

POLITICAL UNIFICATION: A GENERALIZED PROGRESSION THEOREM

Jörg Guido Hülsmann*

A characteristic feature of modern civilization is the steady growth of government.¹ This government growth occurs under two forms: either through a more intense taxation of its present subjects, or through bringing more people under its control. In other terms, government growth can either be an “intensification” or an “extensification” of hegemony. Since government growth means that private-property rights have been more invaded than before, the fundamental problem of bringing more persons under government control is that some persons are likely to resist. Yet, which factors determine this resistance? Why is it that a government sometimes can extend its dominance over people who live in other territories, whereas in other cases it cannot? And why does each extension of power go hand in hand with an increase of taxes? In this paper, I try to add to the explanation of government’s extensification by examining the role of political unification in securing it.

WHY POLITICAL UNIFICATION COMES ABOUT

The Limits of Justifications for Government

The problem of expanding government’s endeavors through a more intense taxation lies in the potential resistance of the taxpayers. Nevertheless, these attempts do succeed from time to time. One reason is that any resistance is costly, and sometimes very costly, to the subjects. Most importantly, however, resistance always depends on the conviction of those who are resisting that their cause is justified. If the population does not believe it has a right to resist, or if at least the majority do not so believe, then any rebellion is unlikely to be started, and still less so to

*Jörg Guido Hülsmann is a research fellow of the University of Paris II.

¹On the problems of measuring government intervention and government growth, see Murray N. Rothbard, *America’s Great Depression*, 4th ed. (New York: Richardson and Snyder, 1983), pp. 296ff. For a critique of conventional statistics hiding the implications of government activities, see Hans-Hermann Hoppe, *Eigentum, Anarchie und Staat* (Opladen, 1987), pp. 27ff. An excellent book which documents the way governments expand during emergencies is Robert Higgs, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (New York: Oxford Univ. Press, 1987).

succeed. Thus, at all times and in all places, governments try to persuade their subjects of two things: first, that resistance is not a right of the people, and second, that the increased taxation is necessary or beneficial. As such, they try to render the new taxes acceptable to the majority.²

In these endeavors, governments always enjoy one big advantage: the presupposition is in their favor, that is, the majority of the ruled persons believe that government is necessary to provide certain services. In other terms, they believe that they could not in all cases rely on voluntary cooperation to make society work. In some cases, they believe, it is legitimate to force people, that is, to violate their property rights. Yet, if this is necessary and legitimate in *one* case, why shouldn't it be so in *other* cases? Therefore, resistance against government is usually not a matter of principle. However, unprincipled resistance is weak. From the outset, it concedes the main point, viz., that there *is* a case for government.³ The discussion, then, concerns the delineation of exactly which spheres of life that this case applies to. However, this is a question of more or less personal preferences; it is a question of opinion.

The growth of government, therefore, can be explained by the change of opinion among the ruled. In earlier times, people believed that government was needed to fulfill a more limited function, say, only the production of security. Now, they believe that government should also assume other responsibilities, say, the production of socks or the protection of cherry trees. Yet, how

²It can be claimed that there is majority rule under *all* forms of government. See Étienne de la Boétie, *De la servitude volontaire ou Contr'un* (Paris: Gallinard, [1562] 1993); David Hume, "On the First Principles of Government," in *Essays* (Indianapolis: Liberty Classics, [1777] 1987).

³This case has been seriously challenged, to say the least. For security not being a special good requiring government intervention, see Gustave de Molinari, *The Production of Security*, J. Huston McCulloch, trans., Occasional Paper Series #2, Richard M. Ebeling, ed. (New York: Center for Libertarian Studies, 1977); Murray N. Rothbard, *Power and Market*, 2nd ed. (Kansas City, Kansas: Sheed Andrews and McMeel 1977), ch. 1; Murray N. Rothbard, *For A New Liberty* (New York: Macmillan, 1973), ch. 12; Hoppe, *Eigentum, Anarchie und Staat*, pp. 106ff. For a devastating critique of the concept of public goods, see Murray N. Rothbard, *Man, Economy, and State* (Los Angeles: Nash Publishers, 1962), vol. 2, pp. 883–90; Hans-Hermann Hoppe, *A Theory of Socialism and Capitalism* (Boston: Kluwer Academic Publishers, 1989), pp. 211ff; Hans-Hermann Hoppe, *The Economics and Ethics of Private Property: Studies in Political Economy and Philosophy* (Boston: Kluwer Academic Publishers, 1993), ch. 1. For a brilliant demonstration that, of all conceivable agents, government is least capable of producing public goods, see J.R. Hummel, "National Goods Versus Public Goods: Defense, Disarmament, and Free Riders," *Review of Austrian Economics* 4 (1990): 88ff.

