The Free Market

November 1985 • The Ludwig von Mises Institute

The Great Thanksgiving Hoax

by Richard J. Maybury

Each year at this time, schoolchildren all over America are taught the official Thanksgiving story, and newspapers, radio, TV, and magazines devote vast amounts of time and space to it. It is all very colorful and fascinating.

It is also very deceiving. This official story is nothing like what really happened. It is a fairy tale, a whitewashed and sanitized collection of half-truths which divert attention away from Thanksgiving's real meaning.

The official story has the Pilgrims boarding the Mayflower, coming to America, and establishing the Plymouth colony in the winter of 1620-21. This first winter is hard, and half the colonists die. But the survivors are hard working and tenacious, and they learn new farming techniques from the Indians. The harvest of 1621 is bountiful. The Pilgrims hold a celebration, and give thanks to God. They are grateful for the wonderful new abundant land He has given them.

The official story then has the Pilgrims living more or less happily ever after, each year repeating the first Thanksgiving. Other early colonies also have hard times at first, but they soon prosper and adopt the annual tradition of giving thanks for this prosperous new land called America.

The problem with this official story is that the harvest of 1621 was not bountiful, nor were the colonists hardworking or tenacious. 1621 was a famine year and many of the colonists were lazy thieves.

In his *History of Plymouth Plantation*, the governor of the colony, William Bradford, reported that the colonists went hungry for years because they refused to work in the field. They preferred instead to steal food. He says the colony was riddled with "corruption," and with "confusion and discontent." The crops were small because "much was stolen both by night and day, before it became scarce eatable."

In the harvest feasts of 1621 and 1622, "all had their hungry bellies filled," but only briefly. The prevailing condition during those years was not the abundance the official story claims, it was famine and death. The first

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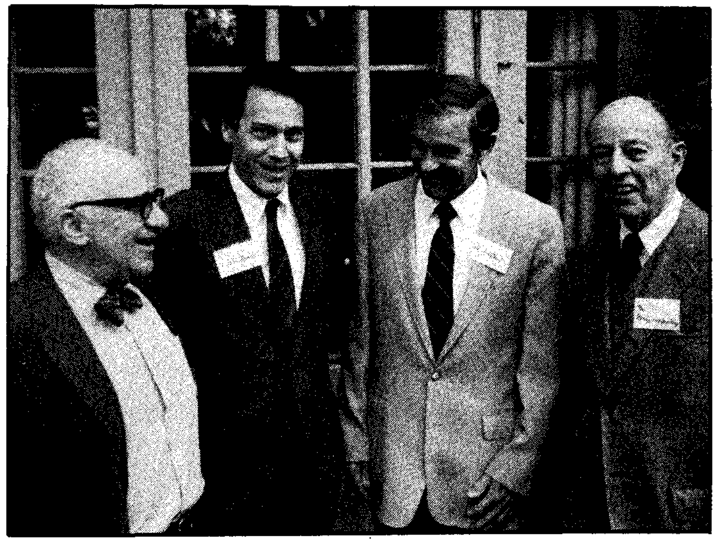

Murray Rothbard, Steve Hanke, Ron Paul, and Harry Langenberg recently participated in a Mises Institute-Discussion Club seminar in St. Louis on "Debts and Deficits: Do They Matter?"

The Ronald S. Hertz Collection

The library of the Mises Institute has been immeasurably enriched by a generous gift of Mrs. Ronald S. Hertz: her late husband's large economics library.

The Ronald S. Hertz Collection in Austrian Economics will be housed in the Institute's building at Auburn University, where it will be available to faculty, students, and visiting scholars.

Collected over 35 years by Mr. Hertz, who attended Ludwig von Mises' seminar for 19 years, the collection consists of works in Austrian economics and such related areas as Keynesianism, classical and neo-classical economics, and Marxism.

Ronald S. Hertz—a generous supporter of the Mises Institute—was a successful CPA in New York City. He died in August 1985.

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Ludwig von Mises: Hero

by Llewellyn H. Rockwell, Jr.

