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Tax Deja Vu

BY MATTHEW B.
KIBBE

In 1928 Herbert Hoover rode the coattails of Calvin Coolidge into the White House, and everyone thought he would hold the line on taxes, for he talked of "individual freedom" and criticized his opponents as "socialists."

Despite his public rhetoric, however, Hoover was a believer in the "new economics" and its "scientific planning." He especially liked the inheritance tax, and when speaking on this issue, sounded more like Karl Marx than a supposed champion of individual freedom. And like most Republicans of the time, he favored taxes on consumption over taxes on production (though they amount to the same thing in the long run).

As Murray N. Rothbard has pointed out, Hoover launched "an unprecedented program of government intervention for high wage rates, public works, and bolstering of unsound positions that was later to be christened the



New Deal." That program included new regulations and controls on business enterprise, and in 1930, the highly protectionist Smoot-Hawley Tariff Act.

Yet through all these interven-

tions, Hoover opposed higher taxes because of the depression. As late as May 26, 1931, he maintained "flat opposition to any tax increases," saying he was particu-

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What the Soviet Republics Want

BY YURI N.
MALTSEV

Will there be civil war in the U.S.S.R.? It all depends on how Moscow deals with the republics it has held in thrall for so long. The Soviets have not only denied them political self-determination, they have denied them economic freedom by imposing socialism from Moscow, thereby devastating the republics' social institutions, making their people sicker, and almost starving them to death.

All enterprises in the republics are subordinate to Moscow ministries, which also run the dis-

tribution system. If an enterprise wants to produce TVs, it must get parts from the Soviets, which spells disaster.

The republics try to get around these restrictions through specialization, primitive barter arrangements, and extensive informal exchanges. The Moldavians provide canned food and furniture in exchange for electronics from the Western Ukraine and Lithuania. Likewise, Georgia can provide trucks.

But there are limits to this strategy. Barter is never as efficient as indirect exchange using

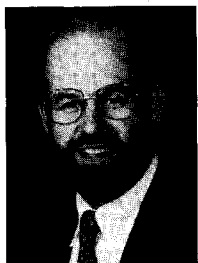
sound money, but the biggest problem is that most of the managers of the enterprises are loyal to Moscow's socialism, and they cannot be fired.

For the sake of survival, the republics have recently tried to fence themselves off from the disastrous economic policies of the Kremlin. Russia, for example, has adopted free-market economic laws. The law on property in Azerbaijan is based on Anglo-Saxon common law. It states that everybody can own any kind of property, and use or dispose of

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The Economics of Martin Luther King, Jr.

From the President



BY LLEWELLYN H. ROCKWELL

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We're supposed to venerate Martin Luther King, Jr., but that's not easy for a believer in economic liberty. Time and again, King called on us to "question the capitalistic economy" and "restructure America."

"You see, my friends," said King, "you begin to ask the questions, 'Who owns the oil?' You begin to ask the question, 'Who owns the iron ore?' You begin to ask the question, 'Why is it that people have to pay water bills in a world that is two-thirds water?'"

Privately owned oil and iron ore mean rational use, whereas government-owned resources, as in the U.S.S.R., mean chaos and poverty.

Although America's water systems—municipalized or regulated—are not exactly free enterprise in action, we have to pay for water for the same reason we have to pay for anything valuable. Fresh, clean water is scarce, and the price system ensures that it will not be squandered, while encouraging further production.

When government intervenes in the price system, as it does to sell water to agriculture at below-market rates, the result is waste, and shortages elsewhere.

When the Soviets invaded Afghanistan, they didn't collectivize agriculture, but they did collectivize agricultural water distribution. Within months, there was no water at all, as centuries-old private distribution channels silted up.

Only a capitalistic water system—with private property rights in water and freely adjusting prices—can ensure that there is enough water for all who want it, instead of allocation through non-price political battles with the most powerful pressure groups winning out.

King had no use for the price system, calling it "violence" responsible for blacks paying "higher consumer prices" than whites. "Do you know," he

asked, "that a can of beans almost always costs a few cents more in grocery chain stores located in the Negro ghetto than in a store of that same chain located in the upper-middle-class suburbs?"

