

How and How Not to Desocialize

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Everyone in Eastern Europe and the Soviet Union is seemingly anxious to desocialize, to institute free markets and privatization. Plans proliferate, and innumerable Western economists are being consulted on how to go about this daunting task. It is generally acknowledged that bureaucrats are obstructing the process, but confusion abounds among free-market proponents themselves. Matters are scarcely helped by the fact that Western economists, to whom the former Eastern bloc is looking for wisdom, have themselves done virtually nothing to study, let alone solve, this problem during the sixty years since Stalin established socialism in the Soviet Union and the half-century since the Soviets imposed it on Eastern Europe. For ever since the mid-1930s, almost all Western economists have accepted the view that there is no calculation problem under socialism, and most have accepted the subsequent notion that the Soviet economy has been successful and growing, and would shortly overtake that of the United States.¹

How Not to Desocialize

We may first clear the way on how to desocialize by examining various paths that have become popular, and yet are decidedly *not* the way to arrive at our presumably common goal.

How *not* to go about desocialization may be highlighted by the story of a friend of mine, who told me recently about a Soviet colleague

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in his department, who came to the United States to study diligently the problem of how to create a futures market in the U.S.S.R. He has been stymied by the fact that he cannot seem to figure out what laws or edicts the Soviet state should lay down, so as to replicate the futures market in the United States. In short, he cannot find a way to plan a futures market. Here then is a crucial point: *you cannot plan markets*. By their very nature, you can only set people free so that they can interact and exchange, and thereby develop markets themselves. Similarly, several of the socialist countries, seeing the importance of the capital markets in the West, have been trying to develop stock exchanges, but with little success. First, again, because stock markets cannot be planned, and, second, because, as we will see further, you cannot have markets in titles to capital if there are still virtually no private owners of capital in existence.

Do not Phase In

It is, again, generally accepted that free markets must be arrived at quickly, and that phasing them in slowly and gradually will only delay the goal indefinitely. It is well known that the giant socialist bureaucracy will only seize upon such delay to obstruct the goal altogether. But there are further important reasons for speed. One, because the free market is an interconnected web or lattice-work; it is made of innumerable parts which intricately mesh together through a network of producers and entrepreneurs exchanging property titles, motivated by a search for profits and avoidance of losses, and calculating by means of a free price system. Holding back, freeing only a few areas at a time, will only impose continuous distortions that will cripple the workings of the market and discredit it in the eyes of an already fearful and suspicious public. But there is also another vital point: the fact that you cannot plan markets applies also to planning for phasing them in. Much as they might delude themselves otherwise, governments and their economic advisers are not in a position of wise Olympians above the economic arena, carefully planning to install the market step by measured step, deciding what to do first, what second, etc. Economists and bureaucrats are no better at planning phase-ins than they are at dictating any other aspect of the market. To achieve genuine freedom, the role of government and its advisers must be confined to setting their subjects free, as fast and as completely as it takes to unlock their shackles. After that, the proper role of government and its advisers is to get and keep out of the subjects' way.

Do Not Crack Down on Black Markets

One route toward freedom that former President Gorbachev had adopted was to crack down on the villains of the black market. We

might conclude that the mindset of the Eastern bloc has a long way to go in understanding freedom, except that there are precious few Westerners who understand this problem either. For the black marketeers are not villains; if they sometimes look and act like villains, it is only because their entrepreneurial activities have been made illegal. The "black market" is simply *the market*, the market which Soviets claim to be searching for, but which has turned "black" precisely because it has been declared illegal. It is the market crippled and distorted, but it is there, in this despised "black" area, that the Soviets will find the market most readily. Instead of cracking down, then, the governments should, immediately, set the black market free.

Do Not Confiscate the People's Money

The Soviet Union suffers from the problem of "ruble overhang," that is too many rubles chasing too few goods. It is generally admitted that the "overhang" is the result of comprehensive price fixing, by which the government has set prices far below market-clearing levels. Over the years, the Soviet government has been rapidly printing new money to finance its expenditures, and this increased money supply, coupled with ever-dwindling supply of goods resulting from the breakdown of socialist planning, has created aggravated shortages and an excess supply of money over goods available.

