

The
Modern Mask
of
Socialism

ANTONIO MARTINO

THE SIR RONALD TROTTER LECTURE

1998

NEW ZEALAND BUSINESS ROUNDTABLE

First published in 1998 by
New Zealand Business Roundtable,
PO Box 10-147, The Terrace,
Wellington, New Zealand
<http://www.nzbr.org.nz>

ISBN 1-877148-45-8

ISSN 1173-8081

© Text: as acknowledged

© 1998 edition: New Zealand Business Roundtable

Production by *Daphne Brasell Associates Ltd*, Wellington

Typeset by *Chris Judd*, Auckland

Printed by *Astra Print Ltd*, Wellington

Contents

The Sir Ronald Trotter Lecture 1

Antonio Martino 3

Introduction by Roger Kerr,
executive director, New Zealand Business Roundtable 5

The Modern Mask of Socialism 7

Notes 23

The Sir Ronald Trotter Lecture

SIR RONALD TROTTER was the first chairman of the New Zealand Business Roundtable in its present form, a position he held from 1985 to 1990.

Among his many other roles he has been chief executive and chairman of Fletcher Challenge Limited, chairman of the Steering Committee of the 1984 Economic Summit, a director of the Reserve Bank of New Zealand, chairman of the State-owned Enterprises Advisory Committee, chairman of Telecom Corporation, chairman of the National Interim Provider Board, a chairman or director of several major New Zealand and Australian companies, and chairman of the board of the Museum of New Zealand Te Papa Tongarewa.

He was knighted in 1985 for services to business.

This lecture was instituted in 1995 by the New Zealand Business Roundtable to mark Sir Ronald Trotter's many contributions to public affairs in New Zealand. It is given annually by a distinguished international speaker on a major topic of public policy.

The fourth Sir Ronald Trotter lecture was given by Professor Antonio Martino at the Plaza International Hotel in Wellington on 22 October 1998.

Antonio Martino



ANTONIO MARTINO is a member of the Italian parliament and professor of economics in the Department of Political Science at LUISS University in Rome (on parliamentary leave). A former minister of foreign affairs, he now sits on the Chamber of Deputies' Foreign Relations Committee. He is a founding member of *Forza Italia*, Italy's largest opposition party.

Professor Martino has written 11 books and over 150 papers and articles on economic theory and policy. His latest books include *Stato padrone* (Government, Our Boss) (1997) and *Economia e libertà* (Economics and Liberty) (1996).

A former Harkness Fellow, he has held academic positions at the universities of Rome, Naples and Messina. He is currently a member of the Mont Pelerin Society, the Philadelphia Society, the Società Italiana degli Economisti and the Heritage Foundation (Washington). He is on the academic advisory councils of the Institute of Economic Affairs and *Economic Affairs* in London and of the *Journal des Economistes et des Etudes Humaines* in Aix en Provence. Professor Martino is a Knight of Malta.

*Introduction by
Roger Kerr,
executive director,
New Zealand Business
Roundtable*

IT IS MY VERY PLEASANT DUTY to introduce our guest speaker, Professor Antonio Martino, to give the fourth annual Sir Ronald Trotter Lecture.

The purpose of the lecture series is to feature an outstanding international speaker on a major topic of public policy.

Professor Martino is admirably qualified for the role. Having had past speakers from the United States and Britain, we are delighted to welcome a distinguished representative from continental Europe.

Professor Martino originally studied law at the University of Messina and then undertook graduate studies in economics in the United States. His academic career has included professorial positions at universities in Messina, Naples and Rome. I might add that these have spanned departments of law, economics and political science.

In 1994 Professor Martino was elected to the Italian parliament and became minister of foreign affairs. Since then, he has experienced the joys of proportional representation. The government of which he was a member lost office in 1995, but he was re-elected to parliament in 1996. Just a fortnight ago the latest Italian government fell, and Professor Martino's party *Forza Italia*, which is currently Italy's largest opposition party, could be back in government in the near future.

Professor Martino has written 11 books and more than 150 papers on economic theory and economic policy. He has also been a communicator with a wider audience and has frequently contributed to European magazines and newspapers and to radio and television programmes. He has links with many prestigious international institutes and societies.

Professor Martino's topic this evening is *The Modern Mask of Socialism*. His writings in recent years have warned that, despite the collapse of state socialism, liberal ideas still face many challenges. These range from the continued growth of government spending and taxation to paternalistic regulation of our personal lives. One example which he has quoted particularly appeals to me:

The contemporary obsession with safety, especially safety for children, has found its true bureaucratic home in the EEC Committees have now recommended the statutory minimum dimensions of marbles based on the average width of toddlers' throats so that the Community shall protect its young from swallowing them. Or perhaps it is so that they *will* be able to swallow them rather than get them stuck: it's not clear The pea in a whistle may be governed by regulation as to its toxicity lest someone tread on a whistle, the pea escape, be picked up and chewed by a child desperately looking for a pre-EEC-ban-style marble. I'm unsure about whether such peas will have to be the size of tennis balls (for marbleish reasons) and how huge ... whistles will have to be to incorporate them.

For their part, New Zealand governments have introduced over 1600 new pieces of legislation and 3600 new regulations affecting business in the last decade, according to the minister of commerce's office. I understand Hong Kong has fewer than 1000 regulations in total that affect business, and many locals regard even that number as too high.

New Zealand has had a long legacy of what has been called 'socialism without doctrines', practised by all of our political parties, and only in recent years has it been called into question. Professor Martino's topic therefore seems highly relevant to issues that remain very much part of our political debates. Please join with me in welcoming Professor Antonio Martino to deliver the fourth Sir Ronald Trotter Lecture.

