POLICY REPORT

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Let Sleeping Failures Lie: The Reconstruction Finance Corporation

by Sheldon Richman

As the signs of a faltering economy become ever more manifest, some prominent businessmen and others are seeking solutions in the recent past. Believing that the present crisis is comparable to that of the Great Depression, they are showing interest in discarded economic strategies.

The bygone getting the most attention is the Reconstruction Finance Corporation (RFC). Created in January 1932, the RFC extended loans and guarantees to industries, banks, railroads, mortgage companies, farmers, and state and local governments in the name of economic recovery.

Two bills introduced in Congress this year would resurrect the RFC. Three prominent businessmen have recently advocated the creation of a similar agency. Henry Kaufman, an economist with the Wall Street brokerage firm of Salomon Brothers, has proposed a National Commission for the Revitalization of America. Frank A. Weil, a former Wall Street investment banker (now a Washington, D.C., attorney) proposes a government agency to *anticipate* problems rather than apply ad hoc remedies, as was done in the Chrysler case. And since 1974 Felix Rohatyn has openly called for recreation of the RFC. Rohatyn, perhaps the most prominent of these men, is a partner in the investment-banking firm of Lazard Freres and chairman of the Municipal Assistance Corporation, which oversees and floats bonds for the New York City bailout.

Rohatyn, an adviser to independent presidential candidate John B. Anderson before endorsing President Carter, has bemoaned the American people's loss of confidence in their government:

> No matter how much technical jargon we hear from economists and monetarists, we have to begin with the notion that people must believe their leaders know what they are doing and where they are going. In the United States today, this is clearly not the case.
>
> Alone among the leaders of the West, the United States seems unable to govern itself, and a visit to Paris or Bonn or Tokyo brings home the most startling difference; there, governments do seem to govern. There are direct links between the identification of a problem, a recommendation for action, and public debate, which are then followed by a decision and implementation.[1]

His recommendations for restoring the lost confidence, in addition to a temporary wage-price freeze, a 50-cent-a-gallon gasoline-tax hike, and limits on free trade, include a new RFC "to provide a safety net for certain industries, financial institutions, and municipalities in serious difficulties." Like all such nets, Rohatyn writes, "it should be initiated before, not after, further disasters."[2]

"The New Deal, far from being revolutionary, was instead a continuation and expansion of Hoover's interventionist programs."

Other corporate leaders and financiers have joined the chorus for a new RFC, including Henry Ford, William McChesney Martin, former chairman of the Federal Reserve Board, and Gustave Levy, senior partner of Goldman Sachs.

In September President Carter showed signs of adopting Rohatyn's suggestion. In his fifth (some say seventh) economic renewal program, Carter announced that he intended to create an agency that sounded similar to the RFC: the Economic Revitalization Board, which would set up an "industrial development authority" to channel tax revenues and private capital into economically troubled areas. Before that, when Carter announced an aid program for the auto industry, White House domestic affairs adviser Stuart E. Eizenstat said, "We consider this the first step of a national industrial policy."[3]

Despite this enthusiasm for a new RFC, however, few people have looked back at the original to assess its intentions, activities, and record. Such a retrospective survey may provide a clue to what to expect from a new RFC.

Hoover's Creation

The RFC was signed into law by President Herbert Hoover on 22 January 1932. The standard (and erroneous) view of the depression era is that government activism began after Hoover's term. Popular myth has it that Hoover, the last defender of laissez-faire capitalism, refused to act when the stock market crashed and plunged the nation into poverty. It took Franklin Roosevelt's election in 1932, this version has it, to get the government to end the

(Cont. on p. 3)

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EDITORIAL

The World Bank: Play It Again Uncle Sam

During a speech announcing his resignation as president of the World Bank, Robert McNamara chastised the United States for not doing enough to alleviate world poverty. While unsuccessfully fighting back tears, presumably shed for the impoverished, McNamara blasted American foreign aid levels as "disgraceful." The audience, composed of world finance ministers and central bank presidents, gave McNamara the predictable and self-serving standing ovation. President Carter, in his welcoming address just prior to McNamara's speech, pointed out that he would fight hard for full American appropriations for both the bank and the International Monetary Fund (IMF), and praised McNamara's thirteen-year record at the bank by claiming that the bank has become "the focus of world cooperation to improve the human condition." This cooperation does not include representatives of the PLO, who were barred from the meeting.

McNamara's remarks conclusively demonstrate everything America's leaders have learned about poverty during decades of ostensibly fighting it: absolutely nothing. Indeed, when McNamara rhapsodizes about poverty it is as if a time machine has transported the listener back to the 1960s, the Great Society, and the War on Poverty:

> [W]e have collectively had it in our power to do more to fight poverty and we have failed to do so. Sustaining the attack on poverty is not an economic luxury....It is a continuing social and moral responsibility and an economic imperative—and its need now is greater than ever.

In other words, after aid totaling close to $200 billion between the end of World War II and 1977, along with several billions since, American efforts have produced a situation where "need now is greater than ever."

We need not comment on the sad spectacle of multimillionaires in custom-tailored suits patting each other on the back as they prepare to siphon even more money from American citizens, while their chauffeured limousines wait outside the plush offices of the World Bank. Such a scene certainly transcends the descriptive abilities of any language. We shall focus, instead, on two questions: Why, after decades of aid from every country in the West (McNamara was careful not to chastise communist block nations for their stinginess because it might have jeopardized his standing ovation), is poverty allegedly "now worse than ever"? And, even assuming that it is, on what grounds can it be argued that more of the same type of "aid" will change things?

When approached from this perspective, the question of world poverty looks somewhat different. Is it not the case that aid from the United States government, the IMF, and the World Bank to fundamentally unsound governments around the world, far from alleviating poverty, actually helps produce the chronic poverty and corruption so typical of underdeveloped nations? Do we alleviate poverty when we underwrite loans for illiterate, petty dictators to help them consolidate their power? Do we alleviate poverty when, instead of attacking the causes, we help inept governments cover up the results of their own disastrous policies? Do we alleviate poverty by taxing our own citizens, making them collectively (to use one of Mr. McNamara's favorite words) poorer, and then giving the money away to be wasted on modern pyramids in far-off lands?

Does anyone seriously assert that decades of foreign aid have made the world a freer, safer, better place than it was when these programs were originally conceived? Has this aid increased the number of countries who look upon the United States with favor and respect, or have they already rejected our present as the future we are supposedly helping them achieve?

No, we make the world poorer by such policies, not to mention making it less free and more dependent on men like Robert McNamara, who make fortunes giving away other people's money so their well-to-do welfare clients, central bankers and bureaucrats, will give them standing ovations. As Irving Kristol observed in the *Wall Street Journal:*

> We actually manage to convince ourselves that we ought to feel guilty about their poverty—see the Brandt Commission report on Mr. McNamara's farewell address to the World Bank—even though it is their own governments which work to frustrate their economic growth and are largely responsible for the economic chaos that deprives their peoples of life, liberty, and the pursuit of happiness.

Just so. We are not responsible for world poverty, nor do we have the power to eliminate it. What we do have the power to do is close down the World Bank, stop foreign aid, and save future Robert McNamaras the trouble of trying to square the circle. For while they supply the tears, we supply the money. ■

The RFC (Cont. from p. 1)

economic debacle caused by the free market.

