“Europe’s New Road to Serfdom”

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To determine the point at which evils, so formidable to human freedom and advancement begin or rather, at which they begin to dominate over the benefits attending the collective application of the force of society, under its recognized chiefs, for the removal of obstacles which stand in the way of its well-being, is one of the most difficult and complicated questions of the government.¹

liberal democracy, national self-determination and the rule of the market in the determinism of Hegelian-Marxian beliefs. This was propagated over a century by their self-righteous followers in the slogan justifying the ethics of fellow travellers "We know the direction in which the world is moving, and we must bow to it, or perish."

In these transmitted to generations paradoxical issues of similar nature pervade and perplex public opinion. They arrive under the guise of promises of a mutually beneficial multifaceted treaty ensuring the transnational of Soviet energy, in the form of natural gas, through a vast intercontinental pipeline to Western Europe. Financed mainly by Western European, this pipeline will make the Western European economies dependent (by the end of the decade) on U.S.S.R. natural gas for roughly 10 percent of their total energy needs. This means irrevocably integrating in a symbiotic operation Soviet natural resources with those of Western European users, for a price, which potentially could endanger their freedom.

Such a price would not have to be paid, I will argue, if some safeguards were instated against the potential pitfalls, which safeguards at present do not seem to be apparent. Therefore, the treaty in its present form may offer some mutual benefits to all parties in the immediate future but holds great inherent dangers for the Western powers in the long run.

The socio-economic impact of this huge venture takes apocalyptic dimensions when placed in the framework of Marxian dialogue, which always openly claims the incompatibility of economic and political powers. By taking a minority partnership the giant U.S.S.R. partner, facing small and divided European partners (whose self-interests could easily be manipulated against each other?) was successful in acquiring a formidable political clout in the affairs of Western Europe.

The international Communist slogan calling for "Proletariat of the World Unite" and the Soviet leadership in its past sixty years never failed to use ideology as an instrument of Soviet imperialism. It would be naive to assume that this new international venture may become an exception to the established rule. Thus, facing reality, we must ignore the dark clouds warning of a gathering storm.

The importance of such potential tempest should not be underrated. It impinges on the very being of millions of men and women, together with the survival of an ideology and way of life established by long tradition and voluntary social contracts. Neither could such potential storm clouds be harassed by isolationists' dreams, who visualize that such disturbances may blow themselves out and could be contained within the boundaries of the Eurasian continent. Past experience teaches us exactly the opposite trend. Once radical, totalitarian forces of economic imperialism are unleashed, their impact spreads around the world, which includes the Western Hemisphere too. This would further isolate and shift the balance of power against the U.S. The dangers of Soviet-European economic cooperation, unsecured by some safeguards, are not imaginary but real to the political and economic status quo of the West.

The time has come, therefore, to take a careful look and investigate the available policy options which could either neutralize or strengthen the emerging trend. A list of such options considered would read as follows:

1) Are the threats to West European national self-determination and traditions of such enormity that the entire project should be scrapped?

2) Does such a new partnership hold the potential to accomplish its planned objectives without a socio-economic impact which would lead the European partners down a "New Road to Serfdom"? Won't, in the end result, the Europeans become gradually subjugated to a new version of Soviet Imperialism?

3) What are the safeguards initiated to prevent such a commercial treaty becoming a political instrument? Are there any roadblocks and collaterals established? Are they strong enough and enforceable to prevent benefiting one party at a terrible price paid in social cost by the other partners?

4) Doesn't the history of USSR treaties show that even those negotiated with good will and trust have always been tilted and manipulated in favor of the USSR or turned into skeletons of unfulfilled promises? Though, once again the collateral to such new treaty is limited to mutual trust, such a so-often abused or misused Soviet commodity, wouldn't then minimal expediency require to reinforce such shaky trust through the introduction of some new set of safeguards to forestall any repetition of the fliemished trust record?

5) Isn't the pipeline with its potential political consequences primarily an inter-European and Common Market affair, whose global impact nevertheless transcends the Atlantic? Should our European allies consider our well-documented apprehension (i.e., Afghanistan, or by surrogates Angola and Somaliland) an intrusion in their domestic affairs? Then hasn't time come to re-examine whether the continuation of our alliances is justified? Should the U.S. continue pouring our resources badly needed at home to protect our allies. To protect against what? We see a treaty here whose ultimate objective is to integrate their economies. Further, aren't our European allies on one hand by their reliance to share the additional burdens of the Atlantic alliance in proportion with their ability to pay, while on the other hand, diverting their funds into a controversial and shortsighted commercial treaty, losing their constituencies down the road to serfdom?