It is commonly acknowledged that the shortages will be relieved and the overhang abolished, if prices were set free to move. But the government fears the wrath of unhappy consumers. Perhaps, but it is scarcely a solution to do what Gorbachev did, that is, follow the uninspired path of the Brazilian "free market" President Collor de Mello, who in the spring of 1990, in an attempt to reverse hyperinflation, arbitrarily froze 80 percent of all bank accounts. Gorbachev did one better by suddenly making useless all large-ruble bills, allowing only a small number to be exchanged for smaller denominations. This is no way to eliminate an overhang; at best, the cure is much worse than the disease. In the first place, in this supposed strike at black marketers, it has been rather the savings of the average Soviet that has been destroyed, since the black marketeers were shrewd enough to have moved already into precious metals and foreign currency. But even more important: By this action, the government delivers the second body blow of a one-two punch at the average citizen, and at the economy. The first punch was for the government to inflate the money supply so as to engage in its usual, wasteful expenditures. Then, after the money has been spent, and prices driven up—in either open or repressed fashion—then the government, in its wisdom, begins

to exclaim at the horrors of inflation, blames black marketeers, greedy consumers, the rich, or whatever, and proceeds to the second monstrous punch of confiscating the money long after it has come into private ownership. Whether or not one calls this process "free market," it remains confiscatory, unjust, statist, and a double set of implicit taxes and burdens upon the economy.

Do Not Increase Taxes

Unfortunately, one of the "lessons" that many East Europeans have absorbed from Western economists is the alleged necessity of sharply raising taxes and making them progressive. Taxes are parasitic and statist; they cripple energies, savings, and production. Taxes invade and aggress against the rights of private property. The higher the taxes, the more the economy becomes socialistic; the lower they are, the closer the economy approaches true freedom and genuine privatization, which means a system of complete rights of private property. The Mazowiecki attempt to achieve privatization and free markets in Poland was greatly hampered by the imposition of far higher and progressive taxes.

As part of the shift toward freedom and desocialization, then, taxes should be drastically lowered, not raised.

Government Firms Owning Each Other is Not Privatization

I owe to Dr. Yuri Maltsev the information that the much-vaunted Shatalin plan for the Soviet Union, which was supposed to bring about privatization and free markets in 500 days, was really not privatization at all. Apparently, existing government firms in each industry, instead of being actually privatized—that is, owned by private individuals—would have been owned (or 80 percent owned) by other firms in the same industry. This would mean that giant state monopoly firms would continue to be state monopoly firms, and be self-perpetuating oligarchies rather than truly privately owned. Privatization must mean private property.²

²As Maltsev writes: "When the Soviets say privatization, however, they don't mean what we do by the term. The [Shatalin] plan would mandate that 80 percent of the stock of any enterprise be owned by other enterprises in the same field, not the public. To use a U.S. analogy, it would be as if General Motors owned 80 percent of Ford's stock and vice versa, and it were illegal to have it otherwise." Maltsev notes that Stanislav Shatalin, and the original author of his plan for the Russian Republic, Grigory Yavlinsky, "are both econometricians whose . . . lives have been spent in mathematizing the delusions of Marxism-Leninism. They are both long-time central planners who became disillusioned with full-blown socialism." Yuri N. Maltsev, "A 500-Day Failure?" *The Free Market* 8 (November 1990): 6.

How to Desocialize

The following points of desocialization must necessarily be written or read sequentially, but they need not be carried out in that manner: all the following points could, and should, be instituted immediately and all at once.

