Secession, State & Liberty

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Edited with an introduction by

David Gordon

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To the Memory of Those
Who Gave Their Lives That
Others Might Be Free

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THE ECONOMIC AND POLITICAL RATIONALE FOR EUROPEAN SECESSIONISM

Hans-Hermann Hoppe

Until very recently, the future of Europe seemed fairly certain: twelve individual nation-states would have their political, economic, and cultural identities submerged into a central government welfare–regulatory–monetary apparatus controlled by a bureaucratic elite operating out of Brussels, Belgium, under the authority of the European Parliament, and separated from the socialist East. However, obstacles have appeared that will probably prevent the completion of this seemingly preordained path. First is the collapse of socialism, which has introduced mass migration as an issue into European politics. Second is the appearance of nationalist and secessionist movements that are not only skeptical of European integration but that have also called for new varieties of smaller political arrangements. Although disparaged by the media and hated by all central governments, these movements are based on an economic, political, and cultural rationale that should be encouraged. The task now is to understand how the forces of separatism and secessionism can be the basis of a new Europe based on increasingly smaller governmental units that take account of the growing demand for political, cultural, and economic sovereignty and the classic liberal ideals of private property, free trade, and competition (cultural, economic, and political) that have been integral to the historical development of the Western world.

I

In the aftermath of the collapse of socialism in Eastern Europe, a mass migration set in which can be compared in direction and magnitude only to the great population movements after the fall of the Roman Empire during the fifth century. Millions of people moved westward: Albanians, Bulgarians, Hungarians, Rumanians, Slovenes, Croatians, Macedonians, Czechs, Slovaks, Armenians, Ukrainians, Balts, Poles, and Russians, and, in their wake, refugees from an even-greater multitude of Asian and African countries. In 1990, nearly one million reached Germany, Europe's most prosperous and hence attractive destination, but all of Western Europe, from Finland and the Scandinavian countries to

Greece, Italy, Spain, and Portugal, have been affected by the exodus. Moreover, the flood of East European immigrants is expected to grow still larger. Estimates of the number of Soviet emigrants during the next decade range from five to forty million.[1]

People stay where they are or migrate to distant locations for various reasons, one of which is the expected future income attainable at alternative locations. Other things being equal, people will move from lower- to higher-income areas. Hence, migration patterns are highly relevant in any comparative analysis of economic systems. However, migration statistics reveal the full extent to which one economic system is judged better or worse than another only so long as no migration restrictions exist. With migration controls in effect, such statistics only render a distorted picture. They remain of great significance if *any* migration exists, but they must be complemented by and re-evaluated in light of an analysis of existing anti-migration laws and their corresponding enforcement policies.

The recent exodus from Eastern Europe provides final dramatic proof of the inferiority of socialism as judged by those who are forced to experience it. Under socialism, almost all factors of production are owned collectively. With private ownership of productive assets essentially outlawed, no market, and hence no prices, for capital goods exists. Yet, without market prices for capital goods, cost accounting is impossible. The result is the permanent misallocation of capital goods.

Collective ownership, furthermore, socializes gains and losses from production, diminishing every single producer's incentive to increase the quantity or quality of his individual output, or to use production factors sparingly, which systematically encourages laziness and negligence. Moreover, with collectivized production factors, no one can determine independently of others what to do with any given factor of production (as can happen under a regime of private property). Instead, every decision as to what, how, and where to produce becomes a political affair, requiring a collective decision-making mechanism, and thereby creating *winners* and *losers*. The flight of the people of Eastern Europe is a flight from the impoverishment and total loss of independence from political control created by socialism.[2]

[1]According to surveys recently conducted in the Soviet Union, more than 30 percent of the population (close to 100 million people) expressed the desire to emigrate.

[2]The lack of democracy (multi-party elections), in fact, has essentially nothing to do with socialism's plight. It is obviously not the selection principle for politicians that causes socialism's inefficiencies. It is politics and political decision-making as

II

Judged by emigration statistics, practically no single day has passed since the inception of socialism in Russia, in 1917, and since 1945 on a larger scale in all of Eastern Europe, when socialism has not been proven a failure. The longer it lasted, the more obvious this failure became.

With no West German immigration controls directed against East Germans and language barriers nonexistent, the case of East Germany is the most instructive. After less than 15 years of socialism, nearly four million East Germans (about 20 percent of the population) had migrated westward. The growing flood of emigrants had risen to more than 1,000 per day (an annual population loss of almost 3 percent) when, on 13 August 1961, East Germany's socialist regime, to avoid crumbling under its own weight, had to seal off its borders to the West. Previously, emigration had been treated as a criminal offense (*Republikflucht*) and punished by the confiscation of all "abandoned" property. But escape remained possible, as the border between East and West Berlin had stayed wide open. Then, to keep its population from running away from socialism, the East German government built a border fortification system of walls, barbed wire, electrified fences, minefields, automatic shooting devices, watchtowers, and heavily armed military patrols—100 miles around West Berlin, and nearly 900 miles along the border to West Germany.

While somewhat less dramatic, the development of the other East European countries closely paralleled that of East Germany. Each socialist regime suffered migration losses, and by the mid-1960s, orchestrated by the Soviet government and in concert with the unique East German measures, all of Eastern Europe (with the partial exception of Yugoslavia) had been turned into a giant prison camp.[3]

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such that are responsible. With socialized factors of production, each decision requires a collective's permission. It is irrelevant to a producer how those giving permission are chosen. What matters to him is that permission has to be sought at all. As long as this is the case, the incentive for producers to produce is reduced, and impoverishment will continue. The opposite of socialism is, thus, not democracy, but private property and capitalism as a social order built on the recognition of private property. Private property is as incompatible with democracy as it is with any other form of political rule. Private property implies a completely *de-politicized* society, or, in Marx's terms, an anarchy of production, in which no one rules anybody, and all producers' relations are voluntary and, hence, mutually beneficial.

[3]It is indicative of the quality of American textbooks dealing with the comparative analysis of economic systems that most do not even mention the terms "migration" and "migration restriction" in their index, and that hardly anyone gives systematic

For more than two decades, the problem could be repressed, and socialism's failure could be concealed. Emigration persisted even under the most adverse conditions, but the flood became a trickle. Yet, when, in the late 1980s, after continued economic decline that had increasingly eroded the Soviet government's position as a military super power, reformist forces gained control over the government apparatus in the Soviet Union, Hungary, and Poland, and ever-so-slightly liberalized their anti-emigration policies, the flood immediately resumed at levels higher than ever, and has continued to increase.[4]

III

If left alone, the current exodus would continue until the losses of productive individuals became such a burden and caused so much economic hardship that the governments of Eastern Europe, whether communist or welfare statist, would be toppled and socialism completely uprooted. Unfortunately, such a development is unlikely, as migration is not being left alone. However, this time it is not the governments of Eastern Europe that are taking the initiative. To be sure, they continue to hamper emigration. Yet the de-legitimization of governmental power in Eastern Europe has proceeded too far to allow them a return to the *status quo ante*. In fact, the means with which to accomplish such a return—the Warsaw Pact—no longer exist. Rather, it is the governments of Western Europe which are now determined to prevent such a development by tightening their own anti-immigration policies.[5]

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consideration to international flows of population. From this fundamental miscomprehension, it is only a small step to conclusions as perverse as Paul Samuelson's (drawn until 1989) and many lesser known *experts*, that the economic development of the Soviet Union and Eastern Europe has by and large been a success story—all the while no government in Eastern Europe allowed its people the right to free emigration, requests for emigration permits were regarded as punishable offenses, and people trying to exit nonetheless faced the very real threat of being shot down without mercy.

[4]East Germany is again most instructive. Before the construction of the Wall, more than 1,000 people per day had fled. In the summer of 1989, when socialist Hungary began to open its borders to Austria, and since the breakdown of the Berlin Wall on 9 November 1989, the flood of East German emigrants rapidly increased to exceed 2,000 per day.

