The Free Market

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The Misesian Revolution In Poland

by Lawrence W. Reed

I've lectured about "The Origin, Nature, and History of Money from an Austrian Perspective" in the United States a couple dozen times. But until it actually happened last November, I never expected to do it in socialist Poland.

I spent a week there, living with and interviewing activists in the Polish underground. I entered and exited the country legally, but my itinerary and escorts were provided by a new opposition group called the Freedom and Peace Movement.

During the trip, the government learned what I was doing and customs agents at the Warsaw airport delayed my departure flight for two hours, strip-searching and interrogating me, and confiscating all my tapes and film. But they could not steal my memories about the Misesian excitement percolating through the vast Polish underground.

The 50 or so students who gathered quietly to hear my first lecture on money listened intently. Then they asked questions which indicated a sophistication far beyond anything I had expected. And their devotion to the free market was intense and scholarly. "How do you know so much about laissez-faire economics?" I asked.

An economics major at Jagiellonian University in Cracow, responded, "Thanks to our underground press, we probably know more than American students." As the week went by, I came to appreciate just how true that was. The burgeoning interest in Austrian economics is, as a professor at the University of Warsaw noted, "the most important recent development" among students of economics. He privately recommends the works of Mises, Hayek, and Rothbard to his students, who then acquire copies on the black (i.e., free) market.

Underground publishing houses in Poland produce hundreds of books and magazines a year, often in editions of more than 10,000. Attending a secret dinner party one evening hosted by several underground printer-entrepreneurs, I was astonished to hear their plans to ultimately publish and distribute every work of Mises'. "Anything Austrian or libertarian immediately becomes a bestseller," said one.

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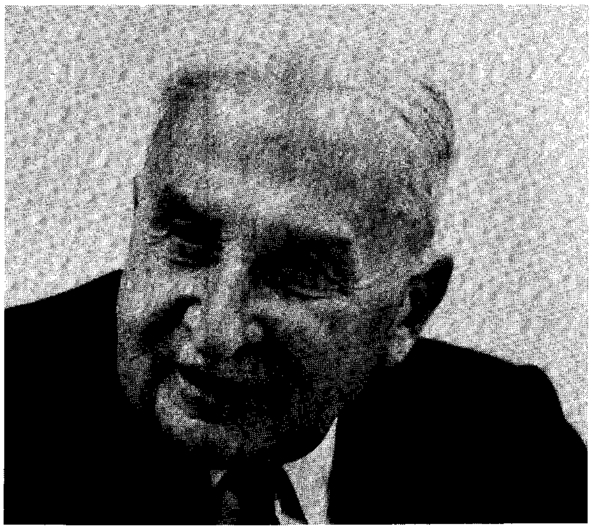

Ludwig von Mises

The Austrian Entrepreneur: An Interview with Robert T. Dofflemyer

Robert T. Dofflemyer, a member of the Institute's Entrepreneurs Council, is a successful farmer and strong advocate of the free market. A native Californian, he received his BA in economics from Stanford University. His interviewer is Jeffrey A. Tucker, a Mises Institute Fellow at George Mason University.

Q: Did Stanford have a free-market department when you were there?

A: Pretty much. But like all economics departments at the time, it was beginning to switch over to Keynesian economics, so I had to read the *General Theory*. But I couldn't make heads or tails of it. This is one problem I have with the economics of Keynes: it doesn't make any sense.

Q: What did you do after college?

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From the President

Sound Money: Gold or Denationalized?

by Llewellyn H. Rockwell, Jr.

Hard-money advocates in American politics, from Thomas Jefferson to Ron Paul, have always favored a specie standard: that is, the dollar defined as a weight of precious metal.

In Austrian economics, the tradition has been the same. Carl Menger and Eugen von Bohm-Bawerk advocated a gold standard as politicians and as professors. (They were both cabinet ministers as well as scholars.) Ludwig von Mises, the greatest exponent of the Austrian school, was the first fully to apply Austrian theory to money. He too advocated a gold standard as well as the abolition of central banking and the establishment of 100%-reserve, non-inflationary free banking.

