

# IMPRIMIS

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## “A New World Order . . . of Freedom”

*Malcolm S. Forbes, Jr., Editor-in-Chief, Forbes*

Editor's Preview: *If you read any forecast for the 1990s, it should be this month's August Imprimis issue by Malcolm S. Forbes, Jr. Putting an entirely different twist on George Bush's much maligned phrase, he predicts that the "new world order" will not be any new political coalition but a global free market economy and a moral revival that will liberate people of all nations and allow them, not the state, the freedom to determine their own future.*

At the turn of the century, there was considerable optimism that the 1900s would be the most enlightened period the world had ever seen. There was the seemingly unlimited promise of science, of compound financial growth, of industrialization, of international peace . . . and then came the Great Depression and two world wars that brought untold human suffering. Yet in the last decade of the 20th century we have a real chance to make good on that earlier optimism and



to remake the world. It will not be brought about by political decrees or fancy crusades.

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achieve material and moral gains for millions of people.

### **The New World Order: What It Will and Won't Be**

We have a chance, in short, to build a “new world order,” but one that is very different than the term popularly implies. It will not be some supranational government. It will not be a new ideology sprung from the ashes of fascism, socialism or communism. It will not give rise to collective institutions designed to control the masses or

product of evolution, rather than revolution. And its growth will be spurred by some very simple events that are already in progress.

#### *The U.S. Leads the Free World*

The first event is the United States' decisive rejection of the isolationism that dominated its policymaking in the 1930s and 1970s. The Persian Gulf War sent an unmistakable message: we won't tolerate aggression that threatens our national interests. On paper, Iraq was a formidable foe. It had oil, billions of dollars of revenue, heavy industry, stockpiled armaments, and a massive, experienced

conscript army. But Iraq's might, built as it was upon dictatorial power, proved to be illusory.

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resolve. If the U.S. withdraws from the world, evil wins. Our responsibility isn't, of course, to be the world's policeman; it is to be the *leader* of the free world. We must fulfill that responsibility by encouraging other nations to adopt freer political and economic institutions and by resisting encroachments upon our own liberty—at home and abroad.

#### *Technology Liberates*

The second event that is helping to create a new world order is the high tech revolution. Now, most people regard technology as an enemy of individual freedom—the word conjures up huge, impersonal corporations, 1984-style totalitarian governments, and, according to Hollywood lore, berserk computers that want to take over the world. Nothing could be further from the truth. Technology is in reality the mortal enemy of tyrants and bureaucrats; it doesn't suppress ordinary people—it frees them from centralized control and gives them unprecedented power over their own destinies.

As George Gilder, Warren Brookes and others have pointed out, the computer chip is

the symbol of the new liberating technology of the late 20th century. This tiny invention, made of "worthless" sand, is extending the reach of the human brain the way machines extended the reach of human muscle 150 years ago.

Superficially, we still think of wealth as land, as piles of gold, as material goods, and, not so long ago, as slaves and serfs. But wealth is intangible. What is oil, for instance? It is simply black ooze. You can't even feed it to camels. What makes oil valuable is human ingenuity. Similarly, it is not the pieces per se of the computer chip but the uses to which you can put them that make for real wealth. Two hundred years ago, the Scottish moral philosopher Adam Smith introduced this notion, and the world is finally beginning to acknowledge his wisdom.

#### *Totalitarian Governments Lose Control*

The third event is the failure of centralized government. Everywhere, communist and other totalitarian governments are losing control. As their citizens get a little taste of freedom, they want more. Even in the most closed societies a person can fax written documents, receive satellite communications, and transfer billions of dollars in an instant via computer—in such an environment, how can repressive regimes do more than postpone their own inevitable collapse?

It comes down to a simple choice: nations can, as I said before, imitate the U.S. and adopt freer political and economic institutions, or they can continue, for a limited time, down the old path of slavery and dictatorship. Some nations will blindly choose the latter course. After decades of brutal war, North Vietnam conquered South Vietnam in the 1970s. The Viet Cong leadership immediately instituted the traditional kind of totalitarian tyranny in the South and, as a consequence, the best, most productive citizens sought (and still seek) escape, many losing their lives in the attempt. What has been achieved? Only more brutality.