This led, said King, to black "disillusionment and bitterness." But why, unless—as a recent *New York Times* poll tells us is more and more the case—blacks believe their plight is the result of a white conspiracy?

In a free market, prices are set by consumers when they buy, or don't buy, a particular product. If storeowners set prices too high, even by a few cents, competitors will make a profit by undercutting them.

The ghetto has far too little of the "cutthroat competition" King so often denounced. Non-black businessmen can be greeted with hostility; rampant street crime is a barrier to entry; widespread welfare blunts the desire to work while encouraging a short-term orientation; and government holds sway to a degree found elsewhere in this country only on Indian reservations, which are also poverty stricken.

King, however, believed in government sway, calling capitalism a system "permitting necessities to be taken from the many to give luxuries to the few." The "profit motive" has "encouraged smallhearted men to become cold and conscienceless."

What was his alternative? The loss motive?

The profit motive means that resources are not systematically wasted, as under the political motive, and that innovation, entrepreneurship, and hard work are rewarded. Surely this, rather than the reverse as under socialism, is the moral system.

King claimed that the "good and just society is neither the thesis of capitalism nor the antithesis of communism, but a socially conscious democracy which reconciles the truths of individualism and collectivism."

In fact, the good society, upon whose back big government sits like a succubus, is composed of cooperative endeavors from the corporation to the church, from the family to the university. Bureaucratic intrusion weakens and destroys these endeavors, whether it's justified in the name of "socially conscious democracy" or any other high-sounding but low-acting construct.

King favored a "higher synthesis"—part individualism, part collectivism—as in Sweden. But one of the least-known aspects of the anti-socialist revolution has been its effect on Sweden, which has been getting poorer and poorer thanks to decades of redistributionism. Today, the people are demanding lower taxes and less government, much to the consternation of the Swedish establishment. As Ludwig von Mises demonstrated, the mixed economy is inherently unstable. It must tend towards either statism or the free market; there is no economically rational way of reconciling the two.

"When machines and computers, profit motives and property rights are considered more important than people, the giant triplets of racism, materialism, and militarism are incapable of being conquered," said King.

Aside from the fact that "The Giant Triplets" sounds like a companion film to "Attack of the Killer Tomatoes," there are enough false dichotomies in that one sentence for a Congressman. Suffice it to say that it is people who build and use machines and computers, which have much improved people's lives; that property rights are the most important people's right, with their absence leading to economic fiasco; and that there's nothing wrong with people desiring material improvements in their lives.

Naturally King disliked that engine of capitalism, the entrepreneur, whom he called responsible for "thousands of working

Foreign investment in the third world has put bread on the tables of millions impoverished by socialist governments.

people displaced from their jobs with reduced incomes as a result of automation while the profits of the employers remain intact." Automation, he said, is "skimming off unskilled labor from the industrial force. The displaced are flowing into proliferating service occupations."

The "individual capitalists of the West" also invest "huge sums of money in Asia, Africa, and South America, only to take the profits out with no concern for the social betterment of the countries."

But King was advancing a left-wing myth. Foreign investment in the third world has put bread on the tables of millions impoverished by socialist governments. That is real "social betterment." And automation, i.e., improved technology, raises standards of living.

Electric clothes washers save homemakers much hard labor, and "cost" the jobs of laundry workers, but so what? Homemakers, and society as a whole, are much better off. And so are the laundry workers, who can get better jobs in a more prosperous society.

If automation were evil, we could ban all motorized transportation between New York and Los Angeles, and "create jobs" for drivers of horsedrawn wagons. Does anyone think we'd be better off?

Nor are service jobs less desir-

able than industrial, although socialists have always been partial to large industrial entities which seem easier to centrally plan, and to unionize.

"The Negroes pressed into these services need union protection, and the union movement needs their membership to maintain its relative strength in the whole society," said King. Yet unions are organized rip-offs, using their government privileges to enrich themselves at the expense of non-union workers and businessmen. By helping bring about a cartelized labor market (through minimum wages and closed shops), unions have deliberately injured unskilled workers, many of them black, by shutting them out of the market.

But King had far more in mind than more unionism: "If a city has a 30% Negro population, then it is logical to assume that Negroes should have at least 30% of the jobs in any particular company, and jobs in all categories rather than only in menial areas."