Building on Menger, Mises showed—in his famous regression theorem—that money *must* originate on the market as a useful commodity. The most liquid (i.e., the most readily acceptable) commodity becomes money. From the dawn of civilization, this has been gold, with silver playing a useful subsidiary role.

But, like many other truths, this idea is unpopular in mainstream economics, where fiat paper money, central banking, commercial bank privilege, and inflation are considered scientific. In response to this, there is growing popularity for a monetary theory that threatens neither the academic nor the banking establishment.

That theory (and the resulting policy prescriptions) has four parts: 1) Forget gold. Keynes called it a "barbarous relic," and so it is; 2) Ignore the Federal Reserve. It can be circumvented, and besides, it may even be a "market institution" (huh?); 3) Criticize legal-tender laws as the central problem; 4) Encourage banks, after #3, to issue their own unbacked paper money, which would then outcompete the Fed's dollars.

Point one is answered by theory and history, as shown by Mises. Point two: the Federal Reserve was created and is sustained by the government's police power. It is perhaps the most anti-market institution in America, as well as the Politburo of our monetary enemy. Its predecessor was called the "Monster" by Andrew Jackson, and that is still a good name for this unconstitutional giant of State control and banking privilege.

Point three is irrelevant and a policy dead-end. Legal-tender laws, which require us to accept Federal Reserve Notes, are unconstitutional restraints on our freedom and should be repealed. But as Murray N. Rothbard has shown, this is not enough to allow private, non-dollar competitors to succeed. Mises' regression theorem proves that people, having used the dollar for two centuries, will not switch to Chase Manhattan "Rockies" (or whatever the banks' currencies would be called). Even at the height of the great German or Chinese inflations, with monetary depreciation in thousands of percent, people still clung to marks and yen.

These currencies, like the dollar, the pound, and the franc, originated on the market as useful commodities, and were then nationalized by government. Only monies that originate on the market as useful commodities can win acceptance. That's why #4 is, as Professor Rothbard points out, an entrepreneurial scheme masquerading as theory, although he is happy to allow the market to decide its fate.

Only the denationalization of the *dollar*, not money generically, will end the tyranny of inflation and the business cycle, and of the transfers of wealth from the working and middle classes to the government-connected rich that go with them.

That means fixing the dollar permanently as a weight of gold: probably about 1/2,000th of an ounce, which would back the entire money supply with the gold held by the U.S. government, and the U.S. gold held by the International Monetary Fund. This gold would then be disgorged to the American people in return for their notes and deposits. Just as important, the central bank would be abolished, and banks required to adhere to the same standards of non-fraudulent behavior as other businesses. They would get no government license to inflate.

This is a very long-run cause, of course, and it is criticized as unrealistic by the would-be mainstreamers. But it is their strategy that is actually impractical.

Great change must originate in the world of ideas. But we will never bring about a monetary revolution without mobilizing the people. And great popular movements cannot be built on repealing legal tender. Gold and anti-central banking, as our own history shows, *are* mobilizing issues. They also have the not-inconsiderable virtue of being true.

When we do establish sound money, and gold coins circulate, Morgan Guaranty will be free to print up its irredeemable "Trilats." Just don't ask me to accept them. ■

Reed . . . continued from page 1.

Already, students are reading Mises' *Socialism* and *Theory of Money and Credit*. A professor who attended one of my lectures quoted from Rothbard's *The Mystery of Banking*. The same professor has written a popular underground book advocating that Poles who care about political liberty first work for laissez-faire economics. ⟶

Dofflemyer . . . continued from page 1.

A: Six months after I graduated we were in a war. I couldn't get into any branch of the military because my eyes were so bad, but they finally put me into "limited service" which meant no combat. Later they took about 120 of us with eye trouble into a big room and said: "Men, we're going to have a new eye examination. You have to read the third line. I'll be back in five minutes." That was the first time I ever saw the military use some ingenuity. They usually go strictly by the rules. Somebody on the base was pretty smart.

Later when I applied for officer training school, the man at the desk told me I couldn't get in because I was "limited service." I told him, "look at the application, I had a new eye examination." He said, "Why, you're right," and let me apply. I spent the rest of the war in Field Artillery.