**Malcolm S. Forbes, Jr.** is the president and chief executive officer of Forbes, Inc., and editor-in-chief of *Forbes*, which, with a paid circulation of nearly 750,000, is the world's largest business journal. He is the regular editor of its popular "Fact and Comment" section, chairman of Forbes Newspapers, Inc. and serves on the board of numerous civic, business and educational organizations, including the Board for International Broadcasting, which he chairs and which oversees Radio Free Europe and Radio Liberty, the Ronald Reagan Presidential Foundation, and the Foundation for Student Communication. ▲

In the 1990s, it is poverty and economic devastation that are conquering the conquerors in this Marxist "paradise."

By contrast, look at what happened to Western Europe and Japan after World War II. These regions were in complete ruin. Experts thought it would be decades, indeed, generations, before they would recover. But within eight years their economic output *exceeded* their prewar record levels. Why were they able to make such a rapid comeback after near-total physical destruction? Because they had the political, economic and cultural skills to rebuild quickly. They had the "know-how" and the freedom to exploit and expand that knowledge.

#### *Economic vs. Political Integration*

Another thing to remember about the new world order is that it will not bring about political unity; it is quite likely, in fact, that we will see political disintegration at the same time that we see more economic integration.

Let me give you a hypothetical example. Canada is a nation torn by strife between so-called Anglophones and Francophones. French-dominated Quebec has even threatened secession. What would be the consequences of such a serious political rupture? Quebec would still have a free trade agreement with the United States. It could still prosper and maintain strong economic ties with the rest of Canada. Different political systems don't preclude economic integration.

The same is true for Western Europe, where economic integration is imminent, but where political integration is as unrealistic as it is undesirable. While in office, Britain's former prime minister Margaret Thatcher

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fought against the kind of political unification and bureaucratization that they had in mind in Brussels, and her firm stance appears to be paying off now that her successor, Mr. Major, has appeared on stage making polite, soothing noises but essentially carrying on the same policies.

Even in the Soviet Union there are signs that meaningful economic integration is on the way. The Baltic states, the Ukraine and other regions of the U.S.S.R. may follow the example Finland set back in 1917 when it successfully broke away from the old czar's Russian empire and managed to stay independent. Today, Finland, a tiny nation with fewer than six million people, is one of the more prosperous countries in the West. In

the new world order, any country—no matter how small or downtrodden—can achieve prosperity.

## **Requirements for Prosperity**

**W**hether it is Eastern or Western Europe, Latin America, the Soviet Union, Asia, or anywhere, there are four basic requirements that must be met if that prosperity is to be achieved in the new world order. They are amazingly simple, but all too often the experts, from policymakers to Ph.D. economists, ignore them:

#### *Sound Currency*

The first requirement is that a country must have real money, meaning a sound currency. The Soviet Union's desperate attempt to implement perestroika proves that a sound currency isn't merely an option; virtually every Soviet economic reform has failed. Why? Because rubles are worthless.

The defeated and demoralized Axis powers—Germany, Japan and Italy—were in just such a state of collapse after World War II, but their miraculous economic recoveries were all preceded by currency reform. Unfortunately, how this postwar miracle was achieved has been all but forgotten. Today, centralized organizations like the International Monetary Fund and the World Bank typically encourage currency devaluations (and hence, inflation) and disastrous fiscal policies.

#### *Low Taxes and Tariffs*

The second requirement is low taxes and tariffs. Germany and Japan reduced their tax rates in the late 1940s and early 1950s and Korea did so in the 1960s—all saw their GNP rise dramatically. Hong Kong is also an outstanding example of what such incentives can do to create new wealth and a booming economy. High taxes and high tariffs don't create wealth—they destroy it.