does government manage to bring about the required change of opinion? It has to find reasons that render its increased activity acceptable for the bulk of its subjects. The problem it faces is to discover, or, if necessary, to invent a common purpose that unites the ruled under the ruler, and induces them to grant more power than they previously accorded him.

Historically, there have been but two ideas that were sufficiently strong and widespread to unite great numbers of people for a common project, viz., Christianity and nationalism. However, neither of them was sufficient to enhance power. The problem with religion was that, in contrast to military force, the secular rulers had no monopoly in it. For centuries, a quasi-monopoly was held by the Catholic Church, and only on rare occasions did the Church have an interest in increasing the power of the princes. The best-known instances when they did are the crusades against the “pagan” peoples reigning over the holy land. Yet, these occasions were not frequent enough to satisfy the princes’ demands for war. The Catholic Church represented a serious obstacle to their ambitions, and it was even a secular power of its own. Thus, the princes had a vital interest in breaking the monopoly of this mighty international organization. Many of them welcomed the Protestant Reformation, because its organizational aspect was a strong emphasis on the parishes, and on the individual believer, rather than on a strong, trans-national hierarchy. Of course, these reforms could not be put into action without violent resistance from the Catholics and their allies. The resulting conflict, the Thirty Years War, destroyed Germany and reduced its population by one third, but it increased the power of the German princes.

The problem with nationalism is that, in itself, it can give no conceivable support for government growth, at least not in an advanced society. A stronger government can never be in the interest of all members of a nation, because among the ruled there is hardly a point on which they all agree. As more capital is accumulated, and as the division of labor becomes ever-more sophisticated, the interests of individuals become more diverse and sometimes antagonistic. Hence, whereas it was always possible for a prince to unite *some* private interests in the support of his endeavors, it is extremely rare to secure the support of *all* private interests. Therefore, additional beliefs must prevail in order to make the nation aggressive. The most efficient of these has been the Marxist theory of class struggle. Not only it was a perfect vehicle for an intensification of government power in the name of an alleged need for arbitration between capitalists and

the working classes, it also proved to be an excellent justification for waging war on other nations.⁴ In order to secure government growth, there is, apart from the intellectual problem of inventing such ideas, the technical problem of spreading them. One of government's strategically most important tasks is, therefore, to bring as many educational institutions as possible under its control. It must accommodate teachers, professors, university staff, etc., within the state apparatus.⁵

However, before the age of democracy set in, the success of this strategy was very limited. People were, by and large, well aware of the fact that all the power of their ruler had to be taken from them. They knew that each intensification of his power signified a reduction of theirs, and that each extensification of his power through war had to be financed by them in the first place. In other terms, there rarely existed a common spiritual bond between rulers and ruled that united them in the pursuit of the same ends. Rather, both the government and the subjects of each country had a distinct "class consciousness." In normal times, the class consciousness of the subjects united them and prevented sudden or large encroachments of government. People knew that in most cases, even defensive wars would usually only substitute one ruler for another, and they were generally indifferent on the question of who should be their ruler. Under democracy, ruling became easier for government. This is because, on the one hand, democracies wipe out the clear distinction between rulers and ruled. On the other hand, democracy destroys the belief that resistance is justified. For these reasons, only democratic governments have succeeded in establishing standing armies and in increasing the ideological backing for war.⁶

Irrespective of the prevailing political regime, and no mat-

⁴On these consequences of the Marxist concept of class struggle, see Ludwig von Mises, *Die Gemeinwirtschaft*, 2nd ed. (Jena, 1932); Ludwig von Mises, *Liberalism: In the Classical Tradition* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1985); Ludwig von Mises, *Omnipotent Government: The Rise of the Total State and Total War* (New Rochelle, N.Y.: Arlington House [1944] 1969).