Part II

At the end of November, 1981, the Soviet leader, Leonid Il Bresheen, presented a report to the Central Committee of the Communist Party of the U.S.S.R. on the final version of the Eleventh Five-Year Plan. One of the major planks targets listed by Bresheen was the development of West Siberia's huge natural gas field of Urengoi, one of the world's largest, which would feed gas into five pipelines for domestic use and a sixth "export-oriented pipeline" that would increase delivery to Western Europe.

It will become a significant point in the discussion to be developed that the pipeline from Urengoi fields to Western Europe was only one of the six giant transmission systems to be built during the current five-year plan. The total project calls for the installation of 4500 miles of new gas pipelines and 32 compressor stations this year, including part of the line destined to Western Europe.

Western Europeans are either financing or paying through the delivery of equipment about half the cost of the export pipeline construction. By the end of the decade Western Europe will depend through this pipeline on the Soviet Union for approximately 10 percent of their entire energy needs.

U.S. policymakers continue to voice concern over the planned 56-inch natural gas pipeline linking Siberia with Europe's industrial heartland. They are firm in their belief that this undertaking represents a future dependence on the Soviet Union, that Moscow might use one day for political blackmail. The issue has become what some American officials privately call a strategy of political warfare.

The Russians could very well build themselves the export pipeline, even if critical Western components were withheld, by diverting resources from one of five domestic lines already planned for construction in 1981-1985. This would be slower and more costly, and could curtail the internal flow of
energy to Soviet industry. The present sluggish performance of the Soviet economy makes it particularly vulnerable to such a slowdown at this stage.  

In retaliation to the military takeover in Poland, Washington refused permission to General Electric Company to export crucial parts, valued at $175 million, for the huge turbine powered compressor stations needed to pump the gas along, that three Western European companies are building under G.E. license. In an apparent attempt to reduce dependence on imported equipment, reports indicate that Soviet industry now is entering into the production of the powerful compressors previously imported. Various members of our administration have agreed to urge other western nations to restrict credit to Moscow and Warsaw, at least for the time that the Polish repression continues. They have been frustrated by the refusal of West European nations to cancel the project and thus deny the Soviet union the $8 billion in annual hard currency earnings that the line could deliver later this decade.  

Denying or reducing Moscow's hard currency earnings in any significant way, this group believes, would curtail Soviet ability to buy computers, microelectronics and other modern industrial goods from the West, to develop a military-industrial complex.  

"It would inhibit the rate of development and the capabilities of their weapons systems," one Pentagon official contended. "And it will inhibit their overseas operations whenever they have hard-currency debts—Cubans in Africa, Soviets in South Yemen and possibly Central America, the Arab world, and Africa."

Preparatory work has already started everywhere along the way through the Soviet Union on the 2800 mile route, four times the length of the Alaska pipeline, using pipe arriving from West Germany.  

Virtually every current Soviet gas development is now focused on Urengoi, which is to be developed into one of the world's largest operating gas fields, astride the Arctic circle in West Siberia. The new five-year plan 1981-85 calls for a five-fold increase in production, from 175 billion cubic feet in 1980 to 900 billion in 1985, when it would count for some 40% of all Soviet gas output.  

Through the pipelines now being constructed, this newly discovered immense natural wealth will bolster the Soviet economy and through any additional export line the U.S.S.R. will acquire a dominant role in international natural gas trade, mostly in Western Europe.  

The pipeline originates from the Urengoi gasfields of Northwest Siberia and runs generally Southwest across the European part of the Soviet Union. In official planning and design documents it is referred to as the Urengoi-Pomary-Uzhgorod line. It will traverse the Ural mountains below Perm, and cross the Volga River 35 miles south of the city of Kazan at Pomary. The latter is about halfway down the route and has become the principal pipe depot of the construction project. The line further West is planned to be laid under the Carpathian Mountains entering into Czechoslovakia at Uzhgorod. This lies in the proximity of the historic pass through which millennia ago nomads, in their westward trek towards Europe during the migration of nations, preceded this new surge of industrial energy. The Soviets are moving ahead very rapidly with their plans to complete the natural gas pipeline to Western Europe at an estimated cost of $15-15 billion. It offers the West at least $6 billion in equipment sales, in return for substantial deliveries of gas to Europe—and at a time when Europe faces uncertain deliveries from traditional non-Communist suppliers.  

