

MURRAY N. ROTHBARD AS A CRITIC OF SOCIALISM

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Murray Newton Rothbard, eminent economist, historian, and philosopher, unquestionably the most ardent advocate of liberty in this century, did more damage to the cause of socialism than any other Western intellectual. To say that Murray Rothbard was a critic of socialism would be a serious understatement. Rothbard saw his mission in the never ending fight for liberty with all its enemies:

Civilization and human existence are at stake — and to preserve and expand it, high theory and scholarship, though important, is not enough. Especially in an age of galloping statism, the classical liberal, the advocate of free market, has an obligation to carry the struggle to all levels of society — to government, to general public, to political parties.¹

Following his teacher, Ludwig von Mises, Rothbard exposed socialism and its different disguises (from Nazism to fashionable modern social movements) as relying on state violence against private property and harming economic prosperity. All collectivist social utopias will end in a disaster irrespective of differences in detail, he wrote. Major common denominators of these versions of socialism are: “Private property is eliminated, individualism goes by the board, individuality is flattened, all property is owned and controlled communally, and the individual units of the new collective organism are in some vague way equal to one another.”² These features — property and individualism — argued Rothbard, are the most essential for human liberty, the survival of civilization, and for the existence of a productive economy in the first place.

“Most people — historians not excepted — are tempted to think of economic and social progress as being continuous: in every century people are better off than in the one preceding,” he wrote in his seminal *History of Economic Thought*. “This comforting assumption had to be given up quite early when the Dark Ages ensued the collapse of the Roman Empire.”³ Another startling example of disruption in the chain of human progress is our

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¹ Murray N. Rothbard, “Mises and the Role of the Economist in Public Policy,” in *The Meaning of Ludwig von Mises. Contributions in Economics, Sociology, Epistemology, and Political Philosophy*, ed. Jeffrey M. Herbener (Auburn, Alabama: Praxeology Press, 1993; Dordrecht, Netherlands: Kluwer Academic Publishers, 1993), p. 208.

² Murray N. Rothbard, *Classical Economics*, volume II, *An Austrian perspective on the History of Economic Thought* (Aldershot-Brookfield: Edward Elgar, 1995), p. 318.

³ Murray N. Rothbard, *Economic Thought Before Adam Smith*, volume I, *An Austrian Perspective on the History of Economic Thought* (Hunts-Brookfield: Edward Elgar, 1995), p. 67.

age — an age of unprecedented assault on human freedom and industriousness. “The characteristic feature of this age of destructive wars and social disintegration is the revolt against economics,”⁴ stated Ludwig von Mises. This revolt failed and it became obvious that the economic collapse of socialism was caused by the rejection of economic reasoning. The spread of the anti-capitalistic mentality in the twentieth century has brought enormous suffering and hardship of the people in all socialist countries, has greatly reduced standards of living and the quality of life in mixed economies and is a powerful warning against socialism, statism and interventionism in the West.

It is beyond the abilities of economic analysis to calculate the opportunity cost of the socialist experiment, but the human toll is estimated at one hundred seventy million people around the world who perished during collectivizations, purges, campaigns against “unearned” income and other devilish experiments in social engineering.⁵ “A convincing case can be made, indeed, that the well-known horrors of twentieth century communism — of Lenin, Stalin, Mao and Pol Pot — can be considered the logical unfolding, the embodiment, of the nineteenth century vision of their master, Karl Marx,”⁶ he concluded.

Rothbard characterized socialism as the “violent abolition of the market.”⁷ Because he kept a shrewd eye on what was happening in Eastern Europe and the Soviet Union, his deep insights were more sound than the shallow observations of Western academic Sovietologists. Rothbard believed that Austrian economists have strong arguments against socialism, statism, and governmental interventions, arguments made all the more powerful by the failure of socialism in Eastern Europe, Russia, Cuba, and Asian countries, and the enormous suffering and hardship of the people in all socialist countries. His knowledge of Russian and European history was astounding. Rothbard’s close associate Hans-Hermann Hoppe wrote:

A brilliant stylist, equipped with razor-sharp logic and unrivaled polemical talent, throughout his life Murray fought against the tide of “Zeitgeist,” the spirit of times: the 20th century was for Murray a century of evil that had to be repudiated. With seemingly inexhaustible energy Murray fought not only against socialism, the collapse of which he predicted long before it actually occurred, but also against the welfare state as counterproductive and immoral.⁸

I. Marxism as a Secular Religion

Rothbard was the first historian of economic thought in the West to do a careful analysis of Marxism from the true Austrian perspective. In his

⁴ Ludwig von Mises, *Human Action: A Treatise on Economics*, 3rd rev. ed. (Chicago: Henry Regnery, 1966), p. 9.

⁵ See R.J. Rummel, *Death by Government* (Irvington-On-Hudson, NY: Foundation for Economic Education, 1994), p. 496.

⁶ Rothbard, *Classical Economics*, p. 433.

⁷ Murray N. Rothbard, *Man, Economy and State. A Treatise of Economic Principles* (Los Angeles: Nash Publishing, 1970), p. 765.

⁸ Hans-Hermann Hoppe, in *Murray N. Rothbard. In Memoriam.* ed. Llewellyn H. Rockwell, Jr. (Auburn, Alabama: Ludwig von Mises Institute, 1995), p. 35.

anatomical study of Marx, Rothbard dissects Marxism in five chapters of his *Classical Economics*. Here, Rothbard not only discusses the analytics of Marx's economics, but also the philosophical, religious, and political background to Marx's system. Rothbard argued that Marx's communist views on history, property, marriage, and much else, were rooted in the bloody milleniarism of the middle ages; thus, Rothbard presents Marxism as a Religious Creed. The result of Marx's work was a secular religion and not a scientific theory.

"In reality," wrote Rothbard, Marx "created a veritable tissue of fallacies. Every single nodal point of the theory is wrong and fallacious, and its "integument" — to use a good Marxian term — is a web of fallacy as well. The Marxian system lies in absolute tatters and ruin; the "integument" of Marxian theory has "burst asunder" long before its predicted "bursting" of the capitalist system. Far from being a structure of "scientific" laws, furthermore, the jerry-built structure was constructed and shored up in desperate service to the fanatical and crazed messianic goal of destruction of the division of labor, and indeed of man's very individuality, and the apocalyptic creation of an allegedly inevitable collectivist world order, an atheized variant of a venerable Christian heresy."⁹

Communists all around the world have their religion and pretend it is a science. Marx's fanatical communism was rabbinical in its style. "The key to the intricate and massive system of thought created by Karl Marx," wrote Rothbard, "is at bottom a simple one: Karl Marx was a communist. . . . In the same way as the return of the Messiah, in Christian theology, will put an end to history and establish a new heaven and new Earth, so the establishment of of communism would put an end to human history."¹⁰ "Communist civilization of tomorrow" was the main declared goal of government propaganda in the USSR and other countries of "real socialism". Lenin's slogans-prayers, like "Marxism is Almighty Because it is True!", or "Onward, Comrades, to the final Victory of the Communist Civilization!" decorated most public buildings in the former Soviet empire. Communist prayers were a necessary attribute of the educational system. "The massive foundation for all this was provided by the religious character of Marx's being and vision. His father's father and brother were successively chief rabbi in the former bishopric of Trier in the Rhineland, the Marx birthplace. Indeed, the family had provided Trier with rabbis since the seventeenth century. His mother, too, descended from a line of rabbis. Marx's personal leadership was very much in the style of a Hasidic rabbi, adjusting private lives as much as interpreting the dogma."¹¹

In full accordance with this new theology of communism, Marx and his followers put on the top of their agenda a goal of "forming a new human being" ready to implement Marx's vision: selfless collectivism oriented to the "betterment" of society and ruthless to "class enemies." The disappearance of the division of labor under communism will mean that productive labor will allow "each individual to develop all his faculties, physical and mental, in

⁹ Rothbard, *Classical Economics*, p. 433.