⁵On this point, see S. Blankertz, *Legitimität und Praxis* (Büchse der Pandora, Wetzlar, 1989), pp. 130ff; Rothbard, *For A New Liberty*, pp. 119ff; E.G. West, *Education and the State* (London: Institute of Economic Affairs, 1970).

⁶See Bertrand de Jouvenel, *On Power: Its Nature and the History of its Growth* (New York: Viking Press, 1949; Hoppe, *The Economics and Ethics of Private Property*; Hoppe, *Eigentum, Anarchie und Staat*, pp. 152ff, 182ff; Hans-Hermann Hoppe, "The Political Economy of Monarchy and Democracy, and the Idea of a Natural Order," *Journal of Libertarian Studies* 11, no. 2 (1995); Hans-Hermann Hoppe, "Time Preference, Government, and the Process of De-Civilization—From Monarchy to Democracy," *Journal des Économistes et des Études Humaines* 5, no. 4 (1994).

ter how much a government succeeds in gaining public support, the fact is that government expenditures have to be paid by *someone*. Taxes can be more or less equally distributed, but nevertheless they have to be paid. The more a person is forced to pay, the more likely is his resistance, and the higher is his propensity to opt out by his feet, that is, to go away and leave that government's influence zone. Because of this scarcity-imposed limitation, no government can indefinitely increase its power through taxation alone. It must take recourse to other measures.

Debts and Inflation

The most common measures to increase government's power, apart from open taxation, are debts and inflation, for they have one common advantage, viz., to permit government to avoid open taxation. Thus, they help prevent the resistance that usually goes with each increase of government power. However, these measures are not permanent solutions. The problem with debts is that creditors eventually want their money back. When this happens, the indebted government is forced to levy higher taxes on its subjects. Sooner or later, it must face the resistance that it tried to avoid through the incurrance of debts. This should be a fairly obvious state of affairs. But politicians think that they can "solve" the problem in a simple way—with *more* debts. However, sooner or later creditors will become reluctant to prolong the credit.⁷ Thus, the consequences of debts are twofold. On the one hand, government can increase its power beyond the limits of open taxation. Its activity is still limited but shifted to a higher level. On the other hand, and this is crucial, government becomes dependent on the will of big creditors, that is, especially of banks and other financial agents. The problem with these people is that one cannot easily seize their property as one can do with most of the common people. Money is very mobile, and as long as there are other governments, money owners can escape to them and rescue their riches.

The case of inflation is similar. Government can increase its share in the national product through the debasement of metallic money, or through the printing of paper money, but it cannot do so indefinitely, since this will, at some point in the future, necessarily create a hyper-inflation, with the consequence being

⁷For a real-world example of the extreme consequences of these, see Thomas J. Sargent and Francois R. Velde, "Macroeconomic Features of the French Revolution," *Journal of Political Economy* 103, no. 31 (1993): 474–518. Sargent and Velde make a compelling case that the principal cause of the French Revolution was the French government's recurring budget deficits and its inability to meet its bond obligations.

that the government money would not be used any more at all. But even if the inflation remains moderate, it will have unwanted repercussions, for the debtors will insist in receiving payments in a more stable currency, and the other market participants will begin to abandon the bad money in their daily transactions.⁸

From the foregoing, a further conclusion can be drawn. We have seen that the internal growth of a government through taxes, debts, and inflation is *limited*. Yet, the point is that one of these limits is the mere existence of other governments. Therefore, once a government reaches the limits of indebtedness and inflation, that is, the limits of intensification, the only way out is to extend its control over other territories, that is, through extensification. Governments have two incentives to do so. The first is the obvious one of controlling more persons—which means more tax revenue for a given level of resistance, and thus more power. The second one is the incentive to prevent political competition. Neighboring governments are particularly receptive of the riches, both in terms of money and skills, that persons bring from other territories. Thus, for each government, it would be highly advantageous to somehow eliminate its competitors. This would increase the cost of escaping from its control, so more people would stay in the country and pay higher taxes than otherwise would. This is the reason why the extension of political control regularly goes in hand with the growth of government. As the sphere of its power is enlarged, political competition is diminished, and this increases the cost of emigration. Therefore, taxes can be higher than before.

