

# The Free Market

Fall 1983 • The Ludwig von Mises Institute of Auburn University • Auburn, Alabama 36849

## Mises Institute Moves to Auburn University

The Ludwig von Mises Institute completed an historic move in September: its affiliation with Auburn University.

The Institute is the only educational organization in the world specifically dedicated to the advancement of the free-market "Austrian" school of economics, and the work of its greatest teacher, Ludwig von Mises.

If we are to slow, and then reverse, the trend towards greater and greater government control of our economy and our lives, we need to build a foundation of the proper ideas, as Nobel prize winner F.A. Hayek—a student of Dr. Mises—points out. The Institute was founded to do exactly that. And the efforts of the Institute have been tremendously enhanced by our affiliation with Auburn, a major University whose Business School and Economics Department are strongly free market.

The Institute receives no University funds, however. It continues to be responsible for all its own fundraising. At present, the Institute has over 8,000 members in every state and eleven foreign countries—people who have supported a new and unique enterprise, and seen it grow in less than a year into an important and effective center for free-market education.

The Institute will continue to maintain a presence in the nation's capital (at 325 Pennsylvania Avenue, S.E., Washington, D.C. 20003), but our main offices will be in Thach Hall on the Auburn campus.

This first issue of **The Free Market** discusses the Institute's past and present, as well as its promise for the future. To fulfill that promise, the Institute welcomes contributions from individuals, businesses, and foundations that share its belief in education and the free market. All such contributions are fully tax-deductible under Section 501 (c)3 of the IRS code. ■



*Samford Hall, Auburn University*

### INSIDE

An Auburn Welcome	2
Congressman Ron Paul	2
Mises and Auburn	5
Gold Standard Conference	6
Auburn University	6
Publications Order Form	7
Ludwig von Mises	8
Journal of Austrian Economics	8
Institute People	8

## Auburn University Welcomes the Mises Institute

by John V. Denson, Esq.  
Member, Board of Trustees  
Auburn University

Auburn University is proud and honored to welcome the Mises Institute to its campus as an integral part of its educational program. This is a 'marriage made in heaven,' and a natural progression of what has been going on at Auburn for some time. Our Business School is strongly free-market, and our Economics Department faculty already has several nationally recognized Austrian scholars.

The fellowships, lectures, publications, and other activities that now will emanate from the Mises Institute of Auburn University will be a major step towards the establishment of a fully free-market system. The ideas of Ludwig von Mises are an important source of the inspiration and the foundation of that system. He was certainly the greatest economist of our time, but in a broader sense, he was an architect of a free society, and a dedicated champion of individual liberty.

Business and political leaders seeking answers to the economic problems of our time have no better place to turn than Auburn's Mises Institute. Mises, more than anyone else, unraveled the mystery of the business cycle, and provided the causes and cures for inflation, unemployment, and depression.

Jacques Rueff, who reestablished gold money in France, once wrote that "Ludwig von Mises has safeguarded the foundations of a rational economic science... By his teachings he has sown the seeds of a regeneration that will bear fruit as soon as men prefer theories that are true to theories that are pleasing. When that day comes, all economists will recognize that Ludwig von Mises merits their admiration and gratitude."

In fact, when that day comes, everyone who values a free society will share in that admiration and gratitude. And hundreds of millions who will benefit from a return to free-market economic policies will be indebted to Mises, even though they may never learn his name. The life and works of this great man are unquestionable proof that an individual can make a difference, and that ideas do have consequences. ■

## The Case for Free Trade

by Congressman Ron Paul

In 1981, the *Federal Register* published a declaration from President Reagan: "I determine that it is in the national interest for the Export-Import Bank of the United States to extend a credit in the amount of \$120.7 million to the Socialist Republic of Romania (for) the purchase of two nuclear steam turbine generators."

This loan carried an interest rate of 7¾% for ten years, but the first payment wasn't due until July, 1989.

Not too long before this announcement, the administration had made public its "voluntary" restraints on the number of cars Japan can export to the United States.

These two items—subsidization of trade and its restriction—are all too typical of our present trade policy.

Although we think of ourselves as a free-trading nation, it takes more than 700 pages just to list all the tariffs on imported goods, and another 400 to inventory all the non-tariff restraints, such as quotas and "orderly marketing agreements."