West German banks recently have extended Moscow $6 billion in credits for the pipeline. The experts contend that actually only $4 billion will be needed to buy German made equipment. What specifically irks U.S. officials is Bonn's desire to go through with the deal that, in addition to the potentially paradoxical political issue, will leave Moscow with a $2 billion "hard currency float," that will help the Soviets through this period of hard times.  

To the Soviets this is a financial bonanza. The Soviet gas export would be equivalent to a million barrels of oil a day by the late 1980's. Western experts estimate that Moscow stands to earn up to $8 billion a year from deliveries of up to 1400 billion cubic feet of gas by the end of the decade through the new system, and that the Soviet Union has given the project the highest priority. Meanwhile the Soviet press has been calling the latest "pipe for gas" contract the "deal of the century," which is planned to be completed by 1984. During the two year period, planners worked out the logistics to lay down 2.7 million tons of steel pipe, most of it furnished by Mannesman, the West German steel concern.  

This is why the Soviet press referring to the latest "Pipe for Gas" project the "Deal of the century. At the end of January 1982, in a parallel development, France announced that it had agreed to purchase about 280 billion cubic feet of natural gas a year for 25 years, with deliveries starting in 1984. The proportion of France's natural gas that comes from the Soviet Union is expected to rise from about 15 percent now to approximately 40 percent by 1990. In overall terms, however, the Soviet Union's share of France's total primary energy needs will increase only to about 5 percent by the end of the decade, from the present 3 percent.  

West Germany has already agreed to purchase about 360 billion cubic feet of natural gas from the new pipeline over the same period as France, raising the proportion of Soviet gas in its gas consumption to about 30 percent from present 17 percent.  

Italy has also signed up to buy a smaller quantity of gas, also becoming more dependent on the Soviet Union for its energy supplies. Austria, Switzerland, Belgium and the Netherlands are still negotiating with the Soviet Union for Siberian gas supplies.  

In the meantime, United States officials say that the big increase in foreign exchange earnings that Moscow expects from the gas sales to Western Europe will help sustain its military buildup by enabling it to purchase more strategic goods in the West.  

Concerned elements in the U.S. fear that, once the pipeline is completed, Western Europe will depend on up to 30-40 percent of their natural gas from the Soviet Union, though the European claim that this will represent less than 10 percent of their total energy needs. Americans believe that this will
act as a powerful lever influencing policies of European nations. Thus, whether to block or contribute to slow down the construction of a natural pipeline from the Soviet Union to Western Europe developed into a full scale national security debate in the United States. One group argues that trying to stop it now, after contracts have been signed, would damage the North Atlantic Treaty Organization (NATO). Their fears are further compounded by the Europeans, especially the West Germans and the French, who claim that any U.S. attempt to stop the pipeline would be a display of intervention in their own affairs, and that it would be a mistake of tragic proportion to split the Alliance now, when the world should seek to neutralize Soviet Imperialism.

The other group claims that the consequences of building the pipeline are so negative, involving such a great European dependence on the Soviets, that it must be stopped, no matter what the immediate diplomatic fall-out.

At issue is a tense debate on the basic approach the U.S. should be taking towards its allies and the Soviet Union. It has to do with whether Detente—the economic and cultural relationships developed with the Soviets, the last decade—should be abandoned entirely. The advocates of this view also believe that the policy of Detente has worked solely to the Soviet's advantage, and whatever strengthens the Soviet Union now weakens the cause of freedom in the world. Regardless of whether such actions are transmitted through pipelines or Western banks financing for profit motives the so-called peaceful development as witnessed in Poland, Afghanistan or through their surrogates in Namibia and Somaliland, all these are in violation with the U.S.S.R.'s written commitment ratified in the treaty known as the "Helsinki" Accord. Therefore it became a substantive question. Our European allies have found it mutually advantageous to strengthen for short run gains the long run interests of the USSR, which amounts to the same thing as weakening the free world's ability to withstand Soviet aggression by the European's indirect financial and political support. Hasn't time come to review the broader aspects of our political, military and economic alliances?

Part III

The term "Serfdom" appearing in the title of this essay refers to a major economic institution of the Middle Ages. A serf was a cultivator, whose rental obligations to his masters were fixed by custom. The serf had first to surrender the master's share of the crop. Thereafter, he retained the residual. Serfdom gradually lapsed into a state of perpetual subjection from which state emancipation by legal means became possible no more. Therefore, regressing into serfdom in any age would imply sacrificing man's most sacred heritage, freedom.