How can government extend its control to other territories? There are but two possibilities: either it can do so by war and bloody conquest, or by some peaceful appointment with other governments, that is, by political unification. Of course, war is a very expensive and risky undertaking that normally cannot be carried out without increased taxation of the present subjects. It is for this reason that government extensification often cannot proceed by conquest or any other violent technique of bringing new territories (and men) under its control. In this case, the only recourse left is to proceed by the unspectacular way of political unification.

We see, thus, that the causes of political unification are twofold. On the one hand, there are limitations on the internal growth of government power. On the other hand, there are the

⁸See Ludwig von Mises, *Theory of Money and Credit*, 3rd Engl. ed., H.E. Batson, trans. (Indianapolis, Ind.: Liberty Classics, 1981); Jörg Guido Hülsmann, *Logik der Währungskonkurrenz* (Essen: Management Akademie Verlag, 1996), pp. 269ff.

costs and risks of war and the difficulty of justifying its necessity. Now let us see how political unification is brought about, that is, which forces are at work when they emerge.

HOW POLITICAL UNIFICATION COMES ABOUT

Political Unification Under the Ancient Regime

In ancient times, the standard form of political unification was marriage. However, one must not overlook the fact that marriage alone was never sufficient for the concentration of vast empires, for political control also has an organizational aspect. All primitive empires sooner or later broke down, simply because the capital was too far away to control the provinces. The princes and kings lacked the resources to make their orders felt at the borders of the empire. As a consequence, the vassals were, in effect, sovereign rulers of the provinces.⁹ Therefore, marriage rarely had the effect of accumulating vast empires. Rather, it served to confirm the established political links, and that was the most it could usually achieve. Only with the economic advancement of society, and the consequent increase of taxes, could the princes overcome these difficulties, because with greater economic means, they could rule over a more extended empire. Thus, it was economic progress that created the necessary conditions for political concentration. Political unification through marriage became possible on a wider scale because of the extension of capitalism.¹⁰

Political Unifications Under Democratic Regimes: The Problem of Personal Interests of Members of Government

The explanation of political unification in modern democracies is somewhat more complicated. Whereas in the case of noble marriages, each family involved profits directly from the new family bonds, no such thing can be said of modern bureaucrats or politicians. The problem is, of course, not to explain why each

⁹See Franz Oppenheimer, *Der Staat* (Berlin: Libertad Verlag, [1907] 1990). Oppenheimer describes the rise and fall of feudal empires as a “vicious circle” (Hexenkreis), pp. 96ff. In his eyes, the vicious circle is broken by the use of money. On the organizational problems of feudal government, see also Ludwig von Mises, *Bureaucracy* (Cedar Falls, Iowa: Center for Futures Education, [1944] 1983), chap. 2, sec. 1.

¹⁰Historical imperialism can also be explained by the fact that domestic capitalism permitted an aggressive foreign policy. See Walter E. Grinder and John Hagel III, “Toward A Theory of State Capitalism: Ultimate Decision-Making and Class Structure,” *Journal of Libertarian Studies* 1 (1977); Hoppe, *The Economics and Ethics of Private Property*, ch. 3; Murray N. Rothbard, *Wall Street, Banks, and American Foreign Policy* (Burlingame, Calif.: Center for Libertarian Studies, 1995).

of them has an interest in wielding more power. Rather, the problem is to explain why any one of them should be ready to abandon part of his power in a political union. We have seen that the new government that would eventually spring from the union would have the prospect of higher total taxation than the two constituent governments had before. The reason is that competition would be reduced, and thus, the cost of emigration increased. However, it is unlikely that this would be to the personal advantage of all politicians and bureaucrats who are involved in the matter. "Government" would profit from the political merger, but there is really no "government" as such; rather, there are only individuals acting as members of the apparatus that we call the State.¹¹ Thus, the crucial question is whether there is any mechanism that systematically brings modern governments to seek political union even if it diminishes the personal power of bureaucrats and politicians.

Indeed, there is such a mechanism. We can analyze it most comfortably by considering an analogous case from monetary theory. Here the progression theorem¹² permits us to conceive of central banks as a consequence of the principle that underlies fractional-reserve banking.