When Ludwig von Mises died in New York City in 1973 at the age of 92, the liberals hardly noticed. There was no frontpage obituary in the *New York Times* and Walter Cronkite didn't mention it on the CBS Evening News. But libertarians and conservatives knew that a giant had fallen, for Mises had the greatest mind of our time, and he had employed it in a life-long, uncompromising, and effective fight for freedom.

Today, his influence is more widespread than ever before. And his ideas remain the core of the movement for a free market, sound money, private property, and individual liberty. As his great student Murray N. Rothbard pointed out, "If the world is ever to get out of its miasma of statism, it will have to move to the high ground that Mises developed for us."

Ludwig von Mises was born in 1881 in the Austro-Hungarian Empire city of Lemberg, the son of a successful engineer. At the age of 19, he entered the University of Vienna, and received his doctorate at 27.

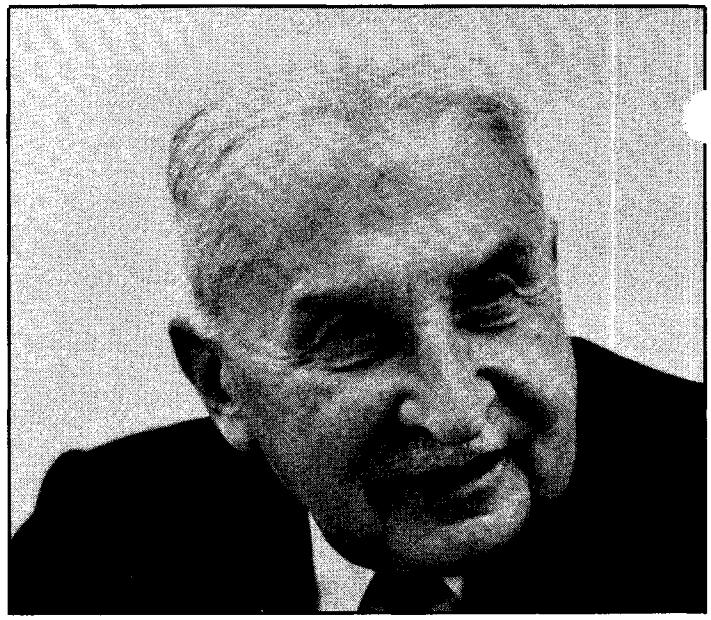
At this time, the university was the world center of free-market economics, and Mises studied under its two greatest teachers, Carl Menger and Eugen von Bohm-Bawerk. These two founders of the Austrian school of economics were responsible for a revolution in economics that successfully refuted Marxism—something the followers of Adam Smith had been unable to do.

Smith could not understand why, for example, diamonds should be more expensive than food, since food is so much more useful. This "value paradox" could never be solved, he said. All value that could be understood, however, came from the labor that went into production. Followers of Smith agreed, and said that diamonds must have a higher "exchange" value while food had a higher "use" value. They also saw a class conflict, claiming that if wages went up, profits would have to go down, and vice versa.

Karl Marx, building on these errors, preached class war, and said that profit must therefore be "surplus value" stolen from the workers, and that the only just system was production for "use" rather than profit.

The Austrian economists solved the problem by focusing on the individual, and not on classes. They built their theories on the actions of consumers in the real world, and saw that each of us makes decisions based on our own personal preferences, and that business people are constantly trying to serve those preferences. Therefore, economic value cannot be inherent in products; it is only conferred by consumer desires.

I might spend an entire week making a giant mud pie,



Ludwig von Mises

but a product that has no value to consumers has no economic worth, no matter how much labor goes into it.

And, yes, all the food in the world is more valuable than all the diamonds, but we are never forced to make that choice. Instead, we make our economic valuations "at the margin." That is, the greater the number of units of a desired economic good, the less we will value any given unit, and vice versa. That's why a canteen of water has so much more value in the desert than in your kitchen sink.

The Austrians also showed that capital—and its share of production, i.e. profit—was as necessary as labor, and that in a free market, they work together to satisfy consumers. The only "conflict" is between competitors, not between owners and employees, and that conflict is over who can best satisfy consumers.

The classical economists—Smithian and Marxian—also did not understand the role of interest. The Austrians, again looking at individuals, saw that people would rather consume now than in the future. All other things being equal, we would rather take a vacation this year than next. Thus "time-preference" is the reason for interest: the payment for deferring consumption.

