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Eastern Airlines and the Scourge of Unionism

by Llewellyn H. Rockwell, Jr.

Any business owner whose employees deliberately set out to harass and even endanger customers could do only one thing: fire the offenders, and maybe sue them for damages as well. Nothing else would be compatible with free-enterprise and private property. But thanks to a whole host of government interventions, unionized companies like Eastern Airlines cannot take the actions that morality and economics would dictate.

Eastern has been hobbled by a legacy of bureaucratic management. During the bad old days when airlines were fully regulated by the government, managements were cozily in cahoots with the bureaucrats and union bosses. The resulting featherbedding and other mandated inefficiencies were foisted off on the hapless flyer through higher prices and inferior service, as were the above-market wages extorted by unionized airline employees.

When partial deregulation came along during the Carter

Continued on next page

Inflation Redux

by Murray N. Rothbard

Inflation is back. Or rather, since inflation never really left, inflation is back, with a vengeance. After being driven down by the severe recession of 1981-82 from over 13% in 1980 to 3% in 1983, and even falling to 1% in 1986, consumer prices in the last few years have begun to accelerate upwards. Back up to 4-5% in the last two years, price inflation finally drove its way into public consciousness this January, rising at an annual rate of 7.2%.

Austrians and other hard-money economists have been chided for the last several years: the money supply increased by about 13% in 1985 and 1986; why didn't inflation follow suit? The reason is that, unlike Chicago School monetarists, Austrians are not mechanists. Austrians do not believe in fixed leads and lags. After the money supply is increased, prices do not rise automatically; the resulting inflation depends on human choices and the public's decisions to hold or not to hold money. Such decisions depend on the insight and the expectations of individuals, and there is no way by which such perceptions and choices can be charted by economists in advance.

As people began to spend their money, and the special factors—such as the collapse of OPEC and the more expensive dollar—began to disappear or work through their effects in the economy, inflation has begun to accelerate in response.

The resumption and escalation of inflation in the last few years has inexorably drawn interest rates ever higher in response. The Federal Reserve, ever timorous and fearful about clamping down too tightly on money and precipitating a recession, allowed interest rates to rise only very gradually in reaction to inflation. In addition, Alan Greenspan has been talking a tough line on inflation so as to hold down inflationary expectations and thereby keep down interest yields on long-term bonds. But by insisting on gradualism, the Fed has only managed to prolong the agony for the market,

Continued on page 3

INSIDE

The Case Against NASA 4
Source of the Business Cycle 6
Faustian Economics 7

Eastern Airlines...from page 1

administration, sclerotic Eastern started a long downhill slide. Only the attempts of entrepreneurial chairman Frank Lorenzo to inject some economic rationality into Eastern has had a chance of saving the company from bankruptcy. But his efforts have been hamstrung by politically-favored unions. And now they are attacking Eastern's customers by striking, as well as encouraging their cohorts in the rest of the industry to engage in a work slowdown designed to aggravate customers.

Labor unions, it must be remembered, are not simple associations of workers. They are conspiracies against the public interest. In the past, striking union members have done everything from breaking kneecaps to sending out false air traffic control signals. And when they do so, they are immune from justice.

Through laws and court decisions, the federal government gives these organizations and their bosses a whole range of special-interest privileges. For example, unions are virtually immune from prosecution for assaults and property damage during strikes.

We all have the right to quit our jobs. We also have the right to quit as a group. But we emphatically do *not* have the right to set up harassing picket lines and criminally assault those who choose to work. Yet that is what a strike consists of: the threat and actuality of violence against workers who want to support their families rather than obey union bosses. Thanks to government-granted favors, unions get away with things that would send anyone else to the crowbar motel—and rightly so.

With the Eastern strike, and the attempt to spread it to other forms of transportation, the unions have taken a serious risk. Union power has dwindled in recent years and this could help it along. Tormented consumers must know who to blame for their purgatory, however. But that is not easy, since there is so much disinformation about unions—spread by union propagandists, leftists, and the government itself. Even the standard historical account is an accumulation of myths.

