

The Austrian

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HOW SOCIALISM RUINED VENEZUELA

Rafael A. Acevedo *and* Luis B. Cirocco



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From the publisher

Jeff Deist

When our Venezuelan friends Rafael Acevedo and Luis Cirocco arrived at Mises University this summer, we were all prepared to hear their firsthand accounts of how crony socialism ruined that beautiful country. We were not fully prepared, however, to grasp the severity of the humanitarian crisis. It is unfolding as we speak, with only superficial coverage from American media outlets.

The two men’s personal stories were heartbreaking: would their children ever have a chance to visit Disney World, or even just a neighboring country, as they had done as boys? Would their aging parents be able to buy over-the-counter basics like aspirin, much less badly-needed prescription medicines? Would they ever be able to evict squatters from their property, squatters who enjoy the implicit support of the redistributionist Maduro government and an indifferent police force? How many precious toiletries could they realistically get through an airport inspection on their return? And would any US cash, which counts as “hard” currency by Venezuelan standards, be seized from them by customs officials?

With the Venezuelan military controlling food distribution, and favorable currency exchange rates offered only to select allies of the regime, corruption and black markets are rampant. Cronyism is the order of the day, and everyone lives in fear of speaking openly even to neighbors. The landscape may be lush and tropical, but the mood is decidedly Soviet.

As with all socialist systems, present-day Venezuela is marked by vicious poverty and a parasitical yet gilded ruling class. Sold to gullible westerners as egalitarianism and concern for average people, socialism always makes ordinary citizens far worse off while destroying any hope for upward mobility. It is truly the ideology of the 1%.

Sadly, Messrs. Acevedo and Cirocco inform us that the “opposition” party in Venezuela offers only a different flavor of socialism, and a different gang to run it. The country’s intellectuals, mostly professors educated at prestigious universities in the US and Europe, are doctrinaire statist


with nothing but hostility for markets and private property. And unlike Brazil and Guatemala, Venezuela has no real libertarian movement or institutions to speak of.

Nationalized oil, from the fields to the refineries to the gas stations, has always been the source of the nation’s wealth. Other industries were allowed to languish. With oil prices spiking in the late 1970s, and again in the 2000s, Venezuelan leaders were able to buy off the public with welfare, food, and housing, however meager. But with the collapse of crude oil prices in 2008 and 2014, along with the death of Hugo Chávez and his phony “new constitution,” the whole rotten system has been exposed.

“In a socialist economy it is only the government’s value judgments that count, and the people are deprived of any means of making their own value judgments prevail. ... Where there is no business at all, business can be neither good nor bad.”

Ludwig von Mises, *Human Action*

All that is left now is a slide into currency debasement, riots, and horrific shortages of food and medicine. Venezuelans may have a revolution, but without an intellectual revolution they are doomed to remain mired in the poverty of bad ideas. Socialism is absurd in theory, but murderous in practice.

Can it happen here? The short answer is yes, and polls indicate a disturbing percentage of Millennials would support an openly socialist candidate. Many of the same Occupy Wall Street protestors now fill the ranks of Antifa and the alt-Right, fighting each other in the streets over preferred versions of collectivism. We may not be able to save Venezuela, but we can save America from its own intellectual vacancy. The material prosperity all around us is not guaranteed, and it will not simply persist regardless of what our politicians do. All of us bear the burden of doing everything in our power to make sure our children and grandchildren never know the horrors of socialism in America. 

Jeff Deist is president of the Mises Institute.

How Socialism Ruined Venezuela

by Rafael A. Acevedo and Luis B. Cirocco



In order to understand the disaster that is unfolding in Venezuela, we need to journey through the most recent century of our history and look at how our institutions have changed over time. What we will find is that Venezuela once enjoyed relatively high levels of economic freedom, although this occurred under dictatorial regimes.

But, when Venezuela finally embraced democracy, we began to kill economic freedom. This was not all at once, of course. It was a gradual process. But it happened at the expense of the welfare of millions of people.

During this year's Mises University, Rafael Acevedo and Luis B. Cirocco spoke to students of their experiences in Venezuela and how the nation's long history of growing socialism has impacted the lives of ordinary people. This article is adapted from their presentation.

And, ultimately, the lesson we learned is that socialism never, ever works, no matter what Paul Krugman, or Joseph Stiglitz, or guys in Spain like Pablo Iglesias say.

It was very common during the years we suffered under Hugo Chavez to hear these pundits and economists on TV saying that *this time*, socialism is being done right. *This time*, the Venezuelans figured it out.

They were, and are wrong.

On the other hand, there *was* a time when this country was quite prosperous and wealthy, and for a time Venezuela was even referred to as an “economic miracle” in many books and articles.

However, during those years, out of the five presidents we had, four were dictators and generals of the army. Our civil and political rights were restricted. We didn't have freedom of the press, for example; we didn't have universal suffrage. But, while we lived under a dictatorship, we could at least enjoy high levels of economic freedom.