Legalize the Black Market

The first two planks are implicit in the previous part of this paper. One, is to legalize the black market, that is to make all markets free and legal. That means that the private property of all those engaging in such markets must, along with everyone else, be made secure from government depredation, secure as a right of ownership. It means also that all goods and services hitherto illegal are now to be legal, whether they are legal in the West or not, and that all transactions are to be engaged in freely, that is, that prices are to be set voluntarily by the exchanging parties. Thus, all government price control is to be abolished forthwith. If such genuine prices for real transactions are to be higher than pseudo-"prices" set by the government for non-existent transactions, then so be it. Consumer griping should simply be ignored; any consumers who still prefer the previous regime of fixed prices for non-existent goods will, of course, be free to boycott the new prices and try to find cheaper sources of supply elsewhere. My hunch, however, is that consumers will adjust soon enough to these one-shot changes, especially since unprecedented abundance of consumer goods will quickly pour forth onto the markets.

By "legalizing," by the way, I mean simply abolishing a previous outlaw status; I do not propose to engage in semantic exercises trying to distinguish between "legalizing" and "decriminalizing."

Drastically Lower All Taxes

Another implication of our previous analysis is that taxation should be cut drastically. There is, in the literature on taxation, far too much discussion about which types of taxes are to be imposed, and who is to pay them and why, and not nearly enough on the height or amount of taxes to be levied. If the tax rate is low enough, then the form or principles of tax distribution really makes very little difference. To put it starkly, if all tax rates are kept below one percent, then it really does not matter much economically whether the taxes are on incomes, sales, excises, property, or capital gains. It is important instead to focus on how much of the social product is to be siphoned off to the unproductive maw of government, and to keep that burden ultra-minimal.

While the form of taxation would not then matter economically, it would still matter *politically*. An income tax, for example, however low, would still maintain an oppressive system of secret police ready and willing to investigate everyone's income and spending and hence his entire life. Economists' opinion to the contrary, there is no tax or system of taxes that could be neutral to the market.³ Whatever taxation that might exist after desocialization should, however, be as close to neutral as possible. This would mean, in addition to very low rates and amounts, that the taxation be as unobtrusive and harmless as possible, and imitate the market as closely as it can. Such imitation might include the voluntary sale of goods and services at a price, or setting a price for participating in voting. The sale of goods or services by the government would, of course, be drastically limited in our desocialized system, because of the enormous scope of privatization of government activities. Privatization will be treated below.

Abolish the Government's Ability to Create Money

There are three parts to any government's ability to generate revenue: taxation, the creation of new money, and the sale of goods or services.⁴ There can be no genuine free market or desocialization so long as government is permitted to *counterfeit* money, that is create new money, whether it be paper tickets or bank deposits, out of thin air. Such money creation functions as a hidden and insidious form of taxation and expropriation of the property and resources of producers. Ending counterfeiting means getting the government out of the money business, which in turn implies eliminating both government paper money and central banking. It also means denationalizing currency units, such as the ruble, forint, zloty, etc., and returning them to private market hands. Denationalizing currency can only be achieved by redefining paper currencies in terms of units of weight of a market metal, preferably gold. When the central banks are liquidated, they could disgorge their gold hoards; as their last act on earth they could redeem all their paper tickets at the redefined weight in gold coins.

While, given the will to desocialize, this monetary denationalizing process is not as complex or difficult as it may first seem, it might indeed take longer than the one day required for the other

³See Murray N. Rothbard, "The Myth of Neutral Taxation," *Cato Journal* 1 (Fall 1981): 519-64.

⁴A fourth form of revenue, borrowing from the public, is strictly dependent on the other three sources.

parts of our plan.⁵ There could then be transitional steps of a few days' length: that is, the ruble or forint could be allowed to fluctuate freely and be convertible at market exchange rates into other currencies. It would still be imperative to take the money-creating power out of the hands of the national government; a possible way of doing that, and a second transitional step, would be to make the ruble convertible into harder currencies, such as the dollar, at some fixed rate. Pending return to a pure gold standard and liquidation of the central bank, it would also be important to curb the government's power to create money by freezing permanently all central bank activities including open market operations, loans, and note issues. It need hardly be added that a law or edict limiting or freezing the government itself is *not* an act of intervention into the economy or society. Quite the contrary.

Just as black markets and all private markets would be set free, so too private credit institutions, for the lending of savings or the channeling of the savings of others, would be set free to develop.