One myth states that unions have played a crucial role in representing U.S. workers. In truth, unions have historically represented only a small fraction. Today, only about 15% of the civilian workforce is unionized. Even at their height in 1955, unions comprised only 25%. And labor economist Morgan Reynolds thinks that union membership could drop in a few years below 10%.

Before 1860, there were virtually no unions in America. After the Civil War, socialists and communists tried to organize workers into unions to overthrow capitalism. But the organizations inevitably declined and disbanded amidst public hostility, thanks to widespread bombings and killings by union organizers.

The founding of the explicitly non-Marxist American Federation of Labor in 1881 gave a temporary boost to the unions, but it was only temporary. Unions still had little influence. But that all changed with World War I. As part of its wartime central planning, the U.S. government pushed unionism as a useful adjunct to cartelized big business.

The government even approved union violence by outlawing "interference" with coercive union activities; forcing companies to rehire violent union members with full back pay; and seizing the assets of companies that refused to go along. The government even created a union: the Loyal Legion of Loggers and Lumbermen.

After the war—over the opposition of government contractors and their unions—the labor market was deregulated, and union membership plummeted.

Contrary to another myth, union membership took another free fall in the Great Depression. It wasn't until the New Deal that union membership began to grow again, with laws that mandated federal fixing of minimum wages, maximum hours, and other working conditions, and bolstered union cartelization by giving them the power to set the terms of employment.

Especially objectionable among the New Deal laws were the Norris-LaGuardia Act, which prohibited injunctions against union violence, and the Wagner Act, which forced employers to "bargain in good faith" with unions, i.e., to submit to their government-backed demands.

Note: as culpable as Franklin Roosevelt was, Herbert Hoover had led the way. As secretary of commerce under

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Harding and Coolidge—Murray N. Rothbard has pointed out—he was an ardent union advocate, boosting collective bargaining and preaching the "humanitarian" goals of the union movement. After the 1929 Crash, as president he used government power to keep wages high for unions—exactly the opposite of what should have happened during a depression, when all other prices were falling.

Unions received yet another boost from World War II, when the government further cartelized the economy. Wages were set by bureaucratic decree and businesses had to obey the central planners in Washington, who invariably favored unions. By the end of the war, union membership had nearly doubled.

After World War I, when the wartime fascism was dismantled, unions fell apart. But this didn't happen in the unfortunately much milder dismantling after World War II, and unions were able to avoid market competition and thus sustain their membership. As always, one of their major tools was violence and the threat of violence.

Eventually, however, a public outcry against these tactics led Congress to pass another major piece of union legislation, this time over Harry Truman's veto: the Taft-Hartley Act of 1947. It was a blow to union power, but rather than repeal existing pro-union laws, it gave the government even more power, especially to intervene in labor disputes and to force employees back to work.

After World War I, when the wartime fascism was dismantled, unions fell apart.

Nevertheless, Taft-Hartley marked a turning point: the federal government was no longer an unalloyed union champion. Eight years later, union membership peaked, and it has fallen ever since. In the absence of new federal interventions, it will continue to do so.

Many people are unaware of this decline, in part because of public-sector unions like the postal workers and the National Education Association, which—observes Constitutional lawyer Edwin Vieira—have "quasi-governmental power" that is "incompatible" with "constitutional liberties." Even here, however, unions represent only 34% of employees.

Another myth is that unions were founded to assist the poor and oppressed. In fact, they have always concentrated on cohesive, high-wage groups that are easy to organize and which are positioned to wreak havoc with strikes and other anti-competitive practices.

Today, as in the past, the purpose of unions is to protect well-to-do workers from wage competition. Typical are the Air Line Pilots Association, where some senior captains make $150,000 to fly less than 11 hours per week. The average annual salary of ALPA members is $85,000 for less than 19 hours of work a week. And no one thinks of Eastern's $52,000 mechanics and $43,000 baggage handlers as the oppressed proletariat—especially when massive overtime caused by deliberate union makework is added on top of these high incomes.

