The Free Market

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Europe's Nationalized Industries

by Steve H. Hanke

Europe's economic decline is the result of its propensity to nationalize private enterprises. In Europe, nationalized enterprises produce everything from pots and pans to cars and trucks. They even run hotel chains. The magnitude of this phenomenon is revealed in the figures for the public sector's share of national investment: from 65% in Austria to 55% in France to 25% in Britain and 20% in West Germany.

The nationalized trend in Europe is so pronounced that it cuts across all political parties, a fact not usually commented on by most journalists. In France, for example, when the socialist government came to power in 1981, it directly nationalized the bulk of the French banks and financial institutions, as well as a good many insurance and commercial companies. But public ownership also increased rapidly in the 1970s when the country was under a conservative government. The single largest expansion of state ownership was the government's gigantic rescue of the two largest French steel companies, Usinor and Sacilor, in 1978.

The method of French nationalizations in the 1970s was to expand and diversify existing publicly owned companies into new product markets and new countries, an approach apparently used by the conservatives because it was the least controversial way to expand public ownership.

The key to understanding the difference between public and private enterprises is property rights, and the fact that property rights arrangements are not neutral. Public ownership leads to an inferior economic performance when compared to private ownership.

Nationalized enterprises, unlike private ones, are politicized. This means that politicians must be consulted and approve all major economic decisions. Governments, therefore, determine pricing, purchasing, plant location and closedown, diversification, incentive systems, executive compensation, product development, and financial policies. Labor relations are also regulated by politicians, and contrary to popular belief, they are much stormier than in private enterprises. Not surprisingly, successful managers

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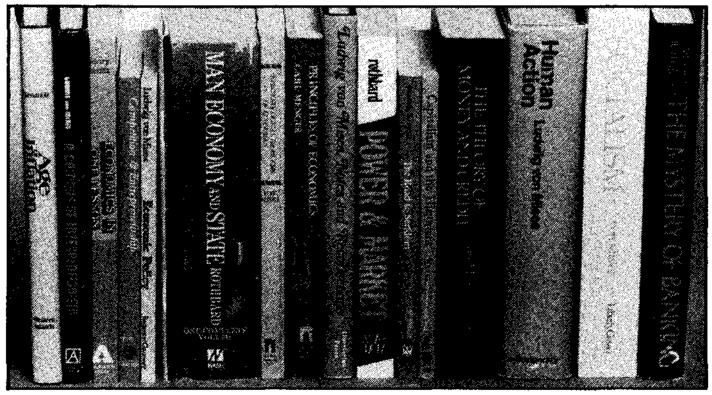

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Senator Steve Symms on Mises and the Public Sector

Peter Grace is "very correct in saying that the government and private business operate similar activities and that this qualifies businessmen to identify the problems of public provision of goods and services.

"But history has shown that businessmen are not particularly good at suggesting solutions for eliminating public sector waste, and I think the reason for that is quite simple-- because most businessmen believe the public bureaucrats will use private sector management techniques if told to do so, and most businessmen believe that the public sector can imitate private enterprise if only the right people were instructing the bureaucrats as to what techniques should be used.

"But this is not possible precisely because the public sector is not privately owned. The public sector--whether a bureau, an agency, a quasi-public authority, a public enterprise, or an entire socialist country--cannot perform at the standards of a freely competitive enterprise.

"The late Ludwig von Mises, leader of the Austrian school of economics, proved this statement theoretically correct in his 1922 book *Socialism*.

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LETTERS

From Houston, Texas

"Your lovely story in the February 1985 *Free Market* tells a glowing history.... I can tell that you love and admire Margit von Mises, (who) has made economic history in our time. Thanks, kudos to you, and more success."

From New Orleans

"(My husband) died in September at 75 of cancer. He was a great admirer of Dr. Mises, and read and reread *Human Action*. His family will continue to contribute to the Institute."

From an economics professor in South Carolina

"I would appreciate receiving the *Austrian Economics Newsletter*. Please inform me of the procedure for putting my students on the list."

From a CPA in Cameroon

"Reaching out to university professors who believe in free-market economics and providing a journal for their publications is an excellent idea. It would also be good if interested professors could make the journal required reading for their classes."