As are so many "facts" about American history taught in government schools, this one too is apocryphal. Major corporate leaders had been prointervention since before the Progressive Era, and they found Herbert Hoover sympathetic. The New Deal, far from being revolutionary, was instead a continuation and expansion of Hoover's interventionist programs.[4]

Both contemporary liberal and conservative analyses are too feeble to grasp what happened during the Great Depression. Liberals tend to believe that the business class was displaced by "the people" under FDR's leadership, conservatives that Roosevelt's "antibusiness" regime brought socialism to America. Neither view is correct, which Rohatyn seems to understand. He writes, "The economic road that I would travel is more interventionist than the conservative dogma but also more business-oriented than liberals would like."[5] He is a true descendant of the businessmen who helped erect the corporate state.

The RFC fits neatly into a chain of events that stretches back to the government industrial-planning agencies of World War I. The first RFC chairman, and the person who suggested to Hoover the idea of the RFC, was Eugene Meyer Jr., former managing director of the War Finance Corporation. Hoover's first choice for chairman was Bernard Baruch, the financier who headed the War Industries Board, and the influence of such businessmen and financial moguls dominated the RFC, as we shall see.[6]

In late 1931 when Hoover called on Congress to create the RFC, he recommended that it should operate for only two years, but, like so many other government programs, it led a prolonged life. The RFC operated until 1953, when its authority was transferred to the new Small Business Administration.[7] On signing the bill Hoover promised, "It is not created for the aid of big businesses or big banks. Such institutions can take care of themselves. It is created for the support of the smaller banks and financial institutions...."[8] We'll shortly see whether or not this pledge was fulfilled.

In the words of the RFC's second chairman, Jesse H. Jones, a Texas Democrat, banker, and businessman, the agency "loaned and spent, invested and gave away a total of more than $35 billion and authorized many billions more that were not finally used." The RFC thereby became America's largest corporation and the world's biggest and most varied banking organization, with almost unlimited authority to spend money. Jones boasted that the RFC used about $10.5 billion "without loss to the taxpayers." Indeed, he writes, a $500 million profit was returned to the Treasury.

During World War II the RFC became an agent of the military effort, disbursing some $22.4 billion. Jones writes that $9.3 billion of this was "unrecoverable" because after the war Congress authorized the Treasury to cancel some RFC notes.[9]

Jones proudly recounts that although 5,000 banks failed during the depression, 7,000 were saved by the $4 billion RFC investment.[10] With the market for mortgages frozen, the RFC jumped in and created the RFC Mortgage Co. and the Federal National Mortgage Association, which disbursed some $500 million. Insurance companies borrowed $125 million from the RFC.[11]

A billion dollars' worth of RFC help couldn't save one-third of the nation's railway mileage from going into receivership or bankruptcy, Jones writes, but another one-third would have gone under without help.[12] To push up plummeting agricultural prices, the RFC lent $1.5 billion to farmers, most of which was repaid.[13] To fulfill its public-works mandate, in 1932 alone the RFC authorized $147 million in cash and loan guarantees.[14]

In mid-1932, Congress enabled the

(Cont. on p. 4)

In This Issue

Let Sleeping Failures Lie: The Reconstruction Finance Corporation	1
The World Bank: Play It Again Uncle Sam (Editorial)	2
The Strikes in Poland: Workers Against the Workers' State	7
Briefs	5
Washington Update	8
Inflation Monitor	10
Trade Regulations/Department of Interior Watch	13
PR Reviews	14
"To be governed..."	16

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The RFC (Cont. from p. 3)

RFC to expand its services to include business and industry. Four years later, it had made 9,000 loans totaling $500 million.[15] At its peak in 1934, RFC personnel numbered 12,000. As late as June 1949 it had 4,600 employees.[16]

Secrecy and Big Business

The first several months of the RFC's operations were shrouded in secrecy. Neither Congress nor the public was permitted to know who was borrowing the money. The rationalization was that its customers' confidence in a particular bank would collapse if they knew that the bank was getting help. In July 1932 Congress amended the law and required the RFC to make public reports. In its months of secret operation, the RFC had lent a total of $1 billion, 80 percent of which went to banks and railroads. By the end of the year, the percentage had declined only slightly.[17]

In a January 1933 investigative article, journalist John T. Flynn demonstrated that much of the RFC's largess was going to big banks and railroads, despite Hoover's promise. According to Flynn, the RFC lent the Bank of America $65 million, and of the $264 million lent to railroads, $156 million went to lines controlled by the Morgans, Van Sweringens, and the Pennsylvania Railroad.[18] Murray N. Rothbard notes that of $187 million in 1932 loans that had been traced, $150 million went to repay debts held by a few banking firms, notably J. P. Morgan and Co. and Kuhn, Loeb and Co. Interestingly, Meyer's brother-in-law, George Blumenthal, was a member of the House of Morgan, and Meyer himself had served as liaison between Morgan and the French government.[19]

Flynn was mindful of the ironic connection between big bankers and an agency supposedly devoted to recovery: "Is it not worth a passing thought that almost all of the banks which had to seek help were under the domination of these political financiers who clustered round the throne and who coyly admit that they are the architects of our prosperity?"[20]

The connection was fully acknowledged by Jesse Jones. In his book about the RFC he notes that in 1934 humorist Will Rogers attended a U.S. Chamber of Commerce dinner along with many major corporate leaders. Rogers noted in his newspaper column that the chamber's ostensible purpose was to keep government out of business. Yet, "as each [big businessman] stood up, Jesse [Jones] would write on the back of the menu card just what he had loaned him from the RFC...."[21]

> **"The RFC thereby became America's largest corporation and the world's biggest and most varied banking organization, with almost unlimited authority to spend money."**

Secrecy and big-business connections were not the only controversies surrounding the RFC. Charges of favoritism were also leveled against the agency. In June 1932, three weeks after the resignation of RFC president Charles G. Dawes (who had been vice-president to Calvin Coolidge), the Central Republic Bank in Chicago, of which he was "honorary chairman," got a $90 million loan. (Its total deposits were only $95 million.) Union Trust Co. of Cleveland, whose board chairman was treasurer of the Republican National Committee, got a $14 million loan. The Guardian Trust Co. of Cleveland, a director of which was Dawes's successor, Atlee Pomerene, got $12.3 million. The Baltimore Trust Co., whose vice-chairman was a Republican senator, got $7.4 million. The Union Guardian Trust Co. of Detroit, a director of which was Commerce Secretary Roy D. Chapin, got $13 million. In July 1932 Congress amended the law to forbid loans to any bank that had a director or officer on the RFC board.[22]

Immense Power

Jones boasted that as RFC chairman he had immense power, but not everyone was as pleased by his power as he was. In fact, there was concern that the RFC had achieved an immunity from popular sovereignty that was inappropriate in a republic. For example, in 1943 Congress learned that the Board of Economic Warfare, set up in 1941 to enable Vice-President Henry A. Wallace to stockpile strategic materials, had spent $1.5 billion, although Congress had appropriated only $12 million for administrative expenses. Jones, who by then was commerce secretary and federal loan administrator, told Congress that the money had been appropriated by the RFC, which had borrowed it from the Treasury at 1%. As it turned out, the RFC had appropriated some $34 billion to various bureaus in the same way.[23]

The RFC lasted about twenty years longer than Hoover envisioned, and some of its offspring live on to this day. Aside from the Federal National Mortgage Association, the RFC also created the Export-Import Bank, initially to induce trade with the Soviet Union (a failure) and later to assist the Allies in the war.[24]

Did the RFC contribute to ending the depression?[25] Jones asserts that by the fall of 1939 the country was out of the depression and that recovery would have been delayed "but for the billions pumped into the bloodstream of our economy by the RFC." Yet unemployment stood at 9 million in 1939 and returned to its 1932 level until the United States entered the war.[26]

Jones conspicuously neglects the question of where the billions came from. He assumes that had the RFC not used the money, it would have

gone to waste. Clearly, the money came from the taxpayers. In 1932 Hoover signed one of the largest peacetime tax increases ever. All kinds of taxes were raised, including both personal and corporate income taxes and the estate tax. When capital is unusually short, a tax hike is especially inopportune.[27]

The argument that the depression would have been worse if the billions had not been diverted from other uses is reminiscent of the story about the dog owner whose veterinarian accidentally gave the dog a stimulant instead of a tranquilizer. After the dog's violent rampage, the owner called the vet to thank him. "Think how much worse it would have been had you not given my dog the tranquilizer," the owner said.