¹⁰ Murray N. Rothbard, "Karl Marx: Communist as Religious Eschatologist," in *Requiem for Marx*, ed. Yuri N. Maltsev (Auburn, Alabama: Ludwig von Mises Institute, 1993), p. 221.

¹¹ David Felix, "Meaningful Marx and Marxology," *Critical Review. A Journal of Books and Ideas*, Vol. 2, No. 4 (Fall 1988), p. 83.

all directions and exercise them in full.”¹²

In implementing this Marxian vision, 60 million Soviets who would not fit this grandiose image were slaughtered in a dreadful Gulag.¹³ According to Grigori Malenkov, a close associate to Stalin and later a general secretary of the Communist Party of the Soviet Union, these victims were “permitted costs” of “forming a new man of the future.”¹⁴ These purges were instruments of indiscriminate terror of the Soviet government against its citizens — nobody, whether loyal or disloyal to the Party, whether Russian or Jewish, Georgian or Ukrainian, peasant or intellectual, was immune from persecution and death. The religious idea of the Holy War captured the minds of the “architects of the future,” and genes of fear were implanted into every human being under socialism. The original justification of these atrocities, wrote British historian Robert Conquest, lies at the heart “of Communist ethics — in Lenin’s thesis that “our morality is completely subordinated to the interests of the class struggle of the proletariat,” and that “everything that is done in the proletarian cause is honest.” This was interpreted from the start as justifying “everything” that was done in the interests of the Communist Party.”¹⁵ The cost of this ethic is enormous: “The purge of rival leadership, of Jewish doctors and scientists, of agronomists and biologists who opposed first Lysenko and later Khrushchev in his Virgin Lands campaigns, of dissenters in the cultural sphere, robbed the country of vital talent. In the long run, these negative costs undermined the system,” witnessed former KGB Spymaster Pavel Sudoplatov.¹⁶

Rothbard exposed the hopeless futility of Marxist dogma about the new man of tomorrow when he wrote: “The idea of everyone developing all their faculties “in all directions” is mind-boggling, and conjures up the absurd picture of a world of autistic dilettantes, each heedless of social demand for their services and products, and each dabbling whimsically and sporadically in every activity.”¹⁷ This was exactly the case of Soviet nomenklatura where “autistic dilettantes,” devoid of any skills, were selected on the basis of the Party loyalty and were ruining any sectors of economy of which the Party would put them in charge.

In an environment of accelerating statism and socialism following the First World War, Ludwig von Mises turned his attention to analyzing the economics of government intervention and planning. His journal article “Economic Calculation in the Socialist Commonwealth,”¹⁸ written in 1918,

¹² Rothbard, *Classical Economics*, p. 325.

¹³ Andrei Sakharov, “Sakharov and Solzhenitsyn: A Difference in Principle,” *Time*, May 21, 1990, p. 52.

¹⁴ Cf. Pavel Sudoplatov and Anatoli Sudoplatov with Jerrold L. and Leona P. Schecter, *Special Tasks: The Memoirs of an Unwanted Witness — A Soviet Spymaster* (Boston: Little, Brown and Company, 1994), p. 319.

¹⁵ Robert Conquest, “Foreword” in Pavel Sudoplatov and Anatoli Sudoplatov with Jerrold L. and Leona P. Schecter, *Special Tasks: The Memoirs of an Unwanted Witness — A Soviet Spymaster* (Boston: Little, Brown and Company, 1994), p. viii.

¹⁶ The Virgin Lands campaign of 1954-56, practically unnoticed in the West, was a massive effort to open vast tracts of steppe lands for grain production. The experiment, involving half a million “volunteers” had to be curtailed because of soil erosion that rapidly turned the land into a dust bowl. Cf. Sudoplatov, *Special Tasks*, p. 319-320.

¹⁷ Rothbard, *Classical Economics*, p. 325.

¹⁸ Ludwig von Mises, “Economic Calculation in the Socialist Commonwealth,” first English

immediately after the Bolshevik Revolution in Russia, demonstrated for the first time that any economy deprived of a free price system could not rationally calculate costs or allocate resources efficiently to their most needed tasks. From this perspective socialism is not an economic system, but rather a simple — and irrational — method of management.

Rothbard further developed the Misesian arguments in the economic calculation debate. Moreover, Rothbard concluded that if socialism cannot work, then neither can the specific acts of government intervention into the market.

This position is held today by an increasing number of economists who share the Misesian-Rothbardian vision of the internal flaws of socialism. Paul R. Gregory and Robert C. Stuart, in a popular textbook on the Soviet economy, write: “The major lesson to be learned from this examination of the administrative-command system is that it failed due to internal contradictions, not due to human error. This insight is important. Subsequent generations, attracted by the appealing features of the administrative-command system — equality, job rights, managed growth — may conclude that the system itself was sound. In this view, its managers, from the late 1920s through the early 1990s simply could not get it right. Such a conclusion could lead to a repetition of the experiment with results that would perhaps not be foreseen by future generations.”¹⁹

The sad legacy of Marxism is the mind-set of certain people both in the East and West who started to believe that only the State can cure economic ills and achieve social justice.²⁰ Since outside the bureaucracy political mechanisms for voicing demands and resolving conflicts are weak in Russia, the channels of communication and action designed to implement policies are subverted by their covert political functions. New policies aimed at reorganizing bureaucratic powers and tasks rarely resolve long-standing power struggles and are often drawn into them, limiting or distorting their effects. Central control therefore is undermined by the unpredictability of outcomes.

One of the common denominators between Marxists-Leninists and government interventionists in the West is the belief that the problems of monopoly are the problems of ownership. This belief holds that private monopolies, which act out of greed, are harmful, while government monopolies, having substituted greed for some vague societal good, are helpful. This position is based on the view that private firms suppress scientific and technological progress, pollute the environment, and engage in conspiracies against the public’s well-being, while the government monopolies (disguised under the fancy names of the “socialist enterprise,” “public utility,” or “self-managed commune”) are believed to be ethical and upright, concerned only with the public’s well-being, and never with the

translation in F.A. Hayek, ed., *Collectivist Economic Planning* (London: G. Routledge & Sons, 1935).