The Modern Mask of Socialism

THE MEANING OF 'SOCIALISM' has undergone a modification almost as radical as that suffered by its opposite – 'liberalism' – in the United States, where "as a supreme, if unintended, compliment, the enemies of the system of private enterprise have thought it wise to appropriate its label".¹ For the greatest part of the twentieth century, 'socialism' has meant:

... the abolition of private enterprise, of private ownership of the means of production, and the creation of a system of 'planned economy' in which the entrepreneur working for profit is replaced by a central planning body.²

It can be argued that, whereas the change of meaning of 'liberalism' is due to its success, the corresponding change in the meaning of 'socialism' is due to its abysmal failure. Today, very few people who call themselves socialist seem prepared to advocate that kind of socialism. In fact those ideas seem in danger of extinction, surviving only in North Korea, Vietnam, Cuba and Harvard University.

I intend to deal with the process through which 'socialism' has changed its meaning, and try to answer the question of what exactly it means to be a 'socialist' today.

The Century of the State

The century that's coming to its end has been the century of the state, a century of dictators, the century of Hitler and Stalin, as well as the century of arbitrary government, and of the unprecedented intrusion of politics into our daily lives – a fascist century. It has produced the largest increase in the size of government in the history of mankind. Just to mention a single, but very significant, indicator: in 1900 the ratio of government spending to gross domestic product (GDP) in Italy was 10 percent, in the 1950s 30 percent, and it is now roughly 60 percent. Similar trends have occurred in most countries.

In this sense, a prophecy has been confirmed. In the entry 'Fascism' in the *Enciclopedia Italiana*, signed by Benito Mussolini,³ one reads:

If the 19th century has been the century of the individual (for liberalism means individualism), it may be conjectured that this is the century of the State ... that this is the century of authority, a Fascist century.

From the point of view of the role of government in society, during the inter-war years there was little to choose between the Right and the Left: the Right was prepared to do in the name of the Nation what the Left wanted to do in the name of the Class, but their programmes were very similar.⁴ This confirms the basic theme of Hayek's *Road to Serfdom* that "the rise of Fascism and Nazism was not a reaction against the socialist trends of the preceding period, but a necessary outcome of those tendencies".⁵

Pessimism

In other words, the 'socialist consensus' common to both the extreme Right and the socialist Left in the inter-war years left very little room for the liberal views which had been typical of the nineteenth century. It's not surprising, therefore, that in the 1940s and after, liberals of all parties were pessimistic about the future of a liberal order – socialism seemed to be winning.⁶

A notable example of the widespread pessimism about the future of liberty after the war is offered by the foremost non-Marxist prophet of doom, Joseph A Schumpeter, who in 1942 wrote:

Can capitalism survive? No. I do not think it can. ... [T]he actual and prospective performance of the capitalist system is such ... that its very success undermines the social institutions which protect it, and 'inevitably' creates conditions in which it will not be able to live and which strongly point to socialism as the heir apparent.⁷

The pessimism has continued to flourish until recently. However, even though until recently pessimists have outnumbered optimists, opinions about the future of a liberal order have always differed widely.

Optimism

At the beginning of the 1970s things started to change. As Milton Friedman put it 25 years ago:

There are faint stirrings and hopeful signs. Even some of the intellectuals who were most strongly drawn to the New Deal in the thirties are rethinking their positions, dabbling just a little with free-market principles. They're moving slowly and taking each step as though they were exploring a virgin continent. But it's not dangerous. Some of us have lived here quite comfortably all along.⁸

At about the same time, David Friedman was even more blunt than his father:

Socialism, as a coherent ideology, is dead and is not likely to be revived Yet many people ... call themselves socialists. 'Socialism' has become a word with positive connotation and no content.⁹

By the end of the 1970s, thanks to the election of Margaret Thatcher in 1979 and of Ronald Reagan in 1980, and to the success of their liberal policies, pessimism gradually subsided and a new mood started to take hold. More and more people started to express dissatisfaction with the old socialist prescriptions and indicate a preference for market mechanisms. Socialists of the old school became fewer and fewer. As

a result, liberals began to hope for the future of a liberal order. A notable precursor of the change and a conspicuous exception to the prevailing climate of pessimism was Arthur Seldon, co-founder of the Institute of Economic Affairs in London. In a letter to *The Times* on 6 August 1980, he went as far as to predict:

China will go capitalist. Soviet Russia will not survive the century. Labour *as we know it* will never rule again. Socialism is an irrelevance. (italics added)

At that time, this view was regarded as preposterous, an eccentric example of English witticism. Ten years later it seemed prophetic, if not obvious. Today, many people would consider it slightly too optimistic.

Socialism's Evolution

But, let's go back to the evolution of socialism. The original, and unifying, political platform of socialists 50 years ago included nationalisation, central planning, high and rapidly rising levels of public spending and taxation, highly progressive if not confiscatory income tax rates, exchange controls, and wage and price controls. By the end of the 1960s, many of these policy prescriptions had been abandoned, and a second kind of socialism became prevalent. Its political programme was exemplified by that of the English Labour party (and to some extent also by that of the Tories), and it consisted of a combination of Keynesianism, deficit spending, wage and price controls (incomes policy, as it was called in Britain), the Phillips curve (the idea that you could reduce unemployment by increasing inflation), and so on.

The 'monetarist' revolution and the appalling results of the economic policies of the 1970s (especially in England, where they resulted in the 'British disease')¹⁰ took care of discrediting most of the programme of 'second-generation socialists'.

The End of Keynes

The most important part of the change in socialist orthodoxy beginning in the 1970s was in the field of macroeconomic policy, and it had to do with the abandonment of Keynesianism.¹¹ In a Keynesian world, price stability was not necessarily desirable. Most Keynesians were convinced that inflation was the unavoidable price of economic growth, that there was a stable trade-off between inflation and unemployment,¹² that it was possible to reduce interest rates through monetary expansion, and that the time horizon for monetary policy decisions had to be dictated by the needs of short-term stabilisation policies. All of these views have succumbed to the empirical evidence and the theoretical analyses of the past 30 years.

There is no evidence that economic growth inevitably involves price inflation. On the contrary, there are good reasons to believe that monetary instability hinders long-term projects and makes economic growth more difficult, as evidenced by the experience of a number of Latin American countries.