[5]While a complete-privatization-free-trade-no-tax policy cannot instantly create wealth, it instantly creates a reason not to emigrate. Even if wage rates in Western Europe remained higher for the time being (due to more past capital accumulation), future production would instantly be made less costly than in the highly taxed and regulated economies of Western Europe. By choosing instead a policy of

Immigration to the countries of Western Europe is already highly restrictive, and the further the process of West European integration has advanced and the more intra-West European migration has been liberalized, the more restrictive the admission standards toward non-West Europeans have become. Work permits are required, and foreigners have no right to such a permit (even if there is an employer willing to employ them, or if they possess the means for self-employment). Permits are granted at the governments' discretion, only in small numbers, and typically only to individuals classified as political asylants—as persons who can demonstrate political persecution in countries officially recognized as evil (whereas all economic reasons for asylum are considered invalid).[6] Despite these restrictions, all West European countries host a substantial number of illegal aliens who, under the constant threat of deportation, have been driven underground and form the growing West European *Lumpenproletariat*.

Faced with a rising tide of immigrants, the governments of Western Europe are now reacting with more restrictive measures. They all have dropped Poland, The Czech Republic, Slovakia, and Hungary from the official list of evil countries, so as to make their populations ineligible for political asylum and work permits. Austria has deleted Rumania from its list. Led by the signatories of the Schengen Accord—the governments of Germany, France, Belgium, the Netherlands, Luxembourg, and Italy—tourist visa requirements have been extended to include practically all non-Western nations in order to "harmonize" the West European immigration laws. Norway and Finland have tightened their controls at the border of the former Soviet Union. Austria has begun to employ military patrols on the Hungarian border.

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gradually reducing the government sector from close to 100 percent to the standards of Western Europe (where total government expenditures, including social security payments, typically amount to around 50 percent of GNP), the current emigration wave may be somewhat reduced, but westward migration will actually be made permanent (as current and future income levels in Western Europe will remain higher than in the East). Once again, this is best illustrated by the German example. Since the currency unification on 2 July 1990 and the incorporation of East by West Germany on 2 October 1990, the number of emigrants fell as expected. However, because the government sector in former East Germany still remains far larger than that in the West (within one year of de-socialization, a mere 700 out of 9,000 East German "production units" had been privatized, while the West German tax and regulation structure was exported wholesale to the East), to this day, emigration from East to West has continued at a rate of more than 500 per day.

[6]This leads to the perverse result that men like Trotsky—a murderer and plunderer running away from another, more powerful one—can find refuge in the West more easily than men who have no other reason to emigrate than to be left alone by the murderers or plunderers.

The Italian navy now intercepts Albanian refugees crossing the Adriatic. Assisted by the West, the anti-immigration fervor has spread eastward. The Polish government has restricted access to Rumanians. In a treaty with the six member states of the Schengen Accord, it has further agreed to halt the influx of Soviet citizens (in exchange for exempting Poles from the standard West European travel visa requirements). Similarly, Czechoslovakia and Hungary have raised their entry requirements for Rumanians and Soviets, and the Czechoslovakian government has made it harder for Poles to travel to its country.

IV

It is easy to understand why governments should want to stop emigration, for every productive person lost is a loss of taxable income. Why a government should want to prevent immigration is more obscure. For does not every additional producer represent an increase in government revenue? Indeed, a population influx in a given territory, while it would lower the nominal wage rates, would raise real income per capita as long as the population remained below its "optimum" size (and surely this would be the case for Western Europe, even if the most dramatic immigration estimates became reality). A larger population implies an expansion and intensification of the division of labor, a greater physical labor productivity, and thus, all-around higher living standards.

The early post-World War II development of Western Europe provides a perfect illustration of this. By the late 1960s, the population of West Germany and France had each grown by more than twenty percent, and that of Italy, the third major continental country, by about fifteen percent.[7] Accompanying this development, Italy, France, and West Germany experienced a period of unprecedented economic expansionism, with higher growth rates than any other major country (with the exception of Japan) and steadily increasing per capita incomes. During this period, West Germany, the most successful of all, integrated millions of southern European *Gastarbeiter* (guestworkers) and East German refugees. By the early 1960s, its labor force had grown by some eight million (more than 60 percent), while the unemployment rate fell from a peak of eight percent in 1950 to below one percent. From 1948 to 1960, the total wage sum tripled, wage rates more

[7]Still more spectacular was the growth in some smaller countries. During the same period, the population of Switzerland increased by close to 30 percent, and that of the Netherlands by more than 40 percent.

than doubled in constant terms, and the annual rate of economic growth increased to close to ten percent. Total industrial output was raised fourfold, GNP per capita tripled, and West Germans became one of the world's most prosperous peoples.[8]

By the late 1980s, however, the economies of Western Europe had gone through a complete transformation from their post-World War II beginnings. The former expansionism was replaced by economic stagnation, and instead of helping stimulate another leap forward, the latest population increases, besides revealing the bankruptcy of Russian-style socialism, also threatened to expose the bankruptcy of Western-style welfare democracies.

V

Throughout Western Europe, the inter-war period was characterized by economic stagnation brought on by money and credit expansion, monetary disintegration—the destruction of the gold exchange standard in the early 1930s—increased protectionism, business cartelization, labor legislation, socialized investment, and public sector growth.[9] World War II further accelerated this tendency, added large-scale destruction and millions of deaths, and left Western Europe severely impoverished.

Italy was essentially still a third-world country at the end of World War II, hardly touched by the industrial revolution and grimly poor. While its population had slightly increased during the period between the two World Wars, Italy's desperate economic conditions had produced a constant stream of overseas emigration (mostly to the Americas). In 1946, its GNP was 40 percent less than what it had been in 1938, and had reverted to its pre-World War I level. Wages in constant terms had fallen to about 30 percent of their value in 1913.

Although more industrialized and wealthier than Italy, France remained a rural society. For half a century, its population size had stagnated, and during the 1930s, it had actually decreased slightly, shrinking the extent of the division of labor. Half of the population lived in tiny rural communities, and almost one third of the labor force worked in agriculture, mostly on

[8]The West German performance was surpassed by Switzerland. With a larger proportion of foreigners—more than 15 percent—than any other country, by the mid-1960s, Switzerland had achieved the rank of the world's most prosperous country.

[9]By 1938, in all major countries—Germany, the United Kingdom, France, and Italy—government expenditures as a percent of GNP had more than doubled as compared to their pre-World War I level (from around 15 percent to somewhere between 30–40 percent).

small horse-and-buggy farms. In 1946, France's GNP had fallen to half of its pre-1938 level.

Germany, before World War I the most industrialized of the continental big three, strengthened its position during the inter-war period. Yet, Germany was devastated by the hyperinflation in the early 1920s and the Great Depression. Throughout this period until the second half of the 1930s, when the problem was administratively solved through the implementation of a command economy, Germany suffered from a severe unemployment problem peaking at more than 40 percent in 1932). The size of its population stagnated, and as late as 1938, real incomes had not yet reached their pre-World War I levels. In 1946, amidst massive physical destruction (25 percent of the housing had been destroyed), and with a quarter of the working population employed in agricultural production, GNP had fallen to less than a third of its 1938 level. More than half of the population was undernourished, and Germany had reverted to a barter economy.

Western Europe's quick recovery from World War II's destruction and—after three decades of stagnation—its return to the pre-World War I conditions of dynamic economic growth (rising population sizes combined with rising per capita incomes) was the result of a decisive reversal of economic policies. The inter-war period, shaped by international and national socialist, fascist, and corporatist ideas, saw a steady expansion of governmental control over the economy—a silent, but increasing nationalization of private ownership rights. But at the end of World War II, first in defeated Italy and West Germany, and with the founding of the Fifth Republic in France, pre-World War I ideas of hard money (the gold standard), monetary integration, free trade, deregulation, freedom of contract, and private-sector (not public-sector) growth temporarily regained controlling influence in the direction of economic policy, and significant steps toward de-nationalization, i.e., re-privatization, were taken.

In Italy, this return to liberal economic policies was initiated by Luigi Einaudi (1874–1961), who was the Governor of the Bank of Italy (1945), Deputy Prime Minister and Minister of the Budget (1947), and first President of the new Republic of Italy (1948–1955); in Germany, by Ludwig Erhard (1897–1977), Economic Director of the American and British Occupied Zones (1948), Economic Minister of the new Federal Republic of Germany (1949–1963), and Chancellor (1963–1966); and in France by Jacques Rueff (1896–1978), Chairman of the Economic Commission, and President Charles de Gaulle's chief economic advisor. Each one was a professional economist who had received his training during the pre-Keynesian era of economics. Each was directly or indirectly influenced by the Viennese (Austrian) school of economics (most notably by Ludwig von Mises). As outspoken critics of the doctrines of inflationism and socialized investment even after the arrival of the new era of economics, they reduced or halted inflation, lowered or eliminated existing currency controls, and established the *Lira*, the *Deutschmark*, and the *Franc* as hard monies. They lifted or relaxed import tariffs and quotas in order to open their countries to world competition, and they eliminated or reduced price controls, removed or lowered barriers to free entry, and cut tax rates and government spending so as to promote production, competition, and private-sector growth.