¹⁹ Paul R. Gregory and Robert C. Stuart, *Soviet and Post-Soviet Economic Structure and Performance* (New York: Harper Collins College Publishers, 1994), p. 381.

²⁰ This tradition began with Marx’s contemporaries and was continued by non-Marxist economists — members of the German Historical School, ideologues of the British Labor Party, National-Socialists in Germany and Fascists in Italy, organizers of the first trade unions in Europe and America, and sociologists Max Weber and Thorstein Veblen.

personal gain of the government managers. All experiences with public (i.e., bureaucratic) property have proven otherwise. As a group, the people who manage and operate the public sector are no less self-interested than those who manage and operate private businesses. One important difference exists though: unlike the private entrepreneurs, public-sector managers are not financially responsible for their actions, since they operate in an environment free from the cost control induced by competition.

The failure of socialism in Russia and the enormous suffering and hardship of the people in all of the so-called socialist countries is a powerful warning against socialism, statism and interventionism in the West. "We should all be thankful to the Soviets because they have proved conclusively that socialism doesn't work. No one can say they didn't have enough power or enough bureaucracy or enough planners or they didn't go far enough,"²¹ wrote Paul Craig Roberts.

Yet, despite the recent collapse of socialism and communism in Soviet Russia and Eastern Europe, socialism is still alive and growing in Western academia. Even today, the existence of the dozen American Marxian journals and the availability of more than 400 American university courses given per semester on Marxism²² proves that "the only lesson of history is that it does not teach us anything," as a popular Russian aphorism puts it. Thousands of Western academics belong to a thriving industry of "Marxist studies". The gap created by the collapse of communism in the East, which put to screaming halt Marxian studies in Eastern Europe and the former Soviet Union and disbanded numerous institutions of Marxism-Leninism there, was immediately filled by "Marxist scholars" of the West. Moreover, different and numerous schools like "social economics," institutionalists, Keynesians, post-Keynesians, and neo-Keynesians are heavily borrowing from outdated, discredited and intellectually bankrupt dogmas of Marxism. "Academic theory, by a path of its own, has thus arrived at a position which bears considerable resemblance to Marx's system," admitted Joan Robinson, an economist cherished by mainstream academia. "In both, unemployment plays an essential part. In both, capitalism is seen as carrying the seeds of its own decay. On the negative side, as opposed to the orthodox equilibrium theory, the systems of Keynes and Marx stand together, and there is now, for the first time, enough common ground between Marxist and academic (i.e. Keynesian) economists to make discussion possible."²³ This "discussion" spills over into mainstream economics textbooks and mass media which are making Marxist religion acceptable by our establishment.

Rothbard's arguments against real socialism and interventionism alike fall into three major categories: absence or infringement of property rights, distorted price system limiting the process of economic calculation, and lawlessness (people do not have the right to contract and the absence of the tort law). Under these conditions, explained Rothbard, social institutions move away from ordered markets toward the near chaos of direct political allocation. Thousands of Marxist academics were trying to prove that the condition of the working classes in a capitalist society were getting worse

²¹ Paul Craig Roberts, *The Wall Street Journal*, June 28, 1989.

²² Felix, "Meaningful Marx," p. 89.

²³ Joan Robinson, "Marx and Keynes", in *Marx and Modern Economics*, ed. by David Horowitz (New York: Modern Reader Paperback, 1968), p. 107.

relative to conditions of the “exploiters”. “Marxists fell back on the view that what Marx “really” meant by impoverishment was not immiseration but relative deprivation.”²⁴

II. Social Stratification

Marxism and related intellectual schemes would try to capitalize on the issue of equality which, from their point of view, being a desired goal, should be enforced by the benevolent government. The issue of equality was always used to justify the most horrendous crimes and rampant rent-seeking. Rothbard exposed this cynical drive to equality in the following passage:

We conclude with one of the great paradoxes of our time: that the powerful and generally unchallenged cry for “equality” is driven by the decidedly inegalitarian aim of climbing on its back to increasingly absolute power, a triumph which will of course make the egalitarians themselves a ruling elite in income and wealth as well as power. Behind the honeyed but patently absurd pleas for equality is a ruthless drive for placing themselves at the top of a new hierarchy of power.²⁵

A major reason for inequality in a free society, stated Rothbard, is the different time preferences of individuals rearranging their consumption patterns intertemporarily.

We conclude that any man can be a capitalist if only he wants to be. He can derive his funds solely from the fruits of previous capitalist investment or from past hoarded cash balances or solely from his income as a laborer or a landowner. He can, of course, derive his funds from several other sources. The only thing that stops a man from being a capitalist is his own high time-preference scale, in other words, his strong desire to consume goods in the present. Marxists and others who postulate a rigid stratification — a virtual caste structure in society — are in grave error. The same person can be at once a laborer, a landowner, and a capitalist, in the same period of time.²⁶

III. Secession

Following the great Jeffersonian tradition, Rothbard presented a case for secession for any nation or even a group of people oppressed by a coercive government. He made a strong case against imperialism, war and intervention. This case was strengthened by the widespread independence movements which emerged with the collapse of the Soviet empire. The major reason for this disintegration is the lowered economic cost of freedom and political independence. University of Chicago Professor Gary S. Becker wrote on this occasion: “The number of nations has almost doubled in the past fifty years, to 191 independent states. The usual explanations for this multiplication, which invoke nationalism and ethnic conflicts, overlook a major reason: the

²⁴ Rothbard, “Karl Marx: Communist as Religious Eschatologist,” p. 225.

²⁵ Murray N. Rothbard, “Egalitarianism and the Elites,” *The Review of Austrian Economics*, Vol. 8, No. 2, (1995), p. 54.

²⁶ Rothbard, *Man, Economy and State*, p. 355.

economic cost of independence has been sharply lowered by the rapid growth in post-World War II international trade. Since 1950, world imports and exports have grown at the remarkable rate of about 10% a year.”²⁷

The period after the Second World War was characterized by the disintegration of world empires. The number of sovereign states increased from 37 in the beginning of this century to 192 this year. Moreover, the process of disintegration did not stop with the British, French, Portuguese, Spanish, and Soviet empires. Smaller multinational amalgamations like Pakistan, Yugoslavia, and Czechoslovakia broke up while existing multinational states, including Belgium, Britain, Bulgaria, Canada, China, Rumania, Russia, India, Iraq, Kazakhstan, and Turkey, are experiencing strong pressures from their national and religious minorities striving for independence.