The idea of a stable trade-off between inflation and unemployment is thoroughly discredited: an unexpected acceleration of inflation may temporarily reduce unemployment below its 'natural rate', but this effect is short-lived. Only accelerating inflation could keep unemployment below its 'natural rate', but even that unappetising possibility is dubious.¹³

Manipulation of monetary aggregates can influence interest rates only temporarily: as soon as inflationary expectations catch up with reality, the Keynesian 'liquidity effect' is replaced by the 'Fisher effect', which will more than offset the initial impact of the unexpected change in monetary policy.¹⁴ Nominal interest rates tend to be higher, not lower, when monetary policy is loose.

As for stabilisation policies, it is now largely (though certainly not unanimously) agreed that our insufficient knowledge, unreliable short-run macroeconomic forecasts and variable time lags in the impact of monetary policy decisions make it likely that policies aimed at stabilising the short run may end up being pro-cyclical rather than anti-cyclical.¹⁵ Attempts at 'fine-tuning' the economy often result in additional, avoidable instability.¹⁶

Finally, budget deficits were regarded as the ultimate propellant of economic growth when, under the influence of the 'Keynesian revolution', most economists believed that high employment and stability could be achieved through appropriate manipulations of the budget. In recent times, however, we have witnessed a reversal in the profession's conventional wisdom. Deficits are now being blamed for a lot of different economic problems: inflation, unemployment, slow growth, the stockmarket crash, high interest rates, balance of payments difficulties, instability of exchange rates and a variety of other troubles.

While some of these criticisms are dubious or definitely unfounded,¹⁷ it is increasingly recognised that, whereas deficit-financed increases in public spending change the structure of total spending, by transferring funds from the private to the public sector, their long-run impact on the level of aggregate demand may very well be negligible in most cases. The 'rediscovery' of the importance of financial prudence and the end of the deficit-spending strategy have had a very important impact on the growth of public spending, because budget deficits make government growth easier. The possibility of running a deficit allows politicians to hide the cost of government from those who bear it. It is harder to increase the size of government when spending must be financed with an increase in explicit taxation. Another component of the political platform of second-generation socialists has been abandoned. The birth of today's socialism – socialism of the third generation – can be traced to the failure of Keynesianism.

The Market Comes to the Rescue of the Market

The evolution of socialism and the wave of optimism about the future of liberalism was also fueled by dramatic changes in the historical arrangements of the world. Established powers were wiped out, the 'evil empire' collapsed, dictators nearly disappeared from the Earth, and (as a consequence?) the intellectual climate changed drastically.

One of the main factors in the historical changes which have marked the 1980s and the beginning of the 1990s was the liberalisation of the international movement of goods, services and capital,¹⁸ which resulted in a 'filter mechanism' (in Nozick's jargon)¹⁹ 'filtering out' undesirable arrangements: governments that mismanaged their countries were penalised by the outflow of capital. The importance of capital movements in forcing governments to adopt wise policies cannot be over-emphasised. High-inflation countries, high-deficit countries, countries with unreliable legal frameworks, or which were excessively punitive to private productive investments were forced by capital movements to mend their ways. The market, ie the greater degree of international openness, has promoted pro-market, liberal policies and, by so doing, it has contributed to the undermining of the socialist consensus.

However:

... the view that governments today stand helpless before the gale of market forces is a gross exaggeration, [as evidenced by the] best and simplest measure of a government's involvement in the economy ... public spending. In rich industrial countries, this has followed a persistently upward trend since the latter part of the 19th century.²⁰

In any case, there can be such a thing as excessive optimism. At the beginning of the 1990s, many people thought that we had come to a radical change of the political paradigm, so that the principles of a free society were going to rule unchallenged everywhere, and 'socialism' as we knew it had come to an end.²¹ The events of the 1980s had convinced many observers that the struggle was over: capitalism had won.²²

Pessimism Again

We soon learned better: in the past 2–4 years we have witnessed a revival of 'socialism', especially in Europe. Of the 15 member countries of the European Union (EU), 13 have governments that can be called 'socialist' – the latest being Germany, where Helmut Kohl was ousted as I was writing this paper. Furthermore, Japan and the 'Asian tigers' are undergoing a serious crisis, which some people blame on capitalism, and the Russian Federation has seen the return of a communist-controlled government. The original optimism is now ridiculed, and a new pessimistic trend is under way.

A notable example of this pessimistic mood was recently provided by Rupert Murdoch in an article in *National Review*,²³ in which he compared some statements made at the beginning of the 1990s with a similar one made by a Cambridge historian in 1913: "The struggle of reason against authority has ended in what appears to be a decisive and permanent victory for liberty".²⁴ We all know what happened after 1913. Couldn't it be that the sensational changes of the 1980s, which had prompted some to predict the 'End of History', the final triumph of liberty over socialism, were just a transient interruption in the erosion of our liberties?²⁵

*A Temporary Lapse in an Otherwise Inexorable Process?*²⁶

In other words, have we mistaken a temporary lapse in the historical process toward socialism for a radical change of direction?²⁷ I don't think so. From the point of view of the ideological confrontation, I am convinced that we live in one of the happiest times in the contemporary history of mankind. It seems to me that never before has the case for freedom been more thoroughly analysed and better understood.

I realise that this is a strong statement. There is an inevitable distortion on our perspectives produced by chronological selection. Few people who are great thinkers in the eyes of their contemporaries stand

the test of time and are still considered great by future generations. As a result, we are often led to believe that there are more great scholars among our contemporaries than there were in the past. However, even if we allow for this distortion, it still seems true to me that a very large number of the great liberal thinkers of all times belong to this century. Furthermore, even though ideas always have parents, in the sense that their origin can be traced back to past achievements, the case for freedom as presented by today's thinkers is more consistently argued and better supported than ever before. Finally, more people are aware of the importance of freedom today than at any other time in the past 50 years. Of course, this is true only in the realm of ideas. The same does not necessarily hold so far as actual policies are concerned.