Political philosophy reached a landmark with the publication of the early 16th century Florentine statesman, Niccolo Machiavelli's work "Il Principe." Previously such philosophy was prefigured on an ideal. Now, a coherent body of opinion rationalized the use of force by the state to insure its survival. Since 1513 Machiavelli's essay has been the classical model whereby ambitious nations or men have sought to rise to sovereign power. Through such actions more radical and destructive, a present era is characterized by the Wernerism of the "hersetnik"—his predecessors in the tradition had thought in relation to the society, which are irrevocable, neglected for their very liberty subordinated to the new tyrant concept.

The synonomy "Road" and "Path," the first of which appears in the title of this essay, are popular socialist metaphors. They trace their origins from biblical orthodoxy relating to some activity which develops over time. Metaphorically through early Spanish America it entered into the idiomatic American English, like the "Camino Real" of California, connoting both a "way of spiritual life," and ideology which today takes time to embrace, and also an ancient coastal highway parallelizing the Pacific Coast, along which barefooted Franciscan Friars plodded "via" perils and through centuries on their "way" to meet destiny at some distant missions.

During the first half of the century, in Hayek's world the "Road" was conflated with socioeconomic change. This age witnessed the development of two major contemporary ideologies contending to reorganize the world, either along socialist or non-socialist "paths."

In scientific socialism the term "Road" has become synonymous with Marx's move, in his doctrine of dialectical materialism, from antagonism to the stage of synthesis, by force and revolution. Since Machiavelli's advocacy of manipulating force furthering social goals, aggression in its overt or subterfugal form displayed a long history of theoretical tradition. This tradition gained further momentum by the Leninist-Stalinist dogmas. They forced their "right of way" down history's bumpy road." Theoretically, the significant contribution of these groups consisted in changing the static Marxist status quo of synthesis, the assumed product of the dialectical process, and turning the latter into a perpetual dynamic ideological warfare, to storm the walls of any "ism," withstanding their way.

Future historians, engaged in analyzing the cause of events of the past fifty years, will report observing the consistency of such bellissimo motives in this period, with little if any change of intentions to settle down along more peaceful avenues.

The attempt of socialist political movements to gain both political and economic power is a reaction against the prevailing non-socialist ways of development. The non-socialists followed evolutionary "paths" rather than socialist revolutionaries "ways." Some of them were generally labeled as "stage theories" known through the names of their major protagonists like List, Hildebrand, Colin Clark, and W. W. Rostow, whose work is sometimes referred to as the "Non-communist Manifesto."

Hayek's essay embraces an operational arena which links the last stage of Rostowian analysis, to the "Age of Mass Consumption." He considers this stage a direct progeny of 19th century liberal institutions, which in contemporary English and German scenario were undermined by naive or Machiavellian groups bent on interior motives. Such groups endeavored liberty by subverting leading ideologies with goals augmenting totalitarian principles in their pursuit of a "path."


1 Lis, Frederic, National System of Political Economics, 1844 New York: 1960, Publisher A. M. Kelley


for political power. Hayek, being entranced by the visions of the great liberal statesman, Lord Acton26 who claimed that “Power corrupts, absolute power corrupts absolutely,” wanted no part of such experiments.

And thus, Hayek sided characteristically with the conservatives of his age, who equated his views exposed in “The Road to Serfdom” with the modern welfare states whose charitable policies he conceived contained the seeds of great perils.27

“The most important change which extensive government control produces is a psychological change, in the alteration in the character of the people, this is necessarily a slow affair, a process which extends not over a few years but perhaps over one or two generations. The important point is that the political ideals of a people and its attitude toward authority are as much the effects as the cause of the political institutions under which it lives. This means, among other things, that even a strong tradition of political liberty is no safeguard if the danger is precisely that new institutions and policies will gradually undermine and destroy that spirit.”

Their ideas were further explicated by Professor Schumpeter.28 By the mid century they were juxtaposed in more modern terms by John Maurice Clark29 who put Hayek’s leading theme into a second generation continuum in his essay “Alternative to Serfdom.”

Clark, upholding Hayek’s ideological scheme moved it along and updated it to a more contemporary alternative path. He sought to establish a worldview stemming the tide envisioned in the “Road to Serfdom.”