To bring this about, he wanted "preferential treatment"—a racial test for hiring and firing, promotion and transfer, and all other personnel decisions. How this squared with his dream of a society based on "the content of a person's character" rather than the "color of their skin," he didn't say.

Whether people were working or not, said King, there should be

a government-guaranteed "minimum—and livable—income for every American family" as part of a "radical reconstruction of society itself." Nothing else would cure America's "interrelated flaws of racism, poverty, militarism, and materialism."

What good can come of taking the earnings of some families by force, skimming them in D.C., and bestowing the remainder on other families? As we have seen all too clearly, welfare makes the economy less efficient, the recipients less independent, the taxed less productive, and the government bigger.

King also advocated massive federal compensation for blacks because "for two centuries the Negro was enslaved," although "all of America's wealth today could not adequately compensate its Negroes for his centuries of exploitation and humiliation."

He didn't mention that the people who would be getting the money were not the victims and the people paying it were not the perpetrators.

Race-based public policies create social conflict, and King knew it. But his answer was more government: a "federal program of public works, retraining, and jobs for all."

The received wisdom on the Right these days is that King would have rejected the excesses of the modern civil rights movement. But that clearly isn't the case. Indeed, David Garrow in his Pulitzer Prize-winning biography says that in private gatherings King endorsed "democratic socialism," while making "it clear to close friends that economically speaking he considered himself what he termed a Marxist."

Note: All King quotes are from *A Testament of Hope: The Essential Writings of Martin Luther King, Jr.*, edited by J.M. Washington [San Francisco: Harper and Row, 1986], in particular his "A Time for Hope" (1968), "Where Do We Go From Here?" (1967), and *Playboy* interview (1968). ◀

How the Left Sees Us

Z, the most important Marxist monthly in the U.S., recently wrote that "the Ludwig von Mises Institute leads the faction of the Right opposed to any state intervention in the economy."

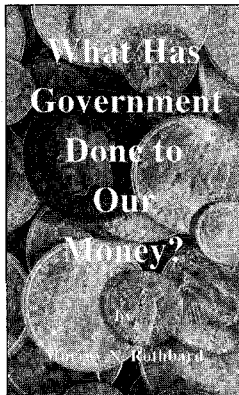
We spread "economic theories which stress rugged individualism and dismantling state bureaucracies as panaceas for the current crises." "Even worse," we would "abolish any kind of government restraint on corporations," and see the "only function of the state" as protecting "national security" with a stream-lined military."

Unfortunately, "rhetoric against taxes and 'big government' has a populist appeal, regardless of the fact that the 'free market' is only 'free' for large property owners."

Well, that's not exactly the way we would put it! But it's interesting to hear the enemy's version. ◀

Tax Deja Vu

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Book of the Month

New Edition of a Rothbard Classic. The best introduction to money and banking has long been Murray N. Rothbard's *What has Government Done to Our Money?*, and now the Mises Institute has published a new and worthy edition.

In this book, not only does Rothbard show how money came into being, and why it was so often defined in terms of gold, he also shows how modern governments have moved successfully (from their own standpoint, of course) from gold to fiat money—a real contribution to the Misesian framework. Also covered are American monetary history, the history of fractional-reserve banking, the establishment of the Fed, a coherent explanation (one of the few!) of exactly how the Fed inflates. The new edition is updated to include the European Currency Unit, and the possibility of a world fiat money issued by a World Reserve Bank. As always with Rothbard, the writing and analysis are crystal clear.

SPECIAL: Every person making a contribution this month will receive a *free* copy of this handsome and important book. Full-time students may receive it by enclosing a copy of their student ID.

larly concerned that liberal Democrats in Congress might “make an onslaught on the higher brackets of the income tax,” which would only “accentuate the present trouble.” Hoover also “recommended that Congress abolish or modify” the capital gains tax.

Late in 1931, however, a “new crisis” appeared: the federal budget deficit. Federal spending had risen by over \$257 million that year, and because of the depression, tax receipts were falling. Treasury Secretary Andrew Mellon announced that the federal government would incur a budget deficit of \$900 million in fiscal 1931. For 1932, he projected a budget deficit of more than \$2 billion.

