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SPECIAL ANNOUNCEMENT

Starting Monday, December 7, Leonard Peikoff will have a daily three-hour talk-show from 3 to 6 pm eastern time on the Internet and on radio stations in Chicago, Seattle, and Wichita. See his Web site at www.pwni.com for additional information.

The Global Turn to the Left

An Interview with Richard M. Salsman

by Robert W. Tracinski

Richard M. Salsman is a Senior Vice-President with H.C. Wainwright & Co. Economics in Boston and author of Gold and Liberty.

The Intellectual Activist: The global economic crisis—beginning in Asia, then spreading to Russia—has led to a lot of discussions about the "death of global capitalism" and calls for more government controls. The implication, just as with the Great Depression, is that capitalism is to blame for the crisis—that free markets are inherently unstable. What is the real cause of the global economic crisis?

Richard M. Salsman: The real cause is a turn back to the left in politics. To whatever continent one looks, with the possible exception of Latin America, the rightward shift of the 1980s has been reversed in some degree or another.

Clinton replaced Bush, who had already repudiated much of Reaganism. Republican gains in Congress have led to no discernible turn to the right, at least in economic policy. For one example, Hillary Clinton's plan for socialized medicine, though rejected in 1993, is being adopted in piecemeal fashion. For another, the International Monetary Fund, a big promoter of leftist and nationalist policy shifts abroad, just received full funding from Republicans, despite that agency's disastrous record. Finally, despite reduced budget deficits (fraudulently called a budget "surplus"), Republicans can't succeed in cutting taxes and are being maneuvered, even by an impeachment-threatened president, into again funding the bankrupt and fraudulent Social Security and Medicare systems.

In Canada in 1996, the leftist Jean Chretien defeated the right-leaning Brian Mulroney. In Britain in 1997, the Labor Party's Tony Blair deposed John Major, who had already watered down Thatcherism in the way Bush did Reaganism. Although Blair is not as left-wing as "Old Labor," he still pushes Britain leftward compared to the 1980s. Italy, France, and more recently Germany have all elected socialists or communists in the past few years. Today 13 of the 15 nations in the European Union are headed by socialists, twice the number in 1990.

Hong Kong now has communist overseers and is in its first recession and market breakdown in decades. Japan moved leftward in the early 1990s, replacing a moderate-to-right-wing party that had been in power in the decades of Japan's greatest economic ascendancy. Under the leftists, cronyism and economic intervention have intensified and Japan has been mired in recession for eight years; its stock market is half the level of ten years ago, and many of its banks are broke and facing nationalization. Certainly Southeast Asia is more leftist than even a couple years ago. Governments there intervene in the economy much more often than they used to, and their anti-capitalist, anti-Western rhetoric and policies have intensified. Much of this hostility emanates from a growing Muslim influence, especially in Malaysia. On the African continent, of course, the only faintly pro-capitalist regime, South Africa, went communist in 1992. True, it abolished Apartheid, a socialistic element, but Mandela and his Communist cohorts have retained much of the favoritism it entailed, including blocking immigration, nationalizing land and companies, wrecking the Rand, and punishing whites. Finally, Russia has moved from socialism farther back toward full-blown communism in the past two years, so there are leftward shifts from wherever one starts on the political spectrum.

These are only the major examples around the world. This obvious leftist drift, not any embrace of capitalism, is what's responsible for the global economic problems we're seeing.

TIA: Did the Communist takeover of Hong Kong have a significant role in setting off the economic crisis in Asia?

RMS: This was not the main instigator, in my view. But it certainly did not raise confidence in that country's economic and financial prospects. The main effect was the symbolism of the world's most free-market economy being taken over by the world's most communistic one, and further, in a "deal" brokered by Britain, long recognized as the world's middle-roader pragmatist. That this transfer was finalized on June 30, 1997, and the first Southeast Asian currency devaluation (in Thailand) happened on July 2 is very interesting. Note that things have been in great turmoil around the world since Hong Kong (representing capitalism) was given over to China (representing Communism). It is both a symbol and a fact of the global leftward shift.

But if I were to pick a key starting point of the crisis in practical policy terms, it would be the Southeast Asian currency devaluations in the summer of 1997. A devaluation is a large, one-time hyperinflation, which wrecks the local currency and the production process on which it depends. That causes loan defaults, bankrupts the banks, and repels foreign investors. Devaluations in Thailand, Malaysia, Singapore, and elsewhere were actively promoted by the IMF—and most academic economists—as a way to "spur exports." It did no such thing, as both exports and imports plummeted.

Devaluations are a standard tool of protectionists who worry about the alleged evils of trade deficits. Southeast Asia had enjoyed expanding prosperity for most of the past few decades precisely because their currencies were fixed to the value of the dollar, which itself has held its value, generally, against gold (especially in the past decade). But the IMF blamed the crisis they caused on currency fixity.

TIA: And that has led to calls for further IMF intervention. What are the likely effects of this intervention? Specifically, could you comment on the much-discussed "austerity measures." What do they mean, what are they intended to accomplish, and what are their results?