Another myth is that unions raise the standard of living of all workers. In truth, unions do not and cannot raise wages in general. Wages are determined by the productivity of the individual laborer, which in turn is largely determined by the amount of capital invested per worker. Therefore, the best way to raise wages is to increase the productivity of labor, which means creating a freer economy with more capital investment.

Unions can and do raise their own pay, but only at the expense of non-union and marginal workers. This is why unions promote such anti-competitive government interventions as minimum wages, which are designed to throw out of work those whose market worth is less than the minimum. This enriches unions at the expense of the most vulnerable members of society.

Even with their limited numbers, unions enact a dreadful toll on our economy. They stymie competition, thwart the will of consumers, and promote misallocation of resources. Businesses and consumers bear the costs of arcane work rules and other mandated inefficiencies, absenteeism, luddite delays of new technology, and the disruptive violence of strikes.

It is impossible to measure precisely how much damage unions do the U.S. economy. But Morgan Reynolds's "unsubstantiated hunch" is that real income would rise 10% if unions disappeared.

The solution to union violence and inefficiency is simple: cut off the government's tentacles. In this case, repeal the laws which grant the unions privileges and immunities. Justice for private property, consumers, and working people allows nothing less. ■

Inflation Redux...from page 1

and to make sure that interest rates, along with consumer prices, can only increase in the foreseeable future. Most of the nation's economists and financial experts have been, as usual, caught short by the escalating inflation, and can make little sense out of the proceedings. One of the few perceptive responses was that of Donald Ratajczak of Georgia State University. Ratajczak scoffed: "The Fed always follows gradualism, and it never works. And you have to ask after a while, 'Don't they read their own history?'"

Whatever the Fed does, it unerringly makes matters worse. First it pumps in a great deal of new money because, in the depth of recession, prices go up very little in response. Emboldened by this "economic miracle," it pumps more and

Continued on next page

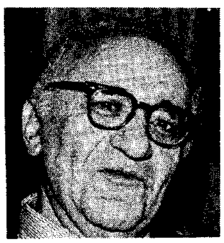
Inflation Redux...from page 3

more new money into the system. Then, when prices finally start accelerating, it tries to prolong the inevitable and thereby only succeeds in delaying market adjustments.

Apart from a few exceptions, moreover, the nation's economists proved to be duds in anticipating the new inflation. In fact, it was only recently that many economists began to opine that the economy had undergone some sort of mysterious "structural change," and that, as a result, severe inflation was no longer possible. No sooner do such views begin to take hold, than the economy moves to belie the grandiose new doctrine.

Ironically, despite the gyrations and interventions of the Fed and other government authorities, recession is inevitable once an inflationary boom has been set into motion, and will occur after the inflationary boom stops or slows down. As investment economist Giulio Martino states: "We've never had a soft landing, where the Fed brought inflation down without a recession."

We can see matters particularly clearly if we rely on the True Money Supply, or M-A [for Austrian], rather than on



Murray N. Rothbard

Recession is inevitable once an inflationary boom has been set into motion.

the various Ms issued by the Fed which are statistical artifacts devoid of real meaning. After increasing rapidly for several years, the money supply remained flat from April to August 1987, long enough to help precipitate the great stock market crash of October. Then, M-A rose by about 2.5% per year, increasing from $1,905 billion in August 1987 to $1,948 billion in July 1988. Since July, however, this modest increase has been reversed, and the money supply remained level until the end of the year, then fell sharply to $1,897 billion by the end of January 1989. From the middle of 1988, then, until the end of January 1989, the total money supply, M-A, fell in absolute terms by no less than an annual rate of 5.2%. The last time M-A fell that sharply was in 1979-80, precipitating the last great recession. If M-A continues to fall, we can surely look to similar results.