From Santa Cruz, California

"It's about time someone started plugging Mises! I am involved with a youth group at the UC Santa Cruz campus, and would appreciate any help you can give me.... A list of inexpensive paperbacks of Mises' *Socialism*, etc., and especially any small pamphlets introducing the Austrian view would be invaluable."

From New York City

"I have already far exceeded my contribution budget... (and) certainly wish I could contribute a larger sum. However, rather than send zero, I am sending what I can and hope that many folks will respond with generous gifts so that the scholarship goals can be met."

From a research director in Washington, D.C.

"We are often inundated with materials of little use, but I want to assure you that your Institute is a most welcome and necessary asset...in our research facilities."

From Cincinnati, Ohio

"I had the pleasure of attending (Professor) Mises' Seminar in N.Y. and have always been very grateful for it. Please use this contribution as you think best."

From the President

Turgot and Iacocca

by Llewellyn H. Rockwell, Jr.

After we won our War of Independence -- fought partly over English trade restrictions -- the 13 former colonies adopted the Articles of Confederation. Despite later criticism, this pact had much to recommend it, but it did have one incapacitating flaw: the lack of any provision for internal free trade.

As a result, politically powerful merchants succeeded in getting state legislatures to place tariff taxes on competing goods from other states. These were attempts to make buying out-of-state goods seem unpatriotic, and the inevitable results were increasing hostility between the states, and decreasing prosperity.

The nation faced commercial paralysis, and this was one of the major factors leading to the adoption of the Constitution.

The famous interstate commerce clause was designed to outlaw interstate trade restrictions, and although that clause has been perverted by the courts to justify many federal interventions in the economy, we still have open state borders.

There are no customs police patrolling the line between Massachusetts and Connecticut -- as under the Articles of Confederation -- and no one thinks a Virginian disloyal for buying something made in New Hampshire.

We are all much better off, in amity and economics, because of this internal free trade. In fact, it was essential to the growth of American prosperity.

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Dr. Murray N. Rothbard lectures on "Turgot as an Austrain Economist" at Auburn University.

The Politics of Famine

by Murray N. Rothbard

The media focuses primarily on the horrifying shots of starving children, and secondarily on the charges and counter-charges about which governments--the Western or the Ethiopian--are responsible for relief not getting to the starving thousands on time. In the midst of the media blitz, the important and basic questions get lost in the shuffle. For example, why does Nature seem to frown only on socialist countries? If the problem is drought, why do the rains only elude countries that are socialist or heavily statist? Why does the United States never suffer from poor climate?

The root of famine lies not in the gods or in our stars but in the actions of man. Climate is not the reason that Russia before Communism was a heavy exporter of grain, while now the Soviet Union is a grain importer. Nature is not responsible for the fact that, of all the countries of East Africa, the Marxist-Leninist nations of Ethiopia and Mozambique are now the major sufferers from mass famine and starvation. Given causes yield given effects, and it is an ineluctable law of nature and of man that if agriculture is systematically crippled and exploited, food production will collapse, and famine will be the result.

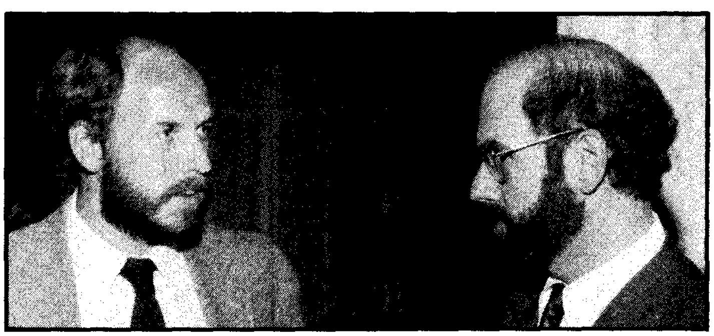
The root of the problem is the Third World, where (a) agriculture is overwhelmingly the most important industry, and (b) the people are not affluent enough, in any crisis, to purchase food from abroad. Hence, to Third World people, agriculture is the most precious activity, and it becomes particularly important that it not be hobbled or discouraged in any way. Yet, wherever there is production, there are also parasitic classes living off the producers. The Third World in our century has been the favorite arena for applied Marxism, for revolutions, coups, or domination by Marxist intellectuals. Whenever such new ruling classes have taken over, and have imposed statist or full socialist rule, the class most looted, exploited, and oppressed have been the major productive class: the farmers or peasantry. Literally tens of millions of the most productive farmers were slaughtered by the Russian and Chinese Communist regimes, and the remainder were forced off their private lands and onto cooperative or state farms, where their productivity plummeted, and food production gravely declined.