Investors who put up capital to start a business are also deferring consumption (whereas employees get paid immediately), and their payment is called profit. In fact, the "normal" rate of profit in a free market is the interest rate.

In this stimulating atmosphere the young Ludwig von Mises studied, and in the honored tradition of scholarship, went on to surpass his teachers. For, as great as the founders of the Austrian school were, there were serious gaps and errors in their theories. Mises filled the gaps, corrected the errors, and went on to rebuild the entire science of economics on a sound free-market basis.

This would have been a magnificent and enduring achievement had Mises, like his teachers, been able to work in peace. His great work is all the more incredible because it was accomplished at great personal cost and despite unceasing opposition from academic leftists in Europe and the U.S.

After receiving his Ph.D., the young Mises set to work on *The Theory of Money and Credit*, his first great work published in 1912. The earlier Austrians, mimicking one of Smith's mistakes, had put money in a separate category from the rest of the economy. Mises repaired this split, showing that just as the price of any commodity is determined by supply and demand, so is the "price" of money, its purchasing power. The demand for money is determined by the desire of consumers to hold cash rather than something else.

Some of the classical economists, especially David Ricardo, had seen that an increase in the supply of money causes prices to increase. But Mises showed that this increase is not proportional. When the government increases the money supply, the "price level" doesn't rise by that amount. The amount and speed of price increases depend on the people's desire to hold cash. That's why, during an inflation, prices can increase faster or slower than the money supply.

Mises also showed that inflation, through relative price changes, brings about a redistribution of wealth, from savers and earners to the banking system and the government and related special interests. Even more damaging, he showed, are the misinvestments that inflation brings about.

When government inflates, it lowers the interest rate below what it would otherwise have been. This encourages bad business and investment decisions during the inflationary boom. When the inflation slows or stops, these mistakes are seen for what they are, and the result is bankruptcies and unemployment. That is, government is the cause of the business cycle. Through inflation, it brings about recessions and depressions.

In this pathbreaking book, Mises also showed that the institution of money originated in the market as a valuable commodity, and was only later nationalized (and debauched) by government. He also demonstrated that gold is the best monetary commodity, and that only a gold standard could prevent inflation. A central bank (like the Federal Reserve to be established the next year), he noted, would inevitably bring recessions, depressions, and suffering for the majority, although a small minority would benefit from its depredations.

The publication of *The Theory of Money and Credit* made the 31-year old Mises one of the top economists in Europe, but World War I was soon to end the gold standard and relative laissez-faire of the previous century, and renew the ancient evils of statism and inflation.

The new atmosphere was, of course, much less conducive to a man like Ludwig von Mises, and as a result he never received the academic rewards that were his due. Although he was appointed a professor of economics at the University of Vienna, it was to an unsalaried position. His income, from 1909 until 1934 when he left Austria, came from his position as economic advisor to the Austrian Chamber of Commerce, a government body roughly equivalent to the U.S. Department of Commerce. This was also where he established the prestigious Austrian Institute for Business Cycle Research.

Among his duties, he had to write economic analyses of proposed government actions, and he managed almost single-handedly to keep Austria from following Germany into hyperinflation during the early 1920s.

His famous Mises seminar in these years attracted the best minds in Europe, and produced many great economists including Nobel-prize winner F.A. Hayek. In addition to his unpaid teaching and his government work, Mises continued his writing and research. His next major work came in 1922: *Socialism.*

This book demonstrated that socialism could not function in an industrial economy. Since they have no free-market price system, socialist planners are incapable of calculating costs or rationally planning production. The result of any socialist system, he predicted, would be economic chaos.

And, just as important, he showed that semi-socialism or government interventionism cannot function efficiently either. So, he noted, if total or partial government planning cannot work, we are left with the free market.

Not content with being the leading champion of the free market, Mises also set to work on the foundation of economics—its "methodology." Mises saw that economics was increasingly coming under the sway of the nihilistic "institutionalism," which virtually denies economics altogether, and of the pseudo-scientific "positivism," which apes physics and treats people as mere consciousless objects.

