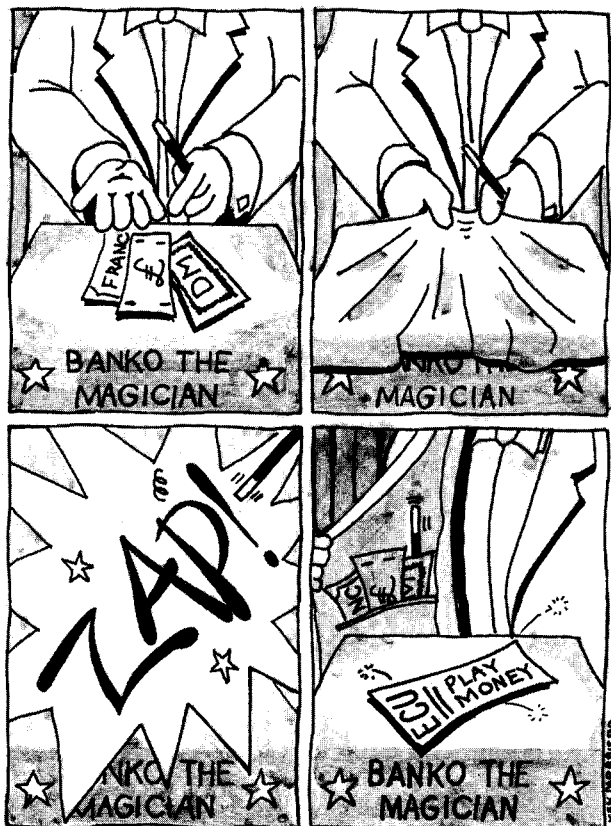


BANKO THE MAGICIAN



The Coming World Central Bank

by Ron Paul

International statisticians have long dreamed of a world currency and a world central bank. Now it looks as if their dream may come true.

European governments have targeted 1992 for abolishing individual European currencies and replacing them with the European Currency Unit, the Ecu. Next they plan to set up a European central bank. The next step is the merger of the Federal Reserve, the European central bank, and the Bank of Japan into one world central bank.

The Ecu is a basket of ten European currencies weighted according to their respective country's economic strength. The German mark gets the highest weight while the Irish pound, the Danish krone, and the Greek drachma get lower. The Ecu doesn't qualify as a working currency yet, but it is already being used by international banks and multinational corporations. And traveler's checks denominated in Ecus are also popular in Europe.

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The Sad Legacy of Ronald Reagan

by Sheldon L. Richman

Ronald Reagan's faithful followers claim he has used his skills as the Great Communicator to reverse the growth of Leviathan and inaugurate a new era of liberty and free markets. Reagan himself said, "It is time to check and reverse the growth of government." In fact, the number of free-market achievements by the administration are so few that they can be counted on one hand—with fingers left over.

Let's look at the record:

Spending

In 1980, Jimmy Carter's last year as president, the federal government spent a whopping 27.9% of "national income" (an obnoxious term for the private wealth produced by the American people). Reagan assaulted the free-spending Carter administration throughout his campaign in 1980. So how did the Reagan administration do? At the end of the first quarter of 1988, federal spending accounted for 28.7% of "national income."

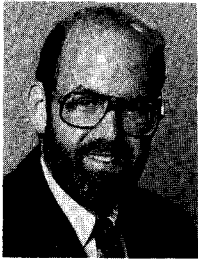
Even Ford and Carter did a better job at "cutting" government. Their combined presidential terms account for an increase of 1.4%—compared with Reagan's 3%—in the government's take of "national income." And in nominal terms, there has been a 60% increase in government spending, thanks mainly to Reagan's requested budgets, which were only marginally smaller than the spending Congress voted.

The budget for the Department of Education, which candidate Reagan promised to abolish along with the Department of Energy, has more than doubled to \$22.7 billion. Social Security spending has risen from \$179 billion in 1981 to \$269 billion in 1986. The price of farm programs went from \$21.4 billion in 1981 to \$51.4 billion in 1987, a 140% increase. And this doesn't count the recently signed \$4 billion "drought-relief" measure. Medicare spending in 1981

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From the President

by Llewellyn H. Rockwell, Jr.

Seeing Through the Big-Government Smokescreen

In countries with openly tyrannical governments, we expect lies. From government newspapers, government officials, and every other aspect of the state propaganda apparatus, we assume deception.