While these policies created an economic miracle in post-World War II Western European, and transformed Italy, France, and Germany into modern, industrialized societies with expanding labor forces and steadily rising per capita incomes,[10] the liberal ideas that had inspired them did not hold sway for long. After the successful reduction in the size of the West European governments, the natural inclination of all governments and their representatives toward higher tax revenues, higher expenditures, and increased economic control immediately resumed, and by the mid-1960s to mid-1970s the direction of economic policy had once again changed. Constrained by democratic, multi-party elections, the governments of Western Europe set out on a steady course of trading increased taxation and paper money creation for increased interest-group legislation, and Western Europe thus returned to the policies of increased (rather than decreased) governmental interference in private property, private ownership rights, and free-market exchange that had damaged it so severely between the wars.[11]

[10]By the early 1970s, agricultural employment had declined to 15 percent in Italy, 13 percent in France, and seven percent in West Germany; and per capita incomes, until the late 1960s, had increased by an average of about five percent per year.

[11]In Italy, total government expenditures as a percentage of GNP was 35 percent in 1938, and about 40 percent in 1947. From this level, it continuously declined until the late 1950s, to below 30 percent. It then began to increase again, reaching its pre-World War II level by the late 1960s, and exceeding 50 percent by the mid-1970s. In Germany, it stood close to 40 percent in 1938, and at less than 30 percent in 1950. By the mid-1960s, it had grown back to its pre-World War II level, and by the late 1970s, it had reached 50 percent. In France, it was 30 percent in 1938, 38 percent in 1947, and above 40 percent in 1956. It then fell slightly, did not again exceed its 1956 level until the late 1970s, and reached the 50 percent mark in the early 1980s. One might compare this to the United Kingdom, one of Western Europe's less-successful post-war economies: 29 percent in 1938, 36 percent in 1948, a

In exchange for the socialist–egalitarian vote, governments expanded steadily expenditures on their welfare and labor-protection programs. In exchange for the conservative vote, trade regulations and business-protection laws proliferated. In conjunction with these measures, beginning with the Rome Treaty of 1957, the policy of West European economic integration and the establishment of the European Community (E.C.) was used by the member states—originally six and presently twelve—to coordinate and harmonize their tax, regulation, and welfare structures at an ever-higher level, so as to eliminate all *economic* reasons for intra-Western European population and capital movements (while at the same time lifting all *physical* restrictions on such movements, such as border controls).

As a result, by the 1980s, total government expenditures had typically increased to around 50 percent of GNP (from around 30), rather than falling as during the early post-World War II period. Facilitated by the abolishment of the last remnants of the international gold-exchange standard in 1971, Western European inflation rates during the 1970s and 1980s were typically more than double those characteristic of the 1950s and 1960s. As long as it was unanticipated, the rise in the rate of inflation had generated a few phases of illusory prosperity. Yet these booms, built on nothing but paper money, inevitably ended in liquidation crises—recessions. Once the higher inflation rates became expected, they merely produced stagflation. Annual growth rates fell from an average of around five percent during the 1950s and 1960s to about half of this level during the 1970s, while the 1980s were characterized by either stagnation or negative growth rates. Unemployment rates, which had either been extremely low or falling during both the 1950s and 1960s, steadily increased during the 1970s, and reached a seemingly permanent higher plateau, averaging close to 10 percent, during the 1980s.

Rather than increasing as it had early on, total employment stagnated or even fell. Intra-West European migration—generally from South to North—which had continually increased during the previous two decades, came to a halt in the 1970s; and during the 1980s, the number of southern European *Gastarbeiter* declined. Simultaneously the social time-preference rate—the degree by which present consumption is preferred to future consumption

low point of 32 percent in 1955, and then a continuous increase, reaching 40 percent by the mid-1960s, and 50 percent a decade later. On the other hand, Switzerland, Europe's most successful country, showed 24 percent in 1938, 25 percent in 1948, 20 percent in 1950, a low point of 17 percent in 1956, 20 percent again by the mid-1960s, and not until the mid-1970s did it return to its pre-war level.

and saving—significantly increased. Despite its initially low standards of living (but *rising* incomes), Western European, and in particular the Italian, German, and French, saving ratios were exceptionally high (often reaching or exceeding 20 percent of personal disposable income, lower only than Japan's). From 1970–90, although standards of living were by then much higher (but with now stagnating real incomes), saving ratios all across Western Europe (with the sole exception of Switzerland) experienced a significant decline.

VI

With a recalcitrant unemployment problem and stagnating economies, the rising tide of East European immigrants presented and still presents a serious threat to the stability of the Western European welfare democracies—and immigration restrictions appear to be the only safe way out.

To allow free immigration (i.e., to permit entry and grant all foreign residents the same legal status and protection as natives have, except, perhaps, the right to vote and be elected) would be *economically* impossible as long as the current economic policies remained in effect. Free entry into the labor market is prevented by downward inflexible wage rates (as the result of collective bargaining and labor union legislation). And, as a result of business protection laws, free entry into the employer market is hampered by increasingly high levels of business accreditation costs (corporate taxes, licensing requirements, and fees). As such, free immigration would immediately raise the number of unemployed and would generate a sharp increase in the demand for government welfare handouts. To finance these, either taxes or the rate of inflation would have to be increased. However, with an even-heavier burden imposed on private producers, the already listless economies of Western Europe would collapse.[12]

Nor would it be a viable solution to let the immigrants enter and then deny them a work permit or exclude them from the standard welfare entitlements, since this would result in a sharp increase in black-market activities. On the one hand, this would lead to a deterioration of the relative competitiveness of the *official* economy and would give rise to expanding welfare expenditures. On the other hand, it would be *politically* impossible, as

[12]This collapse would come even sooner if East European immigrants were given the right to vote, as most of them, having spent a lifetime under full-blown socialism, are economically illiterate, with welfare statist notions deeply ingrained in their mental make-up.

it would create a society of legally distinct classes—or castes—of residents, and thus provide a hot-bed for nationalist and racial sentiments which could easily get out of government control.

For somewhat different reasons, it is also impossible, or at least quite dangerous, to do what is economically (as well as ethically) sensible: to offer refuge, but at the same time to systematically reverse the course of economic policy and de-statize (or reprivatize) economic life, and dismantle the welfare state. Such a change in policy would assure the integration of the East European immigrants, lead to higher overall standards of living, and possibly even produce a higher total tax revenue (if private producers were to react "elastic" to cuts in tax or regulation rates). However, any West European government that put such a policy into effect would quickly encounter severe problems, for the certain beneficial consequences of these policies would not take effect immediately. Temporarily, the very same policies would inevitably cause substantial disturbances (such as rising unemployment and business failures). Whether or not they turn out successfully (from the government's point of view) depends on the public's time-preference rate, and on the degree to which government tenure is subject to majority control. As regards both determining factors, the prospects of success appear dim.

All West European governments are subject to recurring elections (on local, state, and federal levels), and, hence, democratic politicians typically have relatively short planning horizons, and, thus, place disproportionate weight on the short-run consequences of their actions. Moreover, the general public, which votes the politicians in or out of power, has become increasingly short-term oriented, i.e., its time-preference rate has risen as the expansion of compulsory welfare schemes has steadily relieved it—as much as disabled it—from taking private provisionary action. On account of their own former policies, then, governments are now afraid that the public will no longer wait until the success of a policy of liberalizing private property becomes obvious to everyone, but will vote them out of power.