Fire the Bureaucracy

A question may have occurred to the reader: If taxation is to be drastically lowered, and the government is to be deprived of its power to print or create money, then how is the government going to finance its expenditures and operations? The answer is: It wouldn't have to, because there would be precious little left for government to do. (This will be explained further in the discussion of privatization below.) The socialist economy is a command economy, staffed and run by a gigantic bureaucracy. That bureaucracy would immediately be fired, its members set free at long last to find productive jobs, and develop whatever productive abilities they might have, in the now rapidly expanding and flourishing private sector.

This brings us to a fascinating problem which, while resting long in the hearts and minds of the oppressed subjects of socialism, has now unexpectedly become a live political issue. What is to be done with and to the top Communist party cadre, to the *nomenklatura*, to the vast apparatus of the once all-powerful secret police? Should justice at last be meted out to them by a series of state-crime trials, followed by proper and condign punishment? Or should by-gones be by-gones, a general amnesty be declared, and ex-KGB men hired as private guards or detectives? I confess an ambivalence on this issue,

⁵See Yuri N. Maltsev, "A One Day Plan for the Soviet Union," *Antithesis* 2 (January/February 1991): 4, and in the earlier account, "The Maltsev One-Day Plan," *The Free Market* (November 1990): 7.

in weighing the competing claims of justice and of social peace. Fortunately, the decision can be left to the peoples of the former Soviet Union and of Eastern Europe. There is not much that an economist, even a free-market economist, can say to resolve this issue.

Privatize or Abolish Government Operations

This brings us to the final, but scarcely the least important, plank of our proposed desocialization platform: privatizing government operations. Since theoretically all, or in practice *most*, production in socialist countries has been in the hands of the State, the most important desideratum, the crucial route for attaining a system of private property and free market, must be to privatize government operations.

But simply to say "privatize" is not enough. In the first place, there are many government operations, especially in socialist states, that we don't *want* to privatize, but rather to abolish completely. For example, we would not, as libertarians and desocializers, wish to privatize concentration camps, or the Gulag, or the KGB. God forbid that we should ever have an *efficient* supply of concentration-camp or secret police "services"!

Here is a point that needs to be underlined. The basic assumption of national income and GNP analysis is that all government operations are productive, that they contribute their expenses to the national output and the common weal. But if we truly believe in freedom and private property, we must conclude that many of these operations are not social "services" at all but *disservices* to the economy and society, "bads" rather than "goods."

This means that desocialization must involve the abolition, not the privatization, of such operations as (in addition to concentration camps and secret police facilities) all regulatory commissions, central banks, income tax bureaus, and, of course, all the bureaus administering those functions that are going to be privatized.⁶

Principles of Privatization

Genuine goods and services, then, are to be privatized. How is this to be accomplished? In the first place, private competition with

⁶It is important to realize that if a government activity is a bad rather than a good, we would want its exercise, so long as it exists, to be as *inefficient* rather than as efficient as possible. One of the most hated organizations in early modern Europe was the "tax farmer," who purchased from the king, the right to collect taxes for a certain term of years. We might consider: would we want income taxes to be privatized, and collected, fully armed with state power, by IBM or McDonald's rather than the IRS? The industrialist Charles F. Kettering is supposed to have cheered up a friend in the hospital, who was complaining about the accelerated growth of government: "Cheer up, Jim, thank God we don't get as much government as we pay for."

previous government monopolies is to be free and unhampered. This would legalize not only the black market, but all competition with existing government operations. But what about the massive accumulation of government firms and capital assets themselves? How are they to be privatized?

Several possible routes have been suggested, but they can be grouped into three basic types. One is egalitarian handouts. Every Soviet or Polish citizen receives in the mail one day an aliquot share of ownership of various previously state-owned properties. Thus, if the XYZ steel works is to be privately owned, then, if there are 300 million shares of XYZ steel company issues, and 300 million inhabitants, each citizen receives one share, which immediately becomes transferable or exchangeable at will. That this system would be impossibly unwieldy is evident. The number of people would be too much and shares too few to allow every person to have a share, and there would be shares of innumerable large numbers and varieties that would quickly descend upon the heads of the average citizen. Much of this chaos would be eliminated in the suggestion of Czech finance minister Vaclav Klaus, who proposes that each citizen receive basic certificates, which could be exchanged for a certain number or variety of shares of ownership of various companies on the market.