In his budget message on December 7, 1931, Hoover said the federal government was “face to face with a situation” where “the current revenues of the government under our existing laws have fallen below the amounts required to meet the absolutely necessary expenses.” “We cannot,” he said, “maintain public confidence nor stability of the federal government without undertaking some temporary tax increases. I recommend that Congress provide for an increase in taxation for a definite limited period.”

In his State of the Union address the following day, Hoover sought support for his deficit-reduction plan because of “the magnitude of the deficits which have developed and the resulting necessity for determined and courageous policies.” He called for reductions in federal spending and “temporary” higher taxes.

Secretary Mellon told the House Ways and Means Committee that balancing the budget “involves not only self-denial but some measure of sacrifice.” The sacrifice wouldn’t be the government’s, however: “We are fully justified in calling on the people to make further sacrifice in order

to supply their government with adequate revenue.” He also promised to “eliminate every unnecessary expenditure” in the federal budget.

The job of pushing the plan through Congress fell to Mellon’s replacement, the new Treasury Secretary Ogden Mills. He opened negotiations with the Democratic-controlled House Ways and Means Committee, and came out saying they were “in complete accord” about the “necessity of balancing the budget during the next fiscal year.”

Many members of Hoover’s administration warned against increasing taxes a year after he had promised no increases whatsoever, especially with the 1932 election so close, but to no avail.

Supporting the tax package was the Republican administration, the Republican leadership in Congress, and the majority of the Democratic leadership in Congress. The Democratic Speaker of the House, for example, referred to a manufacturers’ sales tax as the “backbone” of a “non-partisan” bill.

Working against this coalition were: liberal Democrats, who wanted excise taxes replaced with more progressive income tax rates, and conservative Democrats and Republicans who opposed any tax increase, particularly during a depression.

Opposition was far more radical at the grass roots. In cities all across America, a tax revolt had already broken out against property taxes. Hoover’s support for higher federal taxes fueled the rebellion. Reflecting the public mood, Congressman Claude Parsons lamented in the *Congressional Record* over the American taxpayer:

He was taxed on boots, was taxed on shoes, was taxed on suits and taxed on booze,

Was taxed on socks, was taxed on hose, was taxed on everything that grows.

A tax attacked him when he was born, attacked him till he felt forlorn.

If they increase, as in this bill, it won’t be long until they will

Impose a tax on growing corn and on the toots of Gabriel’s horn.

Business groups warned Congress against passage of higher taxes in the midst of a depression. “The primary emphasis,” said the U.S. Chamber of Commerce, “should be on balancing the budget by reduction of government expenses, not by increased taxation.” The St. Louis Chamber urged tax cuts.

Hoover dismissed the attacks on higher taxes as irresponsible, arguing that \$2.5 billion in government spending is “fixed” and cannot be cut, and if the rest were cut it would leave the military at “one-half” its “present strength,” prisoners would be released from jail, and “public health” would “be abandoned.”

Hoover had opened the door to higher taxes, and suddenly the debate shifted to the issue of “fairness”: that is, whose taxes should be raised and to what extent. Liberals in Congress argued for a bill to “conscript wealth” and “soak the rich.”

A manufacturer’s tax came up for vote and was defeated, and Hoover expressed “keen disappointment.” But he went on to reaffirm his belief in higher taxes: “Nothing will put more heart into the country than prompt and courageous and united action.”

What finally passed both houses of Congress was the Revenue Act of 1932, which increased income tax rates, imposed additional import duties on raw materials, and raised gasoline taxes.

It was Hoover’s swan song. Combined with years of inflationary Federal Reserve policies, higher spending, and new protectionist measures like the Smoot-Hawley Tariff Act, the tax bill was the final nail in the

economy's coffin.

Output fell by 26% in the following two years, and unemployment rose from 15.9% to 24.9% in 1933. Even the federal budget deficit increased. The tax increase lowered net production, which reduced revenues by nearly 40% in one year. The spending cuts in the bill never materialized.

Hoover was soundly defeated

in the 1932 election by Franklin Delano Roosevelt, who promised to cut taxes and balance the budget with lower spending.