Mises' answer was the science of "praxeology," which bases economics on the deductive logic that human beings are unique individuals, each with their own purposes and their own ideas about how to achieve them. His major works here were *Epistemological Problems of Economics* and especially the later *Theory and History* and *Ultimate Foundation of Economic Science.*

Mises saw that positivism, which has since swept the non-Austrian portions of the economics profession, was especially dangerous. Not only was it scientifically invalid,

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Deductibility and Subsidy

by Murray N. Rothbard

One of the most controversial aspects (because involving scores of billions of dollars) of the Administration's tax "reform" plan is its proposal to eliminate the deductibility of state and local taxes from the federal income tax. The argument rests on the view that, under deductibility, the citizens of the low-tax states are "subsidizing" the high-tax states. Since subsidies are presumed to be unfortunate and non-neutral to the market, deductibility is supposed to be eliminated in a quest for neutrality and an approximation to the workings of the free market. The opponents make the obvious reply that since taxation is supposed to be on net income, eliminating deductibility would mean that people are being taxed twice on the same income: once by the federal, and again by the state or local authorities.

But, in the meanwhile, the subsidy argument has not faced enough discussion. For the proponents of the reform have engaged in tricky semantics on the word "subsidy." Subsidy has always meant that one set of people has been taxed and the funds transferred to another group: that Peter has been taxed to pay Paul. But if the tax-oppressed citizens of New York are taxed less because of deductibility, in what way are they "subsidized"? All that has happened is that New Yorkers are suffering less expropriation of their hard-earned property than they would otherwise. But they are only being "subsidized" in precisely the same sense as when a robber, assaulting someone on the highway, graciously allows his victim to keep bus fare home. How can allowing you to keep more of your own money be called a "subsidy?"

Only one assumption. For the hidden assumption of those who want to eliminate deductibility (not only of state and local taxes but of many other expenditures and "loopholes"), is that the government is really the just owner of all of our income and property, and that allowing us to keep any of it, or any more of it than before, constitutes an illegitimate "subsidy." Or, more specifically, that the federal government must collect a certain amount of taxes from its subjects, that this amount is somehow written in stone, and that any person or group paying less than some arbitrarily allotted figure means that someone else will have to pick up his tab. Only then does the idea that a tax cut is equivalent to a subsidy make any sense at all. But this is a curious argument indeed. There is no warrant for the notion that payment of some grand allotted total is so vital that it must override any devotion to the rights of person and property, to the idea that people are entitled to keep the property they have earned.

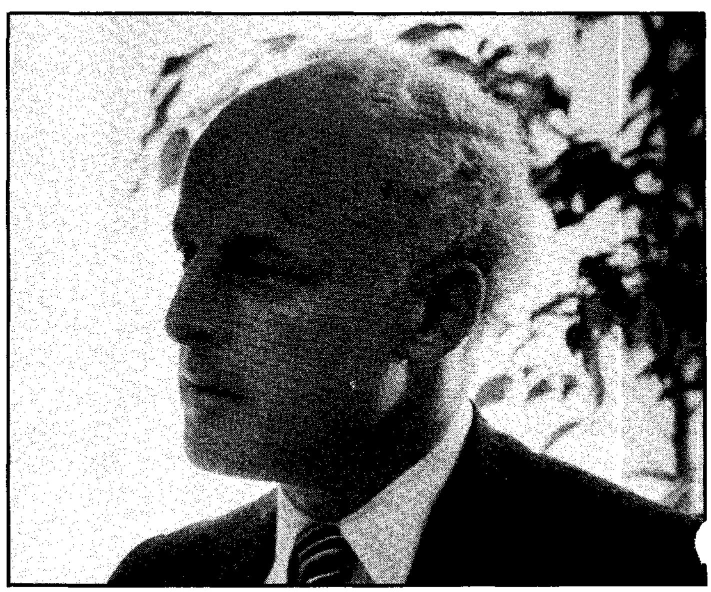
The recent emphasis on tax allocation, on concentrating on "fair shares" or alleged "subsidies," has been a clever and largely successful device to divert people's attention from the real problem: that taxes are burdensome and oppressive for everyone. The agitation for tax "reform" has managed to deflect people's attention from the need to lower everyone's taxes to a great crusade to try to make sure that the other guy pays his "fair share" and is not being "subsidized." In that way, the long suffering citizens are encouraged to fight among themselves, to try to get someone else's taxes increased, instead of maintaining taxpayer solidarity and keeping their eyes on lowering taxes, period, wherever and however they can. Such a grand taxpayers' coalition can only be maintained if there is a tacit agreement that, regardless of whose taxes are cut and by how much, no person or group will have to suffer an increase of taxes, and this means all coerced payments to government, whether they be called taxes, fees, revenues, contributions, or "closing of loopholes." ■

Dr. Rothbard is vice president for academic affairs of the Mises Institute.