Q: What did you do after the war?

A: Dad wrote to tell me he could use me at home with the grape harvest. He also wrote a letter to my colonel, and I was out a week later. I've been here in California ever since.

Q: What do you farm?

A: Just like my Dad—grapes and citrus and beef cattle.

Q: It's been pretty tough for farmers lately. How's business been for you?

A: The cattle business has been bad for a number of years because of the bad publicity beef's been getting and because land costs are so high. Grapes haven't been much better. The orange business has been okay, mainly because of the freeze in Florida, although more than 50% of the juice oranges come from Brazil. We have to compete on a global scale.

Q: We hear many complaints about that, especially from the politicians.

A: Americans are not the only ones with the right to make a living. These people are doing what we did fifty years ago: acquiring capital and producing goods in a cost-efficient way that consumers desire.

Q: Yet you're an orange farmer yourself.

A: Sure, and I believe the same thing about all products I farm. We have to compete. And we can't look to government for answers because the government's already our biggest problem. Washington only distorts the economic picture. Take the tax structure. Encouraging people to come into agriculture through providing write-offs was not sound. This bid the price of land up and distorted prices. It has been reversed somewhat because investors got burned, and the new tax bill makes it even less appetizing.

Q: Why all the recent foreclosures on land?

A: For the same reason as during the Depression. During both World Wars, there were large increases in production. The government wanted more food, more this, more that, and its demand increased prices. Naturally, with the higher prices, farmers made money and more people entered farming. Once overseas markets started production again, we had farmers complaining about imports.

Q: That's where we got tariff legislation like Smoot-Hawley in the 1930s.

A: And that's what they're advocating now in Washington. But protectionism can only hurt everybody, because it cuts down on trade. We would have recovered from the Depression much sooner if that bill hadn't been passed. Economists since that time are fairly unanimous about the importance of free trade, but politicians never listen.

Q: Are most of the troubled farmers heavily in debt?

A: I think that's true for the most part, but not as much for people my age. My father stayed out of debt and so do I. It's the best, and really the most conservative way to structure a farm.

Q: Will more people leave farming?

A: They won't have any choice. This is what happens when government intervenes in markets. The market eventually corrects itself, but a lot of people are hurt in the process. The only reason there are so many farmers is because of easy credit. The government has encouraged people to get into debt when that's exactly what hurts them the most. Meanwhile the government's other subsidies encourage over-production.

(Continued on page 4)

Simplified 1040

Latest Revision for:

1040 Federal Income Tax Form **1986**

Department of the Internal Revenue Service RETURN

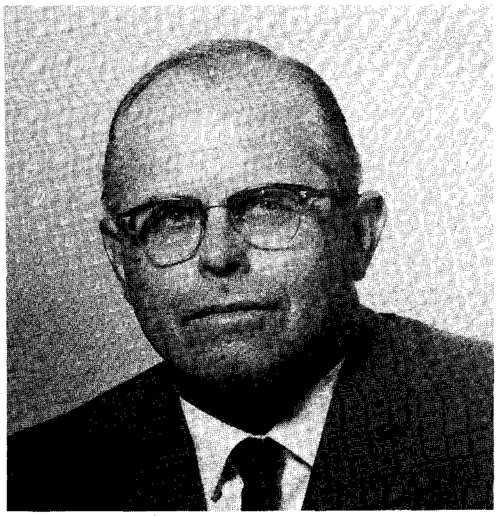
Part 1: Income

Your Social Security Number

1. How much money did you make last year? . . . . ▶

2. Send it in . . . . ▶

3. If you have any questions or comments, please write them in the box provided . . ▶ ☐



Robert T. Dofflemyer

Dofflemyer . . . continued from page 5.

Q: Government is always trying to find the "right" price.

A: Yes, but the government cannot know what the "right" price is. Only the market knows that. But they keep right on trying; it's one reason they can't balance the budget.

In the fruit market, for example, we don't have a subsidy. We have limits on how much we can ship at a time. They hope to avoid price swings within and between seasons by regulating shipments. This raises the price, by restricting supply, to such heights that it encourages people to produce more, which makes the problem worse. And on and on it goes.

