

SOUND MONEY AND A LIBERAL MARKET ORDER

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Though circumstances and times change, the basic principles of economic progress and sound market order do not. There is no mystery about them. They involve sound money, low taxes, property rights, making it easy for businesses to be set up, and, once they are, not harassing them with excessive regulation and bureaucratic interference. And, of course, free trade. They sound very simple, but, unfortunately, when you see the policies—or lack of them—that we seem to be pursuing, even these simple principles seem to go by the boards.

The thing a country needs first is real, sound money. You cannot have a truly functioning economy without real money. But that fact seems to be lost on many Western policymakers. Having no money is like having a body without blood. It ain't gonna function.

Without a sound currency, other reforms necessary for a vibrant, free economy either are not going to be possible or are going to take a long time coming into effect.

International Handouts No Answer

What the struggling countries of the former Soviet Union do not need are gobs of Western foreign aid. That would only subsidize self-perpetuating bureaucracies and destructive policies. What they do need are open markets and free trade. Free trade and private investment—domestic or international—will do far more than foreign aid.

They also do not need more mindless austerity. Some Western agencies seem to suggest that the poorer you get, the better off you will be, because that builds character.

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Statistics will show that in a true free-market transition—switching from one set of rules to another set of rules—there is a lot of depression and unemployment, but that is only a transition period between one environment and a new, freer one. The transition should be relatively short and should not be a painful one, as Japan, Italy, and other countries proved after World War II.

The idea that we have to wait a couple of generations before countries can truly get on their feet is absolute nonsense. You do not make an economy healthy by making the people within it poor. There is considerable entrepreneurial energy in the former Soviet Union and in Central and Eastern Europe. That is how those people survived 70 years—by having the wits and energy to get around the obstacles that were placed in their way.

Unfortunately, strategists, diplomats, and geopolitical realists all seem to overlook the best long-term defense. They all think in military terms, but the best long-term defense is one of encouraging democracy and economic liberty. True democracies don't go to war with each other. But democracy won't sink deep roots in the former Soviet Union and much of Central Europe unless the principles I have mentioned are put to work. If there is perpetual depression, if there is perpetual economic turmoil, democracy simply won't work.

In countries such as Poland and Russia, what leaders call shock-treatment free-market economics is too often a cloak for madness. You find it is anything but free-market economics when you examine it in detail. It makes the situation worse, not better.

Which Way Will the Winds Blow?

Today the United States and the West are in a state of flux. The question asked is: Will the U.S. pursue the spirit of isolationism of the 1920s and 1930s or the more imaginative approach of the post-World War II period? We speak the rhetoric of the late 1940s, but our policies are too reminiscent of the 1920s. We turned our backs on the rest of the world. We enacted an anti-immigration law in 1924, and then at the end of the decade, with Smoot-Hawley, we turned to a form of economic isolationism. And we know what happened with that.

Our policymakers seem to forget that democracy in the 1920s and 1930s withered in more than 20 countries—not from external aggression, but from internal collapse brought about by economic chaos. Among them: Poland, Hungary, Lithuania, Latvia, Estonia, Turkey, Greece, Spain, Portugal, Austria, Japan, China, Brazil, Argentina, and, ultimately, Germany. Today's idea that democracy is sort of a done deal has been shown historically to be absolutely short-sighted.

So we did the wrong things in those days. Remarkably, American business leaders were more activist, more internationalist in the 1920s; that is how we got the Dawes Plan and the Young Plan. But the political trend was isolationist, and the world paid a severe price for it.

In the late 1940s the West's reaction was different. We instituted the General Agreement on Tariffs and Trade and the Bretton Woods international monetary system. We needed safety and security from predatory neighbors, so NATO did work in that respect. While historians and philosophers can point out a lot of flaws in these postwar institutions, most of them for most of the time did more good than harm—especially compared with what had gone on earlier.

Clearing the Way for Democracy

The most instructive, immediate step that the United States can take now to help struggling democracies is to encourage the creation of sound money. There are plenty of models around for how to do that: Germany, Japan, and Italy after World War II. Today we can look at South Korea, Mexico, Argentina, and the Czech Republic.

Polyconomics, a firm in my home state of New Jersey, has an intriguing proposal for resurrecting the dead ruble. As we sold our public lands 200 years ago to help back our bonds, Russia likewise has plenty of assets it could use to revive its currency—assets of \$3 trillion to \$6 trillion.

There are plenty of other sound approaches to help the Russian economy, such as the sale of its military and aerospace technologies to American firms and government agencies. Buying Russian technology would keep Russian scientists working—working on our kinds of projects rather than for the Kim Il Sung of the world. It would also give Russia some badly needed hard currency and save us billions of dollars in development costs.

So far the United States has not really pursued these opportunities. Why? State and Defense Department apparatchiks feel that if they block the sales, they'll ruin the former Soviet military and industrial complex, and Russia will never become a great power again. The idea that if you wreck a country's industry you somehow increase your own security is preposterous.

We should be pursuing the tried-and-true models for helping these countries; it's a matter of political will. We will not get the kind of revival needed in Russia and Eastern Europe unless we do. The hope of democracy there will fail if we continue on our current course.

It is very important for all of us to remind both the private and public sectors of how destructive it is to engage in monetary manipulation, to allow unsound money. Currency manipulation is a

form of protectionism. It is immoral in that it gives some people unearned gains and gives other people unearned, unexpected losses. In a way that I do not think historians fully grasp, currency manipulation undermines the rule of law, property rights, and people's faith in economic liberty when they see huge changes done in an arbitrary, capricious manner that has nothing to do with work, innovation, or creativity.

Sometimes we approach the subject of money as if it were the root of all evil. Well, it may sometimes encourage evil, but it is ridiculous to think that money invented the underside of human nature. In fact, money, in its own way, channels and guides human aggression, pride, ambition, and desire into fruitful and productive pursuits that ultimately benefit us all. In short, sound money makes possible free markets, and free markets in turn are the essence of human progress.

A Golden Opportunity

The 20th century began as an optimistic age, especially in this country. People felt it would be a golden age of not only material progress but also political enlightenment: more democracy, more rule of law. Then came World War I, which undermined people's faith in Western institutions and helped begin the process of undermining people's faith in progress. It made possible communism, fascism, and nazism and, of course, led to another world war.

After World War II, there were two models on the table: our model and that of the Soviet Union. With the collapse of the legitimacy of communism in 1991, you might say we are back to where we were in 1914, back again in a position to redeem the promise with which this century began. We have a chance to do it right this time.

In 1914, as the world descended into war, few people realized the magnitude of the impending disaster. One who did was Sir Edward Grey, Britain's foreign minister. He said, "The lamps are going out all over Europe; we shall not see them lit again in our lifetime." If the United States pursues sensible policies, in terms of getting sound money and other central parts of economic liberty in place, then those lamps will be relit—not only in Eastern Europe and Russia, but throughout the world—not only for our generation, but for generations to come.