Publication of the Month

"Austrian Economics: A Study Guide" was prepared by the staff of the Ludwig von Mises Institute to enable college students and others to undertake a systematic study of the subject.

This step-by-step bibliographic guide is available for $2.50 (including postage and handling). If you would like a copy, for yourself or as a gift to an interested student, just write "Study" in the upper-right-hand corner of the enclosed form, and return it with check for $2.50 plus any tax-deductible contribution for the Institute's work. (Full-time students may receive a copy at no charge if they request it.) ■



Mr. Lewis E. Lehrman discussed "The Moral Case for the Gold Standard" at a recent Institute seminar in Washington, D.C.

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but by treating people as inanimate objects to be manipulated, it gave would-be social engineers the perfect intellectual framework and justification for their destructive activities.

Despite all the early opposition, Mises, during this time, saw a quickening of interest in his ideas, although it was only a temporary spring. When other economists were proclaiming the new age of perpetual prosperity in the 1920s, Mises was the only one to predict the Great Depression. In the early 1930s, many important economists became Misesians, but after the publication of John Maynard Keynes' *General Theory* swept the academic world, Mises' followers—with the shining exception of F.A. Hayek—became Keynesians.

Undaunted, and in exile in Geneva from fascist Austria, Mises next set about to reconstruct the whole of economics upon the individualist foundation he had built. He did it in his monumental *Nationalokonomie*, published in 1940 and instantly forgotten in the turmoil of World War II. It was this work, later expanded and translated into English as the 900-page *Human Action*, that was his crowning achievement.

In Geneva came another milestone in Mises' life; he married the beautiful Margit Sereny—after warning her that while he would write much about money, he would ever have much of it—and in 1940 they immigrated to the United States.

At a time when every left-wing professor was given a high academic post in the United States, Mises was refused any job—a permanent blot on American universities. Finally, with the help of Henry Hazlitt and Lawrence Fertig, Mises secured a visiting professorship at New York University's Graduate School of Business. His salary was paid by business people and foundations, and he was never a regular member of the faculty.

Treated as a second-class citizen by the university, whose business school dean lobbied good students not to take his classes (which were relegated to the basement and scheduled at inconvenient times), Mises was neither bitter nor resentful. With gentle brilliance, he carried on the fight for Austrian economics and freedom. "We well knew," wrote Professor Rothbard, "that in the very aura and person of Ludwig von Mises that we were seeing an embodiment of the Old Vienna of a far nobler and more charming day. Those of us privileged to attend his seminar at NYU could well understand how Mises was a great teacher as well as a great economist."

When he retired in 1969, a spry 87, Ludwig von Mises was the oldest active professor in the United States. He could look back on a lifetime of teaching and writing—25 books and more than 250 scholarly articles—and of incredible achievements for liberty. His students Wilhelm Roepke and Ludwig Erhard had turned West Germany towards freedom and the resulting "economic miracle." In Italy, Mises' student Luigi Einaudi had, as president, led the successful fight against postwar Communism. In France, his student Jacques Rueff—as economic advisor to General DeGaulle—led the fight for the gold standard and pushed back many statist economic controls. In the United States, Mises produced—despite his circumstances—such students as Murray N. Rothbard, Hans F. Sennholz, and Israel Kirzner.

Sadly, he did not live to see the renaissance of interest in his work, which began with F.A. Hayek's Nobel prize in 1974, granted for the Mises-Hayek theory of the business cycle.

Since Mises' death, the center of this new interest has been his widow. She has been, in Murray Rothbard's words, "a one-woman Mises industry," supervising the reprinting, translation, and new editions of his works, and chairing the Ludwig von Mises Institute. She has also written her own moving memoirs, *My Years With Ludwig von Mises*.

