Love in the Bureaucracy

by Bradley Miller

As long as bureaucrat-bashing remains sport royal, there is hope. But how much? Even now, confronting bureaucracy's relentless encroachments and entanglements, who ya gonna call?

The Reagan administration phoned Ollie North, a "man of action," a "take-charge guy" who can "cut through red tape" and "get things done." But most of us must call a faceless functionary at the Reports and Publications Division of the Environmental Protection Agency's Water and Waste Management Administration's Emergency Service's Department's Request and Complaint Office's Bureau of Trash, Metal Bulk, and Dead Animal Removal, and get put on hold. In other words, we must call Bureaucratic Man.

As of this writing, it seems unlikely that North will go to jail, but powerful evidence indicates that what he tried to do was neither popular nor legal—and could even doom the very group his efforts were designed to help: the Nicaraguan Contras. Yet to many, including the President who fired him from the National Security Council, North is a national hero. Even his detractors grant he's a forceful and attractive personality.

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From the President
by Llewellyn H. Rockwell, Jr.

Rotation in Office

The Articles of Confederation of 1777, our first "Constitution," was superior in a number of ways to the document adopted 200 years ago. (It's easy to forget, amidst all the celebrations, that the Constitution as originally drafted had few limits on government power; it was saved only by the Bill of Rights that the Jeffersonians demanded.)

One of the great clauses of the Articles mandated annual election of Congressmen (by the various state legislatures), and said that no Congressman "may serve for more than three years in any term of six years."

But politicians hate to be out of office, and this great idea—originated by Thomas Jefferson—was stricken from the Constitution. It was resurrected by that great modern Jeffersonian (and Mises Institute Distinguished Counsellor) Ron Paul, however, who introduced legislation while serving in Congress to limit Congressmen to four two-year terms; Senators to two four-year terms; and Supreme Court and other federal judges to one eight-year term.

It was Dr. Paul's view, and Jefferson's, that continuation in office helped create big government. Both these men also applied what Jefferson called "rotation in office" to all government employees.

For more than the first half of our country's history, when a new administration came into office, it installed its own people in all civilian government jobs. This healthy and purgative process prevented the build-up of bureaucracy. Not surprisingly, it was despised and denigrated by statist as the "spoils system."

About a century ago, big government advocates, in the first flush of the statist "progressive" era, instituted the idea of civil service—the monstrous notion that civilian bureaucrats should have lifetime tenure in office.

When we have our first 20th century Jeffersonian administration, its agenda will include not only the gold standard, the free market, and a Constitutional foreign policy, but the restitution of rotation in office for all government employees, elected and appointed.

Former Congressman Ron Paul, Distinguished Counsellor to the Mises Institute, answers a question about his campaign for the U.S. Presidency as Institute Trustee Burt Blumert looks on.

Northern California
Austrian Economics Weekend

On the weekend of July 17-19 in San Mateo, California, Professor Murray N. Rothbard taught the third of a continuing series of seminars on "The History of Economic Thought: An Austrian Perspective." Based on the research he is doing for his monumental work on that subject, Dr. Rothbard discussed the pre-Austrians, Turgot, Smith, Menger, Marx, Bohm-Bawerk, Hayek, Keynes, and—of course—Ludwig von Mises.

More than 80 Institute Members and area students participated, and the program included a surprise roast and tribute—attended by 125 people—to entrepreneur Burton S. Blumert, chairman of the Institute's executive committee. Speakers at the roast included former Congressman Ron Paul, the Institute's Distinguished Counsellor; Professor Williamson Evers of Emory University; Professor Nora Goldschlager of the University of California; 1984 Libertarian Presidential candidate David Bergland; historian George Resch; and Murray Rothbard and Lew Rockwell of the Institute.

"Burt Blumert has dedicated his life to the fight for liberty," said Rockwell, "and recognition of this is way overdue." At the conclusion of the evening, Paul, Rothbard, and Rockwell presented Blumert with the Institute's coveted Ludwig von Mises Award.
Keynesian Myths
by Murray N. Rothbard

Inflation and Idle Capacity

The Keynesians have been caught short again. In the early and the late 1970s, the wind was taken out of their sails by the arrival of inflationary recession, a phenomenon which they not only failed to predict, but whose very existence violates the fundamental tenets of the Keynesian system. Since then, the Keynesians have lost their old invincible arrogance, though they still constitute a large part of the economics profession.

