



Episode 410: Socialist Basket Cases, and Other Economic Topics

Guest: Carmen Dorobat

WOODS: It's funny that I'm talking to you when you're so far away, when I used to see you semi-regularly when we were both in Alabama. You are talking to me from Manchester now, but you are living and teaching where exactly now?

DOROBAT: In Coventry in the United Kingdom. I teach at Coventry University.

WOODS: Nice, nice, very good. And you are working on your PhD under our friend Guido Hulsmann, is that right?

DOROBAT: Yes, that's right. There are only three weeks left until my PhD defense. My thesis is on Cantillon effects on international trade.

WOODS: Oh my gosh, that's fantastic! Of course it's a topic that he would love; it's a topic we all need to learn about. Wonderful!

DOROBAT: Yes, it was a topic that we both agreed on three years back. I wanted to work on international trade, and Dr. Hulsmann was adamant that I had to also work on monetary policy, so this was a happy medium that we both reached.

WOODS: That's right. I mean, well look, I don't want to bring too much of your personal life into the story, but you're going to wind up being married to an economist. And you know, this sounds like there couldn't possibly be any problems. I can't imagine what it would be like to be married to another economist.

DOROBAT: Well, yes. We enjoy the fact that we are able to talk about our work at home, as well. And we bounce ideas off each other, so that's, I guess, and added benefit.

WOODS: That's nice, that's nice. Now at the same time, you want to make sure that you're not constantly at work, which is what I'm afraid I would do if I were married to an economist or historian. I would just talk shop all the time.

DOROBAT: (laughing) Yeah --

WOODS: (laughing) I can't be trusted.

DOROBAT: We try as much as possible to switch off after 5 PM, but every once in a while, if we get excited about a particular topic, we do carry on after working hours.

WOODS: That's just great. You know, before I talk to you today, I was looking around on the Internet at items that you've written and articles and blog posts, and I was telling you before we went on that there's such a diversity of them that I hardly know where to begin. But I thought that the material that you and, in fact, Matt McCaffrey wrote together, a piece on Venezuela, and then there was some follow-up material on that -- we all know that Venezuela has turned into a complete basket case. Even this year, we continue to see all kinds of problems with shortages, and people can't get basic staples; people can't get basic items that people need to have in order to live. And you, in a post of your own, drew a comparison between Venezuela today and Romania under communism, where, as someone who lived in Romania, you would have some knowledge of that. Let's start with Venezuela: What is exactly is the problem that led to this outcome? Or what was the series of events -- are they imposing price controls? What were they doing that led to this outcome?

DOROBAT: Yes, well, basically after the elections, the very recent elections in 2013 after the death of Hugo Chavez, Nicolas Maduro had to deal with the legacy of Chavez, which had implemented a very broad welfare spending program and a lot of other socialist policies. And what Maduro did was accentuate these policies with further price controls and foreign exchange controls. And of course, the situation in Venezuela wasn't helped by the drop in oil prices, because they have the largest oil reserves, and they're one of the largest oil exporters. So with the drop in the oil prices, the situation became even more difficult. So Maduro found himself in a situation where he had to choose between liberalizing or implementing more of the socialist policies, and so, of course, he chose the latter.

To my knowledge, right now, the situation in Venezuela is as you described it: There are shortages of the basic staple goods, such as detergent or the very well known example of toilet paper. Very recently, I think this week, the bolívar on the black market was exchanging against the dollar at an incredible rate -- something like 400 bolívar per dollar, while the official exchange rate is something like 7 bolívar per dollar. And I think Maduro's only declaration about that was that people operating on the black market are waging an economic war against his country. So in my opinion, what we're seeing in Venezuela are the ultimate consequences of what basically started as "middle of the road" policies blooming into full socialism.

WOODS: Can you explain, given that you do a lot of writing on international trade, what the practical effect of this -- that you've got two currencies exchanging against one another at a particular ratio, but that the government establishes a particular ratio for them? What does that mean, and what are the consequences of that?