IV. Foreign Intervention

Considering war and foreign intervention (along with murder, assault, robbery and slavery) to be “invasive actions” giving way to “violent or hegemonic regimes,”²⁸ Rothbard regarded himself as a member of the pre-1950s Old Right, rejecting the “globaloney” of the national warfare/welfare national security state. He actively opposed all overseas adventures of both the Bush and Clinton administrations. It was a courageous position in the chauvinistic atmosphere of the Gulf war, as well as in the hysteria accompanying the beginning of the Somalian disaster.

Rothbard was the first to point out that irrespective of what the ideologues of both parties would say, there were no winners in the Cold War, only losers, and that the U.S. government attempted to justify its most ferocious assaults on individual liberty by the “Soviet threat.” Of course, this hardly endeared him to the pro-war conservatives. One of them, William F. Buckley, Jr., claims in his “Obituary” for Murray that he was soft on communism, that “Rothbard physically applauded Khrushchev in his limousine as it passed by on the street.”²⁹ The year was 1959, and Dwight D. Eisenhower had invited Nikita Khrushchev — who had repudiated Stalin and emptied the Gulag of millions of political prisoners — to tour the U.S. The visit raised the possibility of peace and possible Soviet meltdown. All these prospects were ruined a year later by an irresponsible (and strategically unnecessary) flight of the U.S. spy aircraft U-2 piloted by Gary Francis Powers deep into the Soviet territory. The end of communism might have happened twenty years earlier if not for the vested interests in perpetuating of the Cold war. So, our military-industrial elites had undermined the prospects for the betterment of the U.S.-Soviet relations as well as Khrushchev’s position in the Soviet hierarchy, and weakened any prospects for further liberalization of the Soviet regime. It was Murray Rothbard, and not William F. Buckley, Jr., who was right there.

Rothbard was the only visible thinker of the West who saw, and had the

²⁷ Gary S. Becker, “Why So Many Mice are Roaring”, *Business Week* (November 7, 1994), p. 20.

²⁸ Rothbard, *Man, Economy and State*, p.80.

²⁹ William F. Buckley, Jr., “M.N. Rothbard, RIP,” *National Review*, February 6, 1995, p. 19.

courage to expose, the dangers of the warfare state to our liberties which would inevitably diminish with every war we would be in, either “hot” or “cold.” The growth of militarism necessarily meant the growth of bureaucracy, expansion of government functions, justification of increased government spending and the consequent rise of the anticapitalist mentality. In his immortal *Man, Economy and State*, Rothbard wrote “in wartime, precisely when it would seem most urgent to preserve an efficient productive system, the cry invariably goes up for “taking the profits out of war.”³⁰ Only peace and the absence of the mobilization mentality might mean an end to the “totalitarian bureaucracy,” intrusive government and social planning and engineering.

V. Rothbard’s Path to Freedom

Rothbard developed his theory of the postcommunist economic transition in 1990,³¹ a theory which was absolutely validated by the real experiences of Eastern Europe and former Soviet Union. The major prerequisite for a successful transition from a command economy to economic freedom and efficiency is private property and private decision-making in the allocation of resources. There can be no suspicion on the part of prospective buyers that an industry is being propped up through subsidies or special privileges that distort the prices of shares, products, or services. An intensive and extensive economic exchange cannot exist or last very long without confidence in the stability and reliability of the legal-institutional framework, contract enforcement, legal remedy, and other market institutions.

Rothbard’s answers to the problems facing Eastern Europeans and Russians are both radical and straightforward. “It is becoming ever clearer to Eastern Europeans that the only practical and realistic path, the only path toward reform that truly works and works quickly, is the total abolition of socialism and statism across the board.”³² Major ingredients of economic success — well defined and secure property rights and sound monetary and economic policies — are vital prerequisites of economic prosperity and stability.

“Ironically enough, by far the best path is to follow the old Marxist slogan: “All land to the peasants” (including agricultural workers) and “all factories to the workers!” “Returning” the state property to descendants of those expropriated in 1917 would be impractical, since few of them exist and can be identified, and certainly the industries could be returned to no one, since they (in contrast to the land) were created by the Communist regime.”³³

Rothbard raised important questions and gave us correct answers on how to deal with the mess left in all postcommunist countries by the central planners.

³⁰ Rothbard, *Man, Economy and State*, p.806.

³¹ Murray N. Rothbard, “How to Desocialize?” in *The Economics of Liberty*, ed. Llewellyn H. Rockwell, (Auburn, Alabama: Ludwig von Mises Institute, 1990).

³² Murray N. Rothbard, “A Radical Prescription for the Socialist Bloc,” in *The Economics of Liberty*, ed. Llewellyn H. Rockwell (Auburn, Alabama: Ludwig von Mises Institute, 1990), p. 343.

³³ Rothbard, *How to Desocialize?*, p. 340.

So how can communist governments and their opposition desocialize? Some steps are obvious: legalize all black markets, including currency (and make each currency freely convertible at market rates), remove all price and production controls, drastically cut taxes, etc. But what to do about state enterprises and agencies, which are, after all, the bulk of activity in communist countries? The easy answer — sell them, either on contract or at auction — won't work here. For where will the money come from to buy virtually all enterprises from the government?³⁴

These questions are of the utmost importance for Russia and other formerly Soviet republics undergoing transition from a centrally planned to a market economy. The economic activity in the socialist countries was subordinated to the fulfillment of communist political ideals “at any price.” The shortages of consumer goods were caused by the system itself — a system that was oriented toward world domination through modern military might. The need to produce consumer goods in a militarized, command economy is dictated by the necessity to create some differential in consumption in order to stimulate interest in work.

Central planners attempted to totally control production and distribution. Competition was eliminated in the 1930s with formation of the system of industrial ministries solely responsible for the production of certain groups of commodities. As a result, the market price system, necessary for efficient economy, ceased to exist. It was replaced by another one, where prices were calculated in a bureaucratic way of “cost accounting” and were not supposed to reflect supply and demand. The efficient allocation of resources became impossible due to the lack of price information. The only way to make this mechanism work, as Lenin and his successors realized, was to resort to terror. Fear was implanted into the people's minds and it replaced normal economic incentives. It was not a coincidence that the Soviet economy achieved its highest growth rates during the period of Stalinist purges and mass terror. The market was replaced by a system of commands based on the mechanism of the central planning and state ownership. The final goal of Marx — “The social anarchy of production gives place to a social regulation of production upon a definite plan according to the needs of the community and of each individual”³⁵ — was finally achieved. It led to severe dislocation and waste of resources, widespread shortages and frustration of the masses.

The already distorted price mechanism was further undermined by the economic reforms of the 1960s in the USSR and most Eastern European socialist countries. These “reforms” introduced huge subsidies on the one hand, and heavy indirect “turnover” taxes included into the price on the other. The absurdity of the system reached grotesque proportions with the introduction of the concept of profit into socialist economizing. Profit became a planned category, calculated as normative percentage of the costs. This “high cost - high profit” approach was one of the catalysts for the collapse of the system during Gorbachev's perestroika. With perestroika, the ailing regime lost its repressive impetus and the “socialist economic mechanism” built upon repression fell like a house of cards.