From the point of view of government, then, the potentially least-destabilizing solution to the problem is to leave everything as it is internally and instead raise the immigration restrictions. By resorting to this measure, the bankruptcy of the Western welfare states as universal models of social organization is revealed, too. Not only is it an economically counterproductive measure which lowers the standards of living for foreigners and inlanders alike, but it is also unethical, because it prohibits inlanders and foreigners from striking certain types of mutually beneficial bargains concerning their own properties. In forcing potential immigrants to stay where they are, it implies support for the communist or semi-communist regimes of Eastern Europe. Yet similar counter-productive measures and unethical, if legal, expropriations of private property owners have characterized the agenda of governments for quite some time without much public protest. With foreigners apparently the sole victims, increased immigration controls are considered downright popular, and are depended upon to assure public forgiveness of the support that is thereby given to communist regimes. If any protests against immigration restrictions are voiced at all, they come from classical-liberal quarters. Yet, while there are a few isolated liberal spokesmen, nowhere in Western Europe does a popular ideological movement dedicated to old liberalism exist.

VII

In fact, classical liberalism, as a political movement, has been all but dead for a long time, and the post-World War II liberalization phase in Western Europe, in particular in Italy, West Germany, and France, must be considered merely a passing aberration—the result more of happy circumstances than of systemic reasons—in a lengthy process of decline.[13]

Old liberalism's decline had begun before World War I—not least because of a strategic error of its own. Classical liberalism had centered around the notion of private property as the prerequisite of human liberty and prosperity, and accordingly had opposed any interference with private property rights, governmental or otherwise. Governments, if necessary at all, were supposed to be of minimal size, entrusted exclusively with the task

[13]The Italian and German reforms came in the face of military defeat and occupation, and were carried out largely contrary to, and shielded from, prevailing, left-leaning, public opinion. Luigi Einaudi's temporary influence was not due to the strength of his political party basis, but rather to the fact that he represented a clean break with fascism as much as a return to pre-fascist bourgeois (commercial, Northern) Italy. Already prominent as an economic writer and politician, Einaudi had resigned from public life after the fascist takeover, and had spent the last few years of the fascist era in Swiss exile. Ludwig Erhard, untainted by association with the national socialists, yet with no name or political power base to speak of, was actually appointed to his position as economic Czar by the occupying military forces, and implemented his initial reform package by administrative fiat, uncontrolled and unconstrained by any democratic procedure whatsoever. Similarly, Jacques Rueff's influence lacked a party base, but was due to his personal connection with de Gaulle and the enhanced powers that de Gaulle had created for his presidency under the constitution of the Fifth Republic.

of safeguarding their citizen's private property rights—a night-watchman state. The nineteenth-century liberal movement committed the error of believing it possible to promote this goal by supporting republican (as opposed to monarchic) and democratic (as opposed to aristocratic) causes. Yet, republicanism only promoted nationalism, and allied to it, an originally universal and internationalist liberalism gradually turned nationalist. Democratization—the gradual extension of the franchise from the propertied to the propertyless, which took place during the nineteenth century in Western Europe, and which liberalism, if somewhat reluctantly, had supported—only furthered the growth of socialist-egalitarian and conservative-protectionist parties, simultaneously draining an essentially aristocratic liberal movement of its support.

The outbreak of World War I accelerated liberalism's perversion into a nationalist creed, and in the wake of the war's outcome—the downfall of the Romanovs, Hohenzollerns, and Habsburgs, in defeated Russia, Germany, and Austria-Hungary, respectively, and the Bolshevik takeover in Russia—West European liberalism literally disappeared as a political movement. The threat of the Soviet revolution and the "dictatorship of the proletariat" spreading westward, represented by a strong and radicalized movement of socialist and communist parties, produced as its "bourgeois" response an equally radical movement of national socialist and fascist parties. In the increasingly violent power struggle between these competing socialist forces, which typically ended with the latter's almost complete victory, the liberal movement was pulverized.

As a result of World War II—and the military defeat of national socialism and fascism—Western Europe came under almost total control of the United States and its political system of democratic republicanism. President Woodrow Wilson's foreign policy of "making the world safe for democracy" and his militant anti-monarchism which had been imposed on Europe for the first time after World War I and which had just failed dramatically, was restored and expanded (Serbia-Yugoslavia and Italy abolished their monarchies).

In the countries of Eastern Europe, conceded to Soviet domination by the Roosevelt and Truman administrations, a "dictatorship of the proletariat" was established, and whatever was left of classical liberalism was stamped out in its course. In Western Europe, the pre-fascist and pre-nazi political party system reemerged—but this time without explicitly fascist or national socialist parties, which had been outlawed by the Allied Armed Forces, and without a significant representation of monarchistic parties.

Encouraged initially by the triumph of socialism in the Eastern European peoples' republics, orthodox socialist and communist parties re-established themselves as major forces on the political scene (drawing heavily on former fascist or national-socialist voters). Greece and Italy stood on the verge of communist takeovers in the aftermath of World War II. In France, the communists emerged as the strongest political party, and all socialist parties together consistently gathered a majority of votes until the late 1950s. In Great Britain, the Labour Party rose to government power. The Scandinavian countries were firmly in the grip of the social democrats.[14]

A second major political force in post-World War II Western Europe, a bloc of bourgeois, anti-communist parties of nationalist, social-conservative, and Christian-social orientation emerged. Nominally liberal parties—by then almost unrecognizable from their classic beginnings—were but a small part of this bourgeois camp and hailed a national-social (and anti-clerical) liberalism. Switzerland had been and remained firmly under such bourgeois control; likewise, bourgeois parties gained the upper hand in West Germany and Italy; and Christian-social or social-conservative parties emerged as the strongest single political force in Austria, Belgium, and the Netherlands.

Yet, this time, the rivalry between the proletarian and the bourgeois party bloc did not lead to continuously increased and sharpened political conflict and the paralysis or abolition of the multi-party democratic system, as it had during the period between the wars. Instead, throughout Western Europe, it led to a gradual ideological homogenization, and liberalism in particular, rather than being stamped out, gave up its identity voluntarily to become submerged in a grand and uniform—conservative-liberal-socialist—welfare-statist consensus.

Two interrelated factors contributed to this development. For one thing, to every neutral Western observer it became quickly obvious that the repetition of the socialization experiment in the countries of Eastern Europe produced the very same grim results that it had produced in Russia before, thus disproving once and for all the myth that the Soviet economic mess was only due to a special "Asian mentality" of the Russian people. Second, the

[14]Socialist parties were least popular, and have remained so ever since, in Switzerland, with a typical voter turnout of around 25 percent.

above-mentioned liberal reforms, which were simultaneously put into effect across Western Europe, in particular in West Germany and Italy (largely against, and shielded from, an overwhelmingly statist-socialist public opinion[15]), unexpectedly but quickly produced an economic miracle, and sharply widened the welfare gap between West and East.

In light of this public experience—and in search of a popular majority—all Western parties made programmatic adjustments. In particular, the orthodox socialist-communist parties had to undergo a transformation and abandon their central idea of a socialized economy. It was this "embourgeoization" of the left that provided the catalyst for the trend toward ideological uniformity.

Typical of this trend were the developments in West Germany. Of all major countries, the contact with Soviet-style socialism was most direct here, and millions of people had ample opportunity to see with their own eyes the mischief that it inflicted on the people in East Germany. Here, Ludwig Erhard's 1948 reforms had produced Western Europe's first and most dramatic economic recovery, and here the process of ideological uniformation was actually most profound. Support for the Communist Party fell from a low of five percent to insignificance within a few years. The conservative Christian Democratic Union, under Konrad Adenauer's leadership, abandoned all former plans for a nationalization of "vital" industries as early as 1949, and embraced instead the concept of a "social market economy." Most decisively, a decade later, in 1959, the West German Social Democrats, compelled by eroding voter support, adopted a new party program in which all obvious traces of a Marxist past were conspicuously absent, and which talked about socialization only as a measure of last resort, emphasizing instead the importance of social policies in "correcting the failures" of markets. Consequently, in 1966, for the first time the Social Democratic Party gained entrance into the Federal government as the junior partner in a *grand* coalition with the Christian Democratic Union. From 1969 to 1982, a *small* coalition between the Social Democrats, now as senior partners, and the liberal Free Democratic Party followed. And since 1982, the Free Democrats have been junior partners of the Christian Democratic Union again, as they were from 1949 to

[15]Indicative of the dominant statist-socialist public opinion is the fact that even West Germany's newly founded conservative Christian Democratic Union, in its Ahlen program of 1947, stated that "the capitalist economic system has not done justice to the vital interests of the German people in state and society" and accordingly demanded large-scale socialization policies.