One of the arguments for the RFC is that it maintained or restored confidence in banks and other institutions. But this begs the question: *Should* confidence in a failed banking system have been restored? Realizing that the depression was a period of readjustment after a period of malinvestment, Flynn wrote of the failing railroads, "The quicker the correction comes, the quicker the regeneration... will come.... Any attempt...to save weaker debtors necessarily prolongs the depression."[28]

This observation gets at the crux of the economic case against any affirmative government action in a depression. Such action necessarily impedes the readjustment to economic reality required by the artificial boom caused by monetary expansion. The RFC epitomizes the backward policies of Hoover and Roosevelt's New Deal, policies that deliberately set up obstacles to the market process.

Thus the historical case for a new RFC is not persuasive. Favoritism, political jockeying, and all the unintended consequences of power are inescapable features of government solutions. There is no reason to believe that a new RFC would be any different. The behavior of a political agency is not accidental. It is a result of its nature. An agency with billions to lend (and no profit-loss test) must select its borrowers some way; it must rely on someone's judgment. It will tend to rely on prominent bankers and brokers whose professional expertise is in finance.

Such an agency cannot lend money to everyone. What will be its standard of selectivity? In all probability, it will be prohibited from using the standard that private investors use. *They* look for actual or potential profit, which is a sign that consumers are being (or will be) satisfied. But a new RFC won't be able to do that. Its purpose will be to lend to those who cannot find private funds. A pending House bill that would create an RFC-type agency mandates that it lend only to borrowers who "have presented evidence that they are unable to obtain funds on

Briefs

☐ The Alcohol, Drug Abuse and Mental Health Administration has recently created the National Commission on Alcoholism and Other Alcohol-Related Problems, which has been empowered to spend $1 million to study alcoholism. This new commission should feel right at home in Washington, where it will find such groups as the Prevention, Education, and Information Work Group of the Inter-Agency Committee on Federal Activities for Alcohol Abuse and Alcoholism, the Treatment and Rehabilitation Work Group of the Inter-Agency Committee on Federal Activities for Alcohol Abuse and Alcoholism, the Community Alcoholism Services Review Committee, the Alcohol Human Resources Development Review Committee, the Inter-Agency Committee on Federal Activities for Alcohol Abuse and Alcoholism, the Alcohol Biomedical Research Review Committee, and the Alcohol Psycho-Social Review Committee.

☐ In order to protect federal programs from the effects of inflation, almost three-quarters of them have either been formally or informally indexed. This is one of the primary reasons why federal expenditures have increased 28.4% over the last two years. The Office of Management and Budget has classified 76% of this year's outlays as "relatively uncontrollable," causing one economist to remark that "...to a considerable extent, the budget is on automatic pilot."

☐ William Wallace, staff director for bank activities at the Federal Reserve, has placed his fiscal 1981 order for 4.083 billion notes in denominations ranging from $1 to $100, and amounting to $42,553 billion. This new currency is expected to be less than one-third of next year's increase in M1-A, the most narrowly defined measure of the money supply. However, the Bureau of Engraving and Printing does not expect to be able to meet this demand for new Federal Reserve notes—thereby raising the life expectancy of a new dollar bill from 18 to 22 months—because of the Fed's unwillingness to retire old currency.

☐ The price support for milk has just risen from $12.07 per hundredweight to about $12.73 in order to help President Carter pull votes in the Dairy Belt. Although this increase is only about sixty cents, it will cost consumers $1.6 billion a year in higher prices for milk and milk products. This price hike comes at a time when there are sizable surpluses of milk, partly a result of decreased consumption due to fears about cholesterol.

☐ The state of Alaska has set a precedent by repealing its state personal income tax and refunding approximately $185 million in taxes paid in 1979 and 1980. Alaska had had an income tax for 31 years, but the legislature decided it was no longer needed because of the huge revenues being obtained from taxes on oil production. ■

reasonable terms from any other source....''[29]

There are only two reasons why a borrower can't get funds in the market: Either he is deemed unworthy of credit or his project is deemed unprofitable. Thus, a new RFC will be required by law to divert capital from those who can serve consumers well to those who can't. Rohatyn's belief that such an agency can be put on a sound banking basis has no validity because, by definition, the agency will exist to make unsound investments.

Since government agencies cannot use market criteria, they will use political criteria instead. Note that in the last twelve months, only Chrysler was bailed out, although as many people as Chrysler employs have their jobs threatened each year by business failures. What, but politics, explains that selectivity?

The whole of economic theory condemns the RFC's rationale, revealing it as a package of myths. First, there is the "no cost" myth, according to which if government loans or loan guarantees are repaid, the taxpayers have suffered no loss. This is the classic fallacy of accounting for only the visible effects of a policy. If $1 billion is lent to a firm from the Treasury or if $1 billion is lent privately because the government guaranteed the loan, that is $1 billion less than is available for consumer-oriented investment. The lost goods, jobs, etc., are real, yet unmeasurable, costs. That the loan is repaid later, even with interest, does not make up the loss. The government must get the money from somewhere; that is the starting point of a loss that ripples throughout the economy.

The goods produced by the politically connected borrower don't represent gains to consumers. They had other preferences, otherwise the borrower would have been able to get capital without government intervention.

This illuminates the next objection to government "reindustrialization." It will necessarily transform the economic system from a demand economy to a command economy. A business fails because consumers reject it. When the government props up failures, it overrules consumers. What they refused to do voluntarily, they will be forced to do as captive taxpayers. The result is a skewing of the economy away from consumers' purposes toward the objectives of bureaucrats and spokesmen for business and labor.

The most fallacious argument for an RFC is that it can provide capital when there is a shortage of capital. Obviously, the government has no capital of its own. The most it can do is redirect private capital and in the process take a handsome cut. So although the government is no solution, it can be the problem: Government policies absorb capital and bring on the very shortage it complains about. These policies include monetary expansion, taxes on income and capital gains, and cost-raising regulations. Relieving the capital shortage requires the removal of obstacles to capital accumulation, not the rearrangement of existing capital.

The most compelling argument against reindustrialization, however, is ethical. Its purpose is to forcibly interfere with people's peaceful pursuit of their well-being, and its purpose is what indicts it. Private goals will be subordinated to "national objectives" chosen by distant rulers. Entrepreneurs whose plans don't conform to the policies would be prohibited from "wasting" scarce resources. In the national interest, all will be ordered to get in line and march.

America doesn't need an RFC or industrial policy. It needs more of what was responsible for its initial economic progress: individual liberty, respect for private property, and recognition of the rights of all. ■

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[1] Felix G. Rohatyn, "Our Economic Crisis and What To Do About It," *New York*, 16 June 1980, p. 12.

[2] Ibid., p. 16.

[3] Quoted in Joseph E. Coberly Jr., "With the Government for a Partner, Who Needs Enemies?" *Dun's Review*, September 1980, p. 109.