³⁴ Rothbard, *How to Desocialize?*, pp. 339-340.

³⁵ Karl Marx, *Socialism: Utopian and Scientific, Selected Works* (New York: International Publishers, 1969), p.429.

The experiences of political and economic transitions in the formerly socialist states unequivocally point to the fact that Rothbard was absolutely right in defining the factors necessary to achieve a successful transition to a market economy. The most essential factor for economic success is secure property rights and the rule of law; important to this is the fact that these can be achieved easier and faster in a small country, rather than a large one. The success stories in Central and Eastern Europe — Czech Republic, Estonia, Hungary, Slovenia, Latvia and Slovakia — are all small, nationally and ethnically homogeneous, and economically free nations. Moreover, Czechs, Balts, Slovaks and Slovenians expanded their economies considerably faster than the 2% - to 3%-a-year global average. Major ingredients of success were radical privatization and cessation of sending financial and other resources to Moscow or Belgrade or some other imperial capital. These small countries spectacularly outperformed large ones (see Table 1) like Russia, Rumania, Ukraine and Kazakhstan, multinational states with bloated bureaucracies disrespecting property rights, huge public sector, confiscatory tax systems, high cost of military and other wasteful government expenditures and widespread nepotism, crime and corruption.

Today there is no comparative advantage of being large — multinational states became obsolete rudiments of former colonial empires.³⁶ Formation of new independent states intensifies competitive pressures and increases small nation sensitivity to economic, technological, and managerial developments elsewhere.³⁷

³⁶ Interestingly enough, it was the first scientific revolution of the second half of the 19th and the beginning of the 20th century which provided necessary technological prerequisites for emergence of multinational states and colonial empires. “The enhanced ability to communicate over long distances, and the power to make privileged monopoly use of new techniques of communication were among the most important distinguishing marks of the modern scientific state. From Rome and ancient China onwards, empires had always recognized the importance of setting up swiftly and efficient lines of communication from the center to the frontiers of empire. The possession of this new capability, no less than the capitalist drive for markets or raw materials, may explain the tendency of industrialized states in the nineteenth century to expand their empires in distant lands.” Susan Strange, *States and Markets*, Second Edition (London: Pinter Publishers, 1994), p.126.

³⁷ See R.J. Barry Jones, *Globalisation and Interdependence in the International Political Economy. Rhetoric and Reality* (London: Pinter Publishers, 1995), p.167-168.

Table 1

SELECTED FORMER SOCIALIST ECONOMIES:
ECONOMIC ACTIVITY, 1990-1994

Percentage change of NMP* or GDP** over same period of preceding year

Country	1990	1991	1992	1993	1994 (est.)	Private sector share of GDP in mid-1994 (%)
Albania*	-13.1	-29.4	-6.0	11.0	10.0	50
Bulgaria**	-9.1	-11.7	-7.7	-6.0	-4.0	40
Croatia*	-8.5	-29.0	-8.0	-8.0	-7.0	40
Czech Republic**	-1.2	-14.2	-7.1	-0.5	2.5	65
Hungary**	-3.3	-11.9	-5.0	-2.0	3.5	55
Poland**	-11.6	-7.6	1.5	4.0	4.5	55
Estonia*	-8.1	-10.0	-14.4	2.0	6.0	55
Russia**	-4.0	-14.3	-22.0	-13.0	-16.0	50
Ukraine**	-3.6	-11.2	-16.0	-16.0	-13.0	30
Kazakhstan**	-0.9	-10.3	-14.2	-12.8	-11.0	20

Sources: Our estimates, based on the national statistical data, Economic Survey of Europe in 1993-1994, Economic Commission for Europe, United Nations Publication, New York - Geneva, 1994; national statistical publications, *Comparative Economic Studies*, Vol. XXXVI, No. 4, Winter 1994, pp. 122-124.

* Officially, GDP grew by 6% in 1994 but, if unrecorded activity in private sector real growth is added in, growth would top 10%. *Economist*, Vol. 333, Iss. 7890, November 19, 1994, p. 59.

** Estimates for Albania, Russia, Ukraine, Kazakhstan. Data on private sector share of GDP provided by the EBRD Transition Report, October 1994; The World Bank, Transition, Vol.6, No. 4, 1995, p.3.

Large states, *ceteris paribus*, do not have any advantage over the small ones in securing the property rights of their citizens. They usually spend relatively more on the military and other government services. They tend to be more vulnerable to pressures of vested interests, with the bureaucratization of functions more numerous than in small nations. The failure of market reforms in Russia can be explained simply: bureaucracy killed off capitalism. The same is valid for such large nations as Brazil, India, Kazakhstan, Mexico, Nigeria, and Russia, where government apparatchiks literally looted their economies and their vast natural and human resources.

VI. Reforms

A. Privatization

The essence of socialism is public ownership, argued Rothbard, and without dismantling this system none of the economic "reforms" would ever

work.³⁸ The major goals of privatization are to introduce a society based on the principles of economic freedom, and to raise the efficiency of the national economy.

The proper way to privatize is, once again, a radical one: allowing their present users to “homestead” these assets, for example, by granting pro-rata negotiable shares to workers in the various firms. After this one mighty stroke of universal privatization, prices of ownership shares on the market will fluctuate in accordance with the productivity and the success of the assets and the firms in question. Critics of homesteading typically denounce such an idea as a “giveaway” or “windfall gains” to the recipients. But in fact, the homesteaders have already created or taken these resources and lifted them into production, and any ensuring gains (or losses) will be the result of their own productive and entrepreneurial actions.³⁹

Rothbard rightly believed that privatization alone would not solve all the problems and should be accompanied by radical liberalization of economic life: complete removal of price controls and the end of the governmental abuse of the printing press. He also puts some of the blame for the halfhearted and inconsistent course taken by reformers in Eastern Europe where it belongs — mainstream Western economic theory and its lobby in Russian and other postcommunist countries. He wrote:

The reformers wish to abolish all price controls, but they worry that this course, amidst an already inflationary environment, would greatly aggravate inflation. Unfortunately, the Eastern Europeans, in their eagerness to absorb pro-capitalist literature, have imbibed Western economic fallacies that focus on price increases as “inflation” rather than on the monetary expansion which causes the increased prices.⁴⁰

The current Russian government’s program for “privatization” does not lead to private property, nor to private ownership, but instead to “mixed” collective property ownership, essentially leaving property rights as a monopoly of the state. The fact that private ownership dominates the most efficient economies of the West points unmistakably to the economic inferiority of the “collective property.”⁴¹ Rothbard warned about the absolute necessity of genuine private property for rapid economic development before the fall of the Soviet Union. He wrote:

It is becoming clearer to everyone that Ludwig von Mises was right: only genuinely private firms, private owners of the means of production, can be truly responsive to profit-and-loss incentives. And

³⁸ These thoughts were expressed by Rothbard in the most fascinating “Rothbardian” way. I remember him saying that “workers and peasants of Russia should implement an old Leninist slogan: “Land to the peasants, Factories to the worker”, and, probably amend it with the new one — “bureaus to bureaucrats.” Let communist nomenklatura privatize typewriters, staplers and telephones, so abundant on the tables of Soviet apparatchiks.”