1957 and from 1961 to 1966. The process of ideological homogenization had thus gone full circle: conservatism, liberalism, and socialism had been homogenized, and the liberals had actually presided over and participated in the final destruction of their own ideological heritage.

In countries farther removed from the Iron Curtain, such as France, Italy, and Great Britain, and also after the fall of the autocratic Salazar and Franco regimes in Portugal and Spain respectively, the process of ideological homogenization was less pronounced or took somewhat longer, but ultimately, all across Western Europe the same pattern emerged,[16] and by the 1980s, the ideological uniformation of Western Europe was nearly complete. "Western European," as defined across all party lines, had come to mean multi-party democracy and social market economy: a private-property-based market economy, regulated and "corrected" by a democratic government according to its definition of "socially desirable" (or "undesirable"). And the socially desirable outcome typically included not only the nationalization, and government monopoly, of external and internal defense and of law and law administration (army, police, and courts), it also included the nationalization of all or most of education and culture (schools, universities, libraries, theaters, operas, museums), of traffic and communication (roads, rivers, coasts, railroads, airports, airlines and airways, mail, telephone, radio, television, and airwaves), and of money and banking (a national fiat currency, a central bank, and a fractional-reserve banking cartel). It meant the nationalization of most natural resources (oil, gas, minerals), and the monopolization or cartelization of most public utilities (water, electricity, gas, disposal services), and of much of insurance (retirement provisions, health insurance, and unemployment benefits). It meant that government systematically took care of, and subsidized, agriculture and housing; that it accorded special protection against market competition to a myriad of "vital" industries (such as mining, coal, steel, cars, airplanes,

[16]The best indicator for the ideological uniformation all across Western Europe is the decline of the communist parties and the simultaneous rise of socialist and social democratic parties. As in West Germany, after a relatively strong showing in the immediate aftermath of World War II, the communist parties in Austria, Switzerland, Belgium, the Netherlands, and the Scandinavian countries were quickly reduced to insignificance. The results in post-autocratic Portugal and Spain were similar. In France, the systematic decline of the communist party began in the late 1950s; in Italy it began during the 1970s; and the 1980s saw the de-marxification of the British Labour Party. All the while the popularity of the reformed, social-democratic wing of the socialist movement grew steadily; and during the 1970s and 1980s, social democratic parties reached the pinnacle of power for the first time not only in Germany but also in Austria, Spain, Portugal, Greece, and France.

computers, and textiles); and that in performing all these tasks, government would become a country's largest employer, real-estate owner, and capitalist, and its expenditures would typically absorb about half of a country's national product.

VIII

In this ideological climate of Western Europe, the old liberal idea of freedom of migration has become increasingly alien. At the same time, the classical-liberal idea of removing the very cause of the migration problem has disappeared from public discussion. In fact, just as the Western governments are unwilling to allow free immigration, they cannot afford to allow Eastern Europe to follow the classical-liberal prescriptions of radical privatization, minimal tax, minimal regulation, and free trade, since these policies would bring westward migration to a halt, or even reverse the direction of the flow.[17]

If such policies were put into effect, all future production in Eastern Europe would immediately be less costly than production in the highly taxed and regulated economies of the West, and accordingly, capital would begin to flow from the West to the East. The flight of capital would aggravate the economic stagnation of Western Europe, and would compel the Western governments to enact the very same desocialization policies which they currently are trying to avoid. Hence, in conjunction with their anti-immigration policies, the Western European governments, individually and in a concerted effort by the European Community, are now trying to explain the Eastern misery—falsely[18]—as the result of a lack of democracy rather than of private property, and are promoting the idea of Eastern Europe replacing socialism with the Western model of a social market economy, rather than with the classical liberal one of a private-property economy.

IX

Ominously, these Western interests coincide nearly perfectly with those of Eastern Europe's post-communist governments.

Notwithstanding the dramatic convulsions that have occurred since 1989, the size of East European governments in terms of personnel and resource ownership is still overwhelming, even by the already high Western standards. Furthermore, government

[17]See also note 5 above.

[18]See note 2 above.

personnel at local, provincial, and federal levels still largely consists of the same individuals as before 1989, and many of the post-communist political leaders of Eastern Europe were already prominent, and had risen to eminent positions, under communist rule. To most of them, classical-liberal ideas are simply unthinkable, while they are all-too-familiar with welfare-statist notions.

Moreover, if the liberal prescriptions of instant and complete privatization of all collective property, and of minimal government dedicated exclusively to the defense of private-property rights were put into effect, most government jobs would disappear immediately. Current government employees would be left to the vagaries of the market and forced to find new, productive occupations. Alternatively, if the familiar Western European welfare-state model is accepted as exemplary, and if the Eastern bureaucracies take charge of the irreversible trend toward desocialization, and thereby control and regulate the privatization of non-vital parts of their massive resource holdings (down to—but not below—Western levels), most bureaucratic jobs not only may be secured,[19] but government revenue and the salaries of bureaucrats may actually increase.

In addition, because of Western governments' interests in an orderly transition from socialism to welfare statism, Eastern bureaucracies and leaders adopting such a reform course can expect that at least part of the risks associated with it will be assumed, or financed, by their Western counterparts.

There is a risk that even if the welfare-statist transformation were complete, the westward migration might be reduced, but it cannot be stopped. Here, the West has already assumed the risk by not permitting immigration. And there is the problem that a gradual, government-controlled process of partial privatization, while ultimately bringing about partial improvement, will in the short run lead to increased economic hardship and social tension. In this respect, welfare-statist reformers can now count on Western assistance, too.

During the former communist era, cooperation between East and West was extremely limited. As a result of the inefficiencies of socialist production, Eastern Europe was incapable of selling anything to the West except for raw materials and basic consumer goods, and Western transactions with the East bloc typically

[19]For comparison, total government employment in Western Europe typically amounts to five to ten percent of the population. In Eastern Europe, communist party membership was typically around 15 percent.

accounted for less than five percent of foreign trade. Foreign ownership in Eastern Europe was essentially outlawed. Not a single Eastern currency was freely convertible to Western currencies, and accordingly, even political contacts were comparatively rare. However, since the collapse of communism, the Eastern European governments have something to offer.

West–East trade is still low, and has even fallen in the wake of the revolutionary upheavals across Eastern Europe. But absent the dogma that social means the collective ownership of factors of production, some of the nationalized wealth of Eastern Europe has suddenly come up for grabs; and with the Eastern governments in control of the denationalization process, Western political leaders—and government-connected bankers and big businessmen—immediately increased the contact with their Eastern counterparts. In exchange for Western aid during the transition phase, Eastern governments now have real assets to sell. In addition, the East can assure eager Western buyers that from the outset, the tax-and-regulation structure of the newly emerging economies of Eastern Europe will be harmonized with European Community standards. Most importantly, Eastern governments can sell the assurance that Eastern Europe's new banking system will be set up along familiar Western lines, with a governmentally controlled central bank, a fractional-reserve banking cartel of privately owned commercial banks, and a convertible fiat money backed by reserves of Western fiat currencies, thereby allowing the Western banking system to initiate an internationally coordinated credit expansion, and thus, to establish monetary and financial hegemony over the newly emerging Eastern European economies.

X

The Eastern European governments, in particular in East Germany, Poland, The Czech Republic, Slovakia, Hungary, and the Baltic states, are well on the way toward Western welfare-statism. Although the transition problems of falling production and mass unemployment have taken on dramatic proportions everywhere, and the governmental welfare transfer from West to East has put an additional burden on the already stagnating Western economies, the chances of governments in the East and West of successfully reaching their goals must be evaluated positively. Due to the partial privatization and the elimination of most of the price controls, Eastern Europe's economic performance must eventually begin to improve beyond its desperate showing. This recovery, in turn, must also bring its Western payoff in the form of increased economic integration: a widening of markets, an extensification and intensification of the division of labor, and, hence, an expanding volume of mutually beneficial international trade.