[4] See Murray N. Rothbard, *America's Great Depression* (Kansas City: Sheed & Ward, 1972); Ronald Radosh and Murray N. Rothbard, eds., *A New History of Leviathan* (New York: E. P. Dutton, 1972); and Gabriel Kolko, *The Triumph of Conservatism* (New York: The Free Press, 1963).

[5] Rohatyn, p. 19.

[6] Walter E. Grinder and Alan Fairgate, "The Reconstruction Finance Corporation Rides Again," *Reason*, July 1975, p. 24. See also, Rothbard, *Depression*, p. 261, and Jonathan R. T. Hughes, *The Governmental Habit: Economic Controls from Colonial Times to the Present* (New York: Basic Books, 1977), pp. 141, 148, 186.

[7] Addison Parris, *The Small Business Administration* (New York: Praeger, 1968), p. 25.

[8] Jesse H. Jones and Edward Angly, *Fifty Billion Dollars: My Thirteen Years with the RFC* (New York: Macmillan, 1951), p. ix.

[9] Ibid., pp. 3–4.

[10] Ibid., p. 6.

[11] Ibid., p. 7.

[12] Ibid., p. 6.

[13] Ibid., p. 7.

[14] Rothbard, *Depression*, p. 265.

[15] Jones and Angly, p. 183.

[16] Ibid., p. 544.

[17] Rothbard, *Depression*, pp. 262, 264. Half of the credits to railroads were to pay bank loans.

[18] John T. Flynn, "Inside the RFC," *Harper's Magazine*, January 1933, pp. 164–69. Flynn notes that the New York banks got most of their help through RFC loans to railroads, which were in huge debt to them.

[19] Rothbard, *Depression*, p. 263.

[20] Flynn, p. 165.

[21] Jones and Angly, p. 5.

[22] Rothbard, *Depression*, pp. 262, 264. For a defense of the Dawes incident see Jones and Angly, pp. 72–81.

[23] John T. Flynn, *As We Go Marching* (New York: Free Life Editions, 1944), p. 246.

[24] Jones and Angly, pp. 8, 214, 222.

[25] See generally Rothbard, *Depression*, and Hans Sennholz, "The Great Depression," *The Freeman*, April 1974, pp. 204–15.

[26] Sennholz. See also Leonard P. Liggio, "American Foreign Policy and National-Security Management," in Radosh and Rothbard, *Leviathan*, p. 237.

[27] Rothbard, *Depression*, pp. 253-54.

[28] Ibid., pp. 163-64.

[29] H. R. 7902, July 31, 1980, sponsored by Rep. Joseph Minish (D-NJ), p. 13.

This issue of *Policy Report* has been expanded to 16 pages so that we could include the entire text of the following article on the Polish strikes. We expect to return to our customary 12-page format next month.

The Strikes in Poland: Workers Against the Workers' State

by Don Lavoie

For the third time in as many decades of Communist Party rule in Poland, nationwide strikes have forced the government to replace its leadership and yield to sweeping popular demands for liberalization. The workers have once again wearied of submitting complaint letters to the faceless bureaucrats of the Central Council of Trade Unions and have demanded—and at least temporarily won—independent unions with the officially recognized right to strike, as well as the relaxation of censorship, substantial economic reforms, and generous wage settlements.

On July 1 Premier Edward Babiuch had decided to raise meat prices, and this policy was confirmed on August 12 in an announcement by the Party's national secretary, Jerzy Lukaszewicz. The next day, over 50,000 workers at the giant Lenin Shipyard in Gdansk went on strike and took over the yard. Although the action was touched off by the meat-price hike, it had been brewing for months and reflected a deep-seated resentment of general economic and political conditions in Poland.

Initially, the Party's First Secretary, Edward Gierek, struggled to confine the rebellion to the Lenin Shipyard and negotiate on narrowly restricted issues. Four days into the strike, the workers at the shipyard overruled the wage settlement agreed to by their own strike committee and extended their demands in a 16-point list of grievances that fundamentally challenged the communist system. The strike quickly spread to other cities and over 250 factories, and the list of demands grew longer and more bold. On August 20 Gierek had 14 leading dissident intellectuals arrested for supporting the strike. He tried to suppress news coverage of the strike and refused to negotiate with the newly created "integrated strike committees," which were, he said, composed of "antisocialist elements." The head of the legal trade unions, Jan Szydlak, tried to circumvent the rebellious strike committees by meeting with more conciliatory workers and stated confidently that "the authorities do not intend to give up their power or to share it with anyone else."

"Energized by the Gdansk strikes, workers throughout the country were joined by dissident intellectuals in supporting the rebellion."

Submissive workers were, however, increasingly hard to find. Energized by the Gdansk strikes, workers throughout the country were joined by dissident intellectuals in supporting the rebellion. By August 22 the powerful Polish Roman Catholic Church had given its moderate endorsement to the strike, and Gierek had begun referring to "mistakes" that had been made by his regime.

Eleven days into the strike, with the entire economy at a standstill, Gierek tried to forestall further unrest by announcing a major shake-up of the Party leadership, dismissing many hardliners such as Szydlak and Babiuch, and replacing them with moderates. But strike leader Lech Walesa described Gierek's personnel changes as "patching up holes" and scoffed at Gierek's solemn promises that free elections would be conducted within the old unions.

Finally, on the last day of August, the beleaguered Gierek regime ended the 17-day strike by agreeing to the workers' demands, including the unprecedented official sanction of an independent, self-governing trade union with the right to strike, a concession the *Washington Post* reported as having been "unthinkable" only a week before. In addition, the strikers won the release of 28 dissidents and obtained substantive concessions on government censorship and economic reform, largely intended to decentralize the economy and make the production of consumer goods a greater priority. The only points on which the strike committee seemed to yield were vague and symbolic: acceptance of "the leading role" of the Party and "the principle of nationalized means of production."

Yet hardly had this startling agreement been signed than 200,000 Silesian coal miners walked off the job. This strike was quickly settled by an explicit extension of the Gdansk agreement to the whole country. At its height the strike had involved almost 400,000 workers at hundreds of factories and several coal mines. By early September the forces of liberalization had increased their power, and in the wake of the strike settlement rights were being demanded at all levels by almost everyone, from students and artists to Party members.

Finally, on the excuse of bad health, Edward Gierek himself was removed from power and replaced by the little known *apparatchik*, Stanislaw Kania. A former head of the secret police, Kania

(Cont. on p. 8)

Don Lavoie is a computer consultant who is pursuing advanced studies in economics at N.Y.U.

✓Washington Update

✓As part of his "reindustrialization of America" plan, President Carter has unveiled a comprehensive plan to rehabilitate the steel industry. The plan includes: (1) a proposed amendment to the Clean Air Act that would extend the steel companies' deadline for meeting pollution standards for three years if the companies agree to allocate the money saved toward plant modernization; (2) a liberalization of depreciation tax rules and an increase in tax investment credits; (3) a five-year trigger-price mechanism followed by vigorous enforcement of anti-dumping laws; and (4) a study of the possibilities of government assistance for research and development in the steel industry. The plan, the result of a business-labor-government coalition committee, has been hailed by both the steel industry and the European Economic Community.

✓New legislation approved by the House of Representatives would give $70 million in subsidies to aquaculture (farming of the sea). The bill would direct the Departments of Interior, Agriculture, and Commerce to develop a national aquaculture plan in order to close America's "aquaculture gap": 3% of America's seafood comes from aquaculture, while the world's average is 10%.