³⁹ Rothbard, “A Radical Prescription,” p. 346.

⁴⁰ Rothbard, “A Radical Prescription,” p. 343.

⁴¹ “Moscow City government is overwhelmed with complaints on the collective owners who, instead of enlarging the assortment and bettering the service are increasing prices, are shortening the work hours and introducing additional holidays for themselves.” *Moskovskiye Novosti*, No. 44 (November 1, 1992), p.14.

moreover, the only genuine price system, reflecting costs and profit opportunities, arises from actual markets — from buying and selling by private owners of property.⁴²

Rothbard rightly expected that in the process of transition to a market economy, many if not most enterprises would fail, while the remaining few would have to undergo drastic technological, financial, and manpower restructuring before they can survive in the new economic environment.⁴³

How successful was Rothbard in persuading leaders of the postcommunist countries to adopt a *laissez faire* approach and implement radical privatization program? The answer is that he was not very successful in those countries where socialism, statism and bureaucratic mentality was deeply ingrained. However, in the countries that were forcibly confined, subjugated, and enslaved by the Soviets, both the masses and their leaders accepted the necessity of rapid and radical privatization, as well as the dismantling of the oppressive regulatory mechanism imposed on them by the repressive Soviet occupation.

B. Pace of Reforms

“Conventional wisdom,” wrote Rothbard, “counsels going slowly, ‘phasing-in’ freedom, rather than taking the generally reviled path of radical and comprehensive social and economic change.” He made a strong point that “gradualism and piecemeal change should be eschewed in favor of a radical and immediate overhaul.”⁴⁴ Today it is obvious even to the World Bank bureaucrats that Rothbard was absolutely right in his predictions. According to the World Bank’s study of eight formerly communist states — Estonia, Kyrgyzstan, Latvia, Lithuania, Moldova, Russia, Ukraine and Uzbekistan — “the countries that have been the most successful in reorienting trade and stabilizing the downward spiral in trade and output are those that reformed the fastest (such as Baltics).”⁴⁵

It is also obvious from the Russian, Ukrainian, and Kazakh experience, however, that practicing gradualism has not only not helped these countries, but has actually led them into negative economic growth for the past seven years. All have become major beneficiaries of international assistance. As Rothbard put it,

For one thing, as we have seen in the Soviet Union, gradual reform provides a convenient excuse to the vested interests, monopolists, and inefficient sluggards who are the beneficiaries of socialism, to change nothing at all. Combine this resistance with the standard bureaucratic inertia endemic under socialism, and meaningful change is reduced to

⁴² Rothbard, “A Radical Prescription,” p. 345.

⁴³ Different views were being expressed as to the urgency of privatization, and especially as to who should undertake it. In Czech Republic, for instance, the Prime Minister Vaclav Klaus has emphatically declared that “the state bureaucracy has no comparative advantage in restructuring enterprises; this activity should be left to the new private owners”. See Farid Dhanji, “Transformation Programs: Content and Sequencing,” *American Economic Review* Vol. 81 No. 2 (1992), p. 326.

⁴⁴ Rothbard, “A Radical Prescription,” p. 342.

⁴⁵ The World Bank, *Transition*, Vol. 5, No. 9 (November-December 1994), p.2.

mere rhetoric and lip service. . . . But more fundamentally, since the market economy is an intricate, interconnected latticework, a seamless web, keeping some controls and not others creates more dislocations, and perpetuates them indefinitely.⁴⁶

Attempts to combine communist ideology with some selected market gears have led many postcommunist countries to the present economic chaos. These attempts manifest the complete collapse of Marxist-Leninist ideology and all its philosophical underpinnings including the search for the “Third Way” in between the centrally planned and free enterprise systems. In many countries liberated from communism, reformers started to restructure economic systems from the wrong end. A progressive income tax system — with the upper tax bracket of 60 to 90 percent — was introduced in Russia, Ukraine and Belarus, while a new sales tax was set at 28 percent in Russia and Belarus, and 18 percent in Ukraine.

Russian statistics paints a bleak picture of the further decay of Russian economy in 1994: a 16 percent decline of the GDP in comparison to the year earlier, a budget deficit of 9.8 % of GDP, inflation of 209 percent, and interest rates of 242 percent.⁴⁷ The situation did not improve in the first half of 1995: GDP fell by 10 percent, industrial output and personal incomes fell respectively by 4.5 and 4 percent, and prices rose 94 percent.⁴⁸

The evolving crisis in the Russian economy can be explained by the fact that, despite the surfeit of laws and decrees, the Yeltsin government has made little or no progress in establishing markets or economic legality, and no effective mechanism has replaced the one based on the political allocation of resources.

The most recent round of “radical economic reforms” of Chernomyrdin’s cabinet is designed to do nothing more than to transfer ownership of state property to the bureaucratic and technocratic elites. V. Davituliani, President Yeltsin’s former representative in the Tambov oblast in Russia’s European heartland, painted a gloomy picture of ‘reforms’ in Tambov. The local government, he wrote, “consists 99.9 percent of former party and factory nomenklatura, who continue to take bribes and build houses for themselves just as they did before.”⁴⁹ Reluctant to relinquish their power and privileges, government and industrial officials have many opportunities to delay and obstruct any real privatization. Under pretexts unheard of in civilized world (“you can’t turn property over to drunken, degenerate people”⁵⁰), they support only those programs that employ expropriatory methods in combination with price increases and the printing of additional billions of rubles. The absence of genuine private property coupled with the creation of a fascist economy in place of public ownership resulted in massive misallocations of resources, lowering the already miserable standard of living of Russians.

After ten years of announced economic reforms, Russia continues to possess the largest and most ineffective public sector in the world. Existence

⁴⁶ Rothbard, “A Radical Prescription,” p. 343.

⁴⁷ *The Economist*, November 19, 1994.

⁴⁸ The World Bank, *Transition*, Vol. 6, No. 4 (1995), p. 18.

⁴⁹ V. Davituliani, *Crossroads. A Monitor of Post-Soviet Reform*, Vol. III, No. 1 (1994), p. 3.

⁵⁰ *Izvestia* (February 14, 1992), p. 3

of this public sector is the chief cause of the low standard of living in Russia. Russia reported that it successfully privatized over 50 percent of the economy; this is another example of flawed statistics. As Steven Rosefielde writes,

Information has become a business with few controls, with the result that various government agencies are concocting and peddling whatever data they choose. And the leadership itself is perpetually manipulating its figures to deceive and misinform various users, most especially G-7. The numbers invariably improve when decisions on disbursing aid are imminent and deteriorate shortly thereafter.⁵¹

The real share of state property in Russia is one of the highest in the world and, according to some estimates, is in reality over 85 percent of GDP.⁵² Moreover, without defined and secure property rights any numbers on the size of the private sector are meaningless.

