose production they contribute. To include them in GNP is double counting.

Time and again, academic studies show a direct correlation between government spending and GNP. Economists and policy-makers conclude that more government control over resources will enhance economic performance and growth. This inference is suspect on logical grounds alone, since correlation does not necessarily imply causation. Further, the correlation results from government spending being included into the GNP calculation.

Since government spending makes up anywhere from 20% to 60% of GNP in most countries, it would be strange indeed if the two were not highly correlated.

Much better is Murray N. Rothbard's measurement, Gross Private Product (GPP). GNP minus all government production. It measures the value of final current domestic output based on prices generated in the market. So an advantage of GPP over GNP is that it does not provide spurious support to the tax-and-spend policies so beloved by most politicians. Replace GNP with GPP, and you reduce such correlations between government spending and GNP.
spending and economic growth. And that removes one of the props for Keynesian policies.

Yet even GNP forgets the distributional issue. Why is it that GNP (in real terms) grows year after year, yet a large portion of the population has to struggle simply to make ends meet? A big reason is that the government has redistributed larger and larger portions of output. Thus, much private product gets consumed by those who contribute nothing towards its production.

Rothbard has solved this problem too, with the aid of another measure, Private Product Remaining to producers (PPR). PPR subtracts what the government pays to those who did not produce any private output—welfare, subsidies, contracts, or whatever.

When we compare GNP with PPR, we see that much of what the economy has produced since 1965 has been redistributed away from those responsible for having produced it. Real PPR per non-government worker was in 1987 slightly less than it was in 1965 ($20,698 vs. $21,074 in 1982 dollars) despite a 47% increase in per capita real GNP over the same period. Thus, GNP helped to conceal the full magnitude of the costs of government policy from those who bore them.

### The Balance of Payments

Nothing could be as insignificant as the balance of payments, which measures the value of what we sell to foreigners, minus what they pay us for it.

If we measure value in terms of market prices, the balance of payments must always be zero. This is, of course, not the way the balance is presented. That balance is split up into a current account and a capital account, which would each be exactly balanced only by the most unlikely coincidence. If the entire balance is zero, then the capital account balance must be exactly the opposite of the current account balance.

Moreover, the balance of payments is arbitrary, depending on little more than where the line between capital and current accounts, as well as international boundaries, happen to be drawn. What actually matters about economic transactions is not which side gets the money and which side gets the goods, but that both parties to the exchange expect to benefit from it.

Further, this is the most dangerous of statistical measures. It obscures the fact that most international trade is carried out by private firms and individuals, and instead uses language which suggests that trading is done by governments (e.g., "the U.S. has a deficit with Japan").

The current account figure is used when balance-of-payments statistics are discussed. A surplus means that we paid for all of our imports with our exports and sold foreigners additional exports on credit. A deficit means that we paid for some of our imports with our exports and, thus, purchased the rest on credit.

Much of the alarm about current account deficits comes from an overly literal interpretation of the word "we." Since it is individuals who engage in trade, the single current account deficit number masks the fact that some Americans exported goods and services to foreigners on credit, albeit to a smaller extent than other Americans imported goods and services from foreigners on credit. To say that the current account deficit threatens "us" (i.e., all of us) would be true only if the government bailed out those who could not repay those debts and saddled all taxpayers with the expense.

Of course, saddling taxpayers and consumers with the costs of some businesses' incompetence is the most common use to which balance of payments statistics are put. When U.S. producers of textiles, steel, automobiles, and memory chips—to name only a few—lose market share to foreign producers of cheaper and/or better products, they often lobby for restrictions on those imports. Alarm over "record balance of payments deficits" makes the public more likely to support such measures, even though the flimsiness of the statistics used to make such arguments is mind-boggling.

The other problem with the reliability of balance of payments figures is that small errors in exports or imports can cause the surplus or deficit figures to be off by much larger proportions and even to change sides. For example, if exports equal 95 and imports equal 100, the deficit stands at 5. However, an underestimate of exports and overestimate of imports would yield to a measured surplus.

If we want a measurement of international trade that tells us how much international trade contributes to human well-being—and not to promote the agenda of special interests—we should measure the gross value of international transactions. While subject to all of the measurement problems of the balance of payments except for the final one mentioned, it would at least be consistent with the principle that voluntary exchange can be expected to make both parties better off regardless of the side of a border on which they happen to be located. Maximizing the total volume of trade, rather than the current account surplus, should be the only goal of trade policy.

These alternative measures would not help us to formulate better policies—only correct theory will make that possible—but they can enable us to perceive more clearly the ill effects of continued government tinkering.
Michael Camdessus, head of the International Monetary Fund (IMF), told the World Bank-IMF annual meeting that the U.S. and other member nations must double the IMF’s capital from $120 billion to $240 billion in order to help the poor.

The poor, however, were not in attendance at the lavish gathering, the only time of the year when Washington runs out of limousines, as finance ministers and bankers criss-cross the city.

In 1982, when it wanted more money, the IMF had to run a political gauntlet ranging from the Competitive Enterprise Institute on the right to Naderite groups on the left. Only strong pressure from the Reagan administration allowed the measure to pass the House.

The IMF claims its $120 billion in gold and currencies is not enough to lend to Third World nations that can’t pay back their current loans. In particular, the organization wants to expand lending to Eastern Europe; the IMF signed a $710 million loan agreement with Poland last December, for instance.