This is not an argument for the Fed to expand money again in panic. Quite the contrary. Once an inflationary boom is launched, a recession is not only inevitable but is also the only way of correcting the distortions of the boom and returning the economy to health. The quicker a recession comes the better, and the more it is allowed to perform its corrective work, the sooner full recovery will arrive. ■

The Case Against NASA

by Sheldon L. Richman

One of the most sacred of cows in the federal government is the National Aeronautics and Space Administration. Since it was founded, after the Soviets burst into space with Sputnik and a manned mission, NASA has been the darling of nearly everyone. Criticizing it takes more audacity than criticizing the Brownies. How could anyone deny that it was America's manifest destiny to conquer space?

Some of the sheen came off NASA in 1986 when the space shuttle *Challenger* blew up less than two minutes after it was launched. Suddenly people began to think the previously unthinkable: that NASA was inefficient and perhaps corrupt. For the first time, magazines, newspapers, and television anchormen suggested that it was a government bureaucracy like any other.

The skepticism did not last. Even at its height, the hard-boiled newsmen could hardly contain their grief at the interruption of the space program and their fervent hope for its resumption. When it happened, they did not try to hide their joy. "America was back," they declared on the day the first postcrash shuttle launched.

No one should have expected any real examination of NASA and its underlying premises in the wake of the disaster, because the problem with NASA is only indirectly related to shoddy engineering and rushed launch schedules. The problem goes to the very idea that government should be sponsoring the exploration and industrial development of space. The idea is taken for granted. To even question its validity is, in most circles, to reveal oneself as a boor. But as Will Rogers said, it's not what we don't know that hurts us; it's what we know that ain't so.

Government exploration of space is a bad idea. It is especially unsound economically. To see this, we must unravel the various justifications for the space program. Leaving aside military reasons, there are two broad justifications: national prestige and economic benefits, the spiritual and material.

Unfortunately, people are easily gulled into boondoggles on the grounds of national prestige. Throughout history the greatest waste of lives and treasure has been brought about for the glory of the nation or state. It shows no sign of abating. National glory (*government* glory) is a cheap substitute for freedom and prosperity, exactly the things sacrificed to achieve the junk-jewelry of prestige.

The economics of the state's space program is no better. Yet many people who would reject national prestige as a reason for the program heartily embrace it for the material benefits. Think of the industrial, scientific, and medical potential, they exhort. Think of the benefits we've had so far: digital watches, pocket calculators, *Tang*!

But such appeals ignore economic basics. Before costs are incurred to achieve something, more must be demonstrated than the abstract desirability of the thing in question. To want something is to prefer it to something else. Acting man is always choosing A over B. To make a choice oblivious of the alternative foregone is an absurdity. This is the Austrian concept of subjective opportunity cost.

In some general sense, exploration of space is desirable. But it is not a free good. To get it, someone has to give something up. The key questions are who is the someone, and what is the something. These are precisely the questions that the government would like us to forget with regard to the space program (and everything else it does).

The *who* are the coerced taxpayers, even those who don't give a hoot for space. The *what* is their hard-earned money, which they have no choice but to turn over. The amount is a politically determined matter that bears little relation to what it would be were space exploration left to the free market.

In the marketplace, entrepreneurs must keep their money costs within the constraints set by consumers in their valuation of final products. If a businessman's outlays are greater than he can recoup from customers, he eventually goes out of business. Because of this constant threat, businessmen are driven to minimize outlays through innovation. There is no one way to do anything, so entrepreneurs are always looking for the lowest-cost way of producing their products consistent with the interests of their customers.

The government faces a different constraint. It doesn't go out of business when outlays exceed income (ain't that the truth!). Its constraints are more elastic. They can be expanded (though not infinitely) by the right combination of public relations and political intrigue. Unlike the businessman, the bureaucrat doesn't have to please customers by delivering a concrete product that they will use and reject if they don't like it.