And even in those countries where land was not directly nationalized, the new burgeoning State apparatus flourished on the backs of the peasantry, by levying heavy taxes and by forcing the peasants to sell grain to the State at far below market prices. The artificially cheap food was then used to subsidize food supplies for the urban population which formed the major base of support for the new bureaucratic class. The standard paradigm in African and in Asian countries has been as follows: British, French, Portuguese, or whatever imperialism carved out artificial boundaries of what they dubbed "colonies," and established capital cities to administer and rule over the mass of the peasantry. The new class of higher and lower bureaucrats lived off the peasants by taxing them and forcing them to sell their produce artificially cheaply to the State. When the imperial powers pulled out, they turned over these new nations to the tender mercies of Marxist intellectuals, generally trained in London, Paris, or Lisbon, who imposed socialism or far greater statism, thereby aggravating the problem enormously. Furthermore, a vicious spiral was set up, similar to the one that brought the Roman Empire to its knees. The oppressed and exploited peasantry, tired of being looted for the sake of the urban sector, decided to leave the farm and go sign up in the welfare state provided in the capital city. This makes the farmer's lot still worse, and hence more of them leave the farm, despite brutal measures trying to prevent them from leaving. The result of this spiral is famine.

Thus, most African governments force farmers to sell all their crops to the State at only a half or even a third of market value. Ethiopia, as a Marxist-Leninist government, also forced the farmers onto highly inefficient state farms, and tried to keep them working there by brutal oppression.

The answer to famine in Ethiopia or elsewhere is not international food relief. Since relief is invariably under the control of the recipient government, the food generally gets diverted from the farms to line the pockets of government officials and subsidize the already well-fed urban population. The answer to famine is to liberate the peasantry of the Third World from the brutality and the exploitation of the State ruling class. The answer to famine is freedom and private property.

Dr. Rothbard is editor of the Mises Institute's forthcoming *Journal of Austrian Economics*.



John McCallie (left), a Dr. William A. Dunn Fellow of the Mises Institute, and Institute President Lew Rockwell (right).

Steve H. Hanke ...*continued from page 1*
of nationalized enterprises are called "quabs" (quasi-governmental bureaucrats), and not entrepreneurs.

Politicization and public ownership lead to an interesting set of comparisons between nationalized enterprises and similar private ones. Sales per employee are lower for nationalized firms. Adjusted profits per employee are lower. Per dollar of sales, operating expenses plus wages are higher. Sales per dollar investment are lower. Profits per dollar of total assets are lower. Profits per dollar sales are lower. Sales per employee grow at a slower rate. And, with the exception of nationalized oil companies, who often have considerable monopoly power, virtually all nationalized enterprises generate accounting losses.

The incentives associated with private property and competitive markets generate a superior performance because private survival is dependent on producing products whose value exceeds the cost of production. This is not the case with public ownership, where survival is a function of satisfying politicians, not consumers.

As a result of the perverse incentives associated with public ownership, public enterprises produce products whose value is less than their cost of production.

Nationalization and the shift away from the basic values of private ownership of enterprises in Europe are resulting in the economic malaise and decline. And this is leading firms in the U.S., which heretofore concentrated on Europe, to build new trading relationships. U.S. businessmen are beginning to realize that their future lies in part with the dynamic, growing, productive capitalistic economies in the Pacific rim -- for example, Japan, South Korea, Singapore, Hong Kong, Malaysia, and Taiwan.

However, liberal trade with the Pacific rim is constrained, if not threatened, by U.S. government policies that are the consequences of its own nationalized enterprises. Few realize that over 40% of the land area in the U.S. -- an area six times larger than France -- is publicly owned. Vast quantities of the U.S.'s timber, mineral, and energy raw materials are found on these nationalized lands. As a result of the politicization of these lands, laws have been passed that prohibit the export of oil from Alaska and unprocessed logs cut from federally owned lands.

These laws severely restrict our trade with countries in the Pacific rim because these countries have evolved -- to accommodate their comparative advantages -- into economies that import raw materials and process them for domestic consumption and export. For example, Japan experiences trade deficits in all major categories of manufacturing goods. This means that the Pacific rim countries typically want to import raw materials and export finished goods.