The ideas developed in this essay on “Europe’s New Road to Serfdom” have their

confluence with Hayek and Clark by their common spool off the Rostowian final stage. Most of Western Europe is now experiencing a never heretofore known prosperity. This improved quality of life is shared by a larger proportion of the constituency than ever. In this euphoric state of people’s capitalism, the lure of extremist propaganda efforts waned, and the general interest in an overthrow of the socio-economic order has become neutralized and lost.

Driven by a constant dynamic urge of over- or concealed warfare, the U.S.S.R. felt compelled to search for some new strategy to recapture the lost Western European appeal redesigned. Concealed strategy, outwardly beneficial to all parties, was adopted, the Pipeline! This vast joint economic venture, unsanctioned by any collateral short of good faith, is hoped by Moscow to develop into a magic design which will act as a door opener to a Paradise lost.

Could a more incongruous and noble effort of good interest be displayed than such U.S.S.R. aid to their Western adversaries, in assisting them to maintain their newly acquired wealth? But aren’t accumulations of wealth and high living standards impediments to the spread of radical doctrines? Of course the pipeline was meant to develop a dependency effect. When conjectured, what stops it, without built in safety valves, becoming a handle of political manipulation through periodic withdrawals of the flow of gas? In such a manner recessions can be astutely engineered resulting in layoffs and labor unrest through the rising rate of unemployment. In a democracy wouldn’t such events away the electorate to opt for a change and elect a new slate of representatives? Newly elected governments will consider it a priority issue to renegotiate with sophistication and finesse the restoration of the gas flow. Political accommodations of such objectives has been carried out in the past by “friendly” or “coalition” governments which were more “acceptable” to the U.S.S.R. trading partners. Such governments invariably had to make “minor,” open-ended concessions to secure commercial peace. Isn’t the road to serfdom covered by the debris of so-called “coalition” governments who all denigrated into a status of full-fledged satellites of the U.S.S.R, a process clearly predicted by Hayek’s “The Road to Serfdom.”

Hayek visualized the strong state as an oppressive one, not one restrained by strong democratic traditions30 and that the extended collective is a twofold in which free nations are gradually moving is incompatible with democracy. He believed social planning as interpreted today may eventually destroy all freedom, political, no less than economic.

The widespread misunderstanding of the political system of our adversaries constituted a serious danger, which Hayek was convinced contributed so much to destroy liberty elsewhere.31 It had to be met by a more substantive and systematic counter effort. Therefore Hayek addressed his words to the Socialist intelligentsia of England; and his book took gradually the shape of a warning,32 fully reinforcing the insights of the 19th century’s greatest political thinker, De Toqueville,33 of a

“New kind of servitude,” which idea kindled the basic notion developing the theme and title of Hayek’s essay.

Yet, while history never quite repeats itself, and just because development is not repeatable we can in a measure learn from the past to avoid repetition of the same process. One need not be a prophet to be aware of the impending dangers. An accidental combination of experience and interest will often reveal events to one man under aspects which few yet see, which indeed parallel the visionary foresights of Plato admonishing his beloved Athenian contemporaries. “Reform or you shall perish.” His unheeded advice undoubtedly contributed to the subsequent loss of the Peloponnesian Wars which, atrophied the leading role of his country.

Hayek claimed that “unfortunately, the assurance people derive from the belief that the power which is exercised over economic life is a power over matter of secondary importance only, and which makes them take lightly the threat to the freedom of our economic pursuits, is altogether unwarranted. It is largely a consequence of the erroneous belief that there are purely economic ends separate from the other ends of life”34 and that economic matters affect only the less important facies.

The ultimate ends of the activities of reasonable beings are never economic. Strictly speaking, there is no “economic motive” but only economic factors conditioning our striving for other ends. What in ordinary language is misleadingly called the “economic motive” means merely a desire for general opportunity, the desire for power to achieve unspecified ends.35 The desire to organize social life according to a utilitarian plan, itself springs largely from a desire of power.36

It is at this point that the “activist” enters into political affairs. It is the deliberate effort of the skilful demagogues to weld together a closely coherent and homogeneous body of supporters that the perhaps most important
negative element of selection enters. It seems to be almost a law of human nature that it is easier for people to agree on a negative program—or hatred of an enemy, on envy of those better off—than on any positive task. The contrast between the "we" and the "they," the common fight against those outside the group, seems to be an essential ingredient in any creed which will solidly knit together a group for common action.4 (i.e. Kula’s)

In the early part of the century Hayek became the leading advocate of national development with constitutional safeguards against unbridled government authority, domestic or foreign, which may encroach on traditional institutions, principally through the subterfuge of promising an economic panacea. He stood against 20th century neo-imperialism, regardless whether the totalitarian state was Marxist or National-Socialist in its composition, or against intellectuals, radicals or foreign powers, who concealed their ulterior motives behind slogans whose ultimate purpose was to transform sovereign nations and their cherished traditions into ideological and economic satellites of some brand of a totalitarian state.