Recently, George Bush signed the largest tax increase in U.S. peacetime history as the economy enters a recession, after extensive negotiations with the Ways and Means Committee. He said we must cut the deficit because it is a "cancer gnawing away

at our nation's health." Then, after hearing that the deficit will be going up dramatically, the domestic policy director of the White House called huge deficits "stimulative."

If the script written during the Great Depression is followed to the end, Bush will have changed his mind by the time his memoirs are written. ◀

What the Soviet Republics Want

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it in any way, so long as that use does not interfere with the rights of others. Lithuania has adopted laws calling for privatization and massive foreign investment. Estonia wants to improve its banking system. In Georgia, the government is strongly anti-socialist, and the president is a real free marketeer. Only the republics of central Asia have been slow in adopting progressive legislation on private property and free markets.

A priority for the republics is ~~an independent currency.~~ They want this not for nationalistic reasons, but for economic ones. A sound currency is the foundation of free exchange, and the ruble doesn't qualify, since the Soviets have destroyed it through the printing press. In response, Estonia has called for a Kroon, Lithuania wants a new Liet, Latvia wants a new Lat. Some of the currencies may be "hard," even defined in terms of gold.

The laws are in place, and the desire for free markets is real, but Moscow is blocking the anti-socialist revolution.

Mr. Gorbachev has proposed a Treaty of the Union that purports to grant independence to the republics. In fact, it represents a continuation of Soviet imperialism.

The Treaty is beset with so many qualifiers, and gives so much personal power to the president of the U.S.S.R., that the republics would have no independence whatsoever. The Treaty even forbids free-market reforms

in the individual republics.

The Treaty demands that republics obey the "U.S.S.R. Constitution and laws and international agreements of the U.S.S.R." The Constitution, in turn, mandates Moscow-run socialism, a system that 85% of the public rejects.

Nor can the republics work to change the Soviet Constitution. They must "vest the U.S.S.R." with the power to "adopt and amend the Constitution of the U.S.S.R." Moreover, the U.S.S.R. has the "right to dispute" any republic laws it does not like.

The republics must "pledge not to...sign agreements that run counter to the aims of the Union." In practice, this means they could not involve themselves in trade negotiations with other countries. Moscow would also have veto power over private contracts with foreign businesses.

In fact, the Treaty puts Moscow in charge of all "economic strategy." The Soviet government will "regulate foreign economic activities of the U.S.S.R.," "co-ordinate foreign economic ties of the republics," and "manage the customs services."

The Treaty explicitly forbids financial and monetary reform in the republics. The Union will "pursue a single financial, credit and monetary policy based on a single currency" and draw "up and execute a national budget." The Union will even "manage and use" the "gold reserve and

diamond fund."

Moreover, the Soviets will "manage" a "single fuel and energy system of the country," run all "railway, air and sea transport and trunk pipelines," "control defense factories and plants, space research, national communications and information systems," and "pass fundamental laws on the use of natural resources."

Moscow will control all "social policy, including working conditions and safety at work, social security, and insurance, health, and mother and child care."

Taxes? Moscow sets the amount. And they must be paid to the Soviets for "the exercise of the powers of the U.S.S.R." Laws? The republics' laws "have priority on all matters," "but with the exception of those within the competence of the Union." This means no self-governance.

And Mr. Gorbachev's role? Says the Treaty: "The U.S.S.R. president is the head of the Union state, wielding the highest administrative and executive power." He shall "exercise control over the fulfillment of the international commitments of the U.S.S.R."

Like all imperialists, the Soviets have long sought to abolish all national languages, a major source of resentment in the republics. Yet the Treaty declares Russian, as "the state language of the U.S.S.R." Not even Stalin made such an explicit statement.

It is more than symbolic that Gorbachev retained the word

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"socialism" in the name of his "union" over which he is dictator. He is a lifelong socialist who says he will be committed to socialism "as long as I live and work."

His idea of land privatization, unlikely to pass because of the way he is skewing the vote, outlaws sales of land, only allowing it to be transferred to children of current holders. This is a step towards feudalism, where people become serfs tied to the land. True ownership means that property can be bought and sold at will.

If Moscow tries to impose this treaty against the republics' will, as Mr. Gorbachev has promised, a bloodbath could follow. The chairman of the KGB has promised as much.