A BRIEF ECONOMIC HISTORY OF VENEZUELA

The economic miracle began a century ago, when from 1914 to 1922, Venezuela entered the international oil race. In 1914, Venezuela opened its first oil well. Fortunately, the government did not make the mistake of attempting to manage the oil business, or own the wells. The oil wells were privately owned, and in many cases were owned by private international companies that operated in Venezuela. It wasn't totally *laissez-faire*, of course. There were tax incentives and other so-called concessions employed to promote exploration and exploitation of oil. But most industries — including the oil industry — remained privatized.

Moreover, during this period, tax rates in the country were relatively low.

In 1957, the marginal tax rate for individuals was 12 percent. There was certainly a state presence, and the public sector absorbed 20 percent of GDP. But, government spending was used mainly to build the country's basic infrastructure.

The area of international trade was relatively free as well — and *very* free compared to today. There were tariffs that were relatively high, but there were no other

major barriers to trade such as quotas, anti-dumping laws, or safeguards.

Other economic controls were few as well. There were just a few state-owned companies and virtually no price controls, no rent controls, no interest-rate controls, and no exchange-rate controls.

There *was* a time when this country was quite prosperous and wealthy, and for a time Venezuela was even referred to as an “economic miracle” in many books and articles.

Of course, we weren't free from the problems of a central bank, either. In 1939, Venezuela created its own central bank. But, the bank was largely inactive and functioned primarily defending a fixed exchange rate with the US dollar.

MOVING TOWARD MORE INTERVENTIONISM

Despite the high levels of economic freedom that existed during those years, government legislation started to chip away at that freedom. Changes included the nationalization of the telephone company, the creation of numerous state-owned companies, and state-owned banks. That happened in 1950. The Venezuelan government thus began sowing the seeds

CONTINUED ON NEXT PAGE

ACEVEDO AND CIROCCO, CONTINUED of destruction, and you can see the continued deterioration in the level of economic freedom in the decade of the 1950s.

In 1958, Venezuela became a democracy when the dictatorship was overthrown. With that came all the usual benefits of democracy such as freedom of the press, universal suffrage, and other civil rights. Unfortunately, these reforms came along with continued destruction of our economic freedom.

The first democratically elected president was Rómulo Betancourt. He was a communist-turned-social democrat. In fact, while he was in exile, he founded the Communist Party in Costa Rica and helped found the Communist Party in Colombia as well. Not surprisingly, as president, he started destroying the economic institutions we had by implementing price controls, rent controls, and other regulations we hadn't had before. On top of that, he and his allies created a new constitution that was hostile to private property.

In spite of this — or perhaps because of it — Betancourt is almost universally revered in Venezuela as “the father of our democracy.” This remains true even today as Venezuela collapses.

Of course, compared to today, we had far greater economic freedom under Betancourt than we do in today's Venezuela. But, all of the presidents — with one exception — who came after Betancourt took similar positions and continued to chip away at economic freedom. The only exception was Carlos Andrés Pérez who in his second term attempted some free market reforms. But, he executed these later reforms so badly and haphazardly that markets ended up being blamed for the resulting crises.

THE RISE OF HUGO CHÁVEZ

Over time, the destruction of economic freedom led to more and more impoverishment and crisis. This in turn set the stage for the rise of a political outsider with a populist message. This, of course, was Hugo Chávez. He was elected in 1998 and promised to replace our light socialism with more radical socialism. This only accelerated the problems we had been facing for decades. Nevertheless, he was able to pass through an even *more*



anti-private-property constitution. Since Chávez's death in 2013, the attacks on private property have continued, and Chávez's successor, Nicolás Maduro, promises only more of the same. Except now, the government is turning toward outright authoritarian socialism, and Maduro is seeking a new constitution in which private property is almost totally abolished, and Maduro will be allowed to remain in power for life.

A LEGACY OF POVERTY

So, what are the results of socialism in Venezuela? Well, we have experienced hyperinflation. We have people eating garbage, schools that do not teach, hospitals that do not heal, long and humiliating lines to buy flour, bread, and basic medicines. We endure the militarization of practically every aspect of life.

The cost of living has skyrocketed in recent years.

Let's look at the cost of goods in services in terms of a salary earned by a full college professor. In the 1980s, our “full professor” needed to pay almost 15 minutes of his salary to buy one kilogram of beef. Today, in July 2017, our full professor needs to pay the equivalent of 18 hours to buy the same amount of beef. During the 1980s,

our full professor needed to pay almost one year's salary for a new sedan. Today, he must pay the equivalent of 25 years of his salary. In the 1980s, a full professor with his monthly salary could buy 17 basic baskets of essential goods. Today, he can buy just one-quarter of a basic basket.

And what about the value of our money? Well, in March 2007, the largest denomination of paper money in Venezuela was the 100 bolivar bill. With it, you could buy 28 US dollars, 288 eggs, or 56 kilograms of rice. Today, you can buy .01 dollars, 0.2 eggs, and 0.08 kilograms of rice. In July 2017, you need five 100-bolivar bills to buy just one egg.

So, socialism is the cause of the Venezuelan misery. Venezuelans are starving, eating garbage, losing weight. Children are malnourished. Anyone in Venezuela would be happy to eat out of America's trashcans. It would be considered gourmet.