DOROBAT: Yes, well the official ratio -- the foreign exchange control -- is basically a price ceiling on the exchange between the bolívar and the dollar. And because of that price ceiling, what is created is a shortage of dollars in the country. So they become more high in demand, and because of that demand, they end up being exchanged on

the black market at the exorbitant rates. And the more the situation goes on, the more pronounced the shortage becomes.

WOODS: All right, now I want to go and look at -- I'll link to this on the show notes page for today, TomWoods.com/410 -- I'll link to your own writing on this subject; in particular, this blog post where you've actually juxtaposed photographs of Venezuela today and Romania several decades ago. There, what I found interesting was the way the regime would portray the rationing as really being a dietary recommendation. "You can't have this amount of meat, because that's not really good for you."

DOROBAT: Yes, yes. Well actually, I remember reading some news about Venezuela when they had the shortage of toilet paper, and one of Maduro's declarations was something along the lines that, "Of course there's a shortage of toilet paper, simply because Venezuelans have so much to eat." And I remember that it was similar in Romania, because when the restrictions, the quotas to food that you could buy were instituted, it was based on this scientific alimentation program, which was supposed to provide guidelines as to the number of calories an individual should have per day. So that's how they justified it. And I think the program started first in 1982, and they were hoping to sort of stabilize the shortages that were manifest at the time. But by 1984, they had to implement a second version of the program, where the buying programs were even smaller.

WOODS: Now you are -- I don't want to give away your age, but -- a relatively young person; I mean, you didn't live through decades of communism by any means, but your family is from Romania, and surely you've got some stories about what life was like, or maybe you recall the tail end, or -- I don't even know if you were alive when Ceausescu was executed, but what can you share about this?

DOROBAT: I was alive; I was a young -- I can give out my age. I was one year and a half in 1989 in December when the communist regime collapsed. However, I got to live through the legacies of the communist regime, and my father, in particular, was very keen in pointing out when I was growing up what had happened before, what he and his family went through. And he was always keen on showing me where I was lucky to live in a different kind of world, and at the same time, to show the unfortunate consequences of 50 years of communism, even after 1990. My family was luckily spared from the very tragic events that happened to the Romanian people during the communist regime. They didn't have anyone who was in prison, but that happened to too many Romanians. Any sort of desire to protest against the regime, you would automatically be labeled as an enemy of the state -- I think the word that they used was "parasite." And that would mean years in prison and deportation of your family and torture and so on. So my family was spared of that.

But one of the few things that my dad often pointed out was the fact that he wanted to study abroad, and he was not allowed to, because Romanians were not allowed to leave the country for decades. Then when he realized that he wasn't able to leave the country legally, he wanted to flee, and he wanted to go to the United States. However, that would have meant a lot of trouble for the family that he would have

left at the time, for my grandmother, and my grandfather, and his sister -- so he decided to stay. And it was those little things that he kept pointing out to me as I was growing up, that I was very lucky to not have to make those kinds of choices.

WOODS: When the Berlin Wall was built, the East German government referred to it as the anti-fascist barrier; you know, this will keep the fascists from entering East Germany." Of course, we all know that it was meant to keep people in, not to keep people from trying to break in. No one in his right mind wanted to go there, but they did have, in other words, an official rationale for why they did that. Do you happen to know what was the official regime-supplied rationale for why Romanians weren't allowed to travel anywhere in the world?

DOROBAT: No, I'm not really sure what the official rationale was. I think it was -- it must have been more or less informed by the general disregard that the communist regime had for everything that the West represented, for everything that the capitalist system, as they saw it, represented. So it was one way to keep Romanians away from those kinds of negative influences. I think it was part of the same reasons why Romanians weren't allowed to see any American movies or listen to any foreign radio stations, and so on. Not that that ever stopped them; there was actually a thriving black market in VHS tapes, with movies of Sylvester Stallone and Jean-Claude Van Damme that were circulating illegally in the '80s. And most Romanians used to listen to Radio Free Europe in their homes, when they thought no one knew what they were doing. But yeah, I think not letting them leave the country and not letting anything from the outside come in was part of the desire of the regime to keep its authority as strong as possible.