Q: The government's been doing such things for quite awhile now.

A: That's right. During the Depression they slaughtered hogs. Now they have a program to kill cows. They had a problem with too much milk because they subsidized dairy production. Rather than realize their mistake, they try more schemes to cut production, rather than eliminate or reduce the subsidies.

I am convinced that many of these schemes to keep farmers farming are really bailouts to the banks that have made bad loans. We know that banks encourage people to borrow more than they can pay. They want to stay loaned up. That's part of the problem with Bank of America—bad farm loans plus loans to South American governments, all underwritten by the U.S. government, of course.

The only way to fix the agricultural system is to eliminate the subsidies and let the marginal producers go out of business. That's what's best for the industry in the long run, and for the taxpayer.

Q: How many people realize the role of the Federal Reserve's money and credit creation in agricultural and other problems?

A: People just don't understand how it works. Unfortunately that's true of our elected representatives too. Partly this is because it's very difficult to understand. But that's the way the government would like to keep it.

Q: Do you favor a gold standard?

A: It's the only answer. Right now there is no standard. How can there be, when the dollar's value changes so much both domestically and internationally? The dollar will only be a standard of value when it is defined as a weight of gold. Only a gold standard can limit the creation of money.

Q: But people say "More money encourages growth."

A: Newly created money is of no benefit to anyone but the bankers. The money supply has been growing at a rate of 15%. I don't see the economy being "fueled" much. Contrary to what most people think, inflation is not a rise in prices. As Ludwig von Mises said, it is an increase in the money supply which later causes rising prices.

Q: Do you think education is the answer to these problems?

A: What else? This is where the Mises Institute is really on the ball: getting this message of free markets to the universities. Only this will eventually have an effect on policy in Washington. I've seen it happen, so I'm sure this is the best approach.

Q: Are you optimistic for the long run?

A: Yes, I am. We're seeing more and more people following free- market teachings. In the past, we could only get one side of the picture.

Q: But government keeps on growing.

A: Yes, and we elect the people who go to Washington, so I guess we are to blame somewhat. The framers of the Constitution didn't want monarchy or democracy. They wanted a republic. The Senate was to represent the various states and the House was to represent the people. But that was all changed with the direct election of senators. Unlike people today, our forefathers knew history, and they knew what to do and not to do, because they had studied all the various systems.

And they had a bad experience with paper money, the Continental currency, so they wrote gold and silver money into the Constitution. But we ignored that, and now we have a Federal Reserve system and a fiat currency. We've even got a progressive income tax—one of the planks in the Communist Manifesto.

Q: Yet you're still optimistic.

A: As long as there are organizations like the Ludwig von Mises Institute, yes I am. ■

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The young intellectual activists I met, especially those involved in the Freedom and Peace Movement, explain Polish economic problems from a perspective that would gratify Mises. Everything from toilet-paper shortages to industrial pollution is understood as a direct and inevitable consequence of "central planning" and the absence of a "market-price mechanism." The basketcase Polish economy, said one Cracow student, "is a living laboratory of the silliness of socialism."

Under the surface, Poland is seething with anti-government ferment. And the works of Ludwig von Mises and his students are part of the reason—testimony once again to the potency of truth. ■

Professor Lawrence W. Reed, director of the Center for the Study of Market Alternatives, is an Adjunct Scholar of the Mises Institute.

W. H. Hutt Joins Institute as Distinguished Scholar

W. H. Hutt, one of the greatest economists of our time, has joined the Ludwig von Mises Institute as Distinguished Adjunct Scholar.

Professor Hutt is the author of hundreds of scholarly articles and dozens of important books, including *The Theory of Collective Bargaining* (1930), *Economists and the Public* (1936), *Economics of the Colour Bar* (1964), and *A Rehabilitation of Say's Law* (1975).

W.H. Hutt graduated from the London School of Economics; he published his first major academic article in 1926 about the factory system of the 19th century, later reprinted in F.A. Hayek's *Capitalism and the Historians* (available from the Institute for $6.00). He has taught at the University of Cape Town and the University of Virginia. He is now Distinguished Visiting Professor at the University of Dallas.