Fractional-Reserve Banking and the Progression Theorem

Fractional-reserve banking means that the commercial banks give, of principle, promises that they cannot keep. They promise to redeem each money substitute, that is, each bank note or demand deposit, to the bearer whenever he wishes to have his money. Yet, they issue money substitutes in a quantity much bigger than the money they actually hold. Thus, they cannot possibly keep their promises once there are more demands for redemption than they expected. Of course, such demands are regu-

¹¹Only in their opposition to the general public do government officials share a common class interest. Anticipating the main tenets of public choice analysis, H. Spencer perceptively stated,

A comparatively small body of officials, coherent, having common interests, and acting under central authority, has an immense advantage over an incoherent public which has no settled policy, and can be brought to act unitedly only under strong provocation.

H. Spencer, *The Man Versus the State* (New York: Cambridge University Press [1884] 1994), pp. 47f. Also Albert Jay Nock, *Our Enemy, The State* (New York: W. Morrow, 1935), pp. 8, 30ff, 66, 75 (12). All specific elements of public choice theory are already present in this brilliant analysis. See also the first chapters of Machiavelli, *The Prince*.

¹²This term was coined by Professor Joseph Salerno. See "Two Traditions in Monetary Theory," *Journal des Économistes et des Études Humaines* 2, no. 2/3 (1991): 371.

larly brought about by this way of banking. The banks know very well that they may not exaggerate their issues, but they do not know exactly which issues would be still permissible and which issues would be too much. The competition of the other bankers forces them to be audacious in the exploration of this point. Thus, liquidity crises and bank runs have historically occurred, and even continue to this day.¹³

These crises are, of course, very dangerous for the banks. In a big crisis, many of them are driven into illiquidity, even if they were not yet as bankrupt as the banks that failed in the first place (this effect is called “contagion”). Thus, they have a vital interest in avoiding them. However, on the one hand, they do not want to abandon the profitable practice of keeping only fractional reserves, and on the other hand, competition always drives them toward the next crisis. What to do, then? The solution that has been found is the existence of central banks. It does not matter whether they are privately or publicly owned. They sometimes emerged from private clearinghouses, but in most cases they were from the outset owned by the state. It is obvious that central banks wield an enormous power over the commercial banks. They decide who will receive additional credits, they decide which bank can extend its activity, and, in times of liquidity crises, they decide ultimately who will survive.

Now, the point is that, despite their dependence on the central bank, the commercial banks have an interest in this institution, at least when the central bank is founded, for the pooling of money brings a temporary relief. It permits the central bank to salvage the commercial banks in some cases where, absent a central bank, they would have been lost. However, as the banks know that they have this safety net, they become even more audacious in their practices, and give credits that they did not venture to offer before. In other terms, they further diminish their reserve ratios. As a consequence, sooner or later, the very same problem that the central bank was supposed to solve will

¹³One need only think of the number of failed S&L's in the U.S. over the past two decades to realize the on-going extent of this problem. On this issue in general, see Rothbard, *Man, Economy, and State*; Murray N. Rothbard, *What Has Government Done to Our Money*, 4th ed. (Auburn, Ala.: Praxeology Press, 1990); Murray N. Rothbard, “The Case For A 100% Gold Dollar,” in *In Search Of A Monetary Constitution*, Leland B. Yeager, ed. (Cambridge, Mass.: Harvard University Press, 1962); see also Hans-Hermann Hoppe, “How is Fiat Money Possible?—or, The Devolution of Money and Credit,” *Review of Austrian Economics* 7, no. 2 (1994); Jörg Guido Hülsmann, “Free Banking and the Free Bankers,” *Review of Austrian Economics* 9, no. 1 (1996); Jose Huerta de Soto, *Estudios de Economía Política* (Madrid: Union Editorial, 1994), p. 138.

become virulent. The difference is that it occurs on a wider scale.