In the last few years, the Keynesians have been assuring us with more than a touch of their old hauteur, that inflation would not and could not arrive soon, despite the fact that "tight-money" hero Paul Volcker had been consistently pouring in money at double-digit rates. Chiding hard-money advocates, the Keynesians declared that, despite the monetary inflation, American industry still suffered from "excess" or "idle" capacity, functioning at an overall rate of something like 80%. Thus, they pointed out, expanded monetary demand could not result in inflation.

As we all know, despite Keynesian assurances that inflation could not reignite, it did, despite the idle capacity, leaving them with something else to puzzle over. Inflation has risen this year from approximately 1% in 1986 to 6% now, interest rates are rising again, the fall of the dollar has raised import prices, and gold prices are rising again. Once again, the hard-money economists and investment advisors have proved far sounder than the Establishment-blessed Keynesians.

The best way to explain where the Keynesians went wrong is to turn against them their own common reply to their critics: anti-Keynesians, who worry about the waste of inflation or government programs, are "assuming full employment" of resources. Eliminate this assumption, they say, and Keynesianism becomes correct in the through-the-looking-glass-world of unemployment and idle resources. But the charge should be turned around, and the Keynesians should be asked: why should there be unemployment (of labor or of machinery), at all? Unemployment is not a given that descends from heaven. Of course it often exists, but what can account for it?

The Keynesians themselves create the problem by leaving out the price system. The hallmark of crackpot economics is an analysis that somehow leaves out prices and talks only about such aggregates as income, spending, and employment.

We know from "microeconomic" analysis that if there is a "surplus" of something on the market, if something cannot be sold, then the only reason is that its price is somehow being kept too high. The way to cure surplus or unemployment of anything, is to lower the asking price, whether it be wage rates for labor, prices of machinery or plant, or of the inventory of a retailer.

In short, as Professor William H. Hutt pointed out brilliantly in the 1930s, when his message was lost amid the fervor of the Keynesian Revolution: idleness or unemployment of a resource can only occur because the owner of that resource is deliberately withholding it from the market and refusing to sell it at the offered price. In a profound sense, therefore, all unemployment and idleness is voluntary.

Why should a resource owner deliberately withhold it from the market? Usually, because he is holding out for a higher price or wage rate. In a free and unhampered market economy, the owners will find out their error soon enough, and when they get tired of making no returns from their labor or machinery or products, they will lower their asking price sufficiently to sell them. In the case of machinery and other capital goods, of course, the owners might have made a severe malinvestment, often due to artificial booms created by bank credit and central banks. In that case, the lower market-clearing price for the machinery or plant might be so low as to not be worth the laborer's giving up his leisure—but then the unemployment is purely voluntary and the worker holds out permanently for a higher wage.

A worse problem is that, since the 1930s, government and its privileged unions have intervened massively in the labor market to keep wage rates above the market-clearing wage, thereby insuring ever-higher unemployment among workers with the lowest skills and productivity. Government interference, in the form of minimum wage laws and compulsory unionism, creates compulsory unemployment, while welfare payments and unemployment "insurance" subsidize unemployment and make sure that it will be permanently high. We can have as much unemployment as we pay for.

It follows from this analysis that monetary inflation and greater spending will not necessarily reduce unemployment or idle capacity. They will only do so if workers or machine-owners are induced to think that they are getting a higher return and at least some of their holdout demands are being met. And this can only be accomplished if the price paid for the resource (the wage-rate or the price of machinery) goes up. In other words, greater supply or use of capacity will only be called forth by wage and price increases, i.e. by price inflation. As usual, the Keynesians have the entire causal process bollixed up. And so, as the facts now poignantly demonstrate, we can and do have inflation along with idle resources.