But even under the Klaus plan, there are grave philosophical problems with this solution. It would enshrine the principle of government handouts, and egalitarian handouts at that, to undeserving citizens. Thus would an unfortunate principle form the very base of a brand new system of libertarian property rights.

It would be far better to enshrine the venerable *homesteading* principle at the base of the new desocialized property system. Or, to revive the old Marxist slogan: "all land to the peasants, all factories to the workers!" This would establish the basic Lockean principle that ownership of owned property is to be acquired by "mixing one's labor with the soil" or with other unowned resources. Desocialization is a process of depriving the government of its existing "ownership" or control, and devolving it upon private individuals. In a sense, abolishing government ownership of assets puts them immediately and implicitly into an *unowned* status, out of which previous homesteading can quickly convert them into private ownership. The homestead principle asserts that these assets are to devolve, not upon the general abstract public as in the handout principle, but upon those who have actually worked upon these resources: that is, their respective workers, peasants, and managers. Of course, these rights are to be genuinely *private*; that is, land to individual peasants, while

capital goods or factories go to workers in the form of private, negotiable shares. Ownership is not to be granted to collectives or cooperatives or workers or peasants holistically, which would only bring back the ills of socialism in a decentralized and chaotic syndicalist form.

It should go without saying that these ownership shares, to be truly private property, must be transferable and exchangeable at will by their holders. Many current plans in the socialist countries envision "shares" which must be held by the worker or peasant and, for a term of years, could only be sold back to the government. This clearly violates the very point of desocialization. Other suggested plans impose severe restrictions upon the transfer of ownership to foreigners. Once again, genuine privatization requires complete private property, including sale to foreigners. There is, furthermore, nothing wrong with "selling the country" to foreigners. In fact, the more that foreigners purchase "the country" the better, for it would mean rapid injections of foreign capital, and therefore more rapid prosperity and economic growth in the impoverished socialist bloc.

A problem immediately arises in granting shares to workers in the factories, a problem akin to the question what is to be done with the Communist cadres and the KGB: Should the managing *nomenklatura* be cut in on the shares of ownership? In advising the Soviets in an address in Moscow in early 1990, the economist Paul Craig Roberts observed that the Soviet people could either cut the throats of the *nomenklatura* or cut them in on shares of ownership; for the sake of social peace and smooth transition to a free economy, he recommended the latter. As I wrote above, I would not be that quick to thwart the demands of justice; but I would like to point out again a third possible route: not doing either one, and freeing the *nomenklatura* to find productive jobs in the private sector. The philosophic point in contention is to what extent, if at all, the managers' activities in the old Soviet economy were productive, and therefore participant in homesteading-labor, and to what extent they were crippling and counter-productive, and therefore deserving of nothing better than a curt dismissal.⁷

A third commonly suggested route to privatization deserves to be rejected out of hand: that the government sell all its assets to the public at auction, to the highest bidder. One grave flaw in this approach is that since the government owns virtually all the assets,

⁷Yuri Maltsev recommends adoption of the homesteading plan, with the Vaclav Klaus distribution scheme to be adopted in cases where homesteading would not be feasible. Maltsev, "A One-Day Plan for the Soviet Union."

where would the public get the money to purchase them, except at a very low price that would be tantamount to free distribution? But another, even more important flaw hasn't been sufficiently stressed: why does the government deserve to own the revenue from the sale of these assets? After all, one of the main reasons for desocialization is that the government does not deserve to own the productive assets of the country. But if it does not deserve to own the assets, why in the world does it deserve to own their monetary value? And we do not even consider the question: What is the government supposed to do with the funds after they have been received?⁸

A fourth principle of privatization should not be neglected; indeed, it should take priority. Unfortunately, by the nature of the case this fourth route cannot be made into a general principle. That would be for the government to return all stolen, confiscated property to its original owners, or to their heirs. While this can be done for many parcels of land, which are fixed in land area, or for particular jewels, in most cases, especially capital goods, there are no identifiable original owners to whom to restore property.⁹ In the nature of the case, finding original landowners is easier in Eastern Europe than in the Soviet Union, since far less time has elapsed since the original theft. In the case of capital goods built by the State, there are no owners to identify. The reason why this principle should take priority wherever it applies is because property rights imply above all restoring stolen property to original owners. Or to put it another way: An asset becomes philosophically unowned, and therefore available to be homesteaded, only where an original owner, if one had existed, cannot be found.