Since the taxpayers pay for the program indirectly and along with the rest of their tax bill, they do not, and perhaps cannot, submit the space program to the kind of consumer test to which they put market products. In other words, most people don't know what the space program costs them individually, and they don't relate the costs to the "benefits."

Because of this, the program is run in a way that would be entirely inappropriate in the market. That is, by definition, it is wasteful. A government program offering such abstract "benefits" constantly faces budget cuts or elimination if it doesn't maintain a high profile and public excitement. The production method that achieves those ends, however, is not necessarily the economically rational method. For example, NASA from the beginning has committed itself to manned space missions. These are more expensive than unmanned missions, and much expert opinion, in and out of the government, believe that manned missions are an unnecessary extravagance.

Why does NASA persist in sending people into space? It's simple and readily acknowledged by NASA people: unmanned missions are boring. No one watches them on television because when you've seen one rocket launched, you've seen them all. If all the launches are unmanned the public will stop caring about space. And when they stop caring, the congressmen on the budget committees will think that NASA's money could be spent on things that taxpayers care more about. So an exclusively unmanned space program threatens the existence of the program.

That's why we have manned missions. But that's not the end of it. The public's attention on any one thing is limited. The more that the manned missions go off without a hitch, the harder it is to keep public attention trained on them. After a few successful space shuttle launches, people lost interest. The program was a victim of its own success.

NASA had to find public-relations methods to regain attention. So NASA heralded a series of "firsts" in space: the first woman, the first black man, the first senator (Jake Garn), and, finally, the first public-school teacher. These firsts had no inherent relationship to the missions. They were cynical tricks designed to get people to tune in.

The same kind of stupidity found in the shuttle program can be found in the $25 billion moon-landing program and will be found in the $30 billion space-station program. The upshot is political management, which—as Mises points out in *Bureaucracy*—is inherently irrational because it has neither the necessity nor means to engage in market-style economic calculation.

Right now we cannot know if space exploration is a good thing because the government won't let us find out.

Instead of seeking a product that people want and producing it at the lowest price, the bureaucratic managers are more interested in building their own power bases. (NASA's budget is up to about $12 billion). Moreover, people in the nominally private sector get a whiff of the gravy train and go to great lengths to hop aboard. Not only do people seek employment with NASA, but diverse interests throughout the economy—in industry, science, and academia—turn their efforts toward getting government grants and contracts, which divert scarce resources from serving consumers to the bureaucratic agenda.

It is likely that exploration of space would benefit society. But whether those benefits are greater than what it would cost to attain them is something that only the free market can determine. To put it another way, right now we cannot know if space exploration is a good thing because the government won't let us find out. ■

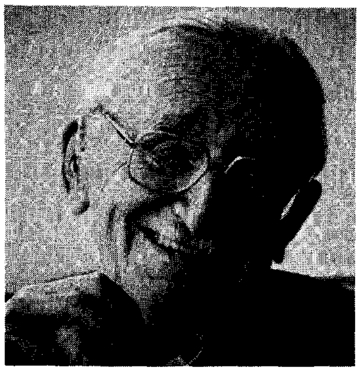
The Source of the Business Cycle

by Jeffrey A. Tucker

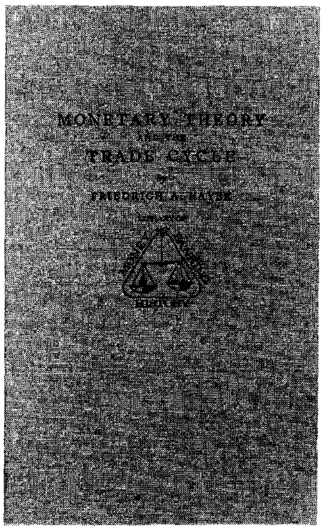
The Federal Reserve may soon find itself, once again, in a cleft stick. Interest rates and inflation are rising, even while conventional wisdom says the economy is sliding into recession. This drastically limits policy options. How will the Fed bring the economy out of recession and tame price inflation at the same time? This is the problem of "stagflation," which most economists found so baffling in the mid-1970s. In fact, the experts don't even agree on the root cause of inflation.