The New International Money Scheme

Ever since the Western world abandoned the gold coin (Continued on page 4)
standard in 1914, the international monetary system has been rocketing from one bad system to another, from the frying pan to the fire and back again, fleeing the problems of one alternative only to find itself deeply unhappy in the other. Basically, only two alternative systems have been considered: (1) fiat money standards—each national fiat currency being governed by its own central bank, with relative values fluctuating in accordance with supply and demand; and (2) some sort of fixed exchange-rate system, governed by international coordination of economic policies.

Our current System 1 came about willy-nilly in 1973, out of the collapse of Bretton Woods System 2 that had been imposed on the world by the United States and Britain in 1944. System 1, the monetarist or Friedmanite ideal, at least breaks up the world monetary system into national fiat enclaves, adds great uncertainties and distortions to the monetary system, and removes the check of external discipline from the inflationary propensities of every central bank. At worst, System 1 offers irresistible temptations to every government to intervene heavily in exchange rates, precipitating the world into currency blocs, protectionist blocs, and "beggar-my-neighbor" policies of competing currency devaluations, such as the economic warfare of the 1930s that helped generate World War II.

The problem is that shifting to System 2 is truly a leap from the frying pan into the fire. The national fiat blocs of the 1930s emerged out of the System 2 pound sterling standard in which other countries pyramid an inflation of their currencies on top of inflating pounds sterling, while Britain retained a nominal but phony gold standard. The 1930s system was itself replaced by Bretton Woods, a world dollar standard, in which other countries were able to inflate their own currencies on top of inflating dollars, while the United States maintained a nominal but phony gold standard at $35 per gold ounce.

Now the problems of the Friedmanite System 1 are inducing plans for some sort of return to a fixed exchange rate system. Unfortunately, System 2 is even worse than System 1, for any successful coordination permits a concerted worldwide inflation, a far worse problem than particular national inflations. Exchange rates among fiat moneys have to fluctuate, since fixed exchange rates inevitably create Gresham's Law situations, in which undervalued currencies disappear from circulation. In the Bretton Woods system, American inflation permitted worldwide inflation, until gold became so undervalued at $35 an ounce that demands to redeem dollars in gold became irresistible, and the system collapsed.

If System 1 is the Friedmanite ideal, then the Keynesian gold is the most pernicious variant of System 2. For what Keynesians have long sought, notably in the Bernstein and Triffin Plans of old, and in the abortive attempt to make SDRs (special drawing rights) a new currency unit, is a World Reserve Bank issuing a new world paper money unit—replacing gold altogether. Keynes called his suggested new unit the "bancor," and Harry Dexter White of the U.S. Treasury called his the "unita." Whatever the new unit may be called, such a system would be an unmitigated disaster, for it would allow the bankers and politicians running the World Reserve Bank to issue paper "bancors" without limit, thereby engineering a coordinated world-wide inflation. No longer would countries have to lose gold to each other, they could fix their exchange rates without worrying about Gresham's Law. The upshot would be an eventual worldwide runaway inflation, with horrendous consequences for the entire world.

Fortunately, a lack of market confidence and inability to coordinate dozens of governments, have so far spared us this Keynesian ideal. But now, a cloud no bigger than a man's hand, an ominous trial balloon toward a World Reserve Bank has just been floated. In a meeting in Hamburg, West Germany, in late June of 200 leading world bankers in an International Monetary Conference, bankers urged the elimination of the current volatile exchange rate system and a move towards fixed exchange rates.

The theme of the conference was set by its chairman, Willard C. Butcher, chairman and chief executive of Rockefeller's Chase Manhattan Bank. Butcher attacked the current system, and warned that it could not correct itself and that a search for a better world currency system "must be intensified" (New York Times, June 23, 1987).

It was not long before Toyoo Gyohten, Japan's vice-minister of finance for international affairs, spelled out some of the concrete implications of this accelerated search. Gyohten proposed a huge multinational financial institution, possessing "at least several hundred billion dollars," that would be empowered to intervene in world financial markets to reduce volatility.

And what is this if not the beginnings of a World Reserve Bank? Are Keynesian dreams at last beginning to come true?

Dr. Rothbard is the S.J. Hall Distinguished Professor of Economics at the University of Nevada, Las Vegas, and Vice President for Academic Affairs at the Ludwig von Mises Institute.
"It was a rigorous week for the faculty and the students," said Institute President Lew Rockwell. "Everybody worked very hard, but as is usual when you combine hard work and a worthy goal, there was exhilaration as well.