#### *Property Rights*

The third requirement is legally protected property rights. What could be easier to understand than this basic freedom? The right to buy, hold and sell property lies at the heart of all economic activity. But what about a poor debt-ridden country like Mexico that is sitting upon vast reserves of oil? Why isn't Mexico prospering? Because nationalized and semi-nationalized companies control oil production, just as they control most of Mexico's abundant natural resources. Who wants to drill for oil when it will be seized by the state?

#### *Minimal Barriers for Businesses*

The fourth requirement is minimal

bureaucratic barriers for setting up and operating businesses. Several years ago Peruvian economist Hernando de Soto published a monumental study, *The Other Path*, documenting the difficulty of setting up a business in Peru. He estimated that if you followed all the legal rules and regulations—dotted the i's and crossed the t's, and the illegal ones—paying numerous bribes at every step of the way—it would take a minimum waiting period of nine months before you received permission to open a tailor shop, sell retail merchandise, or establish virtually any kind of small business.

Peru is not alone; many countries penalize the would-be entrepreneurs that are the backbone of any prosperous economy. Some, like the United States, which is gradually tightening the noose around the neck of its small businessmen, need to de-regulate; some, like the Soviet Union, need to completely restructure their economy in order to allow any degree of meaningful market activity.

### **The Third World: Crisis and Opportunity**

Nowhere is the need to implement these basic requirements greater, however, than in the Third World. It is not capitalism but their governments' refusal to adopt a sound currency, low taxes and tariffs, property rights, and minimum bureaucratic interference that condemns Third World nations to poverty, debt and stagnation.

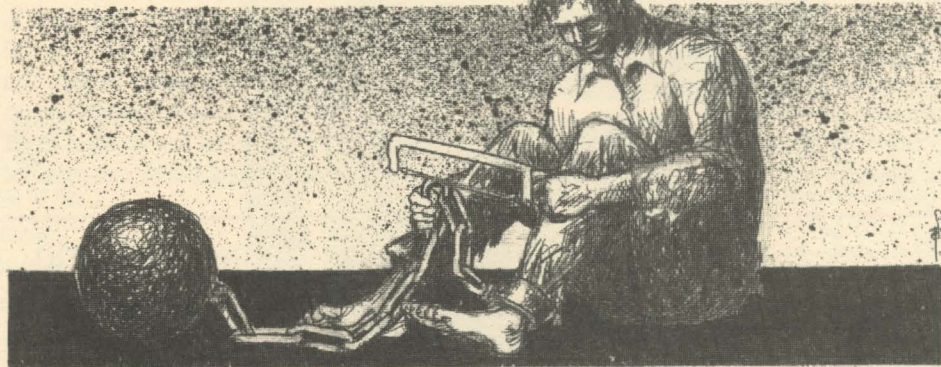
If you look at the debt burdens of Brazil and Mexico, for example, it is not their level of indebtedness that is the real problem. They are, in fact, no worse off than the United States, Australia or Canada at the turn of the century. What makes the difference is that they are over-bureaucratized, over-taxed and over-regulated. Just a few years ago, Argentina and South Korea had equal levels of debt. Pick up any financial journal today and you will read about South Korea's steel manufacturing, its ship building and its computer chip sales. Argentina is more likely to make headlines for whatever is latest in a series of central planning disasters.

But that does not mean that Argentina ought to try to clone South Korea's success. Not all prosperous Third World nations are identical, and not all have as much political and economic freedom as exists in the U.S. Just look at the so-called "tigers" of the Pacific Rim—Hong Kong, Taiwan, South Korea and Singapore—they operate in very different ways even though they share a general commitment to free market policies.

#### *Economic Predictions*

What gains has the emerging new world

order brought for the Third World thus far? Let's turn again to Latin America. For over three centuries, Latin America has suffered under the yoke of economic feudalism—you also see it in Africa, the Middle East and the Soviet Union where it goes by a different name: socialism. But in Mexico the Salinas government is reducing trade barriers and economic regulations and is reforming the tax code. That's why Mexico is now growing at a rate it hasn't seen in 10 years, and that's not counting the informal signs of the economy's



tremendous growth. One such index is the electricity industry—it is expanding three to four times faster than the Mexican economy as a whole. When the U.S./Mexico free trade agreement is signed, other countries will undoubtedly seek to join the new free trade zone and there's no reason why Latin America couldn't be experiencing growth rates comparable to the Pacific Rim by the end of the decade.