Nonetheless, two fundamental problems remain. First, even if the presently pursued welfare-statist reform strategy is successfully completed, it cannot fulfill the popular demand for quick and steady economic improvement. Due to the gradual approach and the limited extent of privatization, the Eastern recovery process will be much slower and more painful than need be. Moreover, because the average size of government in the newly emerging united Europe will be larger than is presently the case in Western Europe alone, the stimulus given to the Western economies will only be a temporary one, and economic recovery and expansionism will soon be replaced by stagnation in the West and—on a permanently lower level—East alike.

Second, the entire reform process might still be derailed, and the "cunning of reason" may produce a rebirth of classical liberalism. For, as the unintended consequence of the Western immigration halt and the welfare-statist reform path chosen by Eastern governments, the likelihood of secession has increased. If migration is prevented, and if there is little or no hope for domestic reforms leading to quick improvements, or if these reforms and economic improvements lag too far behind popular expectations, the only other escape from economic deprivation is through secession.

Indeed, with the collapse of communism and the beginning of Eastern Europe's welfare-statist transformation, all across Eastern Europe secessionist movements have come to the fore. Yugoslavia has already fallen apart into its various national components. The Soviet Union no longer exists. Demands for national independence, even for independence from newly independent nations, are gaining steam everywhere. For the first time in many centuries of European history, the seemingly irreversible trend toward larger territories and a smaller number of independent governments appears on the verge of systematic reversal.

To be sure, on Europe's southeastern flank there was the progressive disintegration of the Ottoman Empire from the height of its power in the sixteenth century until after World War I with the establishment of modern Turkey. In central Europe, the discontiguous Habsburg Empire was gradually dismembered from the time of its greatest expansion under Charles V in the sixteenth century until it disappeared in 1918 with the founding of modern Austria. But the overriding trend in Europe has been in the opposite direction. Until very recently, Europe consisted of about thirty countries. Yet, at the beginning of this millennium, it consisted of many hundreds or even thousands of independent territories. And for most of the time in between, one of Europe's dominating themes was that of territorial expansion and increased concentration of governments. Innumerous small, independent territories and governments were eliminated, for instance, before France emerged in its modern size and shape at the end of the sixteenth century, and England during the second half of the seventeenth. The development in Russia was similar, where the present extension was reached only during the first half of the nineteenth century. In Italy and Germany, where the political anarchy of decentralized powers was particularly pronounced, the centralization process came to an end only a little over a hundred years ago.[20]

It is natural then, that the secessionist movements in Eastern Europe and the reversal of the trend toward centralization appear as deadly threats to all central governments. But it is another testimony of the eclipse of classical liberalism—while at the same time it attests to the fact that history is typically written by its victors, and to their powers of ideological control—that the secessionist movement is perceived as atavistic by large parts of the general public and the overwhelming majority of intellectuals in West and East; and that even among the movements' supporters, many accept it only out of expediency, as politically inevitable, rather than out of principle. Is not secession contrary to economic integration? Was not the territorial consolidation created through the concentration of governmental power a decisive cause for the rise of the capitalist West in general and the Industrial Revolution in particular? And is not secession a step backwards from the goal of economic advancement?

As classical liberalism recognized, from the point of view of economic theory, each question must be categorically denied. In particular, the interpretation of history as implied in the second question must be rejected as self-serving statist propaganda, incompatible with both theory and history. Secession, i.e., political disintegration, is always compatible with economic integration. However, territorial expansion of government power—political integration—may or may not further economic development. Moreover, under the given circumstances, secession must be

[20]For example, Germany, during the second half of the seventeenth century, consisted of 234 independent countries, 51 free cities, and about 1500 independent knightly manors. By the beginning of the nineteenth century, the number of independent territories had fallen to below 50.

considered the only remaining means of advancing economic integration and prosperity well beyond the meager results that can be expected from the current reform course.

XI

When the Slovenes seceded from Yugoslavia, and the Baltic states left the Soviet Union, this initially implied nothing more than a shifting of control over the nationalized wealth from the larger, central governments to smaller, regional ones. Whether or not this will lead to more or less economic integration depends in large part on the new, regional governments' policies. However, the sole fact of secession has already had a positive impact on production, for one of the most important reasons for secession is characteristically the belief on the part of the secessionists that they and their territory are being exploited by others. The Slovenes felt, and rightly so, that they were systematically being robbed by the Serbs and the Serbian-dominated central Yugoslavian government. The Balts resented the fact that they had to pay tribute to the Russians and the Russian-dominated government of the Soviet Union. By virtue of the act of secession, hegemonic domestic relations were replaced by contractual, mutually beneficial foreign relations. Rather than being subordinate to the Serbs or to the Russians, the governments of the Baltic states and Slovenia have become their former rulers' independent equals.

All further effects on economic integration depend on the new governments' policies concerning domestic and foreign exchange. First, ignoring domestic policies for a moment and assuming that the same course of moderate desocialization is followed that the central government would have chosen (or is choosing for the remaining territories), the new governments face but one alternative: free trade or protectionism, partial or total. Insofar as they follow a free-trade policy, allowing an unhindered flow of goods in and out of their territory, economic integration will be advanced. Even the smallest territory will be fully integrated into the world market, and can partake of all advantages of the division of labor, if it adopts an uncompromising policy of free trade.[21] On the other hand, insofar as the secessionist governments resort to foreign trade restrictions and outlaw or hamper the importation or exportation of goods, they will spread economic disintegration. For interference with foreign trade, regardless of the motive involved—whether it is to protect specific domestic jobs, firms,

[21] Although not entirely without sin concerning their free-trade policies, Switzerland and even-smaller Liechtenstein provide excellent examples of this.

industries, or products—forcibly limits the range of mutually beneficial inter-territorial exchanges, and thus leads to a relative impoverishment, at home as well as abroad.

The size of the territory and the number of its inhabitants are systematically unrelated to the question of inter-regional economic integration, and have only an indirect, albeit important, bearing upon it. The larger the size of a territory and of internal markets, the more widely the positive or negative wealth effects from either free trade or protectionism will be diffused. Likewise, the smaller the territory and the internal market, the more concentrated will be the positive and negative effects. For instance, a country the size and population of Russia could probably attain a comparatively high average standard of living even if it were to renounce all foreign trade, provided it possessed an unrestricted internal capital and consumer goods market. On the other hand, if predominantly Serbian cities or counties seceded from surrounding Croatia, and if they pursued the very same policy of complete self-sufficiency, this would likely spell economic disaster. Accordingly, other things being equal, the smaller the territory and its internal market, the more likely it will opt for free trade, otherwise the price per person in terms of losses of wealth will be higher.[22]

Secondly, as regards domestic policies, the secessionist governments likewise face one fundamental question: how much of the nationalized wealth should be privatized, and what should be the degree of taxation and internal regulations imposed on the domestic economy? The larger the extent of privatization, the lower the degree of taxation, and the fewer internal regulations, the greater the contribution to economic integration and economic growth.

The collapse of socialism was due precisely to the fact that no real estate and capital goods market, no capitalists, no entrepreneurs, and no cost accounting existed. By outlawing these institutions and functions, socialism had, in fact, abolished all but a small remainder of the division of labor and domestic markets, and it had essentially reverted to the stage of a single, self-sufficient household economy, in which the division of labor, and

[22]Consider a single landowner as the conceivably smallest independent territory. By engaging in free trade, there is nothing to prevent this owner from becoming the wealthiest person on earth. The existence of any wealthy individual anywhere is living proof of this elementary truth. On the other hand, if the same owner on the same territory decided—voluntarily, since he is the only person involved—that he would want to forego all inter-territorial trade, abject poverty would result. The fact that hermits are practically nonexistent illustrates the fact that the costs of protectionism becomes ever-more prohibitive, the smaller the internal market.

hence of markets, is restricted to intra-household partitionings and exchanges. Any privatization of real estate or capital goods, then, represents an extensification and an intensification of the inter-household and inter-territorial division of labor. Accordingly, domestic economic integration would reach its optimum no sooner than, and the absolute and comparative advantages of the division of labor could be reaped to the fullest only if, literally all real estate and capital goods are privatized, i.e., if no production factors are compulsorily, that is, through legal prohibitions against their sale, withheld from the market.

Further, given the size of the private-property economy, the higher the taxes that are imposed on income derived from a private-property owner's participation in the social division of labor and his integration into domestic markets, the higher the incentive to withdraw from integration and to revert to self-sufficiency or non-production (leisure consumption). Accordingly, economic integration and domestic economic output would reach an optimum if all coercive levies on productive agents were abolished.