The Fund also wants more money because it is having trouble collecting on its past loans. Total arrears as of 1989 were $3.6 billion, up more than 50% over the preceding year.

Given the circumstances, prudence seems in order. But this international bureaucracy—able to tap the wallets of taxpayers around the globe—sees the solution differently.

The IMF makes loans to governments, theoretically to encourage economic development, and imposes a variety of policy conditions that are supposed to improve economic performance and ensure that loans are paid back.

A good test of IMF effectiveness is to ask: has any troubled developing country “graduated” because of an IMF loan program? Not a single one. Success stories are simply nonexistent. In the meantime, the Fund has been subsidizing the world’s economic basket cases for years, without apparent effect. Egypt, Ghana, India, Mali, Sudan, Bangladesh, Uganda, Zaire, and Zambia have been perpetual borrowers, while IMF loans to Argentina, Bolivia, Brazil, Costa Rica, Dominican Republic, Haiti, Peru, and Uruguay have helped turn those nations into permanent debtors without solving their ills.

In granting loans, the IMF ignores anti-market policies that retard development, but sets perverse conditions that lead, for example, to countries restricting imports and raising taxes. It seems, in fact, that the more anti-market the policies, the more generous the IMF.

India borrowed prodigiously throughout the 1950s and 1960s as it was pursuing a Soviet-style industrialization program. The government and too many libertarians are still zoning in the Age of Aquarius, this new alliance—both wings of which share political radicalism and cultural conservativism—may represent the future of the American Right.

After the conference, the Rockford Institute formed its “Main Street Committee,” a national advisory board whose members include Kenneth E. Grubbs of The Orange County Register; Forrest McDonald of the University of Alabama; Charles McKenzie, president of Grove City College; Robert Nisbet of Columbia University; Howard Phillips of the Conservative Caucus; Llewellyn H. Rockwell, Jr., of the Mises Institute; and Murray N. Rothbard of the University of Nevada, Las Vegas.

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The IMF Fraud
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Mexican government was destroying its economy in the 1970s even as it was a regular IMF customer. Kenya borrowed roughly $130 million while building a 60-story, $200 million government office building—complete with a larger-than-life statue of President Moi. Shortly after its Marxist revolution, Ethiopia began borrowing from the Fund; yet it was the government’s collectivization of agriculture that dramatically worsened the famine during the mid-1980s.

The Fund gladly underwrites venal and brutal governments. The loans are not earmarked for repression. But money is fungible. Whether Ethiopia took its IMF cash and directly bought guns for its secret police, or shifted its accounts around in Addis Ababa, makes no difference: in either case, the IMF was an accomplice to murder.

Another good IMF customer was Romania, which won much praise for paying off its IMF debts in 1988 as part of Nicolae Ceausescu’s autarkic policies. Burma, China, Laos, Nicaragua (under Somoza and the Sandinistas), Syria, Vietnam, Zaire—the IMF has rarely met a dictator that it didn’t like.

There is an even more insidious problem with IMF lending. Countries such as Bangladesh, China, Mexico, Tanzania, and Vietnam have all moved unsteadily towards more market-oriented reforms because they have felt the consequences of disastrous economic failure.

Foreign money covers the resulting financial losses. Economic reform is politically painful; but it is also unavoidable. More IMF lending only drags out the agony. But once borrowers have adopted the sort of reforms that will allow capital to be used productively in their nations, private foreign credit and investment will flow in naturally.

In the meantime, U.S. officials should give up trying to fashion a global solution to the debt crisis. Countries and banks should be left to negotiate together; selective write-downs, extensions, and debt-equity swaps could be adapted to the countries involved. And Congress should reject any funding increase for the IMF (the Bush administration is pushing for a 50% hike) or other international financial institutions.

What the world’s poor need is not a bigger IMF budget, but governments that no longer strangle and loot their economies. And as long as the IMF helps fund regimes that impoverish their people, it will remain a big part of the problem.

Marx’s Tombstone and More


Featured is Rothbard’s article “Karl Marx: Communist as Religious Eschatologist,” on how the millennial delusions of Marx led him to favor a utopian and violent social system. It is Marx’s tombstone. RAE 4 also includes Joseph Salerno’s re-interpretation of Mises’s theory of economic calculation: “Ludwig von Mises as Social Rationalist”; Hans-Hermann Hoppe’s theory of central banks and their relationship to nation-states; and Jeffrey Rogers Hummel on “public goods,” “free riders,” and the economics of military spending. There are also articles by Ralph Raico and Thomas DiLorenzo, and other contributions from Walter Block, James Clark and James Keeler, E.C. Posuer, Jr., and David Gordon.

This volume will enhance RAE’s already well-established reputation for scholarly and literate discussion of Austrian economic theory and policy. Offered in a quality paperback for the first time, the special price for this unique journal is $20, which includes U.S. postage and handling.

The Global Anti-Socialist Revolution

If only Ludwig von Mises had lived to see the global anti-socialist revolution. He would also be pleased at the global interest in Austrian economics in Prague, Warsaw, and even Moscow. The revolutionaries don’t want government management of the economy. They want free markets and private property, on which the U.S. needs tutoring as well.

There is no better primer on economic systems than Hans-Hermann Hoppe’s A Theory of Socialism and Capitalism. Already being translated into French, Portuguese, Japanese, and Korean, it has sparked interest worldwide in radical free-market ideas. You can get a hardcover copy for $25, which includes U.S. postage and handling.