When that happens, there are only two ways out. The first way is that the central bank joins other central banks in forming a central mega-institution of their own. It is clear that in this case, each central bank would become dependent on the new institution. Yet, as before with the commercial banks, each of them has an interest in abandoning its independence, for this permits survival for the moment. The other option is to get permission from the government not to redeem the money substitutes they issued, that is, the permission to break their contracts.¹⁴ Obviously the central banks abandon their independence in this case, and they now depend on the will of the government not to pursue them for this criminal act. However, here as before, the central banks have an interest in giving the government power over them, for this permits them to survive for the moment.

This is what monetary theory suggests. One could resume the progression theorem by saying that *each step toward more dependency has its origin in a bankrupt regime*. The fractional-reserve commercial banks are inherently bankrupt, and sooner or later this becomes obvious. Then they abdicate, and the central banks take over. As the latter are structurally bankrupt as well, it is but a question of time until they also voluntarily abdicate.

A More General Progression Theorem

The case of modern political unification is exactly analogous. The fundamental fact is that most modern governments are highly indebted. And there is no question of paying debts back because the required increased taxation is very unpopular. Thus there are only three ways out, namely, inflation, refusal to pay the debts, and political unification. I shall discuss them in turn.

No modern government likes to solve its debt problem by printing money, for this leads to political and economic revolution. One has to be aware of the fact that inflation always implies a re-distribution of income. Yet it serves the interest of government only as long as it is moderate and runs *first* through the hands of government and its allies. By contrast, inflation on the scale required could not be moderate, and in large parts it would have to run first through the hands of the general lending public. This has three implications. First, the ensuing huge re-

¹⁴Of course, it is not correct, strictly speaking, to say that government can legitimately give such permission, for permission can be granted only on behalf of one's property. Yet, it is not government's property that is at stake here.

distribution of wealth could not be controlled. This directly threatens government and its business allies. Second, the inflation is likely to induce a business cycle that ends up in an economic crisis. Such events increase the likelihood of a political re-orientation of the citizenry. Moreover, this political revolution would, third, be enhanced by the complete collapse of the monetary system, when people begin to abandon the hyperinflated currency.

The second solution is to refuse payment of the debts. Banks being the main financial intermediaries, this would also lead to the immediate breakdown of the banking system. As modern commercial banks operate on a fractional-reserve basis, the money supply and the price system would immediately collapse, too. Could a government prevent this outcome? Clearly, it would be no solution to “prevent” the breakdown of the credit and payments system through a simultaneous inflation, for this is likely to lead to social and political revolution. A variant would be to limit the refusal of payment to foreigners. This measure could, indeed, bring temporary relief (if we disregard, for the sake of argument, the influence of reciprocal actions from foreign governments and lenders). However, such an action puts the government immediately at the mercy of foreign governments for all future credits. No private person would be willing to accord any new credits to it. Only governments could assist it. This leads us to the third way out of the debt crisis.

The third option consists in providing liquidity from other governments that are not yet bankrupt. The price to be paid for the assistance is, of course, in terms of political favours. Let us point out again that here, as in the case of fractional-reserve banking, *each* government has an interest in this deal. It is obvious that the bankrupt governments have incentives to pay the political price. The not-yet-bankrupt (but already highly indebted) governments have an incentive to bail them out, too. As a consequence of the high degree of international division of labour, the bankruptcy of one government has immediate repercussions on the budgets of all other governments. Therefore, highly indebted governments have an interest in avoiding the slightest disruption on the international financial markets, as this could precipitate their own fall. Even the bankruptcy of a small government would threaten them.¹⁵ This has to be avoided. All kinds of breakdown or uncontrolled sudden change are a night-

¹⁵And, of course, that of any major private market participant. This explains the staunch readiness of highly indebted governments to subsidize big business.

mare for the establishment. The paramount interest of today's politicians and bureaucrats is to make the show somehow go on.¹⁶ Therefore, bankrupt governments want to be bailed out and not-yet-bankrupt governments are ready to help them. The result is political unification.

This is the mechanism at work that incites political unification in modern democracies. The driving force is the necessity and the will of governments to extend their power, and to survive in times of crisis. This force leads to political unification, because bankrupt *and* not-yet-bankrupt governments have a common interest in bargaining financial assistance against political influence.¹⁷

The concrete terms on which the deal is made depend essentially on the governments' respective bargaining positions. These depend, in turn, on the governments' degree of indebtedness and on their relative seize. According to the particular circumstances of the case, different institutional outcomes are conceivable. For example, a small bankrupt government is likely to be absorbed by a big one that has no debts; and several highly indebted governments are likely to form a separate institution in order to avoid the high costs of multilateral bargaining. In the next sections, I shall briefly discuss two recent institutional outcomes, thus illustrating our theoretical findings.