Socialism and its variants still control most of the world, but, notes Dr. Rothbard, "everywhere, in all spheres of thought and action, the modern statism that Ludwig von Mises combatted all his life, is coming under a swelling drumfire of criticism and disillusion." This resurrection of the spirit of freedom—and our work to encourage it—is the only appropriate monument to the life and thought of a great and noble man. ■

This article is reprinted from the November 1985 issue of *Conservative Digest*. The author expresses his gratitude to the great Misesian economist Professor Murray N. Rothbard, vice president for academic affairs of the Ludwig von Mises Institute, upon whose work this article is—with his gracious permission—based.

Maybury . . . continued from page 1
"Thanksgiving" was not so much a celebration as it was the last meal of condemned men.

But in subsequent years something changes. The harvest of 1623 was different. Suddenly, "instead of famine now God gave them plenty," Bradford wrote, "and the face of things was changed, to the rejoicing of the hearts of many, for which they blessed God." Thereafter, he wrote, "any general want or famine hath not been amongst them since to this day." In fact, in 1624, so much food was produced that the colonists were able to begin *exporting* corn.

What happened? After the poor harvest of 1622, writes Bradford, "they began to think how they might raise as much corn as they could, and obtain a better crop." They began to question their form of economic organization.

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This had required that "all profits & benefits that are got by trade, traffic, trucking, working, fishing, or any other means" were to be placed in the common stock of the colony, and that, "all such persons as are of this colony, are to have their meat, drink, apparel, and all provisions out of the common stock." A person was to put into the common stock all he could, and take only what he needed.

This "from each according to his ability, to each according to his need" was an early form of socialism, and it is why the Pilgrims were starving. Bradford writes that "young men that were most able and fit for labor and service" complained about being forced to "spend their time and strength to work for other men's wives and children." Also, "the strong, or man of parts, had no more in division of victuals and clothes, than he that was weak." So the young and strong refused to work and the total amount of food produced was never adequate.

To rectify this situation, in 1623 Bradford abolished socialism. He gave each household a parcel of land and told them they could keep what they produced, or trade it away as they saw fit. In other words, he replaced socialism with a free market, and that was the end of the famines.

Many early groups of colonists set up socialist states, all with the same terrible results. At Jamestown, established in 1607, out of every shipload of settlers that arrived, less than half would survive their first twelve months in America. Most of the work was being done by only one-fifth of the men, the other four-fifths choosing to be parasites. In the winter of 1609-10, called "The Starving Time," the population fell from five-hundred to sixty.

Then the Jamestown colony was converted to a free market, and the results were every bit as dramatic as those at Plymouth. In 1614 Colony Secretary Ralph Hamor wrote that after the switch there was "plenty of food, which every man by his own industry may easily and doth procure." He said that when the socialist system had prevailed, "we reaped not so much corn from the labors of thirty men as three men have done for themselves now."

Before these free markets were established, the colonists had nothing for which to be thankful. They were in the same situation as Ethiopians are today, and for the same reasons. But after free markets were established, the resulting abundance was so dramatic that annual Thanksgiving celebrations became common throughout the colonies, and in 1863 Thanksgiving became a national holiday.

Thus, the real meaning of Thanksgiving, deleted from the official story, is: Socialism does not work; the one and only source of abundance is free markets, and we thank God we live in a country where we can have them. ■

Mr. Maybury is a noted investment writer.

Mises and Gorbachev: Why Socialism Still Doesn't Work

by Tom Bethell

Last summer, the following headline appeared over a page-one story by Dusko Doder in *The Washington Post*:

Gorbachev's Vigor
Raises Expectations

New Soviet Leader
Focuses on Economy

Mr. Doder proceeded to inform us that the new Soviet "leader" (what an odd word to use, by the way) had been showing an "almost breathtaking determination to make changes in the Soviet economy."

Two weeks later Serge Schmemann of the *New York Times* wrote of "the depth of excitement and hope that Mr. Gorbachev seems to have tapped across the land in his first 100 days in office."