RMS: I have already mentioned the IMF's role in Southeast Asia. They have done the same in Russia and are starting to do the same now in Latin America, particularly Brazil. First, they counsel devaluations, for the reason I've mentioned: They claim trade deficits are evil. They expect a weaker currency to make imports more costly and exports more attractive. But actually the result is higher-priced imports that are too costly or in too short supply for producers to use profitably. And exporters cannot export as much, because with devaluation and inflation come further breakdowns in productive efficiency and the availability of credit.

Together with devaluations, the IMF demands higher taxes to close widening budget deficits caused by the slowing economy that comes from devaluations. That's their "austerity" plan. Higher taxes feed the government at the expense of the producers while devaluations rob investors. As businesses and banks fail, the IMF then blames "unregulated banking" for the problems and insists on the nationalization of banks in return for IMF loans. In effect, the IMF displaces private capital with government subsidies. As investors flee the IMF-induced chaos, the IMF blames "fickle markets" or "hot money" from abroad, i.e., short-term investments in securities—as opposed to direct, long-term investments in plant and equipment—that runs in as fast as it runs out. The IMF ignores how it fosters such in-flows by its subsidies and implied bailouts and then repels that same money by its threats of devaluations and capital controls. The massive bankruptcies, bailouts, and buyouts, together with the turnover in political regimes—all conducted under officials at the IMF and the US State Department—only intensify cronyism.

To hear IMF officials tell it, these measures are intended to spur exports, balance the budget (thereby allegedly lowering inflation and interest rates), bolster the banks, and lessen cronyism. Instead IMF policy sabotages production (including exports), accelerates inflation, raises interest rates, busts budgets, breaks banks, and heightens cronyism. Worse, the IMF, depleted of funds due to all its failed prescriptions, returns periodically to Western governments, including the US Congress, and seeks more money, threatening those who refuse with the claim that it is *they* who are jeopardizing the world's financial stability.

There are lame calls to "reform" the IMF, but never to abolish it outright, as it should be abolished.

TIA: It seems that a major ingredient of this crisis is the lack of objective money. The crisis in every country is touched off by the devaluation and subsequent collapse of that country's currency. Is this a consequence of the rejection of the gold standard?

RMS: Yes. We are suffering the consequences of monetary subjectivism. No money in the world has had any tie to gold since 1971 (the last year of the gold exchange standard). Money today is whatever politicians say it is. There is nothing objective to point to in their words to accurately predict the future value of money. Few central bankers speak words that are very credible, or even comprehensible. The fact that inflation and interest rates throughout the world, even in the US and Japan, are much higher today than they were under the gold standard, is proof that investors no longer trust the future value of money in many parts of the world.

TIA: Is the global crisis likely to harm the US economy? Is a lowering of domestic interest rates necessary—or advisable—to help our economy?

RMS: It is possible for the US to immunize itself to a very large degree from the "Asian contagion" by holding steadfastly to a policy of maintaining a strong dollar, low interest rates, relatively low tax rates, free trade, and restrained regulation. That has been the "policy mix" for much of the nineties, but it is starting to give way to more leftist-inspired departures.

The Treasury has begun to push for a weaker dollar. Interest rates have fallen, and that is to the good, but that alone will not make foreign devaluers recover. For some time, financial officials in the US have threatened higher interest rates on the ground that the economy is growing "too fast" and the stock market is doing too well—or else that it is detached from its factual moorings by the "irrational exuberance" of crazy investors. Tax rates were raised under Bush and Clinton, partly reversing Reagan's policy. In recent years, tax rates have not been raised, it is true, but neither are they being cut much, as they should. An exception is the capital gains tax, which was reduced last year, and the estate tax—but both should be eliminated. The most ominous trend in tax policy in recent years has been the re-introduction of exemptions and exclusions to favor some groups and punish others, an approach Reagan had delimited. A further negative is the Fed's recent bailout of Long Term Capital Management, a major hedge fund. This action will raise reckless risk-taking in the US financial system, just as IMF bailouts are doing abroad.

In the area of international trade, flows are being left somewhat free, looking at tariffs and quotas, following NAFTA [the North American Free Trade Agreement] and GATT [General Agreement on Tariffs and Trade]. But currency devaluations and capital controls are growing, diminishing trade and investment flows in the process, far more so than other restrictions might do. The regulatory and antitrust assaults on Microsoft, Intel, and now the major credit card companies, are also clear negatives. Technology stocks have done the worst in the recent market swoon, largely because of these assaults. So the US can immunize itself, but it's doing less so by the day.

TIA: Do you see this crisis as a setback for the spread of free markets across the world?

RMS: It is a setback only when it is wedded to the falsehood that capitalism is to blame for it all. And unfortunately, that is the falsehood currently being spread by socialists and intellectuals alike. Take alone the wide-spread derisive references to "crony capitalism." In fact, cronyism is unique to socialism, not capitalism. If cronyism and these crises were occurring with the clear recognition that socialism was to blame for them, the crises would help put another nail in the coffin of socialism. As it is, the blame is being placed on capitalism, with no idea of what capitalism is, either morally, economically, or politically. Continuing the metaphor, one could say it's an attempt (increasingly successful) to dig up that coffin, resurrect its occupants, and have them walk the earth yet again to inflict their destruction.

The anti-reason, anti-individualist intellectuals make this leftward shift possible. Only advocates of reason and individual rights can bring us a permanent shift toward capitalism that Reagan and Thatcher, with their religious foundations, could not.