During the 1930s onslaught of Keynesianism, most economists claimed to believe that government intervention and deficits paved the road to prosperity. Dr. Hutt (with the great Henry Hazlitt, an Institute board member) fought a lonely battle by thoroughly exposing the fallacies of Keynesian economics. He continues as a vigorous and uncompromising defender of liberty and the free market.

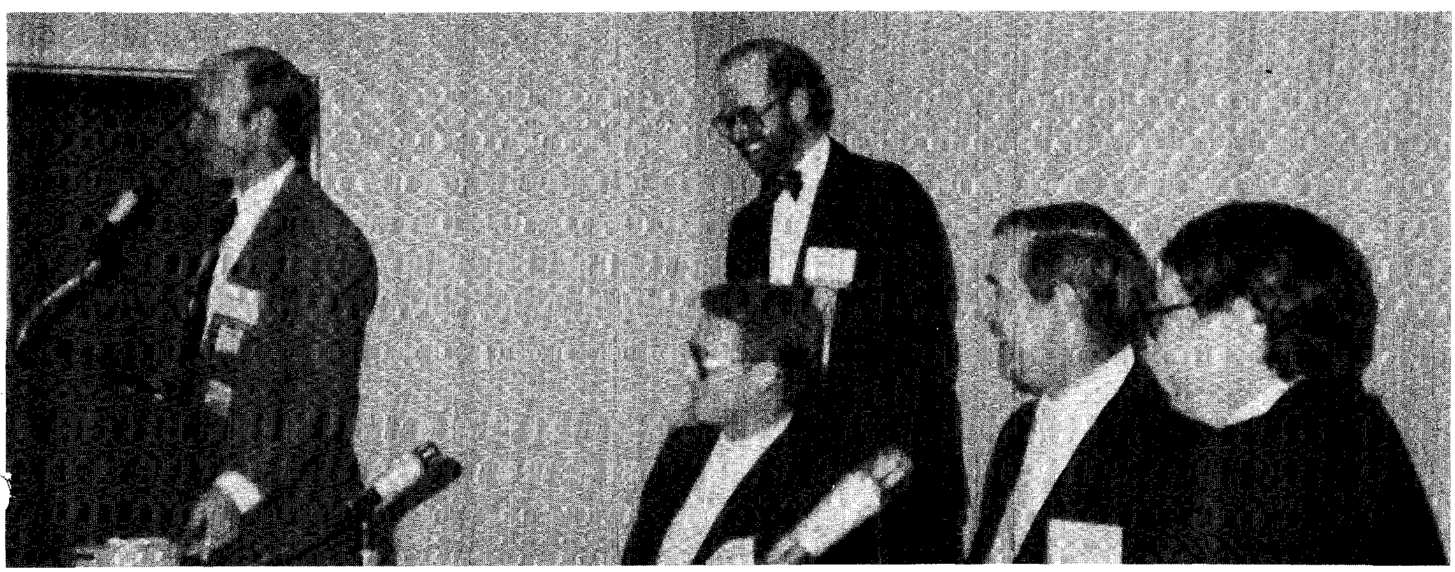
Mises cited Hutt's work often, especially on labor, and the concept of "consumer sovereignty," often used by Mises, was originated by Dr. Hutt in a classic article in the *Economic Journal* in 1934.

The Institute will soon publish a new monograph of Dr. Hutt's entitled *The Impoverishers*. Its subject—not surprisingly—is politicians. We are honored to publish this, and to have him as a member of our academic staff. As Ludwig von Mises said: "Professor Hutt (stands) among the outstanding economists of our age." ■