WOODS: Now that regime came to a violent end, unlike the other regimes in eastern Europe that were overthrown more or less peacefully. Ceausescu really dug in his heels; he and his wife really dug in their heels and intended to carry on as if nothing was going on in the rest of eastern Europe. They were just going to hang on and somehow ride out the storm, and of course, it didn't turn out that way. Do you think that the violent end of that regime impacted in any way the nature of the transition away from communism in Romania, as compared to in the other countries?

DOROBAT: It might have, in the sense that -- so as you say, the regime came to a very violent end, and the extent in which Ceausescu was removed from the actual situation in his country is visible, and the fact that he had the opportunity to flee, and he stuck around for the trial, thinking that somehow he would be reinstated. But I do believe that after the revolution in 1989, Romanians felt like something had changed. So to a certain extent, they weren't paying as much attention to what happened afterwards, because between 1989 and 1992, there was an interim president who was again elected in 1992. And the government that he formed, and basically the Romanian state that was formed after that, contained, to a very high degree, a lot of the former Communist Party members. And a lot of Romanians were disappointed about that, but because of the fact that Ceausescu had been removed so violently, they felt that they had broken with the past. So the fact that so many members of the Communist Party were still in power somehow passed by unobserved. I don't know. I don't know if that

was the reason, but I do remember my father and some of my professors telling me, as well, that Romanians at the time thought that the reforms in Poland -- the reforms to privatize a lot of the state-owned enterprises -- were too radical. So they wanted a more swift transition. And maybe the more violent end of Ceausescu had something to do with that as well.

WOODS: Ah, very interesting. I would actually like to switch gears, because, as I said, you've written about so many different things, and I know I have a lot of listeners who are also interested in international trade. I just talked to Richard Ebeling about a week ago about the Trans-Pacific Partnership that's being discussed, and we were talking about, when you have trade agreements like this that do seem on balance to lower restrictions between countries, but yet on the other hand, they introduce a new layer of bureaucracy over trade, it's a tricky thing to evaluate whether on net, from a purely economic point of view, this is a plus or a minus. Now you've written a piece not too long ago about protectionism and the World Trade Organization, which seems relevant to this. So what was the point you were making there? And then I want to go back to, on balance, do you nevertheless think the WTO is a good thing for the cause of classical liberalism?

DOROBAT: Yeah, well the point that I was making in that piece -- that the WTO, because it has a top-down approach to international trade, that it wants to centralize the process of liberalization -- has very few chances of succeeding, as long as it's dealing with member states which are still keen on protecting their domestic markets. So it becomes increasingly difficult for the WTO to obtain any results with the West and the EU thinking, "How can we better protect our markets?" So going at the WTO and negotiating these treaties has become more of a façade for actually trying to obtain some type of lenience for their export subsidies or for other forms of encouraging their exporters.

On net, I tend to think that the WTO does not help international trade and free international trade at all, because it just represents an extra cost to the liberalization and not only the cost, but the fact that liberalization cannot actually come about from the top down. The bottom-up approach, on the other hand, which is something that Mises would have suggested repeatedly -- that is, countries liberalizing first their domestic markets -- that would mean, automatically, a liberalization of international trade, as well.

WOODS: Now I want to ask yet another disjointed question, but again I'm just interested in a lot of these different topics, and I'll link to all of your writings on this at TomWoods.com/410. You were referring to something that is being called a "bubble thy neighbor" policy. You've been talking about the international effects of what the Federal Reserve does and the effects that it has on other countries. Can you explain that?