Socialism's New Mask

While defining today's socialism is nearly impossible, there are certain policy prescriptions which are common to many if not most socialist parties. Their common denominator is given by the fact that contemporary socialists have come to tolerate the market system because of its superior efficiency, but they do not accept the implications of an order based on individual liberty.²⁸ Their position, in other words, is based on a distrust of the spontaneous order, on a bias against a society arranged as much as possible on individual choices.²⁹ Let's look at a few examples.³⁰

Regulation

The first is the great reliance on a huge and ever-increasing body of regulation. Regulation is for today's socialists what public ownership of the means of production and central planning were for them half a century ago. As pointed out by Murdoch:

No one talks about nationalising industries any more. But then no one has to nationalise industries – because the extraordinary growth of regulation has given effective control of them to the government without its having to assume the hassle of ownership. Socialism has effectively

Regulation is one of the areas which identify today's socialism: while all socialists and most liberals agree that some amount of regulation may be necessary, the difference between the two is given by the socialists' high propensity to give government the power to control the economy through regulation. In this, as in other areas (like taxation, environmental protection, public spending, etc), the difference between socialists and liberals is quantitative. A liberal can claim with Paracelsus that "All things are poison and none without poison. Only the dose determines that a thing is no poison" (*Dosis sola facit venenum*).

A good example is given by labour market regulation, especially in Europe. What many European countries have in common is that their governments engage in job-destroying interferences in labour markets to an extent that is unknown in the United States. For example, legislation aimed at the lofty ideal of protecting the 'weaker party' in labour contracts has made it extremely costly to fire a worker. Since hiring decisions are made under uncertainty, the fact that employers are not allowed to make mistakes has made them very cautious in hiring, and reluctant to take risks. This has produced two unintended results: on the one hand, total employment, though possibly more stable than it would otherwise have been, is also smaller. On the other hand, unemployment tends to last longer: for example, nearly half of the unemployed in Europe stay in that condition for more than 12 months, compared with only 11 percent in the United States. The percentage is 70 percent in Italy – a record among industrialised countries.³²

Another main cause of unemployment is the tax on jobs, the so-called 'wedge' – the difference between labour costs and take-home pay.³³ Since the tax falls on all kinds of employment, its job-destroying consequences are felt at the macro-level: total employment is smaller than otherwise.³⁴ Of course this is true only in the 'official' economy, not in the 'underground' or 'informal' economy, where the tax on jobs is evaded. The 'wedge' in Italy exceeds 50 percent of the labour cost: for every \$1000 given to the worker, the employer pays a tax that's greater than \$1000. Not surprisingly, this results in fewer jobs.

The propensity of socialists of all parties to regulate labour markets, often with disastrous results, is exemplified by the French and Italian Left's proposal to legislate a mandatory 35-hour week. The stated aim of the proposal is that of increasing employment; its actual consequence is likely to be an increase in unemployment.

Most socialists in Europe are still fearful of the impact of technical change and increased productivity on employment, which brings to mind:

... a story that a western businessman told me a few years ago. He had recently been touring China, where he came upon a team of nearly a hundred workers building an earthen dam with shovels. The businessman lamented that with an earth-moving machine, a single worker could create the dam in an afternoon. The curious response from the local official was, "Yes, but think of all the unemployment that would create". "Oh", said the businessman, "I thought you were building a dam. If it's jobs you want to create, then take away their shovels and give them spoons!"³⁵

Tax Harmonisation in Europe

Regulation is very fashionable in the European Union. It is here that socialists of all parties and of all countries have found an effective way to increase centralised control over our lives. For example, under the innocent label of 'tax harmonisation', the EU is in the process of introducing a tax cartel, which would severely limit capital movements within the Union and prevent tax competition.³⁶

One of the arguments favoured by proponents of tax harmonisation in Europe runs as follows: since capital is more mobile than labour, it is harder to tax it. As a result, taxation on labour is growing more rapidly than on capital. To remedy this distortion, EU countries must agree on a common tax policy on capital. This seemingly plausible thesis is full of fallacies. First, its supporters seem convinced that if EU governments could increase taxation on capital, they would reduce taxation on labour. The possibility that increased taxation on capital would result in an overall increase in taxation is not even considered.

Yet, it should be obvious that total spending is not fixed – its total size depends on the size of government revenue, and it is possible, indeed probable, that if revenue is enlarged because of tax harmonisation this will result in an increase in spending rather than in a reduction in other forms of taxation.

The second fallacy is even worse: the argument assumes that there is such a thing as the 'right' tax policy, independent of the distinctive characteristics of the country. It further assumes that this 'right' policy can easily be known to tax 'experts' and that, if adopted, it will suit all European countries well. This is nonsense. Each EU country has different peculiarities, and a tax policy that is appropriate for a given EU country is totally inappropriate for another possessing different traits. Why should, say, a country with a low capital/labour ratio be prevented from trying to remedy its handicap by enticing the inflow of foreign capital with a friendly tax policy? Why should the same tax policy apply to countries that have very different endowments of productive factors? Furthermore, capital mobility is not restricted to the EU area. Should EU countries agree to a common tax policy, the outcome is likely to be an outflow of capital toward non-EU countries practising a less oppressive form of taxation. But the main fallacy is the rejection of fiscal competition among EU countries, which is by far the most effective way on the one hand to contain excessive taxation, while on the other allowing for the kind of continuous 'trial and error' method of correcting the limitations of existing tax arrangements. This is to some extent the method used in countries like Switzerland and the United States, which for centuries have had a federal government. Why shouldn't Europe, which does not even have a federal government, follow a different course?

Examples of absurd EU regulations could fill several volumes. They include, among other things, the definition of a sausage, the specification of the size of bananas, rules governing the export of duck eggs, and the like. In some instances these result in embarrassment,

as in the case of the Italian minister of health who, in enforcing an EU directive, indicated as an optimal size for condoms one slightly bigger than the European standard. Which, understandably, prompted many people to ask on the basis of what kind of evidence the minister thought Italians needed some extra leeway?