Illustration I: German Reunification¹⁸

The German case is probably the best illustration of one-sided submission of a bankrupt régime. Indeed, the East German government was not only financially bankrupt, it was *completely*

¹⁶For these reasons, Keynesianism, the ideology of debts and inflation, "has become the pure economics of power, committed only to keeping the Establishment-system going, making marginal adjustments, babying things along through yet one more election." Murray N. Rothbard, "Keynesianism Redux," in *The Economics of Liberty*, L.H. Rockwell, ed. (Auburn, Ala.: Ludwig von Mises Institute, 1990), p.30.

¹⁷Generally speaking, might always depends on the capacity to fulfill certain needs. See on this point Arnold Gehlen, "Soziologie der Macht," in *Handwörterbuch der Staatswissenschaften* (Tübingen, 1961), vol. 7, pp. 77ff. See also Jörg Guido Hülsmann, *Kritik der Dominanztheorie* (Frankfurt/M.: R.G. Fischer, 1993), pp. 48ff. For an application to the field of international relations (that is, relations between governments), see B. Herz and J. Starbatty, "Zur Frage internationaler Dominanzbeziehungen—Eine Analyse der Machtverteilung auf Weltwirtschaftsgipfeln," in *Kyklos* 44 (1991): 35ff.

¹⁸See also Hans-Hermann Hoppe, "De-Socialisation in a United Germany," *Review of Austrian Economics* 5, no. 2 (1991); Roland Baader, *From Socialism to Welfareism: Reflections on a German Experiment* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1995).

bankrupt—morally, politically, culturally. Forty years of socialism had wrecked the nation. Public discussion has focused on the inferior living conditions under which the East Germans had to live, but this was only the economic side of the disaster. With very few individual exceptions, the East German experiment ended in a complete debacle on all levels. For a while, it seemed as if nothing of the old system was worth saving. The East Germans cried for reunification, and each day since the Berlin Wall fell in November 1989, they publicly displayed deep contempt for their rulers.

In March 1990, they voted overwhelmingly against the communists. Thus, the West German establishment found virtually no obstacle when it took the whole country over and imposed its power structure on the East. West Germany's social security system and its unemployment insurance system were taken to the East, as well as its the tax-collecting system. Moreover, the entire political and public administration was newly built up according to the western scheme.

Of course, the East Germans did not know how to operate these new institutions, or how to deal with the unknown administrative rules. Thus, the manpower had to be imported from the West. Persons who normally would have had to wait for years to rise in the hierarchy of public administration could now make brilliant blitz-careers. Almost all command posts in the economy, in public administration, in science, and in culture were given to West Germans. Thus, 1990 to 1993 were the golden years for the West German establishment. It was the easiest take-over one can imagine.

However, they not only took East Germany over, they also increased the state's share in the national product. In fact, they profited from a huge wave of patriotism that ran through West Germany, for the West Germans are convinced that reshaping the East is the task of the government. Thus, they accepted enormous tax increases. Year by year, more than 140 billion Marks were transferred from West to East.¹⁹ The Germans also accepted an enormous increase of public debts. This exceptional situation, according to the official argument, required exceptional means. Nobody listened to the economists who objected that these means were taken from the rest of society. Today, Germany's public debts are almost twice as high as in the mid-eighties.

Re-privatizations of East German corporations ended up even

¹⁹A corresponding amount would be annual payments of \$300 billion by the United States to Mexico.

below West German standards, and the police, courts, traffic, education, and communication were all firmly kept in the hands of the state. The overall result of the German reunification is a huge net increase of state power. For decades after World War II, Germany was, on the economic level, the freest of Europe's great nations. Now she is quickly approaching France and Italy, that is, Germany runs the danger of becoming bankrupt.