A tariff is a tax levied on a foreign good, to help a special interest at the expense of American consumers.

A trade restraint or marketing agreement—on the number of inexpensive Taiwanese sneakers that Americans can buy, for example—achieves the same goal, at the same cost, in a less forthright manner.

And all the trends are towards more subsidies for U.S. exporters, and more prohibitions and taxes on imports.

(Continued on page 3.)



President Bailey of Auburn signs the affiliation agreement with the Mises Institute as Auburn Trustee John V. Denson (right) and Institute Director Lew Rockwell (left) look on.

(Continued from page 2.)

Trade is to be subsidized or restrained, not left to the voluntary actions of consumers and producers.

In 1930, Congress passed the Smoot-Hawley tariff bill, imposing heavy tariffs on imports, with the avowed motive of “protecting” U.S. companies and jobs. Within one year, our 25 major trading partners had retaliated with their own tariffs on American goods. World trade declined sharply, and the depression was made world-wide and longer-lasting.

Today the policy of protectionism is again gaining favor in Congress, and in other countries. But it must be fought with all our strength.

Not only does protectionism make everyone poorer—except certain special interests—but it also increases international tensions, and can lead to war.

“If a foreign country can supply us with a commodity cheaper than we ourselves can make it,” wrote Adam Smith in 1776, “better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage. The general industry of the country will not therefore be diminished...but only left to find out the way in which it can be employed to the greater advantage.”

An important economic principle is called the division of labor. It states that economic efficiency, and therefore growth, is enhanced by everyone doing what he does best.

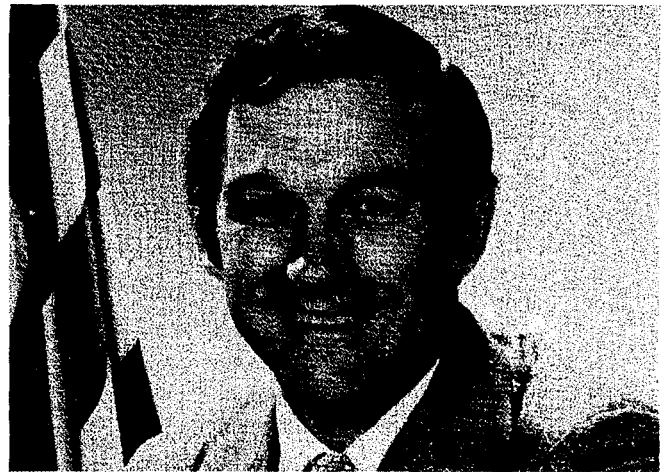
If I had to grow my own food, make my own clothes, build my own house, and teach my own children, our family’s living standard would plummet to a subsistence, or below-subsistence, level.

But if I practice medicine, and allow others with more talent as farmers, builders or tailors to do what they do best, we are all better off. Precious capital and labor are directed to the areas of most productivity, and through voluntary trading, we all benefit.

This principle works just as effectively on a national and world-wide scale, as Adam Smith pointed out.

It may be that Japan can make cars more efficiently than Detroit, at least certain kinds of cars, and that the capital and labor in parts of the U.S. auto industry could be better employed in other areas. With quotas, however, we will never find out. We will only increase the price of those Japanese cars that do get through, and of U.S. cars as well, since competitive pressures will be taken off General Motors and Ford.

Free trade at all levels makes for more prosperity, as the Founding Fathers knew. That’s why they gave Congress power to remove barriers to interstate commerce.



Congressman Ron Paul

During the period of the Confederation—after our independence but before the adoption of the Constitution—some of the states erected tariff barriers against imports from their neighbors. The resulting economic stagnation and antagonism threatened the unity of our country, and led to the adoption of the interstate commerce clause by the Constitutional convention. The removal of all trade barriers—and not meddling in the economy—was the purpose of the clause.

As a result, we, as Americans, are free to trade with all other Americans, so that resources are put to their most efficient use in our giant domestic market. This happy consequence is no small contributor to our wealth.

Without this Constitutional prohibition, state legislatures would listen to lobbyists for special interests, and enact protection against “unfair” out-of-state competition.