Unfortunately, the U.S. government does not operate much differently, even if the means are subtler.

With an interventionist state like ours, dedicated to extracting our money for itself and favored interest groups, whose officials revel in dominating others, no one will admit openly what he is about. The talk will be of the public interest, the common good, the national security. But the real issues will always be cash and control.

Ludwig von Mises always distinguished between the two methods of acquiring wealth: the voluntary way of the free market and the coercive means of the state.

Even in the early 19th century, John C. Calhoun described the U.S. as divided between the "tax payers and tax eaters." And today, we can use that same analysis. Mises called the battle between these two artificially created groups a "caste conflict," in contradistinction to Karl Marx's class conflict.

There can be no natural class conflict in society, since the free market harmonizes all economic interests. But in an interventionist system, there must be a struggle between the caste that lives off the government and the rest of us.

To keep us from struggling too much, the government—from our earliest days—trains us to be good little citizens: to salute and say "Yes, sir!" when ordered to pay redistributionist taxes, instructed how to run our businesses, or told how to run our personal lives.

And part of the training is the painstakingly inculcated acceptance of the government as "we."

"Are we spending too much on the space shuttle?" someone asked me recently. But "we" are not spending anything. The U.S. government is.

The government is separate from us, and almost always opposed to our interests. We do not have a government of the people, by the people, and for the people. We have a government *to* the people. And one important tool in keeping it going is the lie.

For example, almost every economic statement from the Reagan administration has been a lie. We—and I *do* mean we—got the most protectionist eight years since Herbert

Hoover, and they called it free trade. We got five tax increases, including the single largest in human history, and they called it lower taxes. We got the biggest deficits ever and they called it fiscal conservatism. We got a doubled federal budget, and they called it cutting back. We got a vast increase in the power and scope of federal control and snooping, and they called it freedom.

In analyzing any government action, we should always ask: who's getting the money and the power?

During the Carter administration, conservatives told us how terrible the Occupational Safety and Health Administration (OSHA) was. It oppressed businesspeople, imposed crazy regulations, and violated civil liberties. And it was all true. But why is there silence on Reagan's OSHA? Because it is really a big-business agency, set up by the Nixon administration.

OSHA exists not to protect workers' health and safety, but to defend established corporations from competition. It's not an anti-business agency, it's an anti-*small*-business agency.

*EPA was established by
the Nixon Administration to
hobble competition
and subsidize favored
special interests.*

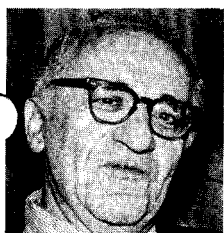
Exxon, with its thousands of lawyers, has no trouble dealing with OSHA. But the small company can be put out of business by OSHA's fines and harassment. And it is—not by coincidence—the small businesses that OSHA concentrates on.

Recently, OSHA imposed its largest fine ever for alleged safety violations on a small meat-packing house. The agency had acted at the behest of the largest meat-packing firm in the area. This is why unscrupulous big businesses love OSHA. It's anti-competitive.

We used to hear about the awful Environmental Protection Agency (EPA) during the Carter administration. It oppressed businesspeople, imposed crazy regulations, etc. But again, this is a big-business agency established under the Nixon administration to hobble competition and subsidize favored local politicians and special interests—especially construction firms. It does not exist to improve the environment.

Like OSHA, EPA regulations are much less of a relative burden on large firms than small ones. And most of the EPA budget is spent on gigantic building contracts for supposed pollution-control facilities. But since friends of the adminis-

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The Collapse of Socialism

by Murray N. Rothbard

We are now living through the most significant and exciting event of the 20th century: nothing less than the collapse of socialism.

Before the rise of the new idea of socialism in the mid and late 19th century, the great struggle of social and political philosophy was crystal-clear. On one side was the exciting and liberating idea of classical liberalism, emerging since the 17th century: of free trade and free markets, individual liberty, separation of Church and State, minimal government, and international peace. This was the movement that ushered in and championed the Industrial Revolution, which, for the first time in human history, created an economy geared to the desires of and abundance for the great mass of consumers.

On the other side were the forces of Tory statism, of the Old Order of Throne and Altar, of feudalism, absolutism, and mercantilism, of special privileges and cartels granted by Big Government, of war, and impoverishment for the mass of their subjects.