So, what's the response of our society? Well, it's the young people who are leading the fight for freedom in Venezuela in spite of what the current political leaders tell them to do. They don't want to be called “the opposition.” They are the resistance, in Spanish, “la resistencia.” They are the real heroes of freedom in our country, but the world needs to know that they have often been killed by a tyrannical government, and all members of the resistance are persecuted daily.



Nevertheless, a new pro-market leadership must emerge before we can expect many major changes. Our current political opposition parties also hate free markets. They don't like Maduro, but they still want *their* version of socialism.

This is not surprising. As Venezuelans, our poor understanding of the importance of freedom and free markets has created our current disaster. We Venezuelans never really understood freedom in its broader dimension because when we enjoyed high levels of economic freedom, we allowed the destruction of political and civil rights, and when we finally established a democracy, we allowed the destruction of economic freedom.

But there is reason for hope. Along with the Mises Institute we do believe that a revolution in ideas can really bring a new era to Venezuela. On behalf of the resistance and millions of people in our country, we thank the Mises Institute for this opportunity to briefly tell the full history of Venezuela. Thank you very much. ■■■

Rafael A. Acevedo is founder and director of Econintech, and teaches at the Universidad Centroccidental Lisandro Alvarado in Barquisimeto. He is also director of politics of the Venezuelan Freedom Movement.

Luis B. Cirocco is director of Econintech. He is an electrical engineer with a Master's degree in finance from IESA. Luis has 18 years of experience in the private telecommunications sector, and is director of formation of the Venezuelan Freedom Movement.

MEDIA OUTREACH at the Mises Institute

With over a million pageviews per month, mises.org reaches millions of readers each year. But we're always looking for ways to put our ideas in front of readers who aren't routine mises.org readers. So, Mises Institute faculty and staff are eager to work with media organizations willing to carry our articles or rely on our faculty members as experts in news stories.

In recent years, we've forged new relationships with various publications including the high-traffic financial site *Seeking Alpha* as well as *Business Insider*, a top-100 web-traffic site. These sites frequently re-publish our articles for their own large audiences.

Articles by mises.org authors have also appeared at *The Daily Caller*, *Rare.us*, *The American Conservative*, and numerous locally-focused news publications including the *Orange County Register*, the *Missourian*, the *Richmond County Daily Register*, and others.

Senior Fellow Mark Thornton was featured in articles published by Reuters and Bloomberg this year, speaking on various economic trends, plus an extended interview with *Business Alabama* about the auto loan bubble.

Associated Scholar Per Bylund has become a regular author on entrepreneurship-related articles in *Entrepreneur* magazine, *The Observer*, and *Business.com*.

Mises authors have also frequently appeared as guests on a variety of radio shows and in podcasts. Thornton has appeared in multiple podcasts this year, often speaking on drug prohibition. He was most recently featured in the *Project10 Podcast*, *PowerTradingRadio*, and other audio programs.

Meanwhile, Mises Institute scholar Bylund appeared on "Money Talk" on RTHK Radio 3 in Hong Kong in August to discuss an article he wrote for mises.org about China's economy. Later that month, Ryan McMaken appeared on Kansas City's public radio station for an hour-long discussion on abandoned homes in the region.

McMaken has also been a monthly guest on the drive-time radio show *Kelley and Kafer* in the Denver media market, where he has discussed a variety of economics topics ranging from free trade to minimum wage laws.

Fortunately, some Mises Institute scholars have also struck out on their own with their own popular media platforms including Senior Fellow Tom Woods's *Tom Woods Show*, and his weekly partnership with Mises Institute author Robert Murphy in producing the *ContraKrugman* podcast.

In addition to the great work of our authors and scholars and staff, the Mises Institute continues to be a home to authors seeking a large and informed audience. So far this year, the Mises Institute has published more than 700 new articles on a wide variety of topics from modern banking to medieval history.

Moreover, thanks to supporters outside the English-speaking world, translators continue to expand our reach to Latin America and Europe. Mises Hispano, for example, continues to regularly translate our articles for Spanish-speaking audiences while the German and Polish Mises Institutes in Europe offer translations of their own. New translations of books published by the Mises Institute have appeared this year in Japanese.

While we routinely seek new ways to reach a broader audience, mises.org continues to be an important incubator and platform for authors who continue to take their ideas to a broad audience not only in the United States, but also abroad. ■■■



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James Dunavant, Director of Development (405.788.1532; jamesd@mises.org).

UPCOMING Events

December 9, 2017 — Mises Institute in Orlando, Florida

March 23–24, 2018 — Austrian Economics Research Conference; Mises Institute

June 10–15, 2018 — Rothbard Graduate Seminar; Mises Institute

July 22–28, 2018 — Mises University; Mises Institute

Student scholarships available for all events. See mises.org/events for details.

Mises University 2017

Mises University is the Mises Institute's biggest student event of the year, and each year more than 150 students arrive at our campus in Auburn, Alabama, for a week of intense study with our top faculty. For a week, each day features a full day of lectures, study periods, and discussion time with undergraduates, graduate students, and faculty members from around the world. This year, speakers and students came from North America, South America, Europe, and China.