Ruslan Kasbulatov, deputy to Mr. Yeltsin and vice president of the Russian republic (with whom I co-authored a book on transi-

tional economics), had it right: "This Union treaty is a very big coffin for all of us to lie in."

Moreover, the issue of the republics has just begun. The Soviet Union is a country of 126 nationalities. Only 15 have their own para-state formation. For example in Russia, there are sixteen autonomous republics. Most of them have declared themselves union republics, which, under the Soviet Constitution, are supposed to have the right to secede.

Only a radical move to the free market will preserve peace. Gorbachev should allow the republics to privatize their land, legalize businesses, free the price system, choose their own currency, and allow people to keep the proceeds of their labor.

But there is a serious question whether anything can be repaired as long as Gorbachev is in

power. He is hated in all republics, and couldn't win a democratic mandate if he sought one. It is Gorbachev who is preventing an orderly secession. In doing so, he is a threat to world peace: most of the republics have declared themselves nuclear free, yet the Soviets hold 11,000 warheads.

Ever since Herbert Hoover, the U.S. government has been propping up the Soviet Union, and George Bush is continuing that policy. That is why he is sending American food and tax dollars to Gorbachev and the KGB, and that is why he is snubbing the democratically-elected leaders of the republics.

The republics of the Soviet Union want freedom, and the world's two largest superpowers are committed to denying it to them. ◀

Exit the Iron Lady

BY MURRAY N. ROTHBARD

Mrs. Thatcher's departure from British rule befitted her entire reign: blustering in rhetoric ("The Iron Lady will never quit") accompanied by very little concrete action (as the Iron Lady quickly departed). Her rhetoric did bring free-market ideas back to respectability in Britain for the first time in a half-century, and it is certainly gratifying to see the estimable people at the Institute of Economic Affairs in London become Britain's most influential and reputable think-tank. It is also largely to the credit of the Thatcher Era that the Labour Party has moved rightward, and largely abandoned its loony left-wing views, and that the British have decisively abandoned their post-Depression psychosis about unemployment rates ever being higher than 1%.

The Thatcher accomplishments, however, are a very different story, and very much of a mixed-bag. On the positive side, there was a considerable amount of denationalization and pri-

vatzation, including the sale of public housing units to the tenants, thereby converting former Labour voters to staunchly Conservative property owners. Another of her successes was breaking the massive power of the British trade unions.

Unfortunately, the pluses of the Thatcher economic record are more than offset by the stark fact that the State ends the Thatcher era more of a parasitic burden on the British economy and society than it was when she took office. For example, she never dared touch the sacred cow of socialized medicine, the National Health Service. For that and many other reasons, British government spending and revenues are more generous than ever.

Furthermore, despite Mrs. Thatcher's lip-service to monetarism, her early successes against inflation have been reversed, and monetary expansion, inflation, government deficits, and accompanying unemployment are higher than ever. Mrs. Thatcher left office, after eleven

years, in the midst of a disgraceful inflationary recession: with inflation at 11%, and unemployment at 9%. In short, Mrs. Thatcher's macroeconomic record was abysmal.

To top it off, her decisive blunder was the replacement of local property taxes by an equal tax per person (a "poll tax"). In England, in contrast to the United States, the central government has total control over the local governments, many of which are ruled by wild-spending left Labourites. The equal tax was designed to curb the free-spending local governments.

Instead, what should have been predictable happened. The local governments generally increased their spending and taxes, the higher equal tax biting fiercely upon the poor and middle-class, and then effectively placed the blame for the higher taxes upon the Thatcher regime. Moreover, in all this maneuvering, the Thatcherites forgot that the great point about an equal tax is precisely that taxes have to be

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drastically lowered so that the poorest can pay it; to raise equal tax rates above the old property tax, or to allow them to be raised, is a species of economic and political insanity, and Mrs. Thatcher reaped the proper punishment for her egregious error.

Why then didn't the Thatcher government, upon installing the equal tax for local governments, directly decree drastically lower tax rates for each locale? Then the British masses would have welcomed instead of combatted the poll tax. The Thatcherite answer is that the central government would have had to assume funding of such local government activities as education, which would have raised either central taxes or the central government deficit.