The statutory monthly minimum wage and pension went up May 1, 1995 to 43,000 rubles (\$8.50), double the earlier 20,500 rubles. About 30 to 40 percent of Russians earn less than 249,000 rubles (equivalent to \$50) a month, viewed as the average subsistence level.⁵³ Under these conditions, it seems clear that so-called “economic crimes” (i.e., black markets) in present day Russia are committed by people responding in a rational manner to the structure of economic incentives and opportunities available to them. According to Interior Minister Viktor Erin, the MVD (Interior Ministry) had also investigated about 100,000 economic crimes.⁵⁴ The opportunity cost of crime for people who are thwarted in their attempts to achieve their economic aspirations (which generally increased due to perestroika and the subsequent collapse of communism) is relatively low. The incidence of crime increases during any economic catastrophe. In the case of Russia, this catastrophe was coupled with the rise of economic expectations. This provided a perfect stage for a dramatic boost in crime.

C. Crime

Private production and exchange, the most common activities for human beings, are still criminalized in today’s Russia through a confiscatory tax system and monstrous regulatory mechanism. “If organizations expect future profits to be taxed away, they may simply choose not to become profitable in the legal economy. The population has already become accustomed to an environment of *uravnilovka*, devoid of legality, where written commitments are not honored. It should be noted that genuine private property rights, now a goal in many of the socialist countries, cannot exist in an operational sense without legality in taxation.”⁵⁵ The incredible reach of the law is evidenced

⁵¹ Steven Rosefielde, “Russia’s Economic Recovery Potential: Optimizing the Residual Productivity of the Soviet Capital Stock,” *Comparative Economic Studies*, Vol. 36, No. 4 (1994), p. 136.

⁵² Cf. “Neatkari’ga’ Ci’n’a” (Riga), November 16, 1994.

⁵³ The World Bank, *Transition*, Vol. 6, No. 4, 1995, p. 18.

⁵⁴ *RFE/RL Daily Report*, No. 218, 17 November 1994.

⁵⁵ John M. Litwack, “Legality and Market Reforms in Soviet-Type Economies” in *The Road to Capitalism. Economic Transformation in Eastern Europe and the Former Soviet Union*, ed. David Kenneth and Marc Lieberman (Fort Worth: The Dryden Press, 1992), p. 116.

by over 600,000 convictions per year.⁵⁶

D. Bureaucratic Corruption

Corruption is usually defined “as behavior of public officials which deviates from accepted norms in order to serve private ends.”⁵⁷ It was assumed by the socialist ideology that the Communist Party officials being altruistic servants of the “public good” were acting selflessly with the right answers provided by the “scientific approach” of Marxism-Leninism. They could and would in the long run solve all social and economic problems inherited by the socialist society from capitalism. The reality was different: party and government functionaries have come to believe that state property belongs to them *de facto* if not *de jure*. State-owned enterprises have been a playground of corruption everywhere. Unlike most East European countries, where communism was viewed as an alien ideology imposed by force by the occupying power and local communist officials as collaborators with this power, in Russia former communists are occupying over 60 percent of senior positions in local governments and close to 90 percent in the central government. The number of these bureaucrats in 1995 in Russia was around 10 million. Given that such people “plan” and manage state property and economic life in general in their own interest, it is not surprising that bureaucrats became the most powerful economic elite in Russia.

The new class of Russian entrepreneurs is on its way to becoming a private bureaucracy. The source of bureaucratization of private enterprise in Russia is the same as everywhere else — the destruction of the profit motive by government regulations and taxation. It is the government’s overregulation of private industries that explains why so many large corporations seem to become self-perpetuating empires rather than profit-making enterprises.

E. Foreign Investment

Foreign investment requires a hospitable environment. At a minimum, here are the signs to look for: extensive and radical transition plans; provisions for repatriation of earnings and servicing loans; complementary institutional infrastructures; mutually acceptable prices and terms of contract; the prospects of satisfactory financial and economic results; and a favorable cultural environment.

The short-term possibilities for foreign investment in the Russian economy remain quite limited. The business climate will remain risky as long as investors need to worry about economic instability, lack of reliable

⁵⁶ *Moscow News*, No. 34 (August 26- September 1, 1994), p. 14. It is virtually impossible to make any quantitative comparisons of the dynamics of criminal activity: reliable statistics of crime are not existent. Propaganda officers would master criminal statistics without any relevance to reality. “We do not fake it — we make it” was the reply I received to a questions asked of a senior statistician of the Ministry of Interior in Moscow. Statistics were and still are a weapon in ideological war with the West, as well as in political battles for power inside the country.

⁵⁷ Samuel P. Huntington, *Political Order in Changing Societies* (New Haven: Yale University Press, 1968), p. 59.

currency, political conflicts, and uncertainty about the future of the Russian empire. It is evident that the ways to enhance the dynamic economic development of Russia are to attract foreign capital as well as to secure access to the modern know-how and methods of management. This should be done through direct investment by foreign private-sector institutions, which can be attracted only by a favorable policy environment. In the long run there are objective prerequisites for foreign capital investment, including a skilled labor force and an abundance of natural resources and land. Foreign investments are more likely to be made in economies which are market-oriented and in countries which genuinely desire direct foreign investment. Tough competition on the world market among both developed and developing market economies for foreign capital has already prompted liberalization of tax and investment regimes, tax holidays, and the sharing the risk capital by way of joint venture arrangements.

Foreign investors complain that bribes are being sought and taken on all levels of Russian bureaucracy. Without them nothing can be done in banking, construction, transportation and other vital businesses. Widespread corruption as a consequence of the overregulated economy is often cited as a major obstacle for Western investors in Russia.⁵⁸ Russia today has over 240,000 arbitrary trade laws and regulations which are special interest transfers through the corruption of central and local governments. It has 111 different federal and local taxes with the tax codes which no one can understand except those bureaucrats who drafted them. The Russian Tax Police, in their attempts to collect more revenue, can violate every right "guaranteed" by the new Russian Constitution. The absurdity of the "new economic thinking" in Moscow led to the new Export Tax which levies heavy duties on anything (not much!) being exported from Russia. Tax on investments imposed in May 1994 served as a cold shower for the Western businesses which are now closing their offices in Russia. It is also explicitly serving the corrupt foreign trade officials in Moscow. This "free market" approach led to the situation in which every new announcement of impeding reform causes perverse public responses and every new law passed, ostensibly to increase freedom, only increases opportunities for fines and bribes.