Since Gorbachev's accession, there have been many similar stories, conveying a ventriloquized media enthusiasm for the new "leader." There can be no doubt that, in the opinion of many U.S. journalists, the socialist economic system of state-controlled resources and central command has not worked well lately in the Soviet Union because the men in charge have been elderly and incompetent. In other words, there is nothing wrong with the system itself—provided it is managed by a skillful, vigorous elite.

Robert Kaiser of *The Washington Post* put it this way in an article headlined "Now Russia Will Change." Gorbachev, he said, is a "new kind of Soviet man." He is "young, well-educated, vital, relaxed and by all outward appearances self confident." True, Kaiser conceded, there were problems in the economy—"corruption," for example, and "inefficiency." Also an "entrenched bureaucracy." But all this would no doubt soon change with the vigorous Mr. G at the helm.

Well, Mr. Kaiser (who was the *Post*'s correspondent in Moscow in the early 1970s) is in for a big disappointment. And so are the poor, long-suffering Russian people. Nothing is likely to change, although it is possible that Gorbachev will make things worse.

The great difficulty for Mr. Gorbachev is this: socialist economies all have a serious defect which cannot be resolved by vigor or good intentions. This defect was spelled out by Ludwig von Mises as long ago as 1920—before the evidence of socialist failure was available. His analysis amounted to a prediction that has been verified.

The problem is this: It is one thing for central planners to draw up a plan of production. It is quite another thing to carry it out. Here we encounter the famous "problem of economic calculation" formulated by Mises. How can you (the planner) know what should be produced, before you know what people want: And people cannot know what they want unless they first know the price of things. But prices themselves can only be established when people are permitted to own things and to exchange them among themselves. But people do not have these rights in centrally planned economies.

The planners can, of course, decide beforehand what goods are to be manufactured, whether or not the people really want them. But as Trygve Hoff points out in his book *Economic Calculation in the Socialist Society*, only the most primitive planning can proceed in this way. In real life the planners and their subordinate factory managers bump up against the central fact of economic life—scarcity. There is not enough of everything to go around. One is tempted to say that there is not enough of anything to go around—if it is both desirable and free. (Air seems to be the only exception.)

It is worth noting that when, in the 1920s and 1930s economists tried to rebut Mises, some of them went so far as to challenge the assumption of scarcity, suggesting that it was a chimera stage-managed by nefarious monopolists. But if we assume that scarcity is a reality, as we must, then we are forced to conclude that goods must be priced. And yet the central planners do not know how to price them in the absence of markets.

Prices depend for their formation on the real possibility of personal profit or loss. Try to imagine a serious game of poker played with Monopoly money. All psychological incentive is removed by the knowledge that at the end of the evening, no one playing is really going to lose or gain anything.

In *The Foundations of Morality*, Henry Hazlitt made one of the clearest statements of the problem of socialist pricing:

> If I am a government commissar selling something I don't really own, and you are another government commissar buying it with money that isn't really yours, then neither of us really cares what the price is. When, as in a socialist or communist country, the heads of mines and factories, or stores and collective farms, are mere salaried government bureaucrats, and sell their finished products to still other bureaucrats, the so-called prices at which they buy and sell are mere bookkeeping fictions. Such bureaucrats are merely playing an artificial game called "free market." They cannot make a socialist system work like a free-market system merely by imitating prices while ignoring private property.

The Polish economist Oskar Lange tried to save the day for the socialists by claiming that prices could be established by trial and error: set prices at a given level and then move it up or down depending on whether it yields a shortage or a surplus. But here the socialists run into their second great difficulty—the transmission of information to the central planning authority. How do the central planners know where things are in shortage and where they are in surplus? (This problem was first elucidated by F.A. Hayek.) The point is that it is difficult and expensive to move information to a central point.

Alternatively, one could say that only a comparatively small amount of information can be crammed into a central point. Here we may think of another analogy. How do you get a message onto President Reagan's desk? Obviously you can't just call him up, and if you write, your message will compete with the thousands of letters that arrive each day. A lot of money is spent in Washington trying to solve this problem. The same problem exists for Soviet commissars trying to get the attention of the people in Moscow who have decision-making authority.