The Austrian school gained early recognition for its business cycle theory, which shows that credit expansion is the *sole* cause of inflation and the boom-bust cycle. And the theory explains as much today as it did in 1912, when Ludwig von Mises wrote the *Theory of Money and Credit*.

All during the 1920s, Mises wrote and lectured on business-cycle theory, and he established the Austrian Institute for Business Cycle Research in Vienna, appointing his student F.A. Hayek as director because, according to an AIBCR secretary, Mises "wanted to help Hayek find the right start in life."



F.A. Hayek, winner of the Nobel Prize in Economics, is a member of the Institute's Board of Advisors.



Book of the Month: F.A. Hayek's Monetary Theory and the Trade Cycle *is available for $28, which includes U. S. postage and handling.*

By the time Mises published his *Monetary Stabilization and Cyclical Policy* in 1928, he had already become, according to Hayek, "the most respected and consistent exponent of the monetary theory of the Trade Cycle" in the German-speaking world. Unfortunately, this book and other early works on monetary theory were inaccessible to English-speaking academics as late as 1978.

Hayek also wrote about the business cycles in 1928. In *Monetary Theory and the Trade Cycle*, he argued that business cycles originate in monetary phenomena, especially central-bank credit expansion. His work won him fame and four years later, Hayek was awarded a post at the London School of Economics.

While at LSE, Hayek developed a cadre of followers, including then-Misesian Lionel Robbins, who later became a famous Keynesian. Robbins arranged the English translation and publication of *Monetary Theory and the Trade Cycle* in 1933. This book, and Hayek's *Prices and Production*, quickly became the leading volumes on the Austrian business cycle theory in the English-speaking world.

In the late 1930s, however, the Keynesian revolution swept away all opposition, as the industrialized world fell further under the control of fascist and socialist ideologies.

The climate changed, however, in 1974 when Hayek won the Nobel Prize for his work on the monetary origins of the business cycle. For a small, largely unrecognized group of Austrian economists, it was an exciting event, and it led to a revival in Austrian thought. A new generation of economists sought out the works of Carl Menger, Eugen von Boehm-Bawerk, F.A. Hayek, and Hayek's great teacher and mentor, Ludwig von Mises.

Hayek's *Monetary Theory and the Trade Cycle* remains a reasoned, readable, and persuasive account that refutes other theories of cyclical economic behavior and presents a coherent, alternative explanation. Non-monetary theories of the business cycle postulate, for example, that it can be explained by psychological factors, by a failure in the level of savings or investment, or by the type or method of production. Unanswered is the question of how the economy suddenly fails to coordinate consumers' preferences with production decisions. If the price system worked properly, Hayek shows, the "structure of production" would allow "intertemporal coordination," that is, the fulfillment of producers' and consumers' plans over time. It is money that makes this possible, so business cycles must have originated as a failure in the monetary system.

Central-bank credit expansion sends incorrect pricing signals to entrepreneurs by artificially lowering the rate of interest. This leads to unwarranted investments, errors which later become evident when the central bank stops expanding credit. The malinvestment created by distorted interest rates then "corrects" and the economy enters a downturn. This is the essence of the business cycle.

Hayek rejects the idea that monetary policy should seek "stable prices," a theory popular in the twenties which has made a comeback in the eighties. He shows that prices can be stable even while credit expansion does unseen damage to the structure of production. Prices were stable all throughout the 1920s, but the damage done led to the Great Depression. "So long as we make use of bank credit as a means of furthering economic development," says Hayek, "we shall have to put up with the resulting trade cycles."