F. Foreign and Domestic Affairs

Another obstacle to a speedy economic transition is the imperialist leanings of the Yeltsin government (encouraged by the U.S. and some European governments). Instead of taking care of the economy and fiery social issues like crime and health care, nationalists inside the government and Duma are fueling aggressive policies towards the "near abroad," as well as supporting various totalitarian regimes, including Iraq, the Serbian government of Yugoslavia, and others. The cost of government itself is enormous — according to my estimates, the cost of civilian government constitutes about 19 percent of the national income. Only military expenditures consumes a higher share of the national income. For its military establishment, Russia still allocates about 20 percent of its national product

⁵⁸ See, for example, "Pray for the Russians, But Don't Invest There," *Milwaukee Sentinel* (October 31, 1994), p. B1.

and the same fraction of its labor force. At the same time, 57 percent of all Russian hospitals do not have running hot water, while 36% of hospitals located in rural areas of Russia do not have water or sewage. The devastated rural culture exhibits many characteristics found only in the most backward countries: severe urban-rural disparities, center-periphery exchange relations, forced labor, and severe shortages in housing, schools, hospitals, and roads.

The Russian government, while still wasting scarce resources on development of highly sophisticated systems of weapons and space exploration, completely ignores the basic human needs of its citizens. The infrastructure is nowadays expected to serve twice as long in Russia as is the norm elsewhere. Sixty percent of communications and railroad equipment are beyond repair; for this reason, the accident rate is approaching levels of national catastrophe. If the present level of militarization is to be maintained, Russia will be in a state of instability and crisis for the foreseeable future. Ella Pamfilova, Yeltsin's former Minister of Social Welfare, is convinced that "power has passed into the hands of the statist, for whom the most important thing is to preserve the system of bureaucratic distribution as the key source of their own wealth." The very idea of reform is now being "discredited," she said, as the government's policies become more "criminal and bureaucratic."⁵⁹

All economic and fiscal legislation in this period has been absolutely inconsistent with legality. Every law that has promised stability in taxation and established rules of economic conduct has been overtly revoked in order to preserve the continuation of government expropriations. Experiences of economic transition of Russia, Ukraine, Kazakhstan and Belarus serve as a powerful illustration of Rothbardian thesis that "The free market, unhampered, would not be in danger of inflation, deflation, depression, or unemployment. But the intervention of government creates the tightrope for the economy and is constantly, if sometimes unwittingly, pushing the economy into these pitfalls."⁶⁰

VII. Estonia

Amid the sad stories of Postcommunist economic failures, ethnic wars, and reversion to communist-led governments, there is a story of a success in the making that is based on following the Rothbardian Path to Freedom. The name of the success story is Estonia — "the little country that could." Estonia is making a relatively smooth transition from Soviet slavery to economic freedom, and is showing that free market solutions to rebuilding a communist-ruined economy are the way out of serfdom and into economic progress. Rothbard was the first in the West who predicted this development in Estonia; three years before Estonia became an independent state, he wrote: "In the Baltic states, not only are all groups, from top Communists down — calling for independence from Soviet Russia, but also the Estonians come out for free markets, strictly limited government and private property rights."⁶¹

⁵⁹ Ella Pamfilova, *Crossroads. A Monitor of Post-Soviet Reform*, Vol. III, No. 1 (1994), p. 2.

⁶⁰ Rothbard, *Man, Economy and State*, p. 879.

⁶¹ Murray N. Rothbard, "The Freedom Revolution," in *The Economics of Liberty*, ed. Llewellyn H. Rockwell (Auburn, Alabama: Ludwig von Mises Institute, 1990), p. 319.

Estonia restored its independence on August 20, 1991, after the failure of the hard-line communist coup in Moscow. Since then, the country has been at the forefront of political and economic reforms in Eastern Europe, moving quickly to rebuild its legal framework, privatizing its economy, attracting foreign investments and protecting property and other human rights of its people. Significantly, Estonia started wholesale privatization, removed price controls, and released the power of free market immediately after achieving independence. Today this small Baltic nation can boast the highest rates of economic growth in Europe (6 percent in 1994 and expected 9 percent in 1995), and practically no unemployment (below 2 percent).⁶²

Independent Estonia has made rapid economic progress, and has emerged with a strong currency backed by gold and expanding foreign-exchange reserves. In June 1992, Estonia replaced the Russian ruble with the Estonian kroon, a hard currency tied to the Deutschmark. The Estonian kroon (EEK) is pegged at an exchange rate of 8 to the Deutschmark (May 1, 1995) and to the gold reserves, which back no less than 25% of the money supply. Today, this small Baltic state has the strongest and the most stable money of any of the 15 former Soviet republics. Prudent monetary and fiscal policies were the key elements of success in introducing new currency and in bringing the average level of inflation down to a monthly rate less than 2% (compare Russia, where it is 30% a month).⁶³

Estonia maintains a liberal trade regime with practically no tariffs. Western observers consider Estonia as the emerging Hong Kong of Europe. Companies operating in Eastern Europe point to Estonia as being at least five years ahead of other Eastern European countries. It has a tax-friendly environment and low average monthly industrial wages of \$200-250. This underlines the message of *International Management* magazine that it has become "a low-cost production paradise." Foreign investment is growing by \$250 million annually. According to the *Business America* survey, Estonia will offer considerable market potential over the next years, playing the role of Hong Kong of the Northeastern part of Europe. Foreign investors will use Estonia as a port of entry to large but sluggish markets of Russia, Belarus, Ukraine, and other formerly Soviet states.

The new class of Estonian leaders both in private sector and government is comprised of young (30-35 years olds) free-spirited people, devoted to market economics, and resistant to bureaucratic controls. All political forces represented in the Estonian parliament (Riigikogu) are committed to the continuation of reforms and privatization. So, despite the coercion exercised by the Soviets, who attempted to blackout independent thinking and the national identity of its 1.5 million people, the Estonian phoenix is rising from ashes of communism.

VIII. Conclusions

Rothbard further developed the deep-rooted anti-socialist tradition of the

⁶² Yuri N. Maltsev, "The World's Best Government?" *The Journal of Commerce*, September 12, 1994.

⁶³ Yuri N. Maltsev, "The World's Best Government?" *The Journal of Commerce*, September 12, 1994.

Austrian School of Economics started by Eugen Böhm-Bawerk and continued by Ludwig von Mises. Unlike them, Rothbard witnessed the triumph of Austrian teaching on the inevitability of the demise of socialism. The collapse of socialism, predicted by Austrian school of economics since the end of the nineteenth century, came as a surprise only to the “mainstream” economists, liberal and neoconservative imperialist elites, and fellow travelers of communism in the West, as well as some “blackboard” Sovietologists who uncritically read too much of the Kremlin propaganda (which was disregarded as nonsense by the majority of Soviets themselves). Rothbard is gone, “but his power remains all about us. He is the beacon and the model, and for as long as the printed word is available, there will be endless generations of Rothbardians.”⁶⁴

⁶⁴ Burton S. Blumert, in *Murray N. Rothbard. In Memoriam*, ed. Llewellyn H. Rockwell, Jr. (Auburn, Alabama: Ludwig von Mises Institute, 1995), p.63.