To promote liberal trading ties with the Pacific rim countries, the U.S. must move to immediately eliminate the existing, self-imposed embargo on the shipment of Alaskan oil and federal logs to the Pacific rim countries (and eventually to denationalize our federal lands). This will increase the value of these natural resources and the number of jobs in the U.S. Moreover, it will dramatically reduce our trade deficit with Japan.

Although we might dismiss this last point as simply being something that neomercantilists incorrectly worry about, we should not blind ourselves to the political problems created by our trade deficit with Japan. This deficit is, in fact, effectively used to promote interventionist trade policies in the U.S. So, we must count as an indirect benefit from lifting our self-imposed embargo on the sale of Alaskan oil and federal logs the reduction in our trade deficit with Japan and the consequent reduced political demand for interventionist trade policies that will ensue.

The profound ideological changes that have been taking place in Europe and the resulting nationalizations have reduced the possibilities for improved liberal trade ties between Europe and the U.S. Consequently, U.S. businessmen are building new ties with the Pacific rim countries. These ties, however, are threatened by policies stemming from the U.S.'s own nationalized lands. This evolving economic order is a reality that promises to pose a new challenge for the Europeans, one that has yet to be faced by European politicians, and also for Americans, who have yet to fully realize the significant problems that our own nationalized lands pose to an improved liberal trade regime with the Pacific rim countries.

Dr. Hanke, professor of applied economics at the Johns Hopkins University, is an associate editor of the Mises Institute's Journal of Austrian Economics.

Turgot and Iacocca *...continued from page 2*

The relative free trade that exists internationally benefits us all as well. Anti-free trade legislation, such as the high ariffs of the 1930s, devastated world trade and thereby helped deepen and lengthen the Great Depression. They also increased international tensions.

The many retreats on free trade over the past few years have been disheartening, but the recent non-renewal of the "voluntary" import ceilings on Japanese cars was an important improvement.

The great French economist A.R.J. Turgot (1727-1781) was the first to point out that attempts to restrict international trade are based not just on intellectual error, but on the search by some businesses for special privilege.* And that such privileges harm domestic consumers more than foreign competitors.

Free international trade, he noted, follows necessarily from the principle of free exchange. That is, parties benefit from any non-fraudulent economic transaction. An American buying a Chrysler is no different in this sense from an American buying a Toyota. He also noted that it is economically ridiculous to try to sell to foreigners while not buying anything in return.

Each branch of industry in France, he noted, seemed to want free markets for everyone else and controlled markets for itself, resulting in "a war of reciprocal oppression in which government lends its authority to all against all," with everyone losing.

Recently Lee Iacocca, head of Chrysler Corporation, made one of his frequent attacks on free trade before a closed meeting of Democratic Congressmen. His remarks made the news, however, because some of the audience thought his tone was racist. Mr. Iacocca, who might have stepped out of one of Turgot's examples, denounced the non-renewal of the car quotas, and said the U.S. had more to fear from Japanese attacks than Soviet ones.

The restriction on imports has had -- like all government interventions in the economy -- costs and benefits. The majority, who have borne the undeserved costs, are American car buyers (and would-be car buyers). The unearned benefits have accrued to highly paid auto workers and executives.

With an import ceiling artificially decreasing the supply, but demand increasing, Japanese car makers sent more of their most expensive, option-loaded vehicles. And U.S. car makers faced fewer competitive pressures, enabling them to raise their prices.

As a result, U.S. consumers have had fewer inexpensive cars to buy, and the cars that are available -- domestic and foreign -- cost an estimated $800-1400 more per vehicle.

Mr. Iacocca, who succeeded in getting heavy credit subsidies from the federal government for Chrysler, made it possible for average Americans to support $35-an-hour unionized auto workers (and $1,000-an-hour auto company chairmen). And now he's campaigning for American consumers to keep paying through more restrictions on imports.

A.R.J. Turgot came from a free-market family, and his grandfather was a close friend of Thomas La Gendre, one of the most successful merchants of the 17th century. A free market champion at a time when most businessmen sought special favors from the king, his ships were constantly harassed by the royal trade bureaucrats because of his principled stand.

When asked by Jean-Baptiste Colbert, the king's finance minister, what the government should do for business, La Gendre answered *laissez-faire* -- allow people to do as they choose.