✓President Carter has signed the Rural Development Policy Act of 1980, which is designed to develop a comprehensive program for rural development. The bill gives the Farmers Home Administration an extra $5 million a year, allocates $1 million for the publicizing of federal rural assistance programs, and appropriates $70 million for water projects in South Dakota. The entire program will be overseen by the Secretary of Agriculture.

✓The $88 billion synthetic fuels program is already flooded with requests and inquiries about grants for synfuel projects. The first round of awards, announced in early July, attracted 971 proposals. Although only $300 million is available for the second round of awards, 550 businessmen converged on the Department of Energy in a single week. Staff officials claim that a busy day may bring in 500 calls inquiring about grants and loans.

✓The House of Representatives approved a $20 billion nuclear fusion program by a 365-to-7 vote. The bill calls for $20 billion in funding for fusion research over the next 20 years, with an initial outlay of $434.5 million in fiscal 1981. Several representatives compared the scope of the program to the Manhattan Project and the Apollo moonshot.

✓Robert McNamara, past president of the World Bank, is calling for a five-year, $25 billion lending plan to help underdeveloped nations finance energy programs, the bulk of the money going to electric power and nuclear energy. Although the Bank claims that the rates of return on these projects range from 30% to 50%, McNamara feels that private investment is insufficient for the $450–500 billion investments that oil-importing underdeveloped nations expect to undertake in the next decade.

✓The Postal Service has issued a new rule instructing mail carriers who find unstamped, privately delivered material in mail boxes to confiscate the material and take it to the nearest post office. The Postal Service will then assess postage and request payment from the responsible delivery firm. If the delivery firm does not pay postage, the material will be returned to the sender marked "postage due."

✓The Federal Food and Drug Administration has moved to ban from the market nearly 3,000 prescriptions whose effectiveness is unproven. Although none of the preparations is believed to be harmful, none of them has shown "substantial evidence" that it is effective for the medical condition for which it is recommended. In 1979 alone consumers spent over $1 billion for these drugs, which consist primarily of cough syrups and medicines for digestive disorders.

✓A new investigation into the dumping of television sets by Japanese firms has been ordered by the U.S. International Trade Commission. The dumping occurred in 1971, when Japanese companies exported 3.7 million units. The Japanese claim that the dumping charges are, at best, outdated, since they now export only 1.1 million units.

Polish Workers (Cont. from p. 7)

is not expected to permit the dilution of the Party's monopoly of power to proceed very far or for very long, but his initial moves have been largely conciliatory. He seems intent upon riding out the crisis by appearing more liberal than Gierek, whom he is accusing of having had too much power.

Meanwhile, membership in the new trade unions continued to accelerate throughout September, and, as if to demonstrate that they meant business, the new unions called a one-hour work stoppage on September 29 to protest the government's failure to meet wage demands and to allow them access to the national press. The next day the unions issued a statement that if the "warning strike" did not bring concrete results by October 20, another general strike would be considered.

It is unlikely that the Polish workers are going to be persuaded by the verbal assurances of the new Kania leadership. The same Gierek who is today an object of vilification for his cynical use of state power rose to popularity

ten years ago by opposing the policies of his predecessor, Wladyslaw Gomulka. In 1968 Gomulka had crushed a student revolt in his own country and had enthusiastically supported the Russian invasion and occupation of Czechoslovakia. But his repressive policies went too far in December 1970, when his troops shot into crowds of striking Gdansk workers, killing more than a hundred. Yet this tyrant had come to power in 1956 because of his image as a liberal reformer who had been imprisoned by *his* tyrannical predecessor, the hardline Stalinist Boleslaw Bierut. Given this history of Polish leadership, we can expect the Poles to be suspicious of Kania's new-found role as advocate of democracy and liberalism.

This is not to say that Gomulka and Gierek were always and unambiguously tyrannical or that Kania is likely to be now. Each leader ushered in a period of genuine liberalization, both politically and economically, the impact of which greatly improved the cultural and economic life of the people. Ironically, it is precisely by *relaxing* its tremendous power that the government has been able to win enough of the confidence of the masses it needs to *regain* that power. The pattern has been a couple of years of hopeful reform followed by a gradual erosion of liberty until the conditions of economic rigidity and political intolerance have worsened enough to lead to another cycle of revolt, government concessions, and liberalization.

As *New York Times* journalist John Darnton put it, "To resigned and cynical Polish intellectuals, the society seemed so full of contradictions that disorders appeared inevitable and even cyclical, like the economic depressions Marxists insist will dog the West."

Since the first Stalinist-style six-year plan was launched thirty years ago, the Polish leadership has been trying to steer a precarious course between obedience to its central planning ideology and deliverance to the people of at least some of the promises of that ideology. Conforming to the ideology of Russian-style central planning entails the continuation of unworkable economic policies that are certain to provoke further strikes, while economic concessions to the strikers are sure to undermine the last vestiges of ideological justification for the Communist Party's control over the Polish economy.

> **"The gross inefficiencies of the attempts by socialist governments to control production have been serious enough to be acknowledged by even some of the most eager advocates of the Soviet model."**

The roots of the most recent rebellion can be found in the failure of the theory and practice of the Soviet-style central planning that the Poles have endured since World War II.

The Myth of Central Planning Theory

The Soviet model of "central planning" is itself a hybrid, born of the conflict between Marxist theory and Russian reality. The origins of central planning ideology in Poland, as in all of eastern Europe, can be traced to Karl Marx, although its day-to-day operation bears little resemblance to the notion of "conscious planning" Marx described. Marx condemned the market for being an undesigned result of the contention among private owners for profit and argued for a system in which producers can take direct and conscious control over production and deliberately *design* the direction of social evolution. In place of the "anarchic" ordering mechanism enforced by the "law of value" in which errors are discovered *after* investments are made, Marx wanted production processes that were designed in advance *in toto* and ordered by fitting all economic decisions into a unified central plan.

Despite his blindness to the impracticability of this scheme of central planning, Marx has to be credited with the virtue of consistency. Market institutions reflect the competition for profits that serves as a social ordering mechanism guiding capitalist production. If all production is to be *consciously* planned, such spontaneous, unplannable institutions as market prices and even money must be eradicated. One could no more consciously plan a price system than one could plan a football game. By its very nature a price system (or a sporting match) is a rivalrous process, its outcome the result of the clash of separate and mutually inconsistent plans.

The competitive struggle for profit in which some market participants outbid others for resources is an inherently unplannable process. The structure of relative prices that emerges from this competition among private owners depends on the pulling and tugging of contending and conflicting plans. In a sporting match it is the contention itself that is valued, but in an economy it is the prices that result from the struggle that are needed. The information contained in the price system enables competing entrepreneurs to engage in technologically sophisticated methods of production and satisfy the ever-changing demands of consumers.

The notion of a centrally planned economy, then, implies the absence of all market relations and money prices, as Marx understood. What Marx did *not* realize is that an economy organized in such a way precludes the advanced and complex technological production processes of modern society. As the Austrian economists Ludwig von Mises and Friedrich Hayek have explained, there is no substitute for the price information that is continuously generated by a competitive market economy. Lenin's attempt to abolish the price system was an unmitigated disaster, and the idea has been almost completely abandoned by contemporary socialists, to whom prices and money are indispensable. The prevailing schemes of "central planning" are now less theoretically consistent but also less obviously catastrophic amalgams of planning and market institutions.

If it is true that a football match cannot be consciously planned in advance and still *be* a football match, the facade of planning can still be preserved. One can publish a football plan that says a touchdown will be scored by team A in the first period, watch the game, and then revise the "plan" after the first quarter to read that a field goal be kicked by team B instead. By the end of the game the continuously revised "plan" will have been fulfilled to the last detail.