There is one nagging remaining problem: How large should the newly private firms be? Every industry in socialistic countries is generally locked into a monopoly firm, so that if each firm is privatized into an equivalent-sized firm, the size of each will be far larger than the optimum on the free market. A fundamental problem, of course, is that there is no way for anyone in a socialized economy to figure out what the optimum size or number of firms is going to be under freedom. In a sense, of course, mistakes made in the shift to

⁸One leading argument for the government selling its assets is that this process would have the anti-inflationary effect of sopping up the dread "ruble overhang." The fallacy in this egregious argument is that, unless the government officials propose to have a mass public bonfire of the rubles, the overhang would not be reduced at all. The government would spend the rubles, and they would remain in circulation.

⁹In Hungary, the Smallholders Party was formed to stress priority in privatization to returning land to the expropriated landholders of Southern Hungary.

freedom will tend to iron themselves out after a free market is established, with tendencies to break up or to consolidate in the direction of optimum size and number. On the other hand, we must not make the mistake of blithely assuming that the costs or inefficiencies of this process may be disregarded. It would be preferable to come as close as possible to the optimum in the initial privatization. Perhaps each plant, or each group of plants in an area, may be initially privatized as a separate firm. It goes without saying that a very important aspect of a free market and of this optimizing process is to allow the market complete freedom to work: e.g., to merge, combine, or dissolve firms as it proves profitable.

Conclusion

The dimensions of the proffered Rothbard Plan for desocialization should now be clear: (1) Enormous and drastic reductions in taxes, government employment, and government spending. (2) Complete privatization of government assets: where possible to return them to the original expropriated owners or their heirs; failing that, granting shares to productive workers and peasants who had worked on these assets. (3) Honoring complete and secure property rights for all owners of private property. Since full property rights imply the complete freedom to make exchanges and transfer property, there must be no government interference in such exchanges. (4) Depriving the government of the power to create new money, best done by a fundamental reform that at one and the same time liquidates the central bank and uses its gold to redeem its notes and deposits at a newly defined unit of gold weight of existing currencies. All this could and should be done in one day, although the monetary reform could be done in steps taking a few days.

One point we have not specified: precisely how low should taxes or government employment or spending be set, and how complete should be the privatization? The best answer is that of the great Jean-Baptiste Say, who should be known for many other things than Say's Law: "The best scheme of [public] finance is, to spend as little as possible; and the best tax is always the lightest."¹⁰ In short, that government is best that spends and taxes and employs the least, and privatizes the most.

A final point: I have been criticized by libertarian colleagues for proposals of this sort because they involve action by government. Isn't

¹⁰Jean-Baptiste Say, *A Treatise on Political Economy*, 6th ed. (Philadelphia: Claxton, Remsen & Haffelfinger, 1880), p. 449. Also see Rothbard, "The Myth of Neutral Taxation," pp. 551-54.

it inconsistent and statist for a libertarian to advocate any government action whatever? This seems to me a silly argument. If a thief has stolen someone's property, it is scarcely upholding "robber-action" to advocate that the robber disgorge his stolen property and return it to its owners. In a socialist state, the government has arrogated to itself virtually all property and power of the country. Desocialization, and a move to a free society, necessarily involves the action of that government's surrendering its property to its private subjects, and freeing those individuals from the government's network of controls. In a deep sense, getting rid of the socialist state requires that state to perform one final, swift, glorious act of self-immolation, after which it vanishes from the scene. This is an act which can be applauded by any lover of freedom, act of government though it may be.