In the field of ideas, and in action and in institutions, the classical liberals were rapidly on the way to winning this battle. The world had come to realize that freedom, and the growth of industry and standards of living for all, must go hand in hand.

Then, in the 19th century, the onward march of freedom and classical liberalism was derailed by the growth of a new idea: socialism. Rather than rejecting industrialism and the welfare of the masses of people as the Tories had done, socialists professed that they could and would do far better by the masses and bring about "genuine freedom" by creating a State more coercive and totalitarian than the Tories had ever contemplated. Through "scientific" central planning, socialism could and would usher in a world of freedom and superabundance for all.

The 20th century put the triumphant idealism of the 19th into practice, and so our century became the Age of Socialism. Half the world became fully and consistently socialist, and the other half came fairly close to that ideal. And now, after decades of calling themselves the wave of the future, and deriding all their opponents as hopelessly "reactionary" (i.e. not in tune with modern thinking), "paleolithic," and "Neanderthal," socialism, throughout the world, has been rapidly packing it in. For that is what *glasnost* and *perestroika* amount to.

Ludwig von Mises, at the dawn of the Socialist Century, warned, in a famous article, that socialism simply could not

work: that it could not run an industrial economy, and could not even satisfy the goals of the central planners themselves, much less of the mass of consumers in whose name they speak. For decades Mises was derided, and discredited, and various mathematical models were worked out in alleged "refutation" of his lucid and elegant demonstration.

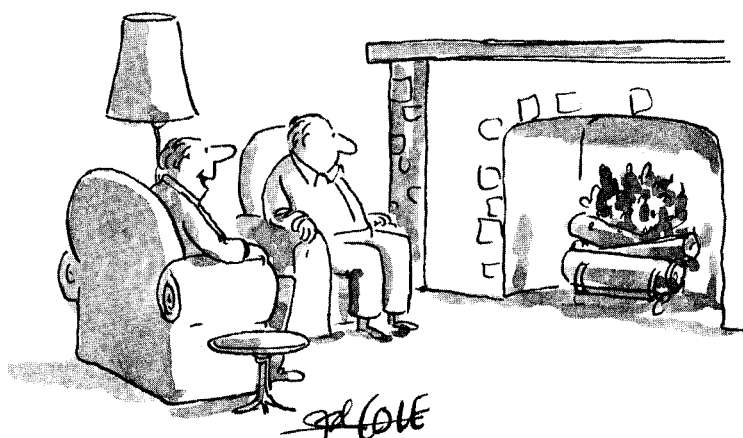
And now, in the leading socialist countries throughout the world: in Soviet Russia, in Hungary, in China, in Yugoslavia, governments are rushing to abandon socialism. Decentralization, markets, profit and loss tests, allowing inefficient firms to go bankrupt, all are being adopted. And why are the socialist countries willing to go through this enormous and truly revolutionary upheaval? Because they are really saying that Mises was right, after all, that socialism doesn't work, and that only desocialized free markets can run a modern economy.

Some are even willing to give up some political power, allow greater criticism, secret ballots and elections, and even, as in Soviet Estonia, to allow a one-and-one half party system, because they are implicitly conceding that Mises was right: that you can't have economic freedom and private property without intellectual and political freedom, that you can't have *perestroika* without *glasnost*.

It is truly inspiring to see how freedom exerts its own "domino effect." Country after socialist country has been trying to top each other to see how far and how fast each one can go down the road of freedom and desocialization.

As even the "socialist bloc" begins to throw in the towel, there are virtually no Russians or Chinese or Hungarians or Yugoslavs left who have any use for socialism. The only genuine socialists these days are intellectuals in the West who are enjoying a comfortable and even luxurious living within the supposed bastions of capitalism. ■

Dr. Rothbard, vice president for academic affairs of the Ludwig von Mises Institute, is the S.J. Hall distinguished professor of economics at the University of Nevada, Las Vegas.



"They're not logs—they're rolled up socialist five-year plans"

The Life and Work of a Dissident Scholar

by Jeffrey A. Tucker

Samuel Johnson wrote that the great minds of history are “of large general powers accidentally determined in a particular direction.” Ludwig von Mises (1881-1973) had such a mind. We are lucky that he turned to economics—and reconstructed the entire science.