Hayek claimed it is essential that we should "learn frankly to face the fact that freedom can be had only at a price, and that as individuals we must be prepared to make severe material sacrifices to preserve our liberty, and give up a possible immediate gain for freedom."

By sacrificing such possible present advantages, we preserve an important stimulus to further progress. Though in the short run the price we have to pay for variety and freedom of choice may sometimes be high, in the long run even material progress will depend on this very variety, because we can never predict from which of the many terms in which a good or service can be provided something better may develop. It cannot, of course, be asserted that the preservation of freedom at the expense of some addition to our present material comfort, will be thus rewarded in all instances.4

Hayek then raises the question, why do so many of our intellectuals tend to lean towards collective ideals and favor a socialist solution to the preservation of liberal institutions and see the answer in unfulfilled expectations.

"There is little question that almost every one of the technical ideals of our experts could be realized within a comparatively short time if it were merely a matter of hard work. There is an infinite number of good things, which we all desire, but which we cannot hope to achieve more than a few within our lifetime, or which we can hope to achieve only very imperfectly. It is the frustration of his ambitions in his own field which makes the specialist revolt against the existing order. We all find it difficult to hear of things left undone which everybody must admit that he would have done if he had only been given the time and the opportunity to do them. But these things cannot all be done at once, that any one of them can be achieved only at the sacrifice of others, can be seen only by taking into account factors which fall outside any specialty. The illusion is that of the specialist in a planned society he would secure more attention to the objectives for which he cares more is a more general phenomenon than the term "specialist" at first suggests. In our predicaments and interests we are all in some measure specialists. And we all think that our personal order of values is not merely personal but that in a free discussion among rational people we would convince the others that ours is the right one."

Part IV

In a different sense, however, it is no doubt true that our generation is less willing to listen to economic considerations than was true of its predecessors. It is most decidedly unwilling to sacrifice any of its demands to what are called economic arguments; it is impatient and intolerant of all restraints on immediate ambitions and unwilling to bow to economic necessities. It is not any contempt for material welfare, or even any diminished desire for it, but on the contrary, a refusal to recognize any obstacles, any conflict with other aims which might impede the fulfillment of its own desires, which distinguishes our generation. In no other field has the world yet paid so dearly for the abandonment of 19th century liberalism, as in the field where the retreat began: in international relations. Yet only a small part of the lesson which experience ought to have taught us has been learned. Perhaps even more than elsewhere current nimations of what is desirable and practicable here still of a kind which may well produce the opposite of what is intended. Therefore it becomes obvious that economic transactions between national bodies, who are at the same time the supreme judges of their own behaviour, who bow to no superior law, and whose representatives cannot be bound by any considerations but the immediate interests of their respective nations, must end in clashes of power.

It seems a pity that these difficulties cannot be met by conferring on the various international authorities "merely" specific economic powers. The belief that this is a practical solution rests on the fallacy that economic planning is merely a technical task, which can be solved in a strictly objective manner by economic experts, and that the really vital things would still be left in the hands of the political authorities. Any international economic authority, not subject to a superior political power, even if strictly confined to a particular field, could easily exercise the most tyrannical and irresponsible power imaginable. Exclusive control of an essential commodity or service (as, for example, air transport) is in effect one of the most far-reaching powers which can be conferred on any authority. There is scarcely anything which could not be justified by "technical necessities" which no outsider could effectively question. If we care to build a better world, we must have the courage to make a new start. It is not those who believe in inevitable tendencies who show this courage, not those who preach a "New Order," which is no more than a projection of the tendencies of the last decade.

An authority which effectively limits the powers of the state over the individual will be one of the best safeguards of peace. The International Law of War must become a reality as much against the tyranny of the state over the individual as against the tyranny of the new superstate over the national communities. Neither an omnipotent superstate nor a loose association of "free nations" but a community of nations of free men must be our goal.

Historical observation shows that the major weaknesses of governments in economic decision making is too much concern for monumental projects and maximizing the wrong variables.

The overriding questions of the entire scenario, therefore can be summarized by neither rejecting nor accepting the pros and cons of the current argument, but whether good and bad, mutual benefits and unilateral exploitation can be separated, in this venture what the USSR press refers to as the "Deal Of The Century."