Students have the opportunity to meet and work with faculty members such as Judge Napolitano, Tom Woods, Walter Block, Mark Thornton and Joe Salerno.



I can truly not express my gratitude enough to you. It is such an inspiring honor to meet with so many innovative minds and discuss economic solutions toward freedom. The remarkable people here, both the faculty and my peers, have taught me so much. After my first week at Mises University, I can say it has been the best week of my life. This is a place where many seeds of liberty are being planted and growing every day. This is all thanks to amazing donors like you. Thank you so much! God Bless!

Regan Bauman
Bellevue, Ohio



But we've also been fortunate as new, young faculty — many of whom attended Mises U in the past — have begun teaching at Mises U. Some of the newest faculty members are Lucas Engelhardt (Kent State University), GP Manish (Troy University), Matthew McCaffrey (University of Manchester), Carmen Dorobăț (Leeds Trinity University), Malavika Nair (Troy University), Jonathan Newman (Bryan College), and Patrick Newman (Florida Southern College).

Many students report that attending Mises University is a life-changing event for them. The rigor of the program means students leave with a new knowledge and a new appreciation of the importance of Austrian economics and the radical pro-freedom legacy of theorists like Ludwig von Mises and Murray Rothbard.

This marked the 34th Mises University.



I thank you so much for what you've allowed me to do. Because of you, I was able to study economics by the guiding hand of the best economists in the world. Not only that, I was able to study alongside like-minded individuals, which is equally priceless. Mises U is the best week of the year, and thank you for allowing me to participate.

Antón Chamberlin
Loyola University New Orleans



A WORLD IN DISARRAY

DAVID GORDON

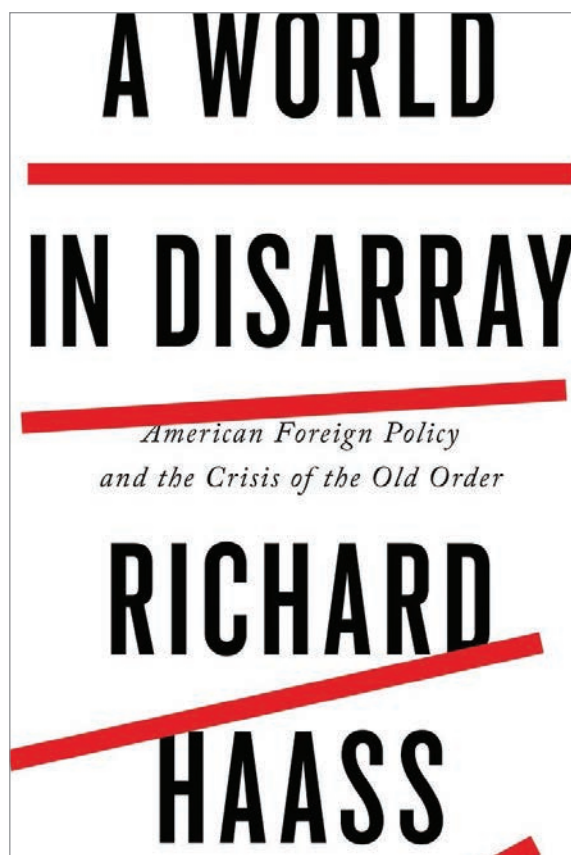
REVIEWS

A World in Disarray: American Foreign Policy and the Crisis of the Old Order

Richard Haass

Penguin Press, 2017

xii + 339 pages



Richard Haass is a foreign policy professional of great knowledge and experience. He has served as director of the Policy Planning Staff of the State Department; and for the past 14 years, he has been president of the Council on Foreign Relations. No one who reads this book can doubt the author's thorough knowledge of foreign affairs, but unfortunately, he lacks a clear framework for analysis. As a result, he offers confused and contradictory advice. He cannot make up his mind and winds up dithering, overwhelmed by the sheer complexity of foreign policy. Given a choice between A and not-A, Haass all-too often wants to choose both.

Haass is well aware that aggressive actions often make matters worse. As I write, concern over North Korea's nuclear missiles dominates the news, and calls abound for a preemptive strike against that country. Haass notes that the problem is one of long standing and points out the dangers of preemption that arose on an earlier occasion: there "was the strong possibility that such an attack could lead to a war on the peninsula, something very much opposed by the two U.S. allies that would bear the brunt of any North Korean military retaliation, namely, South Korea and Japan. Such a war would have required a costly U.S. military response given U.S. alliance commitments and North Korean military capabilities."

Applying this needed note of caution to the present crisis, Haass makes a conclusive case against a preventive strike: "First, such an attack would necessarily be based upon incomplete and possibly inaccurate information; the case of Iraqi 'WMD's' is a warning here. Second, it is impossible to assume that any preventive attack would in fact accomplish what it set out to

do, as the systems are increasingly well hidden and protected. Third, a preventive attack would be an act of war, likely to trigger a retaliatory response."

Is it irrational for North Korea to refuse to halt its nuclear program? Though he does not apply the point to the Korean crisis, Haass offers a suggestive parallel: "The ouster of Gadaffi also sent the unfortunate message that giving up nuclear weapons could be dangerous to your political health. In a matter of months the Libyan leader went from the poster child of responsibility in the proliferation realm to war criminal."