Yet Mises was never given his due. The universities denied him a full-time post. And Mises's stature as a scholar and economist is still largely ignored.

Why is one of the great minds of our time so unrecognized? First, Mises taught reason and logic in an era when the social scientists lauded irrationality and illogic. And second, Mises believed in freedom in an age of omnipotent government.

Yet despite the odds, this dissident scholar was remarkably productive. First, he reconstructed the whole of economic science. And second, he laid a systematic foundation for further rigorous research into the social sciences.

Like other scholars of similar achievement, Mises worked outside the prevailing wisdom, even against the intellectual trends of his time.

Mises's first exposure to Austrian economics came when he read Carl Menger's *Principles of Economics*, and then attended Eugen von Boehm-Bawerk's lectures at the University of Vienna.

Early in Mises's career, government control over money and banking had swept over the world. Most economists doubted that money could have its origins or functions in the free market. Mises answered them in his first great work, *The Theory of Money and Credit* (1912).

The book remains the definitive classic on the economics of centralized money and banking. Economists had previously thought that the laws of economics—like the law of marginal utility—did not apply to money. Mises showed that they did. In the same way the free market provides other goods and services, it can also provide money and banking services. With this work, he broke from the past and forged his own school.

The First World War brought with it extensive social and economic control, both in Europe and the United States. The Warfare State destroyed economies and reversed the progress of liberty. Mises responded with a biting attack on statism and war socialism, *Nation, State, and Economy* (1919). He argued that “modern socialism of necessity must be imperialistic.” And that the only way to rebuild after the war, and to prevent future wars, was to expand free markets domestically, to promote free trade internationally, and to strive for political tolerance everywhere.

In the 1920s, the ideologies of socialism, fascism, and communism were overtaking Europe. He responded with a complete refutation of the theory, or non-theory, of socialist economic planning, *Socialism: An Economic and Sociological Analysis* (1922). Not only did he show that socialism was unwise; he showed that it was, in practice, impossible. Without free trade in capital goods, which socialism proposes to abolish, there can be no rational economic calculation. This insight earned him international fame and a group of devoted followers.

It was not enough for Mises to have confronted and destroyed the idea of socialism, including Benito Mussolini's then-proposed *stato corporativo*. Mises also had a vision of society wherein freedom provides the way to social cooperation. His *Liberalism* (1927) is an inspiring defense of political and economic freedom and of the social order of individualism and freedom.

After the 1929 Crash and the publication of John Maynard Keynes's *General Theory* (1936), the interventionists overwhelmed the capitalists in economics departments across Europe and the United States. Mises responded with a sweeping statement reconstructing the whole of the discipline, *Nationalökonomie* (1940), which later became his English masterpiece *Human Action* (1949). In this, his *magnum opus*, Mises defines and defends economics as the deductive science of individual action, and proposes that all government intervention is not only misguided—it is also counterproductive. This unmatched economic treatise forged an American Misesian movement.

Positivism and empiricism took over as the dominant social science method in the 1950s. Mises responded by directly assaulting their intellectual foundations in *Theory and History* (1957) and *The Ultimate Foundation of Economic Science* (1962), both of which elaborated on earlier essays collected in *Epistemological Problems of Economics* (1933).

For Mises it was not enough to hold correct policy views. How one arrives at those views is also of utmost importance. “It is a complete misunderstanding,” Mises said of methodological questions, “to dismiss them as the scholastic quibbling of pedantic professors.” On the contrary, method is “the real issue,” the one upon which the validity of economics ultimately rests.

Mises's term for the subject matter of economics is praxeology, the logic of action. Praxeological reasoning yields economic principles which are universally valid. No matter when in history or where on the globe one looks, the laws of economics apply. Do the facts fit the economic theory? They do. But empirical facts, and history in general, do not by themselves yield any economic knowledge at all.

The conclusions of non-praxeological schools must be as tentative as the historical data from which they derive. They cannot be universal theorems. They must be subjected to continuous empirical “testing” to “prove” their validity.

If this is our standard, free markets could work today but statism may appear to work tomorrow. It's anybody's guess what could work the day after. Not so with praxeology. If one desires prosperity and social cooperation, free markets are the only way.

Mises built a coherent system of economic thought, one which begins with the axiom of human action and deduces the whole of economics—from profits and prices to production and trade cycles. In the Misesian system, economic policy binds to theory that derives from method.