A number of Latin American countries are readying themselves for just such an economic miracle. Through free market reforms and increased exports, Chile has seen its economy skyrocket in a way that seemed impossible a few years ago. Venezuela, which was nationalizing industries in the 1970s, is preparing to embark upon an impressive privatization program in the 1990s. Brazil's government recently fired its socialist minister of finance and replaced her with a public champion of low taxation and free trade—perhaps the first to hold such a post in 400 years. In Argentina, the current minister of finance (at least he was still in office as of this writing) has actually tied his nation's currency to the U.S. dollar. Overnight, interest rates dropped from 200 percent to under 20 percent.

Peru's story has been even more dramatic. The mass media is filled with reports about terrorism, guerilla wars, and the tragic cholera epidemic in this small, beleaguered nation. Yet behind the scenes the foundation is being laid for a prosperous future. The newly elected Fujimori government is reforming the tax code and business licensing, reducing tariffs, and, most important of all, it is instituting genuine land reform. As a result, Peru's

thriving underground economy is also being brought into the fold.

The Third World is not the only place where the winds of change are blowing. In France, leftism is all but dead—it is not only intellectually respectable to be anti-communist, it is to be a part of the mainstream. Since Paris, for good or for ill, has always set the intellectual fashions for the rest of the world, we can place great significance upon this fact. There are signs that the fashion has spread even to the previously impene-

trable radical left-wing of the Catholic church. The same priests and bishops who championed liberation theology in the 1970s are gradually realizing that poverty can only be cured by less state intervention, not more.

### **Lessons for the U.S.**

While the new world order continues to develop abroad, it has had some setbacks in the United States. Yet there's no reason why the United States shouldn't, despite a very poor start in the beginning of this decade, enjoy one of the most productive periods in its economic history.

#### *The Unnecessary Recession*

The recent recession was one of the most unnecessary downturns of the postwar era. It was not preceded by inflation or by a rapid rise in inventories, and it wasn't brought on merely by the Persian Gulf War. Three major mistakes are to blame. First, the Federal Reserve kept interest rates too high too long. When the economy was booming several years ago, the Fed decided to raise interest rates with the express purpose of slowing it down. That's the proper way, according to the collective wisdom of all central bankers, to fight inflation.

Compounding that error was a second one: a regulatory reign of terror unleashed by politicians and lawyers in the aftermath of the S&L and junk bond scandals. As a result, many institutions were suddenly unable or unwilling to lend to otherwise creditworthy customers. And then the U.S. Treasury Department went on one of its periodic binges trying to knock

the value of the dollar down. Not surprisingly, the dollar fell, unable to recover until the bureaucrats backed off earlier this year.

The third mistake was even more damaging. With an exquisite sense of timing, our leaders in Washington, D.C. decided just as we were slipping into a recession to call for a big tax increase. States and municipalities have been doing the same thing, contributing to a thus entirely avoidable economic downturn. Congress also failed to pass a meaningful cut in the capital gains tax. The rate that we have now—one of the highest in the world—keeps money locked into old investments, stalls innovation and new technology, and kills off thousands of potentially successful small businesses.

One of the biggest canards ever foisted upon the American public is that capital gains cuts

representatives that freedom, not more state control, is the key to the future. Here are just two examples of realizable reforms that we can start pushing for right now. Let me stress that these are random examples—we can substitute many others: (1) Congressmen should be forced to obey the laws that they pass for the rest of us. Right now they are exempt from some very basic ones. (2) We can help limit government spending by pressuring the states to adopt privatization programs that return basic services to the private sector.