"I am convinced that this remarkable program will have a lasting effect for good and that next year's Stanford conference, for which we already have applications, will be even more effective for freedom and real economics. With the help of Institute Members, we will make this a continuing series for Misesian ideas."

Here are some of the comments from the anonymous student evaluation forms:

- I learned more of value in this one week than in four years of undergraduate economics and one year of graduate economics.
- I will always remember this week as one of the highlights of my life.
- I loved the accessibility of the speakers and the discussion sessions.
- Excellent, scholarly, and relevant.
- This conference has restored praxeology to the center of Austrian economics, where it always should have been.
- The conference was well-run and well-organized to maximize the time spent.
- The most exciting intellectual experience of my life. I have made many friends and look forward to years of keeping in touch.

- A growing experience, a unique opportunity to learn first hand and question ideas within the Austrian school in a positive atmosphere. The themes were well-chosen, as were the speakers. The conference filled a gap that existed until now, promoting an increase in knowledge of Austrian economics as well as support from others who share our ideas.
- I met many wonderful people with whom I expect to share a lifetime of intellectual and professional growth.
- I felt both enlightened and enriched by the experience. The ideas I was exposed to have reaffirmed my commitment to truth, economics, and freedom.
- At dinner, 'praxeology' was heard more often than 'pass the salt.'
- This was a giant step forward in my educational process.
- The organization and planning were superb. The instructors were outstanding—clear and concise and very open to questions and objections. I was encouraged and inspired.
- The experience enlightened me in many regards and strengthened my determination to continue my work.
- Exciting, stimulating, and magnificent!
Surveys have found that most Americans don’t know which side is which in Nicaragua, but tell pollsters they’re against sending their tax money down there. So it’s clear that North’s popularity either has nothing to do with the goals he was pursuing or emerged despite them. The root of Americans’ love of him is their hatred of the bureaucracy he defied.

North comes across as a forthright, patriotic, God-fearing, family-loving, ruggedly handsome, bemaled man of action. But America is not lacking in such chaps, and North is far from unflawed. What stirred America was seeing him thrown before those perceived as niggling, blood-sucking representatives of the world’s biggest and most overpaid bureaucracy. The bureaucracy manufactures the red tape North tried to cut through (never mind toward what ends or in violation of what laws). It stands between the rest of us and the freedom to do what we want, and its spider web of regulations is woven and enforced by gray little men who can’t be fired, short of behavior so outrageous it would make most of us candidates for the funny farm.

In Harpers, Leonard Reed has reported that only one tenth of one percent of federal bureaucrats are fired for incompetence. At the higher bureaucratic levels such unfavorable bungling lands you not in the funny farm but—no joke—in a “turkey farm,” where unfavorable bunglers are put through training sessions to turn them into bearable bunglers; i.e., bureaucrats competent enough not to inspire excessive public outrage and sensible enough to realize that if they do their jobs too well they’ll lose them.

In his great book Bureaucracy, written in 1944, Professor Ludwig von Mises says the distinguishing mark of the bureaucracy is that he is driven not by the profit motive but by the necessity to follow and enforce rules. Mises points out that a bureaucracy, so understood, isn’t intended to be profitable, so its worth can’t be assessed by profit-and-loss statements. Businesses also have bureaucratic aspects, but the free market imposes limits on them. An overload of bureaucrats diminishes profits by diminishing efficiency, innovation, and morale. That’s why schemes to bring business methods to government come to grief. As Mises says, business and government are fundamentally different, and the methods appropriate to one are alien to the other.

The picture is even far bleaker than this. Not only is Bureaucratic Man uninterested in doing good work by business standards, doing such work would cost him his job. An anti-poverty warrior so good he eradicated poverty would have nothing to do, so such wars aren’t intended to be won, but endlessly expanded. This thins the ranks of those who work for a living and swells the ranks of those who vote for a living. In sum, it makes a joke of representative government.

How bad is it? Guess who said the following:

If we do not halt this steady process of building commissions and regulatory bodies and special legislation like huge inverted pyramids over every one of the simple constitutional provisions, we shall soon be spending many billions of dollars more.