It seems obvious that in an age of mass production and markets associated with a high standard of living, political and demographic boundaries set by tradition in some age bygone no more correspond with the stip-
nal rules of technological progress. But a high standard of living and employment are functions of the high level of technology, which requires space and vast investments to develop.

Past experience showed two trends to accommodate such needs: either by expanding the political boundaries by conquest accommodating the market, or retaining the political status quo and through endemic accommodation cater to market needs through custom unions. The former has been known as the Age of Imperialism, economically associated with the history of early industrial revolutions, both western and Sino-Soviet types, the latter as economic regrouping within "common markets" or "COMECON" arrangements.

This transnational age the latter option has become the dominant theme of global economic development. It represents a tendency opting for interregional rather than international trade, expanding economic activities beyond political boundaries, with additional "Living Space" arrangements.6

There is a growing view among a set of western economists that potentially the major efficiency gains of the Soviet economy in the decades to come will derive from exactly the U.S.S.R.—gas line type of USSR and European integration of economic resources.7

In this sense a carefully designed and multi-asset controlled gas line to Europe could become a mutually beneficial development, as long as it is kept a strictly economic, rather than dual purpose political tool, gradually developing into an instrument of political conquest.

Without built in controls containing the political overtones, which at this juncture one fails to recognize, such ventures in the past all were politicized and led their minority partners down "The Road to Serfdom."

Part V

What options does the western world have to prevent the recurrence of such events?

1. In the opinion of most thoughtful bystanders the gas "Deal" in its present form carries sufficient dangers to the prolonged wellbeing of the West that squashing the project may be considered preferable to its execution.

2. When the price was right, traditional economic policy developed in the last centuries always had been supportive of free international trade. But the price, the West is apt to pay for this "Deal" is neither right nor united.

Construction of the line due to mutual consent of both parties is by now well under way. Stopping it at this juncture may prove far more difficult, than renegotiating safer terms. Some European voices insist that the "Deal" is strictly an inter-European affair, in which the U.S. has no business to meddle. But the "Deal" becomes a vital issue of the North Atlantic Alliance when hard facts and realities are summed up. In the past 65 years the U.S. was required militarily to assist its European allies. It also had to share the brunt of the burden of the 35 years of peace, which ended the last war. The alliance connecting by common bonds the two sides of the Atlantic has now become jeopardized by a new wave of Soviet-European economic integration, which will move Europe step by step closer to USSR dependency. There isn't then time to review our past policies and consider withdrawing our support before we too become silent partners to Europe's "New Road to Serfdom."

3. An illusion pervasive in the minds of western Europeans claims that a united Europe represents sufficient economic and political power, which makes siding with either of the two super powers unnecessary and that such a united Europe can navigate on the lee side of power groups forming a mutual buffer zone of its own. That the gas "Deal" tilts the scale towards one side seems to escape their attention.

4. European elections show one common feature with those in the U.S.A. The party faithful are not the determinants of parliamentary majorities. A relatively small undecided element of the constituency controls the swing vote. Whatever side such voters shift their alliance to determines the outcome of parliamentary elections. Not withstanding their past voting patterns it is common knowledge that when the chips fall down those marginal voters feel closer to the Western (or American) way of life, than the one witnessed in the USSR.

I firmly believe, should Europeans clearly understand the U.S. intentions, that in the current struggle sides will have to be taken. They may opt either to continue the "Deal" in the present form, which means going it alone and becoming neutral and by doing so lose their western alliance; or they may decide to renegotiate the "Deal" and strengthen the Atlantic Alliance. A third option is no more open, namely to continue both the "Deal" and the Atlantic Alliance. The highly sophisticated and uncommitted European voters will easily perceive which of these options is likely to lead them down a "New Road to Serfdom."

5. What safeguards could be instituted to equilibrate the "deal"? They might consider resorting to international control of the pumping stations and other basic facilities from source to end use. Initially such measures were discussed during the Atomic Proliferation Treaty, but the USSR rejected the idea of a thorough inspection of their facilities. If the USSR wants the "Deal" badly enough, "such inspection should be renegotiated, or there simply should be no deal. Of course none of these arrangements are bulletproof to prevent policy makers in Moscow to interfere with the gas flow. But such controls would make far more difficult stoppage by "allegedly" unilateral actions of surrogate Russian authorities, or their clandestine manipulation to arrange for such a slow down.