Environmentalism

Another area where neo-socialists and liberals differ is environmentalism.³⁷ As in the case of regulation, they both agree that some amount of environmental protection is necessary. The difference between the two is in the amount of environmental protection deemed desirable and in the ways to achieve it – socialists rely on governmental coercion, liberals as far as possible on market mechanisms. The threat of socialist environmentalism is subtle and deadly; its plausibility makes it acceptable even to reasonable believers in freedom, its appeal to the uninformed is enormous, and the half-baked scientific assertions used to justify all kinds of government intervention for the sake of the environment require extensive information on the part of those who wish to criticise them.³⁸ Potentially, environmentalism poses a risk for the future of liberty as serious as that posed by wholesale socialism in the past.³⁹

Under the same heading as the environment, I should add another unusual threat which comes from the enormous variety of 'small' restrictions to our personal freedoms that are continuously being introduced in the name of safety, health and other lofty ideals. Each one of them, taken by itself, seems trivial. Taken together, they amount to a wholesale attack on our independence.

The purpose of the law has been distorted, so that now the state, instead "of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it",⁴⁰ tries to protect individuals from themselves, destroying the very concept of personal responsibility in the process.⁴¹

The welfare state – 'public' health care in particular – has gradually instilled the notion that we do not own our health. The results of this view are schizophrenic. On the one hand, the increase in life expectancy becomes the cause of national anxiety, since an aging population imposes costs 'on society'.⁴²

On the other hand, the most common line of argument is the opposite: since 'the government' pays for our medical care, we are not free to live our lives in a manner that is deemed unhealthy by the authorities. The standard argument about the paraphernalia of restrictions on activities considered unhealthy is that people who engage in them are more likely to get sick and 'impose a cost on society'. As a result, what is deemed dangerous or unhealthy is banned, what is considered healthy or otherwise beneficial is made compulsory: speed limits, compulsory helmets for motorcyclists, compulsory seat belts, restrictions on the sale of pornographic material, the consumption of drugs, alcohol, tobacco⁴³ and so on. We are heading toward a society where dangerous sports will not be permitted, pedestrians will be required to have a licence, obesity will be illegal and what we are allowed to eat will be determined by the National Dieting Board! At this point, the patriotic citizen does not know what to do: if he lives dangerously, he imperils the financial future of the public health system, whereas if he decides to live a long, healthy life, it's social security that's in trouble.

The war on smoking has been carried a bit too far:

... in Colorado, on the eve of being executed for rape and murder, Mr. Gary Lee Davis made his last request: a smoke. Is that too much to ask? It is in Colorado, where death row is a smoke-free facility. Request denied.⁴⁴

Examples of the pretence to regulate our lives could fill several volumes. Their absurdity should not make us forget the danger they pose to our liberty. Whatever it is that we intend to do, we should be well advised to follow Lawrence Peters's advice:

... do it now! There may be a law against it tomorrow.

Conclusion

These are no longer times of ideological confrontation; the differences between liberals and socialists today are smaller than in the past. This is because 'socialism' is an empty shell – the label continues to be used but its content has been lost, possibly forever. However, while socialism is dead, statism is not. We have freed ourselves from the danger of wholesale socialism, but we are still facing the continuous erosion of our liberties in a piecemeal fashion.

This is a mixed blessing. On the one hand, once the socialists abandoned the holistic model of a centrally planned society, rational discussion became possible.⁴⁵ The focus of political debate has shifted from the general architecture of society to the desirability of specific policy proposals. This in and of itself is an epochal change, making ideological confrontation more amenable to rational discourse. On the other hand, the piecemeal aggression directed towards our liberties is subtler and harder to combat. Many of the new socialists' proposals may appear sensible, and careful scrutiny is required to show their negative consequences. However, let's not forget that, as Karl Popper has taught us:

... we shall always have to live in an imperfect society. This is so not only because even very good people are very imperfect; nor is it because, obviously, we often make mistakes because we do not know enough. Even more important than either of these reasons is the fact that there always exist irresolvable clashes of values There can be no human society without conflict: such a society would be a society not of friends but of ants.⁴⁶

What this means is that there is no such thing as *victory* (or defeat for that matter), a state of affairs which, once attained, will forever be maintained. The struggle for freedom is a 'natural', inescapable component of life. We can successfully meet the challenges of our time and score a temporary 'victory', but new problems will soon come up, as new ways of hindering our personal liberties are discovered or old ones are resurrected.⁴⁷

Notes

- 1 "[Economic liberalism is] the theory that the best way of promoting economic development and general welfare is to remove fetters from the private-enterprise economy and to leave it alone. ... [T]he term has acquired a different – in fact almost the opposite – meaning ... : as a supreme, if unintended, compliment, the enemies of the system of private enterprise have thought it wise to appropriate its label." Joseph A Schumpeter, *History of Economic Analysis*, Oxford University Press, New York, 1954, p 394.
- 2 FA Hayek, *The Road to Serfdom*, 1944, (a book dedicated to "The Socialists of All Parties"), Routledge and Kegan Paul Ltd, London, 1962, p 24.
- 3 But apparently written by the philosopher Giovanni Gentile.
- 4 Take the following statement: "We are socialists, we are enemies of today's capitalistic economic system for the exploitation of the economically weak, with its unfair salaries, with its unseemly evaluation of a human being according to wealth and property instead of responsibility and performance, and we are all determined to destroy this system under all conditions". Adolf Hitler, 1 May 1927. Quoted by John Toland, *Adolf Hitler*, 1977, p 306.
- 5 Hayek adds: "It was the prevalence of socialist views and not Prussianism that Germany had in common with Italy and Russia", p 7. Ivor Thomas, in a book apparently intended to explain why he left the Labour party, comes to the conclusion that "from the point of view of fundamental human liberties there is little to choose between communism, socialism, and national socialism. They are all examples of the collectivist or totalitarian state ... in its essentials not only is completed socialism the same as communism but it hardly differs from fascism". In *The Socialist Tragedy*, Latimer House, London, 1949, pp 241–242, quoted by FA Hayek, *Studies in Philosophy, Politics and Economics*, 1967, Simon and Schuster, New York, 1969, p 227. Of course, Hayek's thesis is as hotly denied today by many socialists as it was when it first appeared more than 50 years ago.

However, it is also true that most socialists today disassociate themselves from communism and its history.