Policy, theory, method—all are part of Misesian economics. For example, Mises had fascinating views on central banking and the business cycle. But they are more powerful when one remembers that they derive logically from universal economic laws, which in turn derive from the fact of human purpose.

That is why Professor Murray Rothbard's new book, *Ludwig von Mises: Scholar, Creator, Hero* (Mises Institute, 1988) is so important. Rothbard includes many hitherto unknown details on Mises's life, and doesn't shy from the harder

questions like why most of Mises's best students abandoned him for alien theories and policies.

The Mises who emerges from Rothbard's book is decidedly one of the century's most brilliant intellects. Mises didn't squander his gift for scholarship. He created a system of thought, a science of action, which rescued economics from the depths of nihilism. But what about the "hero" of the title? Samuel Johnson wrote that "the heroes of literary history have been no less remarkable for what they have suffered, than for what they have achieved."

Mises faced incredible challenges: he held no regular academic post, the Nazis ran him out of the country he loved, his brightest students abandoned him late in life, Keynesian doctrine became orthodoxy despite his work, and he watched in horror as statism and war engulfed his century. He once reflected that he "set out to be a reformer, but only became the historian of decline."

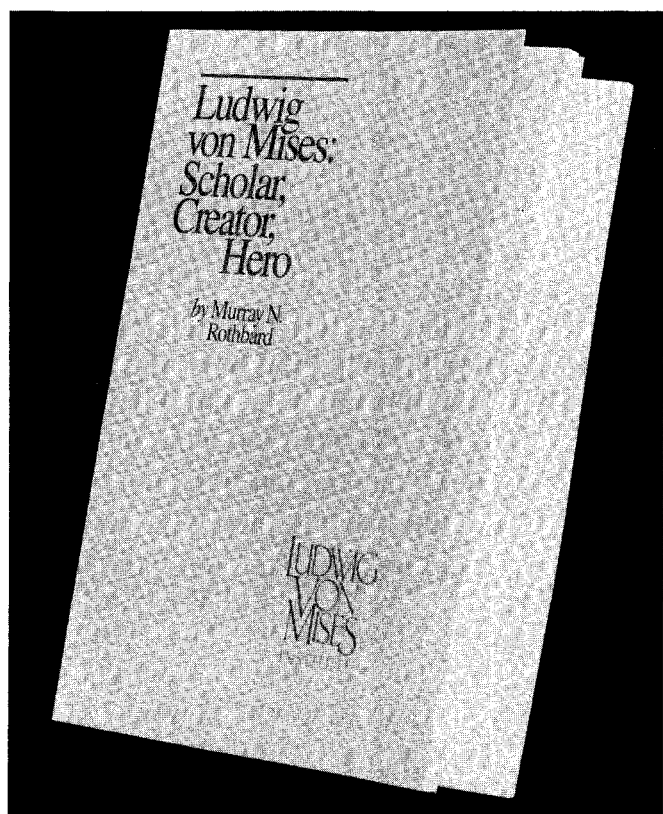
Yet Mises remained an uncompromising advocate of economic science and pure laissez-faire until his death. By Johnson's definition of heroism, Mises qualifies. Rothbard sadly notes that Mises never lived to see the Austrian revival which began in 1974 or the growth of the Mises Institute from 1982 to the present.

The Rothbard book does have one failing: it does not mention that Rothbard himself played the major role in keeping the Austrian fires burning during Mises's later years. Where would Austrian economics be without Rothbard's own courage, creativity, and scholarship? Mises's *Human Action* is a masterpiece, but would it have had so much impact without Rothbard's *Man, Economy, and State* (1962), which clarified and refined it? And it was Rothbard who incorporated Misesian economics into a broader science of liberty, which includes law, religion, literature, history, and politics. "Rothbard and the Legacy of Mises" is the missing and unwritten chapter.

In the foreword to the German edition of Ludwig von Mises's intellectual biography, *Notes and Recollections* (1977), Nobel Laureate F.A. Hayek wrote that when he looked "for similar figures in the history of thought, I do not find them among the professors, not even in Adam Smith; instead, [Mises] must be compared to thinkers like Voltaire or Montesquieu, Tocqueville and John Stuart Mill."