Similarly, as Paul Craig Roberts has demonstrated, socialist planners gather last year's production statistics from each plant, add a percentage increase, and publish this as next year's "plan." When economic forces reveal this plan to be unachievable, revisions are passed back up the hierarchy to the central office and are incorporated into revised "plans." The much vaunted "scientific" plan that is supposed to guide all of production is actually derived from decentralized market-guided decisions made previous to its design and continuously revised throughout its implementation, on the basis of changing market considerations, until the plan period is over and the newly revised plan has been miraculously "achieved." This is not Marx's conscious, rational, ex ante guiding of production processes by the central planners but more like the ex post guiding of plan making by realized production processes. In practice, socialist production is at least as "anarchic" as capitalism.

The "common" ownership of the means of production is effectively undermined by the fact that plant managers separately compute profit/loss accounts, bid against one another for resources, and are offered material incentives in lieu of profits. This bidding process is extremely cumbersome, and the lack of open-market institutions and secure property titles seriously hinders the efficient operation of the socialist price system, but a clumsy kind of competition nonetheless takes place and must be permitted to operate for the prices used in accounting to have any meaning.

INFLATION MONITOR

A quarterly feature of *Policy Report*, the "Inflation Monitor" shows the distorting effects on relative prices throughout the economy of government fiscal and monetary prices. All figures are expressed as annual rates of change, unless otherwise indicated.

	1980 Second Quarter	1980 First Quarter	1979 Fourth Quarter	Average for Last Four Quarters
MONETARY SECTOR				
Monetary Base	5.4	7.6	9.7	8.0
M1-A	−3.9	4.8	4.5	3.3
M2	5.4	7.2	7.1	7.8
M3	5.7	7.8	9.1	8.3
Discount Rate (average)	12.4	12.5	11.9	11.8
Prime Rate (average)	16.3	16.4	15.1	15.0
PRICE CHANGES				
Consumer Price Index	11.6	18.1	13.1	14.3
All-Finished-Goods Price Index	6.0	19.3	13.3	13.7
Intermediate-Materials Price Index	4.4	24.0	17.0	16.2
Capital-Equipment Price Index	10.9	13.4	10.0	10.0
INDUSTRIAL PRODUCTION INDICES				
Consumer Goods	142.7	148.5	149.7	147.8
Producers Goods	147.2	159.2	159.8	156.5
Raw Materials	145.3	156.7	156.3	153.8
Capital Goods Production to Consumer Goods Production (1967 = 1.00)	1.02	1.07	1.09	1.07

SOURCE: *Federal Reserve Bulletin*

The Chaos of Central Planning Practice

Although one could not replace the competition of football players with a script without destroying the game, one could significantly *interfere* with the competitive process that constitutes the essence of a sporting match without completely ruining it. One could, for example, periodically introduce ad hoc rule changes and point redistributions without entirely destroying

the contest. Of course, one would in such a case not be planning the football game, since its outcome is still the spontaneous consequence of decentralized decisions; one would merely be obstructing it.

If a Soviet-style economy is not genuinely planned in the sense dictated by Marx's theory, this is most definitely *not* to say that the economy is unaffected by the activities of the central planning bureau. A considerable measure of chaos is introduced into the competitive process by the daily interferences of "planners" with the decisions of producers. A planning bureau is, after all, a bureaucracy. To justify its existence mountains of paperwork have to be generated, red tape has to obstruct the introduction of the slightest changes in routine, and, in general, getting anything done through official channels takes endless maneuvering, if not outright bribery. The socialist system works somewhat like a capitalist price system in extreme slow-motion. Price changes eventually lead to revisions in production processes, but only at so slow a pace that the revision is likely to be obsolete by the time it is enacted. The pricing of certain items, such as meat, can have serious political consequences, and these items are often subsidized to placate consumers, using general state revenues. (These revenues are drying up as Poland's economy now reports negative growth while it shoulders the weight of a $20 billion debt to the West. Most of this money was used to finance a crash industrialization program, which seems to have failed.)

The interference of the planners with production often takes bizarre forms, particularly in the promulgation of numerous mutually contradictory production "targets" that plant managers are supposed to fulfill in addition to avoiding a monetary loss. Thus the planners would set a target for so many linear meters of cloth, thereby encouraging textile manufacturers to narrow the width of the product. A target specified in terms of the "total value" of production encourages enterprises to use the costliest materials, and produce, for example, pointlessly ornate dishes. The planners' reaction to this result—making a target index for "cost reduction"—in turn leads to the production of goods so badly made as to be worthless. Planning indices to reduce personnel or to ration the use of capital have led to similar absurdities. The profusion of indices, among which simple profit-and-loss considerations are only one, and not always the most important one, so seriously and so evidently hampers any rational production activity that the official rationale for the central plan as the ordering mechanism of the economy is not taken seriously by the workers or management.

So unwieldy is production under a central plan that recourse is regularly taken to thriving black and gray markets, where forms, indices, and prying bureaucrats can be circumvented in favor of straightforward if only semi-legal transactions. Indeed it seems that the useful production that does get accomplished occurs more in spite of, rather than because of, the activities of the busy central planning offices.

The gross inefficiencies of the attempts by socialist governments to control production have been serious enough to be acknowledged by even some of the most eager advocates of the Soviet model. Apologists such as Maurice Dobb have contended that this inefficiency is insignificant in the long run because the great virtue of central planning is its capacity to promote *growth*. A bit of microeconomic efficiency must be sacrificed today, but the benefits of the high rate of growth will surely outweigh this cost in a few years.

Yet it is probably here, in the sphere of new investment for economic growth, that the most serious economic flaw of central planning lies. Lacking legitimate markets for stocks and bonds, such economies have no rational mechanism to guide the flow of new investment toward more valuable avenues of production. Little genuine innovation occurs in the bureaucratic atmosphere, and a great proportion of investment is poorly integrated with the existing capital structure and therefore largely wasted. The bulk of resources has been diverted from the direct or indirect satisfaction of consumer demand and has gone instead to the satisfaction of the demands of the Communist Party elite for impressive macroeconomic "growth" statistics. By pushing out record numbers of tons of steel, the authorities can impress gullible Western macroeconomists with meaningless aggregate growth rates while promising the populace future abundance when the current investment yields its rich rewards.

Although the annual growth rate of gross industrial production was measured at 16.2% in Poland from 1951–1955, during its most intense period of rigid planning, very little beneficial impact of this industrialization program on the real standard of living of the Poles, then or since, can be attributed to that growth rate. Only the relaxation of this planning in the late fifties started to contribute to the real incomes of Polish workers, which still lag far behind those of the West.

About the only catastrophic policy of the Soviet model that the Poles have managed to escape is the collectivization of agriculture. Despite the fact that state-directed investment has been almost exclusively funneled into heavy industry at the expense of agriculture, the foodstuffs that Poland exports are primarily produced by private landowners.

Probably the most irritating consequence of the central planning system, in Poland and elsewhere, has been what is often called "the problem of supply." People have to stand in long lines for hours for virtually everything, and the waiting lists for more substantial purchases are measured in years (four for a car in Poland). But worse than the sight of a long line in front of a store is the absence of one: In a country that boasts of being the eleventh largest industrial power in the world, the average family frequently has to do without meat, bread, milk, or whatever else happens to be unavailable. As one Warsaw resident put it, "What good are all the cars, automatic washers, new coal mines, copper smelters, and shipyards if I cannot find a pair of shoelaces or have to stand in three one-hour lines to buy a roll of toilet paper?"