These are flanking movements rather than trench warfare. And they are far more likely to succeed than, say, trying to slash Social Security or the entire domestic budget. You spend a lot of capital on such crusades and get very little return for it. Yet they do affect larger issues. Look at spiralling health care costs, for

### *Beyond Economics: Encouraging a Moral Revival*

Just as the destructive effect of 19th century England's gin mills led to the rise of Methodism, the problems of the underclass and of our secular, often nihilistic culture may encourage a moral revival in the 1990s.

History records that in 1830 the U.S. suffered from a per capita drinking rate nearly five times higher than it is today. Then came the first broad-based public health reform in this country. It was called Temperance, and, unlike Prohibition, it was a voluntary, religiously inspired movement. Ten years after it began, the per capita drinking rate was halved.

Clearly, people do respond to moral messages. Today it's no longer an "in" thing in most circles to smoke pot or shoot up. The exception is in the inner cities where heavy drug use can be linked to economic deprivation and, most importantly, to the lack of moral instruction that families and churches can provide.

At the very least in any moral revival, you can give people responsibility—most of them eventually respond to it. For those who claim that the underclass, mostly made up of minorities, can't accept much responsibility because they can't compete in a world where there is so much social injustice or because of cultural/racial barriers, there is plenty of evidence to suggest otherwise.

A hundred and fifty years ago, the Catholic

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exploit the poor and shield the rich—the truth is that they benefit everyone. By the same reasoning, high capital gains taxes hurt everyone, regardless of their tax bracket. If you take a one dollar bill and double it each year, after 20 years, it will have compounded to a total sum of one million dollars. But if you take that same one dollar bill, double it each year and then subtract 35 percent in taxes, after 20 years it will have generated only about \$24,000.

Let's look at it in another way. In the mid-1960s, the U.S. Dow Jones reached 1,000 points. Japan's Dow Jones was a little over 1,000. Since then the U.S. capital gains tax (depending on state and local taxes) has averaged between 28 and 35 percent. In Japan, the figure has been zero to five percent. Recently, we cheered when the U.S. Dow Jones touched the 3000 mark. In Japan, despite a severe stock market crash last year, the Nikkei Dow Jones is over 22,000. The truth is that taxes are not merely a means of collecting revenue; they are a price and if the price on innovation, productivity, success, and earning good incomes is too high, we are simply going to get less of them.

### *Practicing What We Preach About Free Markets*

We need to practice what we preach about free markets and pay more attention to the four basic requirements for prosperity in the new world order. That's where we as individuals can have an important impact by reminding our families, our friends, our local communities and our state and national

instance. A reform that ought to be considered is giving tax incentives to individuals to buy their own insurance instead of mandating that corporations offer expensive health plans that, in the end, are paid for by the consumer through higher prices on goods and services. Health IRAs would certainly be a popular solution to what threatens to be one of the

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thorniest domestic problems of the decade.

What about another big issue—the "underclass" in America? It is largely concentrated in the inner city and, depending on whose numbers you believe, ranges from 5 to 12 percent of the population. Jack Kemp argues that while we have a free market economy for about 90 percent of the population, we have a Soviet-style economy for this underclass. The economic incentives for getting out of it are few. You lose a lot of benefits. The effective tax rate if you start to earn an independent living can be 90 or 100 percent. And the rules about what you can do with your own money are severely restrictive, as one Milwaukee mother learned. She had saved several thousand dollars to send her child to college and when the welfare bureau found out about it, she was sentenced to 15 years for fraud. Worse yet, welfare rules by their very nature encourage illegitimacy and the breakup of families.

church sought to help improve the deplorable condition of Irish immigrants in the cities. The acknowledged experts claimed that the Irish were too backward, too ignorant, and "very poor human material." The experts were wrong. When people want to get ahead, it's amazing the skills they can acquire. In the Persian Gulf, American enlisted men and women, many of them 18-20 year-old kids, learned to handle sophisticated equipment and pull off complex, demanding military maneuvers—and twenty three percent of them were black.

There are hundreds of other examples that prove the same point in the U.S. and around the globe. A restoration of moral values is possible for all people, not just for the privileged, not just for members of one racial or ethnic group or of one nation. Of everything the new world order offers, this is perhaps the most important blessing of all. ♣