Illustration II: European Union

The case of the European Union is an excellent illustration of a central institution that helps to reduce the co-ordination costs of several highly indebted—and contagion-threatened—governments. In the European Union, some states—Belgium, Italy, and Greece—are virtually bankrupt. Other states, including Austria, Portugal, Ireland, Spain, and Sweden, are on the wave of becoming so, and the rest is not much better.²⁰ In other terms, more and more members of the European Union need to be bailed out.²¹ It will not take a very long time before no private investor will give them new credits. As the governments know this, they have started to become serious in their bargains with other governments. This has accelerated the negotiations leading to the reinforcement of the central bureaucracy in Brussels. Most of the governments became more interested in a coordination of their financial and economic policies. They needed an instrument to facilitate the complicated multi-lateral bargain. Of course, the European Commission was glad to step in. Now, it is our governments' servant. In the future, it could be their master.

Some of the major terms of the bargain have become obvious in the last four years. Germany is to give up her currency, the Deutsche Mark. In exchange, the German government obtains a Europe-wide imposition of social, environmental, and technical

²⁰Public debts for the most indebted EU-countries were (in % of GNP) Belgium-132, Denmark-80, Germany-60, Greece-112, Spain-74, France-60, Ireland-82, Italy-123, Netherlands-79, Austria-72, Portugal-72, Sweden-83. Significantly better is the only country under monarchical rule, Luxembourg-8.

²¹Of course, this is one of the main reasons for *joining* the European Union at all. Thus, the "regional fund" for subsidizing "underdeveloped regions" within the European Union has been considerably extended whenever a new member-state has been admitted to the club. Similarly, the "cohesion fund" played an important role in promoting the Maastricht treaty. See, for example, Roland W. Waniek, *Die Regionalpolitik der Europäischen Gemeinschaft: Eine kritische Bestandsaufnahme*, Essen: Ruhr-Forschungsinstitut für Innovations- und Strukturpolitik 5, no. 1 (1992): 12; Klaus-Peter Schmidt, "Zuviel des Guten: Viele europäische Länder kommen mit dem Ausgeben der riesigen Brüsseler Subventionen nicht mehr nach," *Die Zeit* (3 March 1996): 31.

standards. Let us decode what that means.

The Deutsche Mark is the most stable of the European currencies. For the bankrupt governments of Europe, it is the hated symbol of “oppression,” as they say. In reality, it is the symbol of the limitations that the market sets on them. For the Germans, the Deutsch Mark represents stability and self-confidence. Thus, giving up the Mark is a high price that the Germans are now forced to pay.

Still, some Germans (but not all) get things in exchange. For example, the social standards are a concession to the big German trade unions, who want to prevent cheap foreign labor force from entering the German market.

The environmental standards are a concession to the strong green movement in Germany. At the same time, they are a gift for the German industry, since Germany already has the strictest environmental legislation in Europe. In many cases, this has prevented German firms from effectively competing on foreign markets. Now, the foreign producers will suffer at least as much as their German counterparts. Finally, the environmental standards are an offering for the German environmental industry, which is, due to the special legislation, the most developed of its kind in Europe.

The technical standards are another donation for German big industry, which intends to outcompete the industries from other European countries through its recognized superiority in producing high-quality products (even where a lower technical quality would be sufficient). Of course, the imposition of these standards would have to be trusted to the European Commission in Brussels, or to whatever successor it will have. And, undoubtedly, it would enhance the total of government’s share in the national product.²²

CONCLUSION

If one wants to cut back government, one has to destroy the conditions that favor its centralization and, ultimately, its very existence. The main conclusion to be drawn from the foregoing is that the origins of modern political unifications are to be found in

²²The North American Free Trade Agreement (NAFTA) bears more resemblance to the German re-unification than to the European Union. Mexico’s government is completely bankrupt, and is bargaining financial assistance against political and economic influence from the Washington D.C. and Wall Street establishment. See *The NAFTA Reader* (Auburn, Ala.: Ludwig von Mises Institute); also Rothbard, *Wall Street, Banks, and American Foreign Policy*.

bankrupt regimes. Therefore, two intermediate goals on the road toward a free society are most important. The first one is to abolish fractional-reserve banking and central banks. The second one is to outlaw public debts. Once these two steps are accomplished, both the intensification and the extensification of government will become more difficult, and the maintenance of liberty will become easier.