It may be difficult for a Westerner to comprehend the extent of this problem. We too have had to wait in line for a driver's license or to cash a check or, recently, to get some gas. But when shortages are as prevalent as they are in Poland, the queues are not an inconvenience, they are a heavy daily burden (disproportionately carried by women, incidentally) borne by the common people year after year and unavoidable for any but the Party elite, who have special shops. Indeed, the supply problem more than any other single factor is probably responsible for the angry rebellion of the Polish workers. A Gdansk striker expressed the intense frustration that has been felt in every socialist country when he screamed, "You know why I'm here? Because I have to stand in line for four hours for a tiny piece of meat that's disgusting to look at." Imagine the liberation east European refugees must experience when they first walk down the aisle of an American supermarket!

Perhaps even worse than the tremendous waste caused by the central planning system has been its political consequences. In place of the relatively civilized and peaceful rivalry for profits in the competitive marketplace is the brute-force rivalry among technocrats for a leading position in the central planning apparatus. Power is vested in the bureaucrats who enlist the aid of Party contacts or the secret police. Purges such as the one going on now in Poland periodically eliminate some factions and propel others to temporary leadership. In the recent shakeups, for example, Kania's political position has been consolidated by the aid of a certain Mieczyslaw Moczar, who has been unearthing scandal about Kania's rivals. Moczar had made an unsuccessful but well-organized bid for power himself in 1967 by launching an anti-Semitic smear campaign against his rivals (Gomulka's wife was Jewish). This kind of thuggish power politics is standard fare in socialist countries, and it surely makes the capitalist struggle for profits that Marx so condemned a pretty innocuous-sounding activity.

"They are saying, in no uncertain terms, that they no longer believe in the promises of a future communist paradise."

The political implications of the attempt to control the economic life of an entire nation by the state should not require much in-depth analysis. It is evident that when the government legally "owns" everything it is in a position to crush its opposition. With no independent court system the populace is at the mercy of the police state. Indeed, what is amazing about Poland is the extent to which underground organizations such as Nowa publishers have succeeded, despite all of the efforts of the state, in disseminating *samizdat* literature (for example, the reproduction of 10,000 copies of Tadeuz Konwicki's full-length novel, *Small Apocalypse*).

Toward an Alternative Economic System

This, then, is the central planning system with which the Polish workers are so justifiably angered. They are saying, in no uncertain terms, that they no longer believe in the promises of a future communist paradise, that they want a freer, more decentralized, more responsive economy—and they want it now. This has not been expressed in explicit free-market terminology yet, nor could it be in the shadow of Soviet tanks, but the consequences of the reforms already conceded to the courageous strikers could put Poland, and help put all of eastern Europe, on an accelerated path toward a free society.

Yet this is precisely what neither the Polish nor the Soviet Communist Party leaders can let happen. How far they will let their power deteriorate before cracking down is impossible to guess, but the extreme dangers of the attempts toward liberalization are understood by all participants. The one consequence nobody wants, least of all perhaps the Soviets themselves, is the desperate solution of sending in troops. The memory of Czechoslovakia haunts every discussion of the current crisis in Poland.

How this volatile situation will develop is uncertain, but one thing is clear: If the Soviets try to squelch "the Polish August" by force, they will encounter far more dogged resistance than they faced twelve years ago in Czechoslovakia. In virtually every respect the Poles are less likely to succumb easily to Russian dominance. The Slovaks had had a historical admiration for the Russians prior to the invasion, whereas the Poles have a long tradition of hatred for them. The Czechs and Slovaks had no single national heritage before 1918, and the union was never a very happy one, but Poland's population is outspokenly nationalistic, 98% Polish, and 90% Roman Catholic, with a rich cultural heritage extending centuries into the past. During "the Polish October" in 1956 when Poland and Hungary were both basking in newly won post-Stalinist reforms, it was Hungary that the Soviets chose to invade to make its imperialist point, and with good reason.

Furthermore, Poland today is probably less susceptible to a crackdown than ever before in its Communist history. All its previous social upheavals had been prompted and carried out either by the workers or the intellectuals and students, but never *both*. However, following Gierek's arrests and dismissals of workers who participated in the September 1976 price-increase riots, leading intellectuals founded the Committee for the Defense of the Workers and for the first time made effective organizational common-cause with less privileged ordinary citizens. Since 1978 this organization, now called the Social Self-Defense Committee, has become by far the most significant human rights organization in eastern Europe, collecting and distributing thousands of dollars to victims of the state, publicizing cases of police brutality and torture, and issuing its own *samizdat* bulletins on show trials and the imprisonment of dissidents and strikers. The unity of all sectors of the Polish human rights movement was evident throughout the August strikes, when the intellectuals' support for the workers was immediate and effective.

Lastly, given their own domestic and international problems, the Soviets will be extremely reluctant to resort to military options. They too, after all, are trying to salvage the unworkable central planning system. At home the regime faces an increasingly influential dissident movement of its own, despite recent KGB campaigns—complete with five-year repression plans and arrest targets—to eliminate dissent. The Soviet consumer is beginning to demand some economic reform, and protests against the war in Afghanistan have spread. That war has already tightened the U.S.-China military alliance and cost the Soviets much of what was left of its support in the Third World. With 45 divisions committed to the Chinese border and a hundred thousand troops fighting a protracted guerrilla war with the Afghans, the last thing Brezhnev wants is another military front.

(Cont. on p. 14)

Trade Regulations/Department of Interior Watch

The Interior Department is holding hearings on the Centralia Mine fire in the Buck Mountain coalbed in Columbia County, Pa. Because the fire may "...present a hazard to the town of Centralia," the department has recommended a number of options ranging from flooding the mine shaft with water to digging up the entire mine. The fire has been burning since 1962.

The Bureau of Land Management has announced a new management plan for the lands, islands, and minerals that the federal government owns in Minnesota. The plan encompasses over 45,000 acres of land, 3 million acres of land to which the government has mineral rights, and 1,171 islands. A comprehensive inventory of all these resources is the first step of the plan. In order to compile this inventory, the bureau has sent a full-time planning specialist, a geologist, a forester, a wildlife biologist, a realty specialist, and a recreation planner, as well as several administrative personnel and part-time archaeologists and hydrologists, to Duluth, Minnesota.

The Fish and Wildlife Service has received a request from the San Diego Zoo to permit the importation of several Palawan peacock pheasants for breeding purposes. However, before the service can act on the application, they must give interested parties at least 30 days to submit written opinions to the service's director.

The Bureau of Land Management is considering setting aside 38 square miles of land in Washington County, Utah, for the preservation of the desert tortoise, a threatened species. State Senator Matheson has pointed out that this action may lead to a "sagebrush rebellion" among Utah cattlemen because the proposed turtle reservoir would be set up on land currently used for grazing. A study of the economic impact of the tortoise reservoir estimated that the proposed curtailment of grazing rights would decrease the value of the average ranch capital asset in the area by approximately $28,000 and reduce the annual income of many ranchers by as much as $47,000.

The Bureau of Land Management has completed an environmental impact statement on the Mower Lumber Co.'s coal-mining operations in the Monongahela National Forest in West Virginia. Mower has not mined the area since 1973 because of a federal moratorium that was invoked during the duration of the study. Although the BLM promised to finish the study by September 1978, only now have they completed their survey and removed the moratorium.

The Fish and Wildlife Service has declared that it is illegal for any person subject to the jurisdiction of the United States to import or export, transport in interstate commerce, or sell or offer in interstate commerce the small plant *Potentilla robbinsiana* (Robbins cinquefoil). The plant, only a few centimeters long, which is endangered primarily because of its inability to adapt to frost and harsh weather, has no commercial value whatsoever. An environmental impact study of this new regulation is now being prepared.