- 6 This was the subject of a paper I presented to the Mont Pelerin Society Regional Meeting held in Christchurch, New Zealand, in November 1989. It has been published under the title, *Are We Winning?*, CIS Occasional Papers 29, St Leonards, Australia, 1990.
- 7 Joseph A Schumpeter, *Capitalism, Socialism and Democracy*, 3rd edn, Harper Torchbooks, The University Library, Harper and Row, New York, 1950, p 61. By socialism, Schumpeter meant a society where "the control over means of production and over production itself is vested with a central authority – or [where] the economic affairs of society belong to the public and not to the private sphere". And in 1949 he commented on the birth of the Mont Pelerin Society with a somewhat dismissive remark. After having listed a series of socialist principles which, as a result of the "disintegration of capitalist society", were being "taken for granted by the business class ... and by the large number of economists who feel themselves to be opposed to [100 percent] socialism", he added: "I believe that there is a mountain in Switzerland on which congresses of economists have been held which express disapproval of all or most of these things [eg socialist policies]. But these anathemata have not even provoked attack". *Ibid*, pp 415–425.
- 8 *Playboy* interview, February 1973, reprinted in *There's No Such Thing as a Free Lunch*, Open Court, La Salle, Illinois, 1975, pp 1–38. The quote is on p 38.
- 9 David Friedman, *The Machinery of Freedom, Guide to a Radical Capitalism*, Open Court, La Salle, Illinois, 1989, p 95.
- 10 See Samuel Brittan and Peter Lilley, *The Delusion of Incomes Policy*, Temple Smith, London, 1977, and Samuel Brittan, 'How British is the British Disease?', *Journal of Law and Economics* XXI (2), October 1978, pp 245–268.
- 11 I have dealt with many of these issues in my previous incarnation as a monetary economist. See, for example: 'Budget Deficits and Constitutional Constraints', *Cato Journal* 8(3), Winter 1989, pp 695–711; 'La fine della discrezionalità nel governo dell'economia', *Prolusione*, Giornata LUISS, 18 December 1992, LUISS 1993, pp 32–36, reprinted with modifications in *Notiziario*, Università degli

Studi di Torino, anno undicesimo, numero 1, January–February 1995, pp 2–13; 'Monetary and Fiscal Rules, Past Successes and Future Prospects', *Policy* 14(1), Autumn 1998, pp 3–9.

- ¹² J Tobin and L Ross, 'Living with Inflation', *New York Review of Books*, May 1971; J Tobin and L Ross, 'A Reply to Gordon Tullock', *Journal of Money, Credit and Banking*, May 1972; James Tobin, 'Inflation and Unemployment', *American Economic Review*, March 1972; James Tobin, 'More on Inflation', *Journal of Money, Credit and Banking*, November 1973.
- ¹³ Milton Friedman, 'The Role of Monetary Policy', *American Economic Review*, 58(1), March 1968; Milton Friedman, *Unemployment versus Inflation? An Evaluation of the Phillips Curve*, London, Institute of Economic Affairs, Occasional Paper 44, 1975; Milton Friedman, *Inflation and Unemployment: The New Dimension of Politics – The 1976 Alfred Nobel Memorial Lecture*, London, Institute of Economic Affairs, Occasional Paper 51, 1977; Gordon Tullock, 'Can You Fool All the People All the Time?', *Journal of Money, Credit and Banking*, May 1972; Gordon Tullock, 'Inflation and Unemployment: The Discussion Continued', *Journal of Money, Credit and Banking*, August 1973; Michael D Bordo and Anna J Schwartz, 'The Importance of Stable Money: Theory and Evidence', *Cato Journal* 3, Spring 1983, pp 63–82.
- ¹⁴ Daniel L Thornton, 'The Effects of Monetary Policy on Short-Term Interest Rates', *Federal Reserve Bank of St Louis Review*, May–June, 1988, p 53 ff.
- ¹⁵ Milton Friedman, 'Commodity-Reserve Currency', *Journal of Political Economy*, LIX, June, 1951a, pp 203–232, reprinted in Friedman, 1953, pp 204–250; Milton Friedman, 'Les effets d'une politique de plein emploi sur la stabilité économique: Analyse formelle', *Economie Appliquée*, July–December 1951b, reprinted under the title 'The Effects of a Full-Employment Policy on Economic Stability: A Formal Analysis', in Friedman, 1953, pp 441 ff (see below); Milton Friedman, *Essays in Positive Economics*, Chicago, University of Chicago Press, 1953; Milton Friedman, 'The Optimum Quantity of Money', in *The Optimum Quantity of Money and Other Essays*, Chicago, Aldine, 1969; Milton Friedman, *Capitalism and Freedom*, Chicago, University of Chicago Press, 1965; Gottfried Haberler, *Economic Growth and Stability, An Analysis of Economic Change and Policies*, London, New York, 1974; Christian D. B. ...

Postwar Economy a Figment of the Data?', *American Economic Review*, June 1986, pp 314 ff; Allan H Meltzer, 'Is Monetarism Dead?', *National Review*, 4 November 1991, pp 30-32.

- 16 "Monetarists ... favour stable policy rules that reduce variability and uncertainty for private decision-makers. They argue that government serves the economy best by enhancing stability and acting predictably, not by trying to engineer carefully timed changes in policy actions which are frequently destabilizing." Meltzer, 1991, *ibid*, p 31.
- 17 For an assessment of the issue, see K Alec Chrystal and Daniel L Thornton, 'The Macroeconomic Effects of Deficit Spending: A Review', *Federal Reserve Bank of St Louis Review* 70(6), November/December 1988, especially their conclusion: "The once-prevalent Keynesian approach ... has come under attack. Increasingly, both theoretical innovations and empirical evidence suggest that modern economies are not well characterized by the Keynesian view. Support for the Natural Rate Hypothesis, which argues that deficit spending has no effect on equilibrium level of output and employment in the long run has grown ... [A]n effective use of deficit spending ... imposes information requirements on policymakers that are unlikely to be attained".
- 18 "Rarely has free trade seemed so fashionable. In December 1993, when the Uruguay Round of GATT talks ended, 100-odd countries promised to cut tariffs, dismantle non-tariff barriers to trade and liberalise trade in services. As if that were not enough to be going on with, scarcely a week passes without some politician, somewhere, mootng a new effort to make trade, as he sees it, freer still." *The Economist*, 16 September 1995, p 27.
- 19 Robert Nozick, *Anarchy, State, and Utopia*, Basic Books, New York, 1974.
- 20 *The Economist*, 6 December 1997, p 90.
- 21 "The past few months have shattered the pattern of the previous 45 years. Most importantly, the failed god of the command economy has been finally laid to rest. Eastern Europe had already been freed from this superstition by the removal of the occupying army that had imposed it. The liberation of the Russians and the other peoples of the ex-Soviet Union can now seriously begin. And many other countries have started to remove their intellectual army of occupation, the widespread belief that Marx was right at least about economics." *The Economist*, 28 September 1991, p 1.