Three hundred years later, that is still the proper answer.

I am indebted to Dr. Murray N. Rothbard, who recently spoke on Turgot at the Institute's Austrian Economic Colloquium in Auburn, for this material. His superb presentation was taped, and a cassette is available at the Members' price of $7.25 (which includes postage and handling).

Free Market Education on the Air

Institute President Lew Rockwell has recently appeared on radio or television shows in Houston, Cleveland, Atlanta, Pittsburgh, San Antonio, Austin, Fresno, and Detroit.

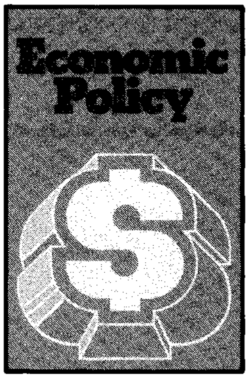
If you want to hear the free-market position expressed on one of your local stations, suggest it to the program director. For more information--or if you wish to have Mr. Rockwell speak to your group or organization--please write or telephone Ms. Mardelle Orr at the Institute's Washington, D.C., office.

The Institute's free-market radio show--*The Mises Report*--is also available at no charge to any interested station. Again, a phone call or letter from a listener to the program director is a powerful recommendation.

Senator Symms *...continued from page 1*

"We also know that this statement is true by observing history. Moreover, we know it's true by reviewing the findings of the Grace Commission. My question is, if business operation is so desirable, why take such a tortuous route? Why not scrap government ownership and turn these public functions over to private enterprise?"

The Hon. Steven D. Symms, U.S. Senator from Idaho, is chairman of the Joint Economic Committee's Monetary and Fiscal Policy Subcommittee, which recently held hearings on the Grace Commission report.



Publication of the Month

We're often asked, "Which book by Ludwig von Mises should I read first?" We always answer *Economic Policy*.

This book of essays, originally delivered as speeches, is intended for the average person and not the academic economist. The speeches were edited and arranged by Margit von Mises, and she has done her usual careful and excellent work.

Economic Policy is the best introduction to the thought of the great champion of liberty after whom the Institute is named. For non-members, the price of the book (plus postage and handling) totals $8.20.

For this month only, the Members price (including postage and handling) of this quality paperback is $6.50.

If you'd like to order this book, please put a large *EP* in the top right-hand corner of the enclosed card and send it with your check, plus any contribution, in the business reply envelope.

"Austrian Economics in One Lesson"

On March 16, 1985, 121 Institute Members, friends, and students gathered for a luncheon program in Anaheim, California, in conjunction with the Howard J. Ruff Financial Success Conference.

Institute President Lew Rockwell introduced the first speaker, Mr. Ruff, the famed investment advisor who is a member of the Institute's Entrepreneurs Council. He spoke on the importance of the Mises Institute to the fight for freedom.

The next speaker was Dr. Murray N. Rothbard, who talked--in response to many requests from Members--on "Ludwig von Mises and Austrian Economics in One Lesson."

Dr. Rothbard covered the major achievements of Austrian economics, and in particular the contributions of Ludwig von Mises on the gold standard, the causes of recessions and depressions, and the reconstruction of economics based on individual human action. He ended with a moving tribute to Mises the man.

Audio cassettes are available at Members' price of $7.25, and his essay on the same subject will be published as an Institute monograph in June.

Special guests at the luncheon--the first Institute program in Southern California--included former Congressman Ron Paul and Professor Hans F. Sennholz, both members of the Institute's Board of Visitors, and investment advisor and publisher Dr. Mark Skousen, an Entrepreneurs Council member who commissioned Dr. Rothbard to write the first history of economic thought from an Austrian perspective. This important book, which covers Aristotle to the present, will be published late in 1985, and will be available through the Institute.

Other special guests included Mr. Robert T. Dofflemyer and Mr. Kenneth Gerbino of the Institute's Entrepreneurs Council, Dr. and Mrs. Walter Marcyan of Canyon Lake, California, Mr. Lawrence A. Scott of Beverly Hills, Mr. Everett L. Hodges of Newport Beach, California, Dr. Erich Stoeger of Focobank, Vienna, Austria, investment manager Marsha Friedman, and Ms. Fran Perry, vice president of Target, Inc.

At the close of the program, Lew Rockwell announced that the Institute was planning a major conference for the Los Angeles area later in 1985.