The National Park Service is responsible for regulating fishing on the Naknek River in Alaska's Katmai National Monument. The service has revised its regulations in order to permit fishermen to use bait. Unfortunately, the service has revoked bait fishing on the Brooks River after a three-year period of tolerance.

Polish Workers (Cont. from p. 13)

The Polish strikes are an indication of the failure of the idea of central planning, and that idea is being increasingly discredited throughout the world, whatever the Soviets or the Kania regime try to do to save it. The centrally planned economy works only to the extent that the plan is consciously circumvented, ignored, or adjusted to decentralized production decisions. It has failed badly enough and long enough for its ideological justifications to be no longer credible, and without ideological support it is a program without a future.

The Polish underground is preparing the way for both the burial of the central planning ideology and the rise of an alternative ideology of freedom. Plans are now underway by the Nowa publishers to print volume one of Solzhenitsyn's *Gulag Archipelago*, which should accomplish the first task, as well as political tracts by none other than Friedrich Hayek, which should go a long way toward accomplishing the second. ■

PR Reviews

This month PR introduces a new department featuring reviews and synopses of recent books and articles that should be of interest to our readers.

***Profits, Politics, and Drugs* by Duncan W. Reekie and Michael H. Weber. Holmes & Meier, 1979. $32.75.**

In this study of government regulation of the international pharmaceutical market, Reekie, an economist, and Weber, a pharmacist, have combined their talents to illustrate the deleterious effects of government intervention on drug research, production, and marketing. The book also surveys most of the recent literature concerning the development of drugs and analyzes the prospects for drug development in Third World nations.

Reekie and Weber conclude that drug regulations have failed to achieve their stated goals and have stifled the production of new drugs. Because a new drug has to go through the long and costly process of FDA approval (with no guarantee of passing, one might add), drug research has tended to "...move out of the high-risk/high-cost area of basic research into the development of 'me too' drugs." Instead of investing money into new and innovative drugs, manufacturers concentrate on developing new forms of existing drugs, which often have only marginal advantages over the old forms. The high costs of research and development associated with the stringent government controls over the marketing of drugs have also created significant entry barriers in the drug industry. Reekie and Weber demonstrate that this has led to a lower output of drugs at increased prices.

***Knowledge and Decisions* by Thomas Sowell. Basic Books, 1980. $20.00.**

Dr. Thomas Sowell, currently at UCLA, has written a masterful analysis of, in his paraphrase of Hayek, "the way societies function and malfunction and why they are so often misunderstood." Sowell sees legislation and regulation as a particular instance of "trade-offs." For instance, while the Department of Energy seeks regulations that force utilities to finance fuel-conserving insulation for all domestic structures, the Environmental Protection Agency warns that such a program, if successful, will generate up to 20,000 excess cancers by inhibiting the circulation of indoor air, which contains the radioactive gas radon. When imperfect information, subjective costs, and uncertainty are added to standard economic analysis, many new insights result. The breadth of topics covered by Sowell is amazing, but he has only begun the assault on many of America's most sacred cows. Highly recommended for laymen and scholars alike.

***The Zero-Sum Society: Distribution and the Possibilities for Economic Change* by Lester Thurow. Basic Books, 1980. $12.95.**

Although this book has received wide acclaim, it cannot, in fact, be highly recommended because it combines the worst elements of both the "Old Left" (redistribution of income) and the "New Right" (supply-side economics; see *PR*, August 1980).

The basic thesis of *The Zero-Sum Society* is that the solutions to all our major economic problems—energy, inflation, declining productivity, and slow growth—require a substantial redistribution of income. If the country is to survive its current crisis, Thurow claims that we need a massive federal "guaranteed job program" that would close the income gap between the poorest and the wealthiest in our society. How this would solve such problems as the energy crisis is not completely clear. What is clear is the author's lack of understanding of the relationship between production and distribution in a market economy. Massive redistributions of income always have significant effects on the behavior of economic actors. If the government can redistribute one person's income, it can redistribute anyone's at any time.

Thurow's second major policy recommendation is to reduce those taxes (e.g., corporate income tax) that discourage saving and capital investment and to adjust current government welfare programs so they will encourage employment and production rather than consumption. Although any call for a tax cut should be applauded, one thing is clear: A reduction in taxes should be used only to increase personal and economic freedoms, not to increase the size of the government's handouts. ■

"To be governed..."

Just missed

That was a jaw-dropper in Arkansas last Friday. The fuel meant to hurl a Titan nuclear missile 6,000 miles onto a Soviet city exploded in the silo, destroying the missile and catapulting its warhead into a ditch 200 yards away.

—*Washington Post,* Sept. 24, 1980

What's in a name?

Members of Congress were told that changing the term "mobile home" to "manufactured housing" means altering 4 federal laws, 36 regulations, 15 interpretative bulletins, 36 cooperative state pacts, 27 state monitoring contracts, and laws and rules of 35 states.

—*U.S. News & World Report,* Sept. 8, 1980

A fish is a fish is a fish

...the National Marine Fisheries Service thought people probably wouldn't eat fish with names such as hogsucker and viperfish. So a Chicago company, Brand Group, was hired to suggest possible replacement names for some unappetizing-sounding fish. The Army even weighed in with "flower" and "texture" panels. The tab for all of this: $494,000.

—*Washington Post,* Sept. 14, 1980

All they speak is Bureaucratese

One embarrassing fact exposed by defection of a Russian soldier at the U.S. embassy in Kabul: Eight months after the Soviet invasion of Afghanistan, not a single staff member at the embassy was fluent in Russian.

—*U.S. News & World Report,* Sept. 29, 1980

But not for the gander...

...the Supreme Court [ruled that] only one need be found guilty when an IRS agent is bribed. The head of a corporation's tax department authorized payments for various vacation trips for the IRS agent in charge of auditing the corporation's tax returns. A jury found the agent not guilty of taking a bribe. That, however, didn't exonerate the executive. Another jury convicted him of aiding in the commission of a federal offense.

—*Boardroom Reports,* Aug. 11, 1980

Up for a raise

Russell Binion is paid more than $40,000 a year to work at the Labor Department's Office of Federal Contract Compliance, but he doesn't have a desk there.

He doesn't need one. He's never there.

If you phone his office you're given another number.

The phone number is at a three-room suite a floor above the Office of Federal Contract Compliance. The suite is headquarters for Local 12 of the American Federation of Government Employees, which has about 2,000 dues-paying members out of the 6,200 Labor Department employees in the Washington, D.C., area.

Binion, in his early 40s, is president of Local 12 and has been since 1973. He spends his time on the federal payroll working for Local 12, which signed one of the most generous contracts in federal labor history this summer.

—*The Press,* October 1980

You didn't ask "May I?"!

Even while pressuring Congress to O.K. the controversial India deal (sale of nuclear technology), the White House was threatening to interrrupt nuclear cooperation with Switzerland. America's charge against the Swiss: exporting nuclear technology to Pakistan in violation of the nonproliferation agreements.

—*U.S. News & World Report,* Oct. 6, 1980

Why not Warren Beatty?

Aides to New Right guru Sen. Jesse Helms, R-N.C., had a brainstorm for a foreign policy coup: Set up an Afghan government in exile. The leader was to be one Hassan Durrahi, said to be a member of the deposed Afghan royal family.

Plans collapsed when Durrahi turned out to be a fake. The supposed "prince" was in fact a New York hairdresser.

—*The Press,* October 1980

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