So far, so good. Haass is fully aware of the risks of intervention. Nevertheless, he regrets that President Clinton in the 1990s chose to negotiate rather than to strike. "A moment for a preventive military strike that could have destroyed much of North Korea's existing nuclear capacity was allowed to pass." What about the costs of intervention, ably presented by Haass on the previous page? Why would the gains from intervention have then outweighed them? Haass leaves us in the dark.

The same pattern appears elsewhere. Speaking of the 2003 Iraq War, Haass says, "The motive that most captured the imagination of the upper reaches of the George W. Bush administration, though, was the belief that a post-Saddam Iraq would become democratic, setting an example and a precedent that the other Arab states and Iran would have great difficulty resisting. The road to a transformed Middle East, it was widely believed, ran through Baghdad."

After informing us that he did not share this view, Haass remarks: "Contrary to what was hoped for, democracy was dealt a major setback throughout the region as the ideal of democracy had come to be associated in the eyes of many in the Arab world with chaos. ... Iran, long since recovered from its decade-long war with Iraq and no longer tied down, much less balanced by a strong hostile Arab regime, was in many ways the principal strategic beneficiary of the war, as it was freed up to promote the interests of the Iranian state and Shia populations. The 2003 Iraq War violated any number of strategic tenets, beginning with the Hippocratic oath: First do no harm."

Do we not have here an excellent argument for the traditional American policy of nonintervention, so ably espoused by Ron Paul? The consequences of intervention

virtually always fail to attain their goals; and by staying out of foreign quarrels, we at least avoid worsening the situation by ill-advised action.

Unfortunately, Haass does not rest content with such wisdom. He enthusiastically supports the 1990 Gulf War against Iraq, even though that eventually led to the disaster after 2003 he rightly condemns. More generally, he tells us, "The lesson to be derived is not that acting is

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always right — in the case of the 2003 Iraq War, to name just one example, it surely was not — but rather that not acting can be every bit as consequential as acting, and, as a result, needs to be examined with equal rigor."

It is not clear how Haass could be in a position to know that his conclusion is true. If, as he says, "every action that is examined always entails drawbacks ... [and] the hope that imperfect options become less imperfect with the passage of time is almost always illusory," why is he so confident that there is sometimes a case for costly intervention abroad?

The same pattern of selecting both of two conflicting alternatives is present at a more general level. Haass contrasts a Wilsonian approach to international affairs, of which he is rightly skeptical, with a realistic approach respectful of national sovereignty.

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DAVID GORDON, CONTINUED The Wilsonian view, “often makes shaping the internal conditions or nature of other societies the principal objective of what this country should do in the world. The purpose can be to promote human rights or democracy or to prevent human suffering.”

Haass subjects to devastating criticism the notion that the United States ought to spread democracy throughout the world. “One problem, though, is that bringing democracy about elsewhere is easier said than done. ... Closely related to this argument is that outsiders are normally limited in what they can do to affect democratic prospects. ... As we have seen all too often of late in the Middle East, the alternative to a flawed political system can be an even more flawed political system ... incomplete or what Fareed Zakaria terms ‘illiberal’ democracies can be dangerous both to those living in the country and to others.”

Given this assault on Wilsonianism one would expect Haass to favor a healthy respect for national sovereignty: we ought to avoid interfering in other nations’ affairs. But as always, when the specter of nonintervention looms, Haass flees in panic. The “realistic” policy he supports cannot readily be distinguished from the Wilsonianism he rejects. Instead of traditional respect for national sovereignty, Haass writes, “I am suggesting something fundamentally different, the need to develop and gain support for a definition of legitimacy not just

the rights but also the *obligations* of sovereign states vis-à-vis other governments and countries. The world is too small and too connected for borders to provide cover for activities that by definition can affect adversely those who live outside those borders. I call this concept ‘sovereign obligation.’”

Haass acknowledges that his approach is not fully in the realistic tradition but merely overlaps it; and it soon transpires that sovereign obligation allows almost unlimited intervention. We learn, e.g., that where “climate change” is concerned, “in extremis, penalties, including sanctions, might need to be introduced against governments acting irresponsibly.” Also, the United States must formulate its economic policies in consultation with other nations, taking their needs into account. Human rights and regulation of cyberspace might also require limits to sovereignty. And all of this is supposed to be the *alternative* to Wilsonianism!

Why does this experienced professional, so well aware of the problems of interventionism, prove unable to tear himself away from it? A hint at the answer lies in the title of his book. For Haass, the world is in “disarray.” During the Cold War, an international order prevailed, albeit one based on mutual nuclear deterrence between the United States and the Soviets; but now the world is chaotic. The United States should not strictly limit its objectives to defense against direct attack. Rather, our responsibility is to create a new international system. It is hardly a surprise that the head of the Council on Foreign Relations, an organization founded in 1921 to propagandize against “isolationism,” should adopt this view. Those of us who do not want to “busy giddy minds with foreign quarrels” will shun “sovereign obligation” and instead support nonintervention. ■

David Gordon is Senior Fellow at the Mises Institute, and editor of *The Mises Review*.