But that only pushes the analysis one step further: why wasn't the Thatcher government prepared to slash such spending, which is almost as bloated as in the U.S.? Clearly the answer is either that the Thatcherites did not truly believe their own rhetoric or that they didn't have the guts to raise the issue. In either case, Mrs. Thatcher deserved her eventual fate.

In one area of the macro-economy we must regret the exit of Mrs. Thatcher: hers was the only voice raising a cry against the

now-inevitable creation of a European Central Bank, issuing a new European currency unit. Unfortunately, and especially since the firing of her monetarist economic adviser, Sir Alan Walters, Mrs. Thatcher failed to make a convincing case for her opposition to this coming new order, putting it solely in cranky, hectoring terms of British national glory as against subordination to "Europe." She therefore came off as a narrow anti-European obstructionist as against a seemingly enlightened and beneficent "united Europe."

The problem in almost all analysis of the new European Community a-borning is the usual conflation of State and society. Socially and economically, to the extent that the new Europe will be a vast free-trade and free-capital-investment area, this new order will be all to the good: expanding the division of labor, the productivity, and the living standards of all the participating nations. Unfortunately, the essence of the new Europe will not be its free-trade area, but a giant new State bureaucracy, headquartered in Strasbourg and Brussels, controlling, regulating, and "equalizing" tax rates everywhere by coercing the raising of taxes in low-tax countries.

And the worst aspect of this united Europe is precisely the

area that Mrs. Thatcher zeroed in on: money and banking. While the monetarists are dead wrong in preferring a Europe (or a world) of nationally fragmented fiat monies to an international gold money, they are right in warning of the dangers of the new scheme. For the problem is that the new currency will of course not be gold, a market-produced money, but a fiat paper issued in new currency units. So that the result of this neo-Keynesian scheme will be inflationary fiat money, the issue of which is controlled by the regional Central Bank, i.e., by the new regional government.

This collaboration will then make it much easier for the Central Banks of the U.S., Britain, and Japan, to collaborate with the new European Central Bank, and thereby to move rapidly toward the old Keynesian dream: a World Central Bank issuing a new world paper currency unit. And then, we would be truly off to the races, with the world's Money and macro-economy totally at the mercy of a world-wide inflation, centrally controlled by self-proclaimed all-wise Keynesian masters. It is unfortunate that Mrs. Thatcher could not articulate her opposition to the new monetary Europe in such terms. ◀

Big Oil vs. Environmentalism

BY THOMAS J.
DIORENZO

Outward appearances suggest that the oil companies and the environmental lobby are natural political enemies. Most of the environmental organizations have supported bans on oil drilling, advocated governmental price and allocation controls, if not outright nationalization, and are quick to call a press conference to denounce "Big Oil" whenever there is an accident such as 1989's Exxon Valdez oil spill. Some even advocate the criminalization of such accidents.

But outward appearances can be deceiving. In my study of 1988 corporate grants to public

policy advocacy organizations (*Patterns of Corporate Philanthropy*, Capital Research Center, 1990), I found that major oil companies give hundreds of thousands of dollars annually to their ostensible adversaries.

In 1988, Amoco financially supported, among others, the National Audubon Society. Ashland Oil contributed to the Nature Conservancy; Arco made grants to the Environmental Law Institute, among others; and Exxon, which was mercilessly criticized by all the environmental groups in 1989, gave in 1988 to the National Wildlife Federation,

among others.

Mobil supported the World Wildlife Fund, among others; Phillips Petroleum contributed to the Environmental Law Institute; while Texaco was a benefactor of the Nature Conservancy, among others.

What could explain this "suicidal impulse?" One popular theory is that this kind of behavior—in the oil industry and elsewhere—is an effort to silence critics. As former Delaware Governor Pete Dupont points out in the preface to *Patterns of Corporate Philanthropy*, Jesse Jackson is un-

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Big Oil vs. Environ- mentalism

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likely to call for a boycott of a company that has just given his "rainbow coalition" \$500,000.

Appeasement may be the strategy, but if anything, environmentalists have stepped up their attacks on "big oil," perhaps encouraged by our "environmental president" who recently excoriated the oil industry for allowing the free market to set prices!

An alternative explanation, however, is that the relationship between these two groups is not as adversarial as one might think.