Rothbard's *Ludwig von Mises: Scholar, Creator, Hero* supports this assessment of Mises's life and work. No one interested in the intellectual history of this century—or in the fight for liberty—can afford to be without it. ■

Mr. Tucker is a graduate student in economics at George Mason University, the administrator of the Fertig Center, and managing editor of *The Free Market*.



Just published, Murray N. Rothbard's *Ludwig von Mises: Scholar, Creator, Hero* is an eloquent and moving tribute to his teacher, and the most definitive book on Mises thus far. It covers Mises's growing up, schooling, intellectual background, career, seminar, influence, and legacy. As Rothbard shows, Mises was not only one of the great minds of this century, he had the courage to defend passionately the cause of liberty in an era of virulent statism. This new book is available for \$8.00, which includes U.S. postage and handling.

Legacy of Ronald Reagan...from page 1

was \$43.5 billion; in 1987 it hit \$80 billion. Federal entitlements cost \$197.1 billion in 1981—and \$477 billion in 1987.

Foreign aid has also risen, from \$10 billion to \$22 billion. Every year, Reagan asked for more foreign-aid money than the Congress was willing to spend. He also pushed through Congress an \$8.4 billion increase in the U.S. "contribution" to the International Monetary Fund.

His budget cuts were actually cuts in *projected* spending, not absolute cuts in current spending levels. As Reagan put it, "We're not attempting to cut either spending or taxing levels below that which we presently have."

The result has been unprecedented government debt. Reagan has tripled the Gross Federal Debt, from \$900 billion to \$2.7 trillion. Ford and Carter in their combined terms could only double it. It took 31 years to accomplish the first postwar debt tripling, yet Reagan did it in eight.

Taxes

Before looking at taxation under Reagan, we must note that spending is the better indicator of the size of the government. If government cuts taxes, but not spending, it still gets the money from somewhere—either by borrowing or inflating. Either method robs the productive sector. Although spending is the better indicator, it is not complete, because it ignores other ways in which the government deprives producers of wealth. For instance, it conceals regulation and trade restrictions, which may require little government outlay.

If we look at government revenues as a percentage of "national income," we find little change from the Carter days, despite heralded "tax cuts." In 1980, revenues were 25.1% of "national income." In the first quarter of 1988 they were 24.7%.

Reagan came into office proposing to cut personal income and business taxes. The Economic Recovery Act was supposed to reduce revenues by \$749 billion over five years. But this was quickly reversed with the Tax Equity and Fiscal Responsibility Act of 1982. TEFRA—the largest tax increase in American history—was designed to raise \$214.1 billion over five years, and took back many of the business tax savings enacted the year before. It also imposed withholding on interest and dividends, a provision later repealed over the president's objection.

But this was just the beginning. In 1982 Reagan supported a five-cent-per-gallon gasoline tax and higher taxes on the trucking industry. Total increase: \$5.5 billion a year. In 1983, on the recommendation of his Social Security Commission—chaired by the man he later made Fed chairman, Alan Greenspan—Reagan called for, and received, Social Security tax increases of \$165 billion over seven years. A

year later came Reagan's Deficit Reduction Act to raise \$50 billion.

Even the heralded Tax Reform Act of 1986 is more deception than substance. It shifted \$120 billion over five years from visible personal income taxes to hidden business taxes. It lowered the rates, but it also repealed or reduced many deductions.

According to the Treasury Department, the 1981 tax cut will have reduced revenues by \$1.48 trillion by the end of fiscal 1989. But tax increases since 1982 will equal \$1.5 trillion by 1989. The increases include not only the formal legislation mentioned above but also bracket creep (which ended in 1985 when tax indexing took effect—a provision of the 1981 act despite Reagan's objection), \$30 billion in various tax changes, and other increases. Taxes by the end of the Reagan era will be as large a chunk of GNP as when he took office, if not larger: 19.4%, by ultra-conservative estimate of the Reagan Office of Management and Budget. The so-called historic average is 18.3%.

Regulation

For all the administration's talk about deregulation (for example, from the know-nothing commission which George Bush headed), it has done little. Much of what has been done began under Carter, such as abolition of the Civil Aeronautics Board and deregulation of oil prices. Carter created the momentum and Reagan halted it. In fact, the economic costs of regulation have grown under Reagan.