DOROBAT: Yes, I wish I would have coined the term, because it actually describes pretty well what the effects of the Fed monetary policy have abroad -- and not only of the Fed, but also of the other big central banks, such as the ECB or the Bank of Japan.

By the fact that the Fed and the other central banks are ejecting these large quantities of money into the market, they go to some companies that do not only have operations domestically. They also have operations abroad, and they're also integrated into global supply chains. So as a result, because particular companies in the United States, as a result of these policies, are thriving in a boom period, that means that there are other companies in other countries that are thriving as a result of that as well. International trade and intra-firm trade between these companies also increases. So overall, during a period of boom, the effect of the increased economic activity and what appears as increased welfare are visible not only in the United States market, but also abroad. And when the bust comes, it's not only the domestic companies in the U.S. that are affected, but also that their partners abroad are affected.

WOODS: Before I let you go, I want to ask you about the award that you won at the Austrian Economics Research Conference for a paper of yours -- I'll link to the paper. Tell us about the paper, and what was your thesis in it?

DOROBAT: The paper is related to what I was mentioning before -- to Mises' views on foreign policy and domestic policy. What I'm trying to do in the paper is to tease out some of Mises' comments on foreign policy, which aren't so prominent in his work, but at the same time, Mises, in his life, he worked for the Geneva Institute of International Studies, and he worked for the Chamber of Commerce in Austria, so he had a lot of practical knowledge of these issues. So there are parts in *Omnipotent Government* and other essays before the Second World War where Mises talks a lot about foreign policy. And some of the comments that Mises makes there are quite easily applied to the situation of the WTO today, because the WTO has been in a deadlock of negotiations for almost 14 years. And Mises makes some very interesting points, not about the WTO, because it hadn't been created at the time, but about the United Nations and its efforts to maintain peace - so, in general, of international organizations -- that their efforts are going to be thwarted as long as governments do not liberalize domestic markets, as long as governments still keep a heavy hand on domestic affairs. So that's what I'm trying to show in the paper: Mises' acumen and mastery of this topic, as well as the fact that his ideas are still applicable to real world events today.

WOODS: Carmen, let me ask you a quick personal question: When you first went to the Mises Institute, were you coming directly from Romania?

DOROBAT: Yes.

WOODS: Okay, so how does somebody in Romania find out about Austrian economics? I'm just curious to know how this happened.

DOROBAT: In my case, it was a very fortunate event. I was in the second year of my undergraduate studies, and I was planning on dropping out of the economics major, because it made no sense to me. And then I took an elective course that was taught by Vlad Topan. He is a student of Cristian Comanescu, and Cristian Comanescu, in turn, discovered Mises in the early 1990s, and then went to the U.S. and met Bettina-Bien

Greaves and Murray Rothbard, if I'm not mistaken. And he came back, and they had a series of private seminars, just like Mises used to have in Vienna. So my professor had been a student of Cristian Comanescu and now was teaching, so I took his class, and the first thing he said was, "Have you ever heard of Ludwig von Mises?" And that was it.

WOODS: How about that? Very interesting. Now what would you say, if you had to -- looking back on your time at the Mises Institute, you were a summer fellow, and you did some research there, and you worked under Joe Salerno -- how would you sum up your experience there?

DOROBAT: The Mises Institute is the best place for a young scholar to do research and to develop, especially if you want to pursue a career in academia. The fact that Dr. Salerno's office, when I was a fellow, was only down the hall, and the fact that his door is always open to his students has always been a tremendous opportunity for me. He has been able to offer me guidance with my research, and meeting the faculty of the Mises Institute has also been a tremendous lesson for me, as to what it means to be a good professor.

WOODS: Well, no doubt. I'm thrilled that you have already begun your teaching career, and that your career as a doctoral student is coming to a rapid end. I wish you the best in your doctoral defense and continued success in your writing and in all your endeavors. Thanks for your time today.

DOROBAT: Thank you so much, Tom, thank you.