HEALTHCARE IN THE CROSSHAIRS

A CONVERSATION WITH MICHEL ACCAD, M.D.

Michel Accad, M.D., practices cardiology and internal medicine in San Francisco, offering individualized care in a free-market setting. His blog about healthcare and medicine is AlertandOriented.com.

THE AUSTRIAN: What are some of the fundamental ways that regulation is stifling growth in the number of people who can provide healthcare?

MICHEL ACCAD: Licensing of healthcare personnel is certainly the most fundamental way that regulation impedes the number of people who can provide care. However, the supply of healthcare personnel must be considered in relation to the demand for healthcare services which, in the United States, has been massively subsidized by government. The demand subsidies have been both direct, through the Medicare and Medicaid programs, and indirect, through regulations that have enabled the emergence of the private health insurance industry.

To make things more complicated, the government has also responded to the resulting shortage of healthcare personnel by facilitating its importation on a large scale, through special immigration regulations and initiatives for foreign-trained nurses and doctors. On top of that, federal and state governments are now granting some non-physician personnel, such as nurse practitioners, the privilege of practicing like doctors. Given these crosscurrents in supply amidst an artificial boost in demand, it is impossible to tell if there is a real shortage or an actual glut of doctors and nurses!

MICHEL ACCAD, M.D., CONTINUED

TA: But it seems that the regulatory state doesn't stop with licensing and controlling the growth of personnel. Are there limitations on facilities and firms that can provide healthcare also?

MA: Indeed, facilities such as hospital and surgical centers are also tightly controlled. In many states, anyone wishing to build a new hospital must apply for a "certificate of need" or CON. In some cases, CONs must also be obtained before acquiring or expanding an existing facility. A CON may likewise be required before opening a new outpatient surgical center or a nursing home.

CON legislations were passed under the assumption that central planning by the state would optimize the supply of facilities, avoid excess use of healthcare services, and ensure adequate provision of care for underserved populations. CON legislations are now widely recognized as having badly failed in all of these aims: CONs reduce competition for existing facilities, are associated with increased healthcare prices, and result in diminished access to healthcare services. Several states have repealed their CON legislations, but such laws remain active in 35 out of 50 states.

Federal law also interferes with the supply of hospitals. For example, the Affordable Care Act (ACA) prevents any new physician-owned hospital (POH) from participating in the Medicare and Medicaid programs based on the dubious claim that POHs are more likely to spur demand for healthcare services than non-POHs. This ban, of course, diminishes competition. Naturally, the ban has been defended by the established hospital conglomerates.

Even prior to the ACA, federal legislation had placed a moratorium on payment to new niche hospitals providing specialized services, such as heart or spine surgeries. Those hospitals were known to offer very efficient, high quality care. The American Hospital Association, however, argued that this was affecting the income of the larger general hospitals and succeeded in getting any new specialty hospitals that might be built banned from the Medicare and Medicaid programs. Needless to say, this ban has completely halted the construction of new, efficient, and potentially cost-effective facilities.

TA: How far back does this go? At what point did healthcare become so heavily regulated?

MA: Regulation of healthcare in the United States goes back 100 years or so, when the lobbying efforts of the American Medical Association led to the passage of medical licensing laws in the mid-1910s. Prior to that time, healthcare was essentially a free-market industry that, contrary to the standard account, was flourishing and providing very high-quality care. It is in this free market environment that the finest medical institutions in the world emerged. Classic examples are the Johns Hopkins Hospital and the Mayo Clinic. And while there were undoubtedly quacks and snake-oil salesmen in those days, historical scholarship reveals that the charlatans were being driven out of business rapidly by well-trained medical personnel.

What's more, prior to the passage of licensing laws, the United States had the highest number of physicians per capita in the world, and healthcare was extremely affordable, even at institutions providing technically advanced surgical treatments, such as the Mayo Clinic. After the passage of licensing laws, however, the number of physicians per capita declined, disparities in access to care in rural areas and among the poor — particularly among blacks and minorities — became acute, and the cost of healthcare began to rise dramatically. Unfortunately, and as Ludwig von Mises would have predicted, the response to the cost crisis that followed the introduction of medical licensing was more regulation, not less.

What is also underappreciated about the introduction of medical licensing is that it favored a certain philosophy of health and medicine. Licenses became contingent on completing a medical curriculum that promoted very aggressive and interventionist care. That curriculum was not universally endorsed by the medical community at the time. Many well-respected physicians, such as William Osler, rejected it. Nevertheless, once that particular educational curriculum became the basis on which licenses would be issued, the culture of American medical care changed, becoming highly interventionist. From an economic standpoint, this cultural factor undoubtedly contributed to the rise in costs that have been characteristic of the US system ever since.

TA: Is there anything physicians and other healthcare providers can do to somehow work outside the regulatory apparatus?

MA: Absolutely. A small but growing number of doctors are choosing to skirt many of the onerous regulations by

stepping outside the government-insurance payment system. This trend is very dynamic among primary care doctors who offer their services to patients on a cash basis, the so-called direct primary care (DPC) movement. DPC can be affordable and meet the need of the considerable number of people who either remain uninsured or who may have insurance but still have great difficulty gaining access to a doctor within the insurance system.