6. One of the most ancient precedents of international controls came originally from Russia. As early as the 9th and 10th century concessions were established and maintained by fortified Swedish settlements (RUSS) along the Northern Island Trade Route stretching from Finland through Lake Lado- ga, and the Volga River Basin to the Byzantine Empire.8

7. Another safeguard to be instituted may follow the collaborative approach in the form of substantial gold deposits placed on neutral grounds, such as Switzerland, into an international trust fund to pay the Europeans positive damages caused by the willful interruption of the gas flow. But again such guarantees could not prevent a full stalemate of energy flow but would make resorting to such tactics more difficult to the Soviets, it would also make Europeans in their current state

6Vide & Roe, A History of Economic Doctrines, D.C. Heath 7 Co., 7th ed., 1947 p. 208: "If last may be considered one of the procurees of the economies and destinies of "living space."


In the past forty years the USSR undertook satellite development by offering oil flows as friendship prices, well below world market levels. Just as it exerted considerable sacrifice to keep their satellites under economic sway, the same policy may be applicable to western gas deliveries. In line with the West German argument of dwindling oil supplies (augmented by both OECD & CIA computations) they will keep adequate gas flow to keep their economic clout felt in western Europe. It also reinforces further the argument developed in this discussion, that due to tapering off of other hydrocarbon products, without institution of safeguards, such shortages will be used to manipulate for further economic and political gains.

What better way to summarize my contentions than by quoting Hayek, who claimed “we should refrain from resisting the facts, that freedom can only be had at a price, and that as individuals we must be prepared to make material sacrifices to preserve our liberty, and give up a possible immediate gain for freedom.”


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of euphoria more conscious in a positive way to develop alternative supplies for their energy needs.

8. One may at this point rightfully raise an eyebrow and wonder why would bars of gold, a mercantilist perception of wealth, influence the conduct of policies of a socialistic state in whose value system gold may simply carry an endemnic nuisance value? This leads to the last point to be developed reflecting the views of powerful west German interests who in their search for profits became instrumental negotiating and financing the "Deal." This deal may turn into its own graveyard in Finlandize Europe. It also has developed in all respects into the "Deal of the Century" to Soviet interests.

The banking sources believe “the additional Russian gas exports to the west through the Ungury pipeline cannot offset the declining oil export revenues of the USSR by the 1990's should the USSR in addition suspend their gas deliveries that would cause the present $25-Billion export revenue income in convertible currency to fall approximately $6-10 billion in purchasing power equivalent.” Here lies the significance of gold collateral whose value as international trade equivalent will rise for the Soviets by the end of the decade.

Effect of the Minimum Wage on Inflation and Other Key Macroeconomic Variables

BRIGITTE SELLKERTS

Introduction

The effect of minimum wage changes on wage inflation can be seen as taking place in several stages, which are at least partly overlapping. First, there is a direct impact, caused by the legislated increase in hourly earnings of those subject workers who were previously paid less than the new minimum. Second, there may be a fairly quick adjustment in hourly wage payments to workers who already were paid in excess of the new minimum wage level prior to its enactment. This adjustment may be caused by specific contract clauses contingent on the minimum wage, or by the particular wage policy of employers designed to maintain a relative wage hierarchy (wage comparison or "ripple" effect). Third, as hourly compensation rates and, hence, unit labor costs rise, firms will attempt to raise their product prices in the short run. Fourth, firms will begin to adjust the level and the mix of factor demands and production changes. The new factor mix, consistent with cost minimization subject to expected demand, may lead to an increase in output per person hour, which may mitigate the ultimate inflation outcome. Fifth, the resulting new equilibrium employment combines with the new average hourly compensation to produce a new equilibrium income level, aggregate demand and, after some lag, production. Sixth, the inflation and unemployment rates consistent with the new equilibrium levels of income, output, demand for goods, costs, factor demand and supply, may in turn affect inflation average hourly earnings. This effect is called the "spillover" or the "pass-through" effect. The overall wage inflation outcome will, of course, also depend on the position of the economy in a particular stage of the business cycle and on the general policy environment. The process is represented schematically in Figure 1.

A positive effect on wage changes other than the direct impact on minimum wage workers is exerted by (1) the wage comparison effect, (2) the labor substitution effect, and, (3) the inflation and inflationary expectations effect, which accompanies a negative influence emanating from the unemployment effect. Prior to this study, no successful effort was made to quantify the average size of the indirect economic spillover effects of a given minimum wage change on wage inflation.