Finally, with the extent of private-property ownership and taxation given, the more extensive the regulations regarding domestic production and trade, the more disintegration will occur. Domestic economic integration and the value of productive output would reach their optimum if a single principle ruled all domestic activities: every owner may employ his property in any way he sees fit, so long as in so doing he does not uninvitedly impair the physical integrity of another person's body or property. In particular, he may engage in trade with any other property owner that is deemed mutually beneficial. Only when each property owner's rights concerning his possessions and its physical integrity are absolute will each undertake the greatest possible value-productive efforts—efforts to increase, or prevent from decreasing, the value of his physical possessions—and will the social stock of material goods and the value embodied in it reach their optimum.

As in the case of foreign trade, the size of a territory and its inhabitants is also systematically unrelated to the question of how much domestic economic integration there is. Yet again a highly important indirect relationship between both variables exists. The relationship is dialectic in nature (and the opposite of what orthodoxy holds it to be).

On the one hand, the larger a government-controlled territory and the smaller the number of independent territories, the more likely is domestic disintegration. A world government that rules a single all-encompassing domestic market—the order promoted by many politicians and most intellectuals—would, in fact, provide the least-favorable conditions for domestic integration, because a producer could no longer vote with his feet against a government's tax-and-regulation structure and migrate to somewhere else, since the situation would be the same everywhere. By eliminating economically motivated migration, however, a systematic limitation on governmental power is gone as well, and the likelihood that governments will raise taxes, expand regulations, and increase public ownership so as to maximize their own income is increased to the utmost. At the other extreme, with as many independent territories as there are private households, the opportunities for economically motivated migration are maximized—the number and the variety of immigration possibilities is as large as it can possibly be—and governmental power over a domestic economy tends to be lowest. In fact, for a single-person household, taxation, regulation, or confiscation are inconceivable, since no one can impose anything but voluntary restrictions upon himself and his possessions. But in the case of a village, or even a multi-member household, the chances of the village government or the household head successfully imposing anything but the smallest amount of income and property taxation or regulation are extremely slim. Because their power does not reach beyond the household or village, and because other independent households or villages exist, migration will quickly ensue.[23]

On the other hand, no central government ruling over large-scale territories and millions of citizens could come into existence *ab ovo*. Rather, insofar as institutions possessed of the power to tax, regulate, and confiscate private property can come into being at all, they must begin small. Historically, it took centuries for

[23]It is obviously possible—witness the countries of Western Europe—for the central governments of large-scale territories with millions of citizens to impose taxes upon their economies which amount to half or more of the domestic product. Obviously, it was also possible for central governments to go as far as expropriating almost all private property (witness the communist past of Eastern Europe). In contrast, it is difficult to imagine how a father could tax his son or a mayor the village population to the same extent without causing a rebellion or emigration. Indeed, due to the limited size of the territories involved and the existence of a multitude of other, independent households or villages, even regimes of personal slavery tended to be less taxing on their subjects than the large-scale central government slave ownership characteristic of the former Soviet Union. The killing of personal slaves—the ultimate form of economic disintegration—was rare under systems of personal slavery. In the Soviet Union, it took place on a massive scale, with several million casualties. Similarly, the life-expectancy of personal slaves increased, along with the general trend. In the Soviet Union, it fell in recent decades (even excluding the millions of casualties).

the present, highly centralized state of affairs emerged from its very modest beginnings. Yet, in order for a government to gradually expand its power from initially very small territories to increasingly larger ones and successively eliminate its competitors in a process of territorial concentration, it is of decisive importance that such a government provide for a comparatively high degree of domestic economic integration. Other things being equal, the lower the tax-and-regulation burden imposed by a government on its domestic economy, the larger its population tends to grow—for internal reasons as well as due to migration gains—and the larger the amount of the domestically produced wealth on which a government can—parasitically—draw upon in its attempt to eliminate its neighboring competitors through war and military domination. It is for this reason that the process of political integration was frequently—although not without exceptions, as other things are not always equal—correlated with increased economic integration. However, the further the process of relatively more liberal (in the classical sense) governments militarily outstripping less liberal ones proceeds—the larger the territories, the fewer and more distant the remaining competitors, and the more costly inter-territorial migration—the lesser a government's need to continue in its domestic liberalism.[24]

XII

The secessionist movements across Eastern Europe are the best possible institutional device for advancing the popular goal of a quick economic recovery. Regardless of the generally welfare

[24]In light of these considerations regarding the dialectic relationship between political and economic integration, much of modern European history falls into place. First, that political disintegration and economic integration are not only compatible but positively correlated is illustrated by the fact that the first flourishing of capitalism occurred under conditions of highly decentralized political power: in northern Italy and southern Germany. Second, that the process of political integration (territorial expansion) does not necessarily hamper economic integration, but in fact may further it insofar as it involves the territorial conquest of less-liberal by more-liberal rulers is illustrated by the fact that the modern Industrial Revolution occurred in centralized England and France. And third, that political integration will lead to economic disintegration the closer the process of territorial concentration comes to its conclusion is illustrated by the fact that a formerly dominant liberalism has been gradually replaced by a rising welfare statism since the last third of the nineteenth century. The process of intra-European concentration came to a halt with the political unification of Italy and Germany—and even more so since the end of World War I and particularly since World War II—since the United States established itself as the militarily dominant, hegemonical power over Western Europe (and much of the rest of the world) and made it its foreign policy objective to safeguard the territorial status quo.

statist political predilections or intentions of a secessionist government, secession has a liberating dynamic of its own: it eliminates with one stroke the oppressive and exploitative relations between various ethnic, cultural, religious or linguistic communities which to this day characterize Eastern Europe, and in particular the Soviet Union and Yugoslavia. By virtue of the simple fact that secession involves the breaking away of a smaller from a larger number of people, it is a vote against the principle of democracy (majority rule) in favor of private (decentralized)—rather than majoritarian—property and ownership. The smaller a country, the more pressure a government is under to opt for free trade. It is, technically, easier to desocialize smaller holdings than larger ones. By increasing the number of competing governments and territories and the opportunities for inter-territorial migration, a secessionist government is under increased pressure to adopt more liberal domestic policies, i.e., a larger private sector, and lower taxes and regulations. And throughout, for all of government policies, it holds that the smaller the size of the seceded territory, the quicker any mistake will be recognized, and possibly repaired.

In addition, although classical-liberal thought is spread extremely thin throughout Eastern Europe, due to decades of ruthless oppression and censorship, the liberal ideas of a society based on private property and contractualism are not distributed equally sparsely everywhere. Egalitarian propaganda notwithstanding, enormous differences with respect to the degree of cultural advancement (Westernization) exist in Yugoslavia, for instance, between Slovenes, Croats, Serbs, Macedonians, Montenegrins, and Albanians, as well as between Catholics, Orthodox, and Muslims; or in the Soviet Union between Germans, Poles, Ukrainians, Russians, Georgians, Rumanians, Armenians, Aszerbaijanis, Turkmenis, Kazaks, and so on. In the past, these people had been subject to forced integration by their central governments. Catholic–Croatian communities, for example, were compelled to not "discriminate" against orthodox Serbs, and to accept them into their midst. Likewise, Lithuanians were forced to associate with Russians, even if the Lithuanians would have preferred separation.

But compulsory integration did not lead to the emergence of a new, universal, and presumably higher culture, or to inter-ethnic harmony, as is now painfully clear. On the contrary, as could have been expected, it intensified ethnic strife and hostility and de-civilized all the cultures and people involved. By means of secession, the forced integration of the past is replaced with the voluntary physical segregation of distinct cultures and their competition as separate-but-equal and independent people.

The first result of such a separation is that the variety of government forms and culturally distinct policies will increase. Some of them may turn out worse (from the point of view of economic integration and prosperity) than those that would have prevailed if the central government had remained in power. Some others will be better, with the outcome depending largely on the segregated culture's degree of Westernization as compared to the dominant, central government's culture. It may well be worse for Aszerbaijanis, for instance, to be ruled by a native government than by one made up of Russians; or for Kosovo-Albanians to fall into the hands of some of their own rather than those of a Serbian government. At the same time, the economic reforms in Lithuania, Estonia, and Latvia will likely be better than what a Russian government would have had in store. Clearly, Croatians will prosper more under Croatian rule than under Serbian rule.