Some deregulation has occurred for banks, intercity buses, ocean shipping, and energy. But nothing good has happened in health, safety, and environmental regulations, which cost Americans billions of dollars, ignore property rights, and are based on the spurious notion of "freedom from risk." But the Reagan administration has supported state seat-belt and federal air-bag requirements. This concern for safety, however, was never extended to the Corporate Average Fuel Economy (CAFE) rules, which, by imposing fuel-efficiency standards, promote the production of small cars. The shift to small cars will cause an estimated 10,000 to 20,000 highway deaths over the next ten years.

Bureaucracy

By now it should not be surprising that the size of the bureaucracy has also grown. Today, there are 230,000 more civilian government workers than in 1980, bringing the total to almost three million. Reagan even promoted the creation of a new federal Department of Veterans' Affairs to join the Departments of Education and Energy, which his administration was supposed to eliminate.

Trade

The Reagan administration has been the most protectionist since Herbert Hoover's. The portion of imports under restriction has *doubled* since 1980. Quotas and so-called voluntary restraints have been imposed on a host of prod-

ucts, from computer chips to automobiles. Ominously, Reagan has adopted the bogus fair-trade/free-trade dichotomy, and he was eager to sign the big trade bill, which tilts the trade laws even further toward protectionism.

Results

Reagan's fans argue that he has changed the terms of public-policy debate, that no one today dares propose big spending programs. I contend that the alleged spending-shyness of politicians is not the result of an ideological sea-change, but rather of their constituents' fiscal fright brought about by \$250 billion Reagan budget deficits. If the deficit ever shrinks, the demand for spending will resume.

This is the Reagan legacy. He was to be the man who would turn things around. But he didn't even try. ■

Mr. Richman is director of public affairs for the Institute for Humane Studies and an adjunct scholar of the Ludwig von Mises Institute.

World Central Bank...from page 1

The Ecu first appeared in 1979. Its creators quickly found that its usefulness was limited without a clearing system, so Credit Lyonnais of Paris and Morgan Guaranty Bank of New York formed the Ecu Banking Association, made up of top central bankers and government officials. In March 1986 they set up the European Investment Bank and SWIFT (the Society for Worldwide Interbank Financial Telecommunications) to process Ecu transactions. Within a few months, all major central banks had signed on, and today, Ecu transactions represent the fifth largest trading volume in international currency markets.

The big push for the European central bank began after the October 1987 stock market crash as politicians seized the moment of crisis to advance their agenda. "The logic of developments... demand that the European currency takes over from the national ones," argued socialist French President Francois Mitterrand.

In November 1987, European politicians, businessmen, and bankers formed the Action Committee for Europe to promote the European central bank, arguing that Europe needs one currency and "a common authority to manage it."

The European central bank (ECB) will be modeled after the Federal Reserve. Like the Fed in 1913, it will have the institutional appearance of decentralization, but also like the Fed it will be run by a cartel of big bankers in collusion with politicians at the expense of the public.

Margaret Thatcher is the only influential holdout in Europe. And she objects because she thinks the influence of Germany's central bank will allow less inflation than she

Continued on next page

Big Government Smokescreen...from page 2

tration are getting the contracts now, all conservative criticism has disappeared.

The Consumer Product Safety Commission (CPSC) was another product of the Nixon administration specifically set up to hurt small business and to help big business, this time under cover of consumer safety.

During the Carter years, we heard about how appalling this agency was. But there's silence now. Yet CPSC is still intervening, and still setting guidelines at the behest of established businesses designed to foil competition.

The Federal Trade Commission—emblematic of the older Progressive and New Deal agencies—is no different. Denounced during the Carter years as a crazed regulator—which it was—it is now praised as a bastion of free enterprise. Yet special interest groups founded the agency specifically to restrict competition and therefore free enterprise. The FTC now brags, for example, about eight years of increased enforcement of the anti-trust laws, statutes designed to allow politically connected businessmen to suppress their non-politically connected rivals.

One of the glories of America, and of the American free market, has always been our entrepreneurs. But especially since the days of the big railroads, there have always been some established businesses scheming to use government to reward themselves and punish their competitors. These traitors to free enterprise have been a major force in the growth of government, which is the horror story of our century.

To be able to fight for the ideals of the Founding Fathers, to be able to work for free markets and individual freedom, we have to be able to see through the government-generated smoke.