- 22 The optimistic trend had reached a climax in 1989, leading, for example, a noted American conservative to declare that "1989 was the most significant year in the most important decade since World War II". Edwin J Feulner Jr, *Conservatism in a New Age*, Heritage Foundation, Washington, 1990.
- 23 R Murdoch, 'Reinventing Socialism', *National Review*, 1 September 1997, pp 38-40.
- 24 J B Bury, *The History of the Freedom of Thought*, as quoted by Murdoch (*ibid*).
- 25 Of course, there innumerable counter-examples to Murdoch's quote. Marxists have been forecasting the imminent demise of capitalism for a century and a half. Even a widely respected economist like John Maynard Keynes was not immune from gloomy prophecies about the future of capitalism when in 1931 he wrote: "We are today in the middle of the greatest economic catastrophe of the modern world ... the view is held in Moscow that this is the last, the culminating crisis of capitalism and that the existing order of society will not survive it". Quoted in 'On the edge', *The Economist*, 5 September 1998, p 17.
- 26 What follows is taken from my paper 'Ideas and the Future of Liberty', in Hardy Boullion (ed) *Libertarians and Liberalism, Essays in Honour of Gerard Radnitzky*, Avebury Series in Philosophy, Avebury, 1996, pp 288-297.
- 27 To put it differently, are contemporary events confirming Schumpeter's warning? "The transformation of social orders into one another is an incessant process but, in itself, a very slow one. To an observer who studies a moderate span of 'quiet' time, it may well seem as if the social framework he beholds did not change at all. Moreover, the process often suffers setbacks which, considered by themselves, may suggest to him the presence of an opposite tendency." J A Schumpeter, *op cit*, 1950, p 419.
- 28 According to Hayek in *The Road to Serfdom* (*op cit*), "socialism is a species of collectivism", its essential feature being "a central direction of all economic activity according to a single plan, laying down how the resources of society should be 'consciously directed' to serve particular ends in a definite way", p 26. This he contrasts with the "liberal argument based on the conviction that where effective competition can be created, it is a better way of guiding individual efforts than any other. Economic

liberalism ... regards competition as superior ... because it is the only method by which our activities can be adjusted to each other without coercive or arbitrary intervention of authority", p 27. It must be noted that Hayek regards the competitive order as superior to central planning not only because it is more efficient in the production of goods and services, and in the promotion of the general welfare, but especially because it is compatible with individual liberty and the absence of coercion. This is an especially important argument because, while most people even on the Left today are willing to concede that a market economy is more efficient than a centrally planned one, many of them miss the main point, ie that a market order allows greater scope to individual liberty than any alternative arrangement.

- ²⁹ The renewed popularity of socialist parties in recent months owes much to the crisis in financial markets, which many people have blamed on 'excessive' market freedom. "[T]he biggest risk now to the world economy may lie not so much in a deep depression, which could be averted. It is that there may be a wholesale retreat from free markets. Any such retreat would damage longer-term growth prospects ... for decades to come." 'On the edge', *The Economist*, 5 September 1998, p 19.
- ³⁰ A good example of the negative impact of the recent financial crisis on the prospects of liberalism is given by the diminished popularity of the privatisation of public pension schemes. It is argued that the volatility of stock prices makes private pension schemes too risky, and that existing pay-as-you-go government plans should be preserved rather than replaced by private arrangements. This argument is clearly flawed: "The average annual real return on stocks has been 7 percent since 1926 – ie over a period that includes the Great Depression, not just a measly market correction. There is no twenty-year period in American history in which stocks have fallen", *National Review*, 28 September 1998, p 9.
- ³¹ Murdoch, *op cit*, p 39.
- ³² Also, legislation 'protecting' female workers has made hiring women more expensive than hiring men – as a result, not surprisingly, the female unemployment rate is almost twice as high as its male counterpart. In Italy, the noble desire to treat all citizens equally has inspired legislation which imposes the same treatment, in terms of wage rates and other benefits, in the South as in the North. This was supposed to 'protect' Southern

workers from the humiliation of receiving a lower salary than their Northern colleagues. Obviously, as could have easily been predicted, unemployment in the poorer regions of the South is much higher than in the North. If one could legislate prosperity, poverty would have ended centuries ago – poorer regions do not become prosperous at the whim of legislators. A wage rate that's appropriate for a wealthy area is prohibitive for a poor one. And it's hard to believe that unemployed Southerners feel relieved by the knowledge that if they had a job it would be as remunerative as it is in the North.