So said Franklin Roosevelt, father of today’s welfare state. By today’s standards FDR was doubtless an efficiency expert.

But by now the deathly effects of bureaucracy on the commonwealth are too well known to need elaboration. Bureaucracy is at once a monstrous evil and banality and, as its consummation in totalitarianism has shown, it makes the most monstrous evils banal. Banality, indeed, is its highest virtue. Bureaucratic Man wants merely to rust out in ease, security, and respectability, not to wear himself out pursuing greatness. He doesn’t love, in any deep sense, his work or spouse, for love entails risk and demands energy. BM asks only for comfort.

It’s as hard to picture Nietzsche’s superman or Aristotle’s large-souled man in this kingdom of clerks as it is to imagine Pascal at a PTL picnic. The ultimate triumph of the bureaucratic state, which has long been realized in such Periclean lands as Bulgaria, Albania, and North Korea, is to obliterate even Mick Jagger’s street-fighting man.

Bureaucratic Man is far lower than Winston Smith in Orwell’s 1984, who in the end loved Big Brother. Deep love and deep hate are both inconceivable to BM, so no goon squads are needed to keep him in line. Intellectually and emotionally his whole life amounts to an endless standing in line to get the necessities for more standing in line.

As technology progresses, it becomes clear that BM is far lower than a machine. Anything BM can do, machines can do better at a fraction of the cost and irritation.

Unfortunately, BM, freed from drudgery by automation, doesn’t devote himself to the art of love or even the love of art, two reasons to live. Instead, automation has exposed—not created—a world in which, as Mises says, “the man who is aware of his inability to stand competition scorns ‘this mad competitive system.’ He who is unfit to serve his fellow citizens wants to rule them.”

BM created this world. If he knows nothing else, BM is at least aware of his limitless inability, which fills him with envy of his superiors, whom he tries, with depressing success, to suffocate through government. Government work is tedious, so it’s hard to get superior men to do it, but in today’s high-tech age, government by actual robots would be much more efficient and humane than government by BM.

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Money and Credit...from back page

This was one reason Mises was an opponent of inflation and an advocate of a gold standard, the monetary regime which has proven itself most resistant to inflation.

The value of money relies on its “objective exchange value” or purchasing power, but not just for one period of time. As Mises says, “the money prices of today are linked with those of yesterday and before, and with those of tomorrow and after.” That seems clear enough. But then Mises raises a question which has always befuddled monetary theorists:

To trace back the value that money has today to that which it had yesterday, the value that it had yesterday to that which it had the day before, and so on, is to raise the question of what determined the value of money in the first place.

Mises's amazing 31-year-old mind developed the answer: the objective exchange value, the purchasing power, of money originates with the value it held for use as a commodity the moment before it became a medium of indirect exchange. Once individuals ceased to acquire a particular commodity to consume it, and began to hold it with the intention of exchanging it for other goods, it became money. And the value it holds as money is the same value it held in its last moments as a consumption good.

Say, for example, that a certain type of fish bone is valued on the market as a great toothpick, and that it later becomes money when individuals discover they can trade fish bones for other goods and services. When used as money, the bones' purchasing power originated from their value when they were only toothpicks. From that point on, it doesn't matter whether anybody actually uses the fishbones as toothpicks, because they are no longer sought after and held for that purpose. All that matters is that they are a reliable means of exchange. Their value is then determined by the supply and demand for fish bones as money.

With this, Mises proved that money must originate in the free market as a commodity, and can never be imposed upon society by the state or by “social contract.” Today the state has cartelized the banking industry through the Federal Reserve, which claims the right to counterfeit (inflate) without penalty of law. Yet even so, with all the power the state has at its command, it can never impose a new medium of exchange: “the state has not,” says Mises, “the power of directly making anything into money.”

This insight on the origin of the value of money, later called the regression theorem, has powerful policy implications: it defines the boundaries of reform toward sound money.