If we do not understand, and help others understand, what the government and its associated special interests are trying to do to us, there's no way we can fight them.

One rule of thumb is to assume that the government is lying until proven truthful, and to look carefully to see who's benefiting from any government action. It's not enough to make economic arguments against government control, as important as that is.

To mobilize the tax-eaten to make necessary changes—as the Jeffersonians and Jacksonians knew—we have to tell people the truth. And that means showing them the injustice, as well as the inefficiency, of government intervention.

Only correct economics, combined with a clear-eyed caste-analysis of who's doing what to whom, can help us make the changes we need to make. ■

Mr. Rockwell is founder and president of the Ludwig von Mises Institute.

World Central Bank...from page 7

wants! But like all central banks, the ECB is designed to inflate. And it will have a particularly free hand. With twelve separate currencies, exchange rate fluctuations allow people to sell more inflationary currencies for the stronger ones, providing some constraint on inflation. That will no longer be the case with the Ecu.

The head of the European Monetary System, former French President Valéry Giscard d'Estaing, says Thatcher will join when the Ecu becomes "a real currency." However, no government or group of governments can create a currency out of thin air. They must pay attention to the economic laws that Ludwig von Mises proved with his "regression theorem," namely, that currencies must originate in the free market. But unlike the International Monetary Funds Special Drawing Rights (SDRs), European governments did not create the Ecu out of nothing. It is composed of existing currencies which in turn had their origins in gold and silver.

The plan for the transition has central banks fixing the trading range of the Ecu relative to other currencies while allowing them to freely circulate side by side. Then governments will overvalue the Ecu relative to other European currencies, and people will sell their pounds, lira, and marks for the Ecu, putting into effect a kind of backwards Gresham's Law.

"There is one hitch," says *Forbes* magazine. "Although currencies that make up the Ecu maintain a balance relative to one another, the entire currency basket fluctuates against the dollar, so cashing in Ecus for dollars could result in a gain or a loss."

One of the few constraints now operating on the Fed is that if it inflates too much, people will dump the dollar for a more stable currency. That's why there is a push to achieve international monetary "stability" (that is, equal rates of inflation) by cartelizing what will then be three remaining central banks of the industrialized world into one world central bank charged with manipulating one world currency.

The Economist of London says that "Thirty years from now, Americans, Japanese, Europeans, and people in many other rich countries" will be "paying for their shopping with the same currency. Prices will be quoted not in dollars, yen, or D-marks" but in terms of a new world currency.

Central banking is a horrendous idea to begin with. Merging central banks will be even worse. The resulting institution would become, as Dr. Edwin Vieira has remarked, "the biggest agent of economic and political irresponsibility the

world has ever seen." Today, if the U.S. Congress has a sudden fit of economic sanity, it could restrict the Fed's power. The mere threat of that serves as a limit. But the world central bank would be subject to no authority.

The world central bank might be based on the International Monetary Fund or the World Bank, says the *Economist*. But I think the more likely candidate is the Bank for International Settlements (BIS), the "central banker's bank" in Basle, Switzerland. World central bankers have been holding "consultative meetings" there once a month for over a year. Recently, the meetings have concentrated on giving the BIS "lender of last resort functions and responsibilities." That means the power to create money and credit out of thin air.

They all want, as *Banker* magazine noted, "a world in which national policy authority is greatly reduced, and replaced by more powerful international policy-making bodies."

Finance Minister Edouard Balladur of France writes in the *Wall Street Journal* that we should "entrust a small group of distinguished people of unquestionable moral authority" with the job of designing "a world order" that is "binding on all." But such an elitist idea would only produce a monster. That is why those of us who believe in individual liberty and free markets must actively oppose this plan, despite the proponents' use of free-market rhetoric. (One free-market publication praised the Ecu as "an extension of Hayek's work on competitive currency.")

None of this is to say that I approve of the status quo. The world monetary system is shaky. The system of floating exchange rates between fiat currencies only adds to the volatility. And we do need more international cooperation. But we want economic integration without political integration.

We all know the troubles we have dealing with city hall, let alone the state house or Washington, D.C. A world system would be unimaginably worse. Internationally as well as domestically, the answers to economic problems are free markets, free trade, free labor, and a gold standard. All would build the only kind of world economic order consistent with sound economics and individual freedom. ■

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