Seven years have passed since the United States has seen a recession. But one is surely on the horizon. And, as Hayek and Mises show, its root cause will have been central-bank credit expansion. The only answer then is to end the distortions caused by central-banking. This goal may be decades away, but a new look at Hayek's *Monetary Theory and the Trade Cycle* can create the right intellectual climate. ■

Faustian Economics

by John V. Denson

One expects to be warned by good economists that inflation must result if the issuance of paper money is not limited by its redeemability in gold. However, it's a pleasant surprise to find such advice in one of the classics of world literature: Johann Wolfgang von Goethe's philosophical poem, *Faust.*

John V. Denson, Murray N. Rothbard, and Institute student Mark Thornton.

During Goethe's long life he achieved an Olympian status not only in literature and poetry, but also in science and government (as well as his much publicized love life!). He also practiced law (although not very successfully) and studied medicine. In 1775, he became an administrator in the small German state of Weimar and later its major official, supervising natural resources, mining, finances, arms, and education. During this time, Goethe abandoned literature, but became very knowledgeable about how government works. Or doesn't work.

Goethe was writing *Faust* during the French Revolution, when the government issued paper assignats allegedly redeemable in real estate rather than gold. He also witnessed the resulting hyperinflation and misery of the French people, which might have been his inspiration for the warning in *Faust* that governments should not issue paper money that cannot be redeemed in gold.

The legend of Faust was well-known to the German people before Goethe began his version. It described the erudition of Faust and his pact with the demon, Mephistopheles, to receive power and pleasure in return for agreeing that his soul would go to Hell after a long, full life on earth.

Goethe's warning about inflation is one of his additions to the myth. It all begins at a meeting of the State Council. Mephistopheles appears as the new court fool and suggests that paper money "backed" by unmined gold will solve all the political problems of the state. The Emperor than signs a proclamation to issue inflationary paper money.

Chancellor: "To all whom it concerns, let it be known:
Who hath this note, a thousand crowns doth own.
As certain pledge thereof shall stand
Vast buried treasure in the Emperor's land.
Provision has been made the ample treasure,
Raised straightway, shall redeem the notes at pleasure."

Emperor: "I sense a crime, a monstrous, cheating lure!
Who dared to gorge the Emperor's signature?
Is still unpunished such a breach of right?"

Treasurer: "Remember, Sire, yourself it was last night
That signed the note. You stood as might Pan,
The Chancellor came and spoke in words that ran:
'A lofty festal joy do for thyself attain:
Thy people's weal—a few strokes of the pen!'
These did you make, then thousand-fold last night
Conjurors multiplied what you did write;
And that straightway the good might come to all,
We stamped at once the series, large and small;
Tens, twenties, thirties, hundreds, all are there.
You can not think how glad the people were.
Behold your city, once half-dead, decaying,
Now full of life and joy, and swarming, playing!
Although your name has blessed the world of yore,
So gladly was it never seen before.
The alphabet is really now redundant;
In this sign each is saved to bliss abundant."

Emperor: "My people take it for good gold, you say?
In camp, in court, sufficient as full pay?
Although amazed, still I must give assent."

Steward: "The flight of notes we could nowise prevent;
Like lightning notes were scattered on the run.
The changers' shops open wide to everyone;
And there all notes are honored, high and low,
With gold and silver—at a discount, though
From there to butcher, baker, tavern hasting,
One-half the world seems thinking but of feasting,
The other in new raiment struts and crows;
The draper cuts the cloth, the tailor sews.
In cellars 'Long live the Emperor!' is the toasting;
There platters clatter, there they're boiling, roasting."

The people are ecstatic with their new found "wealth" of unlimited paper money, which causes a spending frenzy and drastic price increases. As expected, the joy eventually turns to grief and financial destruction of the Emperor's kingdom.

While this work of art became a part of German culture, it did not prevent the massive paper money explosion of 1923. One wonders when this wisdom concerning inflation, paper money, and gold will become a part of the common sense of the common man, rather than the statement of genius in literature or the province of good economists. ■

Nick and Jim Dandy to the Rescue

by Bradley Miller

Could I interest you in buying some of the external debt run up by the Mexican or Philippine government? Could I interest you in buying *anything* from the Mexican or Philippine government? And if not, how in the world am I going to get you to *lend* anything to the Mexican or Philippine government?