Knowing how similar situations come about, we could bet that someone in Minnesota, with idle greenhouses, would lobby the state legislature, pointing out that farmers in Florida, California, and Texas have too easy a time growing oranges. To protect Minnesota farmers, and create jobs, they would call for a heavy tax on out-of-state citrus, so greenhouse growing of oranges would become economic in Minneapolis.

As a result, oranges would drastically increase in price, and the quality would be lower. Minnesotans who like orange juice would be able to afford less, and what they could get would not be as good. But some would reap windfall profits, at the expense of the consumer. And pressure in orange-growing states would grow to retaliate against Minnesota products, to the detriment of everyone in the country. And we could bet that interstate antagonisms would increase as well. International trade barriers work no differently.

(Continued on page 4)

(Continued from page 3)

But because our Constitution forbids such domestic barriers, a company in Laredo, Texas, can trade freely, easily, and profitably with a firm in Oregon, thousands of miles away. (It's important to remember that both parties to a non-coerced, non-fraudulent trade benefit from the exchange, or hope to benefit, or the exchange would not take place.)

But let that Laredo firm seek to trade with a Mexican company only a mile away, and tremendous impediments spring up, thanks to government regulations on both sides. "The motive of all these regulations," wrote Adam Smith, "is to extend our own manufactures, not by their own improvements, but by putting an end, as much as possible, to the troublesome competition of such disagreeable rivals."

No one worries about the balance of trade between Oregon and Texas. That between Mexico and Texas should be of no consequence either. It is a problem only to government planners.

Dr. Murray Rothbard, who lives in New York City, has said that he's delighted the federal government doesn't keep interborough trade statistics. "We'd have the Bronx and Brooklyn worried about balance of trade!"

"Nations," notes Dr. Rothbard, "may be important politically and culturally, but economically they appear only as a consequence of government intervention."

But doesn't protection save U.S. jobs? Yes, it can save the jobs of some, but it costs jobs overall, and harms consumers.

Limiting Japanese car imports, for example, does protect the jobs of high-seniority members of the United Auto Workers, who earn twice the average U.S. industrial wage. But it takes away any incentive to correct government-caused productivity problems.

But diverting resources into uneconomic uses takes them away from other, more productive, areas and costs jobs. Some jobs are lost; others are never created. The uneconomic effects of protectionism benefit a few—usually well-to-do—at the expense of the great majority, including the poor.

Protectionism cannot be justified on economic or moral grounds. As Frederic Bastiat wrote, tariffs are "legalized plunder." The law is used to steal.

By what right does the U.S. government tell an American citizen he cannot buy a foreign product? Such action is reprehensible on every ground imaginable, and is totally

incompatible with individual freedom. Also inexcusable on any ground is the vast network of U.S. trade subsidies.

The taxpayers subsidize companies through the Export-Import Bank, the Department of Commerce, and the Overseas Private Investment Corporation, to name only three.

Such programs contribute to inflation, high taxes, "crowding out" in the capital markets, higher prices, and misallocation of resources.

Exports are only useful economically when they are profitable. Otherwise they represent a net loss.

But don't we need our own subsidies because other countries have theirs? If the government of France wishes to help impoverish their own citizens to send us cheap products, why should we impoverish ours as well? We can, and should, oppose those policies for France as well as the United States, but we have no right to take away buying opportunities from our own consumers.

Notes the Council for a Competitive Economy: we should consider what would happen if a foreign country decided to give us free cars, TVs, steel, and other products. Would this hurt the American people? To ask the question is to answer it.

Every economic intervention in trade, domestic or foreign, should be abolished, for practical and moral reasons.

Even if other countries maintain tariffs or subsidies, we would be helped, not hurt, by unilaterally ending ours.

We would improve our productivity, shift resources to those areas where we have an advantage, grow more prosperous, and make a greater variety of less-expensive goods available to our people.

And we would serve the cause of peace and set a good example for the world to emulate.

"When people and goods cross borders," Ludwig von Mises used to quote, "armies do not." Free and extensive trade, unsubsidized, between the peoples of the Earth lowers tensions and makes us all better off. It is, morally and economically, the only proper policy. ■

Congressman Ron Paul, a member of the Mises Institute's distinguished Board of Advisors, is Washington's outstanding champion of the free market. His eloquent *Freedom Report* is available at no cost from F.R.E.E., P.O. Box 1776, Lake Jackson, TX 77566.