By dramatically reducing their compliance and payment overhead, DPC doctors can also disentangle themselves from unhealthy partnerships with other doctors or with provider networks. Such partnerships mainly serve the purpose of reducing overhead and of increasing bargaining power with insurers. However, they can also place doctors in a conflict of interests and reduce their ability to provide the best care to patients. As a result, even patients who have generous benefits can find that DPC doctors are more responsive to their needs.

Outside of primary care, there is also a very hopeful trend among surgeons who perform procedures on a direct cash basis for a fraction of the price that the same procedure would cost if it were billed through the government-insurance system. A pioneering example is the Surgery Center of Oklahoma which posts its prices for a broad range of procedures on its website — a rarity in healthcare today.

For the time being, direct cash payment for medical procedures is limited to outpatient surgeries. Technological advances, however, are rapidly increasing the scope of outpatient treatments. Therefore, the number and complexity of procedures that can be provided in this manner will likely increase and will likely provide downward pressure on prices.

TA: What are some basic legal or regulatory changes that could be made to encourage markets to provide larger amounts of healthcare services?

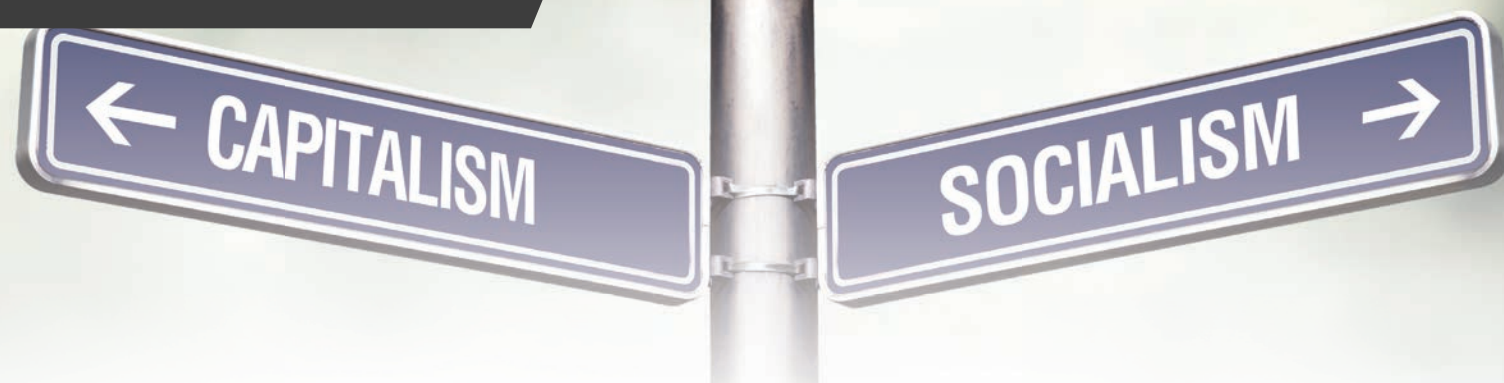
MA: Of course, the most radical way to dismantle and restore health to the healthcare system would be to repeal licensing laws, but this is unlikely to happen anytime soon! Besides, the actual number of healthcare personnel may not be in real shortage since, as I argued earlier, the demand for healthcare services is artificially boosted by subsidies coming from the government-insurance system.

A more realistic pathway is to repeal state and federal laws that hamper the growth of private healthcare facilities, such as outpatient surgery centers and specialty hospitals. Certain states also have protective regulations that prevent DPC physicians from buying medications at wholesale prices and passing the savings to their patients. And some laws make it more onerous to conduct simple laboratory tests in the doctor's office. The repeal of such laws would help build positive momentum for the direct care movement.

And if regulatory reform is not forthcoming at home, competition will come from other countries. "Medical tourism" is already booming, and there are international facilities that provide high-quality, technologically intensive hospital care for American patients at a much-reduced price. One such state-of-the-art facility was recently built in the Cayman Islands by a well-reputed Indian heart surgeon in partnership with Ascension Health, a US-based Catholic hospital chain. The facility provides coronary bypass surgery for about \$35,000, when the same procedure would cost \$150,000 or more in the United States.

The emergence of market solutions in the face of relentless government interference in healthcare is a very hopeful trend. It reminds us that in the promotion of true health, freedom of choice is of the essence. ■■■





The Myth of "Nazi Capitalism"

CHRIS CALTON

I came across a clever tweet recently claiming that people who say "The Nazis were socialists, it's in the name!" must be "very confused by buffalo wings." It is now the conventional wisdom that the Nazis were capitalists, not socialists, despite their misleading name "The National Socialist German Workers Party." Anybody with a college degree knows they were capitalistic, if not in name, then at least in principle.

Of course, this is all nonsense. But the question does arise, where did this myth come from? Mises, in fact, answered this question in 1951 in his essay "Planned Chaos."