More importantly, because the failure to achieve the popular goal of quick economic recovery and sustained growth can no longer be attributed to foreign cultural domination, but must be accepted as homegrown, the public at large as well as the government involved will have to accept a greater responsibility for their own actions. Under forced integration, any mistake could be blamed on a foreign culture, and all success claimed as one's own, and hence there was little or no reason for any culture to learn from any other. Under a regime of "separate but equal," people must face up to the reality not only of cultural diversity but in particular also of visibly distinct ranks of cultural advancement. If a people now wants to improve or maintain its relative position *vis-à-vis* a competing culture, nothing will help but discriminating learning. It must imitate, assimilate, and if possible, improve upon the skills, traits, practices, and rules characteristic of more advanced cultures, and it must avoid those characteristic of lesser-advanced societies. Rather than promoting a downward leveling of cultures as under forced integration, secession stimulates a competitive process of cultural selection and advancement.

XIII

Whether the liberating dynamic set in motion by the secessions will be strong enough to change the scenario from a welfare-statist transformation of Eastern Europe into a self-accelerating, liberal, laissez-faire capitalist revolution, depends directly on the strength of the opposing central and centralizing government forces.

Despite a number of significant defeats, these forces remain powerful to this day. Poland, Rumania, and Bulgaria are still territorially intact—despite secessionist tendencies among Germans in Poland, Hungarians and Germans in Rumania, and Turks and Macedonians in Bulgaria. The unification of West and East Germany is an instance of centralization. The Czechs and the Slovaks have separated, but the Slovaks show no inclination of letting their Hungarian minority go. Yugoslavia has fallen irreparably apart, if only after a bloody and destructive war by the central government against the secessionists.[25] But newly independent Croatia still prevents predominantly Serbian districts from likewise seceding from Croatia, and the Serbian government is still holding on to most of former Greater Serbia and its various ethnic minorities, and is even trying to round out its territory at the expense of Croatia. The situation in the former Soviet Union is similar. The central union government has disappeared, but it has been replaced by only a dozen or so of the fifteen former union republics which are now independent states, while there actually exist hundreds of ethnically distinct populations within the former union.

Almost all further-reaching secessionist attempts, including those by the former Volga Germans to separate from Russia, or by the Ossetians to become independent from Georgia, have been successfully suppressed by their new central governments, or they are violently opposed, as in the case of Aszerbaijan and the Armenian Nagorno-Karabakh province. With the formation of a new Commonwealth of Independent States under the leadership of Russia, and with most of the former union republics as members, *re*centralizing tendencies have even appeared.

Indeed, the tendencies in Eastern Europe toward decentralization may represent a temporary disruption in an ongoing process in the opposite direction. They may turn out to be no more than a regional distraction from the fact that, as seen from a global perspective, the process of political concentration is much

[25]The Yugoslavian central government had been encouraged to engage in these rather drastic measures by the anti-secessionist proclamations sounded by the governments of the European Community and the United States. The acceptance of acts of secession as legitimate by Western governments, in Yugoslavia in the case of Slovenia and Croatia as well as in that of the Baltic states in the Soviet Union, has invariably come only after the facts, unpleasant as they might be, could no longer be ignored.

closer than ever before to its ultimate conclusion of a one-world government. Strong indications for this exist. Even before the dissolution of the Soviet Union, the United States had attained hegemonical status over Western Europe (most notably over West Germany) and the Pacific rim countries (most notably over Japan) as indicated by the presence of U.S. troops and military bases, the NATO and SEATO pacts, the U.S. Federal Reserve System as the lender or liquidity provider of last resort to the entire Western banking system, the role of the U.S. dollar as the ultimate international reserve currency, and by institutions such as the International Monetary Fund (IMF) and the World Bank.

Likewise, under U.S. hegemony, the political integration of Western Europe was advanced: the European Community was set for completion before the turn of the century with the establishment of a European Central Bank and a European Currency Unit (ECU) money—a goal whose likelihood of fulfillment is now in serious doubt.

In the absence of the Soviet Empire and the Soviet military threat, the United States has emerged as the world's sole and undisputed military superpower. Thus, it is only natural that the U.S. government and its European junior partners are now trying to use their superior military and financial resources to expand their power and incorporate Eastern Europe—on a lower rank in the hierarchy of power—into the existing Western government-and-central-banking cartel. Of course, secessionist events would be disturbing and complicating factors in these Western endeavors. However, as the example of Western Europe shows, national independence and international political integration, i.e., the coordination and harmonization of the tax-and-regulation structures of various countries are quite compatible. Further, despite an increasing number of European states, the fall of the Soviet Empire may actually be the beginning of the political integration of all of Europe, and it might ring in the era of a U.S.-led "new world order."

Ultimately, the relative strength of the centralizing versus. decentralizing forces depends on public opinion, and it might be that the decentralizing forces cannot be brought under control. If the reality of the economic recovery of Eastern Europe falls far short of popular expectations, secessionist sentiments are likely to intensify. If these sentiments should become grounded in and supported by the recognition that—contrary to orthodox, statist propaganda myths—political disintegration and economic integration are fully compatible, thus rendering secession economically rational, the secessionist forces may grow strong enough to successfully break through the still-held statist taboos that: (a) each independent territory must be contiguous (there can be no 'islands' within a territory); and, (b) each must be defined by either ethnic or linguistic criteria (no secession can occur within an ethnically or linguistically homogeneous territory, and there can be no territory that includes people of different ethnicity or language and that defines its identity in terms of purely cultural criteria).

If this happens and the former Soviet empire should disintegrate into a patchwork of hundreds of independent territories, regions, and cities, the odds become overwhelming that the liberating dynamic of secessions will gain enough momentum to set a genuine capitalist revolution in motion, and will spare Eastern Europe the economic disappointments of welfare-statism and the humiliating exactions of Western hegemony.

If the disintegration of the Soviet empire proceeds in this fashion, such developments will also have direct and immediate repercussions for Western domestic policies. The emergence of a handful of Eastern European "Hong Kongs" or "Singapores," and the imitation of their success by neighboring territories would quickly attract substantial amounts of Western capital and entrepreneurial talent. This movement of capital and talent would aggravate the stagnation of the Western welfare states. Confronted with growing economic and fiscal crises, Western governments would be forced to begin de-socializing, de-taxing and de-regulating their own economies. In addition, encouraged by the Eastern developments, and in order to free themselves from the economic oppression and exploitation by their own central governments, secessionist forces in Western Europe would be strengthened—among them the Irish, the Scots, and the Welsh in Great Britain, the Flemish in Belgium, the Basques and the Catalonians in Spain, and the South Tyrolians in Italy, to name a few.

Rather than indirectly contributing to the formation of a politically integrated Europe—the ideal of the great West European welfare-state consensus—the disintegration of the socialist Soviet Empire may become the first decisive step in the direction of the fundamentally opposed, almost completely forgotten, classical-liberal ideal of a unified Europe: a Europe of hundreds of distinct countries, regions, and cantons, and of thousands of independent free cities (such as the present-day oddities of Monaco, St. Marino, and Andorra); a Europe with greatly increased opportunities for economically motivated migration, and of small, liberal governments; and a Europe which is integrated through free trade and an international commodity money such as gold.

XIV

There seems little hope today that Eastern European socialism will be replaced by anything but Western welfare statism and a hierarchically structured, Western-dominated government cartel of managed migration, trade, and fiat money. Nonetheless, the proponent of classical liberalism has a better chance today than ever of changing all this, if only he complements his free-trade and free-immigration stance with an unequivocal advocacy of the right to secede.

This may not do much to enliven liberalism in the West—although it would certainly help its popularity if it were pointed out that the much feared "right-to-free-immigration" always finds its natural limitation in other people's right to secede and in each segregated territory's right to set its own admission standards. In Eastern Europe, where secession is in the air, where governmental legitimacy is low and the fear of renewed foreign hegemony high, the proponent of classical liberalism, by providing people with an ethical and economic rationale for their largely unarticulated secessionist desires and by advocating the liberal vision of a unified Europe, can easily place himself in the forefront of post-communist politics, and thus help bring about the renaissance of a popular classical–liberal movement.

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