In response to these various difficulties there are, I believe, three options open to the planning authority (over which Mr. Gorbachev presides). It can turn a blind eye on the various underling officials and managers as they make transactions and exchanges among themselves without getting permission from Moscow. This option—de facto decentralization—is labelled "corruption," however, and it is very unpopular with those who think that socialism should be made to work according to the prescriptions of Lenin. Leonid Brezhnev evidently used the "blind-eye" method. But with Yuri Andropov there was a crackdown. Various officials were shot to discourage the others.

"Crackdown" is in fact the second option, and the one preferred by reformers everywhere, including, of course, American liberals. Gorbachev is Andropov's protege and he may well try to go this route. Apparently he already tried it in agriculture, over which he earlier presided. Grain production declined from 237 million tons in 1978 to 170 million tons in 1984. (Such declines are normally attributed to "bad weather.") Nonetheless Gorbachev was promoted, and he may well now attempt a more general crackdown. If he does, he would provoke a more general decline in Soviet production.

The third option is for Gorbachev to attempt to decentralize the system—i.e. to legalize many of the actions previously labeled corrupt. This in effect is a movement away from socialism. It would be the best thing Gorbachev could attempt, but here he will run up against the "entrenched bureaucracy" that Robert Kaiser alluded to. Decentralizing the Soviet economy depends on issuing orders that are the functional equivalent of telling captains that they no longer need to obey majors, and corporals that they are on a par with sergeants.

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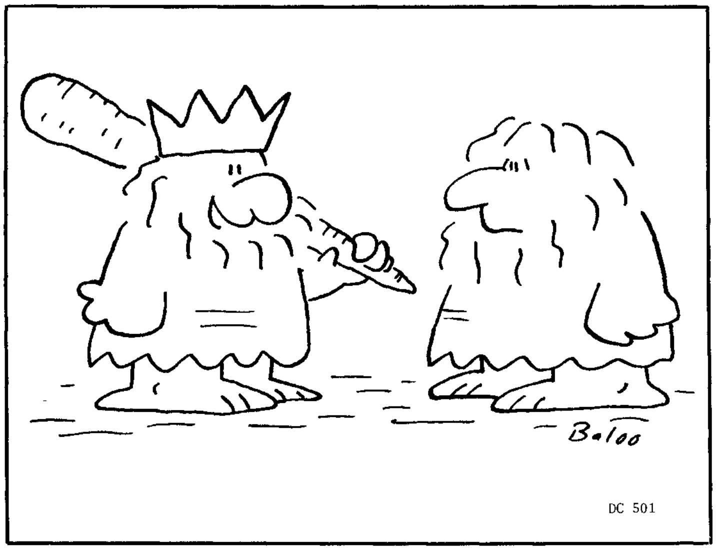
Hertz . . . continued from page 1

"We are honored to be entrusted with this collection by Mrs. Hertz," said Institute President Lew Rockwell, "and we will make sure that it is put to the kind of intensive use Ron Hertz would have wanted.

"The Institute is also establishing the Ronald S. Hertz Prize to be awarded each year to a person who has brought Austrian insights to the study of accounting, finance, and business management." ■



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The point is that it is very difficult to get such unpopular orders to pass down the chain of command. Colonels will always find ways of obstructing commands that have the effects of denying their own authority. (In the reverse direction, the Soviet economy suffers from an equally serious problem: just as unpopular orders won't travel downhill, so unpopular information won't travel uphill. Reports of unfulfilled plans and quotas tend to be ameliorated as they move closer to the center.)

Of the various problems associated with the Soviet economy (and all socialist economies) the "entrenched bureaucracy" is the one that U.S. journalists are beginning to appreciate and describe. For example in late May David Ignatius wrote in the *Wall Street Journal*:

> It may prove impossible to both increase the independence of individual Soviet enterprises and retain full central control of the economy. Says Arnold Horelick, the director of the Rand-UCLA Center for the Study of Soviet International Behaviour: "I would describe Gorbachev's reforms as trying to have his cake and eat it, too."

Maybe China will prove me wrong. I hope so. But at present the evidence suggests that Communism cannot be reformed from within. My guess is that of the three options listed here, the "Brezhnev-blind-eye" is the only one that is remotely workable—not that it produces brilliant results—and Mr. Gorbachev will almost certainly resort to it if he stays in his office for any length of time. ■

Mr. Bethell is Washington editor of the *American Spectator*.

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