Ever since the 1973 Arab oil embargo, there has been talk of an American oil industry cartel; indeed, as a response to the recent escalation of oil prices, Congress launched yet another investigation of alleged price fixing.

It is true that American oil companies benefited from the OPEC cartel which, for seven years, successfully increased world oil prices by cutting back supplies. But OPEC fell apart, as all cartels eventually do, because of the inevitability of cheating on the supply restriction agreement. There is no honor among thieves or government monopolists.

The possibility of the American oil industry forming a private cartel is extremely remote, for there are literally thousands of refiners, making enforcement vir-

tually impossible. Not that the industry would not like to cut domestic oil production by, say, 50%, thereby driving up the price of oil and gas and enhancing industry profits.

The "problem" is that such an agreement would be too costly to enforce, unless, of course, the coercive powers of government could somehow be employed to enforce it. This is how the airline industry, prior to deregulation, became a cartel—the Civil Aeronautics Board (CAB) was used by the industry to limit entry and to control prices. It effectively ran the airline cartel for forty years. The trucking industry was similarly cartelized with the help of the Interstate Commerce Commission (ICC). There is a long history of government-sanctioned monopoly; economists have railed against such mercantilistic practices since the 18th century.

Public outrage over such blatant abuses of governmental power as the CAB and ICC led to deregulation late in the Carter administration. So specious were these government-enforced monopolies that even Ralph Nader and Ted Kennedy, not known for free-market views, vigorously supported deregulation.

The public would likely be similarly outraged by a government-sponsored oil cartel, an

Interstate Oil Commission if you will. It would be too obviously a rip-off of the consumers, reminiscent of the CAB and ICC.

But that's where the environmentalists come in. The public won't countenance a government-sponsored oil cartel, but it will support environmentalism.

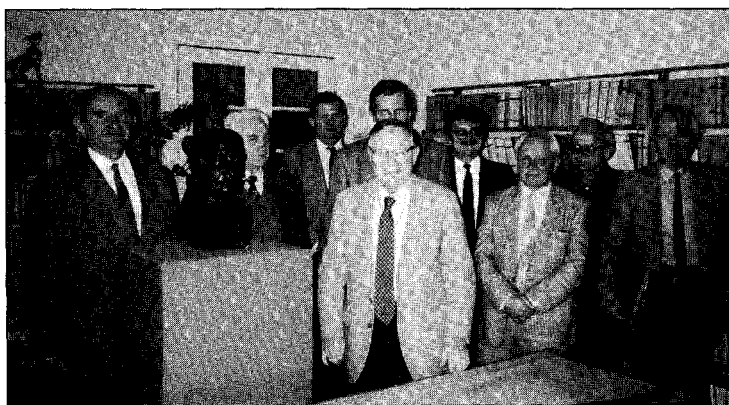
In the name of environmentalism, 98% of the outer continental shelf has been placed off limits to oil drilling; more than two-thirds of Alaska—where there are large known oil deposits—have been nationalized and withdrawn from oil exploration; and millions of acres of other lands have been "preserved" by environmental regulations or the nationalization of land (the federal government owns more than 60% of all the land west of the Mississippi).

There may not be an outright conspiracy on the part of the oil companies and the environmentalists, but the effects of environmentalism on oil supplies and prices is the same as if there were. Environmental regulation is effectively a governmental enforcement mechanism for a domestic oil cartel. It has sharply reduced oil supplies and raised prices, all to the detriment of American consumers but the benefit of the industry and anti-growth environmentalists.

So it is not so strange after all that the oil industry is bankrolling its supposed adversaries. It is good public relations these days to appear "environmentally sensitive," but it is also an ingenious way of creating cartel profits. Thanks to the environmental lobby and its corporate benefactors, the U.S. government has already done to us with "anti-energy" policies what the Bush administration says Saddam Hussein hopes to achieve by military force in the Middle East. ◀

We assisted Ludwig von Mises' dear friend (and long-time Institute Member) George Koether (center) in presenting a bust of Mises to the economics department at the University of Warsaw, where it will hold the place of honor in the library near Oscar Lange's old office, along with a set of Mises's works and other Institute literature. Polish Communist Lange, who claimed to have refuted Mises, had joked about erecting a Mises statue in the central planning department of the socialist state.

The laugh turned out to be on Lange and socialism.



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