Because all existing fiat currencies had to first be used as a commodity in order to acquire objective exchange value, and no entirely new money can be imposed out of thin air, existing currencies must be restored to their original commodity base before they can again be put in the hands of the free market. The dollar was once tied to a specific weight of gold; so as long as the dollar remains the world's standard monetary unit, all reform must be directed toward restoring the dollar's original commodity value in gold. Theorists can speculate about the kind of money a free market might create, but the fact remains that the “dollar” (not the “ducat,” a “commodity basket,” nor some private token) is used by all. A totally new money cannot be imposed by any party, be it the state or a group of monetary theorists.

What Mises accomplished in this book is startling: he applied marginal utility analysis to money, he articulated the regression theorem, he developed a theory of banking and international monetary flows, he gave us the fundamentals of Austrian business cycle theory, he refuted virtually every idea of the monetary cranks, and he came to sound policy conclusions that revolved around the absolute superiority of the free-market economy. Though some consider it Mises's most difficult book, reading it is an extremely satisfying journey.

Thanks to The Theory of Money and Credit, advocates of freedom can oppose every single intervention in the economy. We can say with Mises that free markets should not only apply to goods and services, but also to money. And though monetary intervention is still the least talked about government atrocity, we can call for the abolition of the Federal Reserve and the establishment of the gold coin standard. In short, with Mises we can be consistent advocates of laissez-faire.

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"Oh, mortgaged to the hilt, Louis—How about you?"
Ludwig von Mises's
The Theory of Money and Credit
Review by Jeffrey A. Tucker

Monetary theory attracts more quacks, cranks, and crackpots than any other area of economics. And, as it has been since 1912, the best answer to their nonsense remains Ludwig von Mises's The Theory of Money and Credit. Murray N. Rothbard is correct in calling this work "the best book on money ever written."

Professor Mises was 31 years old when this, his first book, was published. As the most comprehensive and revolutionary treatment of money ever published, it stirred tremendous interest in the German-speaking academic world. Mises's teacher, Eugen von Boehm-Bawerk, devoted two full years of his famous seminar to discussing it.

Nevertheless, the triumph of The Theory of Money and Credit was to demonstrate that the laws of economics are universal. This was denied by establishment economists in 1912, as it is today. Said Mises: if well-established notions such as marginal utility, the law of demand, subjective value, the destructiveness of government intervention, etc., apply to the rest of economics, they should also apply to the theory of money and credit.

Neither should the method of inquiry into money be different from other areas of economics. Mises states early in his 500-page book that the method and purpose of his inquiry is to "trace the laws that determine the exchange ratio between money and other economic goods." For "this and nothing else is the task of the economic theory of money."

As students of Misesian economics know, "tracing laws" is the task of all economic inquiry. Sound economics, as elucidated by Turgot, Menger, Boehm-Bawerk, Rothbard, and others, has always recognized the existence of economic law.

Therefore, the development of sound monetary theory doesn't require the economist to search through reams of money supply statistics, perform econometric regressions, or discover elusive money multipliers and demand elasticities. Those tasks may be useful and interesting, but the science of economics requires only a sound starting point and a patient use of logic.

The Austrian school teaches that all economic value ultimately resides in the mind of the individual. Thus, the subjective theory of value. Nothing has an "intrinsic" economic value. If individuals cease to value diamonds, diamonds lose their economic value. Or if individuals begin to appreciate the beauty of diamonds above all else, their relative value would suddenly increase. This law of subjective value also applies to money. "The subjective estimates of individuals are the basis of the economic valuation of money just as of that of other goods," says Mises. Money has no intrinsic value whatsoever, but is given value only by acting individuals.

There is, however, a uniqueness about money: it is neither a production good nor a consumption good. Unlike other commodities, money has no use except in exchange for other goods. If it cannot be exchanged, it is of no monetary value. It is only money's "purchasing power," the goods and services for which it can be exchanged, that matters.

Mises, therefore, observes that "no increase in the welfare of the members of a society can result from the availability of an additional quantity of money." This means that whatever supply of money exists is optimal. There is never, Mises says, a need for more money. Inflation—an increase in the money supply—is not needed to "satisfy the needs of trade," to "stimulate growth," or to "stabilize the price level." Changes in the money supply only change the purchasing power of money relative to the goods and services it can buy.

(Continued on page 7)