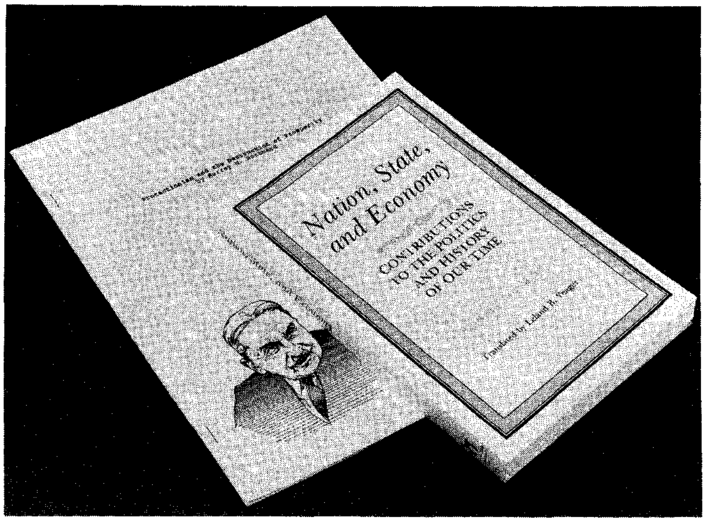
Nation, State . . . continued from page 6.

economy from the state." As first steps, Mises suggested: "full freedom of movement of person and goods, the most comprehensive protection of the property and freedom of each individual, and removal of all state compulsion in the school system."

His advice was not followed in 1919. But because the principles of free markets and liberty are universally applicable, almost seven decades later we still know, as Ludwig von Mises said, that "whoever wishes peace among peoples must fight statism." ■



(l-r) Mark Skousen of *Forecasts and Strategies*; Larry Reed (sitting; see p. 1); Lew Rockwell (standing); Congressman Ron Paul; and Richard Band of *Personal Finance* at a Mises Institute Panel at Jim Blanchard's National Committee For Monetary Reform convention.



Publications of the month

Publications of the Month

The quality paperback of Ludwig von Mises' magnificent *Nation, State, and Economy,* plus Murray N. Rothbard's new *Protectionism and the Destruction of Prosperity* are available for just $10 (including postage and handling) this month only. Just check the *Nation* box on the enclosed form and return it with your check for $10 plus any tax-deductible contribution to help the Institute continue its fight for Misesian economics and liberty.

Mises' *Nation, State, and Economy*

reviewed by Jeffrey A. Tucker

"Economics must not be relegated to classrooms and statistical offices," said Ludwig von Mises. "Economics cannot remain an esoteric branch of knowledge accessible only to small groups of scholars and specialists." Why? Because "economics is the philosophy of human life and action and concerns everybody and everything. It is the pith of civilization and of man's human existence." Economics "is the main and proper study of every citizen."

That's why, said Mises, a good economist tries "to influence public opinion in order to make sound policies prevail in the conduct of civic affairs." It was in this spirit that Mises wrote *Nation, State, and Economy* in 1919, one of his lesser-known works only translated into English in 1983 by Mises Professor Leland B. Yeager of Auburn University.

In 1919, the World War had just ended, and Germany and Austria were devastated. Mises applied sound economics and political analysis to explain why the war began, how to repair the damage, and how to avoid war in the future.

"Statist imperialism," said Mises, brought on the World War through the violation of private property and the suspension of free trade. "How very different a position Germany and Austria would be in today if they had not undertaken the fateful return to the protective tariff!" As he continued to argue throughout his life, free trade fosters peace, and protectionism leads to conflict and war.

There is a persistent myth that war stimulates the economy by providing jobs and boosting manufacturing. Mises knew better: "War prosperity is like the prosperity that an earthquake or a plague brings. The earthquake means good business for construction workers, and cholera improves the business of physicians, pharmacists, and undertakers; but no one has for that reason yet sought to celebrate earthquakes and cholera as stimulaters of the productive forces in the general interest."

Not content with analyzing the disease, Mises outlined the cure, not just for Germany and Austria but for the world, not just for 1919, but for all time: "separating the

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Naming the Institute in your Will helps carry on the fight for liberty, the free market, and the gold standard down through the years.

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I bequeath the sum of $ ________ to the Ludwig von Mises Institute for Austrian Economics, Inc., organized and existing under the laws of the District of Columbia.

Or a bequest can be a specific property, a percentage of the estate, or a percentage of the "residue" (the amount remaining after paying all inheritances, debts, and costs).

If you or your attorney would like further information, write or call the Institute's counsel for deferred giving:

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