Such are the questions confronting Treasury Secretary Nicholas Brady as the Bush administration and creditor banks try to figure out how to collect some half a trillion bucks in outstanding debt from the Third World. And his answer is the inevitable fallback of governments unwilling, for political reasons, to call to account those responsible for messes: stick taxpayers with a sizable chunk of the bill, bank on their ignorance, and realize that if they wake up in the long run, in the long run we're all dead.

Brady wants the World Bank and the International Monetary Fund to "guarantee" repayment in exchange for reduced claims. Many think this is a swell idea. Harvard economist Jeffrey Sachs, for example, a U.N. adviser to Latin American governments, writes in the *New York Times* that "the debt load should fall by half or more." Financing the guarantee of the remaining half of the debt, Sachs says, should come not only from the World Bank and the IMF, but also from "creditor governments."

"Government" means taxpayers. It usually means taxpayers getting stuck to make the world worse by creating a bigger and safer playpen for bankers, bureaucrats, and spendthrift politicians.

Saying the IMF or World Bank will bail out banks—er, "guarantee" their loans—is prettier than saying taxpayers will bail them out. And of course it is *American* taxpayers who are the chief bankrollers of the World Bank and IMF.

True freedom includes the freedom to fail. But "freedom" in today's allegedly free American marketplace means freedom *from* failure—as long as you remember one thing: fail *big*.

If your restaurant goes under, you're a gone goose. If you renege on your $3,000 personal loan, your credit is ruined. But those who run up millions of dollars of debt manage to continue living like sultans as their creditors "carry" them forever, and indeed extend them more loans. I haven't noticed Jim and Tammy Bakker slaving in salt mines or sleeping in tents to pay back their monstrous debts. Perhaps the IMF should define Heritage USA as a Third-World country and impose austerity measures.

If your failure is big enough, the federal government itself—again, read "taxpayers"—will ride to your rescue, as it did for Chrysler and Lockheed, as it is about to do for the savings and loan industry, and as Brady wants it to do for large commercial banks that made reckless loans to the Third World. You'd think this would make it hard for Washington's wizards to keep a straight face when they talk about the American dream and the entrepreneurial spirit.

Compassion for monstrous flops is not, of course, limited to the economic realm. Geopolitics sets the pace in this regard. Kill a gas-station clerk and you'll have the community, led by the mayor and editorial writers, howling to fry you. Commit physical and cultural genocide, as a long line of Third-World leaders have done, and dignitaries will flock to your funeral to gush about your statesmanship.

At least genocides are easier to explain. They tend to be effective in silencing political opposition. But what purpose is served by lending billions to prop up basket-case collectivist regimes, many of which specialize in oppression and anti-capitalism? What purpose is served by *taxpayer guarantees* of such loans?

The purpose is to bail out powerful special interests, i.e. the banks, by thinning the wallets of the ignorant and unorganized and hence powerless, i.e. the taxpayers. What's going on is a shell game designed to shield special interests from competitive risks. Fear of failure is one of the driving forces of vibrant capitalism. The government should no more bail out banks for bad loans than it should bail out restaurants for bad food.

Subsidize failure and you get more failure. Tax wealth-production and you get less wealth. That's why, if you really want to change things, it won't work simply to chant "free-market reform" while you keep the gravy train running, as Brady's predecessor James Baker tried to do (while ladling his own gravy through policies designed to enhance his portfolio of big-bank stocks.)

Too many Third World countries—Mexico is perhaps the most egregious case—have subsidized failure and taxed wealth so much for so long that they no longer have enough wealth left to continue the game on their own. So they turn to Uncle Sam and others almost as gullible.

"It's time [Latin American debtor nations] were introduced to the real world," growled Pat Buchanan. But in the real world, economic outrages lead to political profits, as the Swiss bank accounts of Mexican politicians attest. If the presidents of several free-lending U.S. banks are now on food stamps, I stand corrected. ■

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