- ³³ What matters for employers is total labour costs, inclusive of the non-salary component, whereas it's the net salary that matters for the worker. As a result of this wedge, equilibrium in each micro-labour market is reached at a level of employment smaller than it would otherwise be. In a conventional demand and supply diagram, the demand for and supply of labour are equalised at a point to the left of that which would have prevailed in the absence of the 'tax on jobs'.
- ³⁴ See Anthony de Jasay, 'How to Stifle Employment by "Social Protection"', *Wall Street Journal Europe*, 20–21 March 1998.
- ³⁵ Jerry Jordan, 'Jobs Creation and Government Policy', unpublished paper, 30 November 1996.
- ³⁶ What follows draws from my piece for the *Wall Street Journal Europe*, 29 July 1998.
- ³⁷ George Orwell's view is as relevant today as it was in 1937. "One sometimes gets the impression that the mere words 'Socialism' and 'Communism' draw towards them with magnetic force every fruit-juice drinker, nudist, sandal-wearer, sex-maniac, Quaker, 'Nature Cure' quack, pacifist, feminist in England." George Orwell, 1937, as quoted in *Contentions*, April 1990, p 1. The words 'socialism' and 'communism' may be on their way out, but the people mentioned by Orwell continue to stick together, usually on the left of the political spectrum.
- ³⁸ And the problem is made worse by the widespread practice of environmentalists trying "to influence both public and governments by the deliberate suppression of anything that might suggest that the bases of their proposals are less than certain" (Peter D Finch, 'The Lalonde Doctrine in Action: The Campaign Against Passive Smoking', *Policy*,

Winter 1990, pp 22–25; the quote is on p 25). Though Finch refers to a different problem, the deliberate simplification of complex scientific issues in order to scare the public and prompt government into action is one of the environmentalists' favourite tactics. In other words, "Greens and other activists treat environmental issues as though they are certain events, ignoring the scientific evidence that casts doubt even on the existence of these problems" (Richard L Stroup, 'The Green Movement: Its Origin, Goals and Relevance for a Liberal Society', in the same issue of *Policy*, pp 57–63). According to Stroup, this attitude "is true of the scientific literature on the greenhouse effect ..., stratospheric ozone ..., acid precipitation ..., and the epidemiological evidence on the large and well-known ... hazardous waste sites such as Love Canal ..." (*ibid*, p 59).

- ³⁹ In my view 'reasonable' environmentalism is far more dangerous than 'ecoterrorism'. The latter, however, performs the crucial function of making the former look acceptable. On ecoterrorism, see 'Ecoterrorism: The dangerous fringe of the environmental movement', *Backgrounder*, No 764, Heritage Foundation, 12 April 1990. This is true even of related areas of public policy. Think, for example, of the 'animal rights' movement: the more ardent supporters of 'liberation zoology' will probably be frustrated in their demands, but the more moderate position of those who advocate restrictions on the laboratory use of animals or on hunting is likely to succeed. See Charles Oliver, 'Liberation Zoology', *Reason*, June 1990, pp 22–27. And both are probably paving the way to the more radical position of 'liberation botany', which will fight for the protection of 'vegetable rights'.

The consequences of environmental restrictions on economic activity can be harmful. In Sicily, for example, the regional government has created a natural park of some 85,000 hectares, where the construction or modification of roads and buildings are prohibited, industrial activity is not allowed, and restrictions are imposed on tourism and agriculture. Not surprisingly, the unemployment rate in the area reaches 50 percent.

- ⁴⁰ Adam Smith, *The Wealth of Nations*, 1776, The Modern Library, New York, 1937, p 651.
- ⁴¹ What is frightening is that this kind of tyranny is often enforced by the public even before it becomes the object of government policy. As pointed out by *The Economist*, the phenomenon is particularly acute in America,

where there is "an odd combination of ducking responsibility and telling everyone else what to do A conformist tyranny of the majority, an intolerance of any eccentricity, is creeping into America, the west coast in particular. ... As Americans get even richer, they seem to grow more risk-averse, so that they become paranoid about hazardous waste in their district, obsessed with their cholesterol levels, and ready to spend large premiums for organic vegetables. It being a free world, they are welcome to do so, even if the risks from hazardous waste are exaggerated, or the risks from natural carcinogens in organic vegetables greater than from pesticides. But must they become killjoys in the process? Being bossed by faddish doctors is something people have come to expect. But neighbours and friends (and advertisers) have no need to be ruthlessly disapproving of the fellow who prefers cream and an early coronary to self-absorption in a costly gym building muscles he will never need" ('America's decadent puritans', *The Economist*, 28 July 1990, pp 11–12).

42 A good example was given by a recent *Washington Post* article explaining that: "smokers 'save' the Social Security system hundreds of billions of dollars. Certainly this does not mean that decreased smoking would not be socially beneficial. In fact, it is probably one of the most cost-effective ways of increasing average longevity. It does indicate, however, that if people alter their behavior in a manner which extends life expectancy, then this must be recognized by our national retirement programme". Or, in the words of a health economist: "Prevention of disease is obviously something we should strive for. But it's not going to be cheap. We will have to pay for those who survive". Both quotes are taken from Florence King, 'I'd Rather Smoke Than Kiss', *National Review*, 9 July 1990, pp 32–36.

43 We have forgotten Ludwig von Mises' wisdom: everyone should abstain "by his own impulse from enjoyments harmful to his organism", *Socialism*, 1932, Liberty Classics, Indianapolis, 1979, p 207, fn. As for us smokers, we should support Lord Harris's FOREST (Freedom Organisation for the Right to Enjoy Smoking Tobacco).

44 *National Review*, 10 November 1997, p 116.

45 Socialists, in other words, have abandoned what Karl Popper called 'holistic' or 'utopian' social engineering and have adopted a more piecemeal approach to social problems. "The characteristic approach of

the piecemeal engineer is this. Even though he may perhaps cherish some ideals which concern society 'as a whole' ... he does not believe in the method of redesigning it as a whole. Whatever his ends, he tries to achieve them by small adjustments and readjustments which can be continually improved upon. ... Holistic or Utopian social engineering, as opposed to piecemeal social engineering, is never of a 'private' but always of a 'public' character. It aims at remodeling the 'whole of society' in accordance with a definite plan or blueprint; ... and at extending the power of the State ... until the State becomes nearly identical with society" (Karl Popper, *The Poverty of Historicism*, 1957, Routledge and Kegan Paul, London, 1974, pp 66-67).

- ⁴⁶ Karl Popper, *Unended Quest*, 1974, Open Court Publishing Co, La Salle, Illinois 1976.
- ⁴⁷ On the other hand, there is no permanent victory for the other side either. That's why I don't agree with Murdoch when he says that "capitalism has not triumphed. Neosocialism is triumphing".