During the nineteenth century, when socialism was becoming fashionable in Europe, there was no distinction between "socialism" and "communism." There were different forms of socialism, of course, but these were not distinguished by the different terms. Different thinkers had their preference, but the terms were used interchangeably, even by Karl Marx. Mises writes, "In 1875, in his Criticism of the Gotha Programme of the German Social Democratic Party, Marx distinguished between a lower (earlier) and a higher (later) phase of the future communist society. But he did not reserve the name of communism to the higher phase, and did not call the lower phase socialism as differentiated from communism."

According to Marx's theory of history, socialism was an inevitability. According to his deterministic outlook, every country was destined to progress from a feudal society, to a capitalist, and finally to a socialist society. To Marx, this progression was inevitable.

In Germany, the first purveyors of "State socialism" emerged shortly prior to Marx. Johann Karl Rodbertus, like Marx, rejected many of the existing socialist theories as untenable. Rodbertus was the first socialist thinker to advocate the control of both production and distribution, and to achieve this, the socialist must use the State. The greatest expositor of his ideas was Ferdinand Lassalle, whose proselytizing led to the rapid growth in popularity of what Mises would call "socialism of the German pattern."

German socialism, as Mises defines it, differs from what he called "socialism of the Russian pattern" in that "it, seemingly and nominally, maintains private ownership of the means of production, entrepreneurship, and market exchange." However, this is only a superficial system of private ownership because through a complete system of economic intervention and control, the entrepreneurial function of the property owners is completely controlled by the State. By this, Mises means that shop owners do not speculate about future events for the purpose of allocating resources in the pursuit of profits. Just like in the Soviet Union, this entrepreneurial speculation and resource allocation is done by a single entity, the State, and economic calculation is thus impossible.

"In Nazi Germany," Mises tells us, the property owners "were called shop managers or *Betriebsführer*. The government tells these seeming entrepreneurs what and how to produce, at what prices and from whom to buy, at what prices and to whom to sell. The government decrees at what wages labourers should work, and to whom and under what terms the capitalists should entrust their funds. Market exchange is but a sham. As all prices, wages and interest rates are fixed by the authority, they are prices, wages and interest rates in appearance only;

in fact they are merely quantitative terms in the authoritarian orders determining each citizen's income, consumption and standard of living. The authority, not the consumers, directs production. The central board of production management is supreme; all citizens are nothing else but civil servants. This is socialism with the outward appearance of capitalism. Some labels of the capitalistic market economy are retained, but they signify here something entirely different from what they mean in the market economy."

But the Soviets themselves also played a part in the crafting of the myth of the Nazi capitalist. The Nazis were not trying to hide their socialism (after all, snarky tweets aside, socialism was in the name); they were just implementing socialism according to a different strategy than that of the Marxist socialists.


The Soviets were able to brand the Nazis as capitalists only because they had already started redefining the terms "socialism" and "communism" to fit their own political agenda. In 1912, Lenin formed his Communist Party. The members of his party, the Bolsheviks, were now distinct from the other, rival groups of socialists. The terms "communism" and "socialism" were still able to be used interchangeably, and the Soviet Union itself was just a shorthand name for the "United Soviet Socialist Republics." But by branding his group under the title of the "Communist Party," the title "Communist" — now meaning a member of Lenin's party — became a way of saying that this was a "true socialist," so to speak.

"It was only in 1928," Mises explains, "that the programme of the Communist International . . . began to differentiate between communism and socialism (and not merely between communist and socialist)." This new doctrine held that, in the Marxian framework, there was another stage of development between capitalism and communism. That stage, of course, was socialism, and it was the stage that the Soviet Union was in.

In his original theory, Marx made a distinction between early- and late-stage communism, where true equality would be reached only in the final stage of communism, after the State had successfully followed all of his prescriptions and humans had evolved beyond their "class consciousness." In the new doctrine, "socialism" simply referred to Marx's early-stage communism, while true communism — Marx's late-stage communism — would not be achieved until the whole world was communist. Thus, the Soviet Union was merely socialist, and the party members were Communists because they were the enlightened few who were working toward the ultimate goal of communism.

But the Nazis still claimed to be socialist and, in fact, were acting quite a bit like socialists with their heavy-handed economic interventions. However, there was still economic inequality among the citizens of Nazi Germany (just as there was in the Soviet Union, but that didn't matter to the narrative). Furthermore, as Mises pointed out in his analysis of socialism of the German pattern, the Nazis retained some of the legal language of a capitalist society. Specifically, there was still the superficial existence of nominal property ownership.

When the Nazis invaded the Soviet Union, Joseph Stalin and his lackeys used the new communist narrative to redefine Nazi Socialism — which was never Marxism but was based on the theories of the original German socialists who directly influenced Marx's later ideas — as "capitalists." According to this new narrative, the Nazis were in the final and worst stage of capitalism.

At a time when many members of the European intelligentsia were still enamored with the Soviet Union, this narrative of the Nazis as capitalists was a welcome lie. But this idea is one that comes not from any grounding in economic principles, but rather the Soviet interpretation of the Marxian framework. The Nazis, who touted their socialism proudly and implemented socialist policies with great consistency, were now being referred to as capitalists for no reason other than they did not fit cleanly into the Soviet-Marxist worldview, and this false narrative survives today. 

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