

Hayek and His Lamentable Contemporaries

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Transcribed and Donated – Thomas Topp

Rothbard:

It's pretty well agreed that we're now living in an economic crisis. It's also pretty well agreed that most economists, especially so-called establishment economists, don't know what to do about it. This is pretty unusual considering that up until about five years ago, the ruling economic establishment not only believed, but also trumpeted far and wide that they knew exactly what to do about all economic problems. Everything had been solved.

As a matter of fact, I think about five years ago the distinguished Keynesian economist Robert Solow of MIT wrote something to the effect the macroeconomic problems—macroeconomic meaning things like business cycles, inflation, recession, depression and so forth—that all macroeconomic problems have now been solved, and all macroeconomic theory has been taken care of.

Now, usually when somebody says that, that's the sort of beginning of the deluge. Sure enough, only a few years later the same economists have virtually thrown up their hands and say, "We don't know what's going on; we really don't know what to do."

This does mean, of course, that they've resigned their jobs in Washington, by the way, which leads me to my favorite story—anybody who's heard this, I apologize for repeating it: In the recession of 1958, which was the first recession where the phenomenon of the inflationary recession first began to appear, this was the first time when prices were still rising during a recession.

Here we had an authentic, officially authenticated and certified recession. And yet prices, instead of falling, which is what prices are supposed to be doing in a recession, instead of falling, prices were still going up. They weren't going up very much, but they were going up. Arthur Burns, who at that time had just resigned as head of the Council of Economic

Advisors in the Eisenhower Administration, was giving a lecture up at Fordham, which I happened to attend, giving the usual Keynesian policies, which I'll go into a little bit later, what to do about recessions.

Basically, when there's a recession, you pump spending into the system—you meaning the government—one, one pumps, the government pumps spending into the system, thereby lifting the economy upward. And when there's an inflation, the government takes money out or takes spending out of the system.

You work several variants or changes on this theme, and that's essentially the Keynesian or the establishment program. So Burns was going into explaining this policy, and during the question period, unfortunately I was a brash young fellow at that time, I said, "Well, Professor Burns, what do you do if—since what the government's supposed to be doing is pumping deficits during a recession, and take out spending or have higher taxes or surplus during a boom, what do you do if both are happening at the same time, as seems to be happening right now? In other words, what do you do is there's an inflation and a recession at the same time?"

His first reply was, "Well, there's no problem there because the recession will soon be over," and so forth. I said okay, and it was soon over in '58. But I said, "What happens, Professor Burns, if at some future date the same phenomenon would recur and intensify, we'll have a severe recession along with an accelerating inflation? What then would you recommend?"

And he stopped for a moment and he said, "Well, in that case we'd all have to resign." They haven't resigned. The rest, of course, is history. The phenomenon has arrived and it's with us right now, and nobody's

resigned. One of Rothbard's laws of political science, that nobody ever resigns from government unless your hand is caught directly in the till.

The Nobel Prize to Professor Hayek is very interesting because it comes in this context: It comes in a context where establishment economics doesn't know what's going on [unintelligible] really admit it. The unusual part of the Nobel Prize is that all the other Nobel Prizes which had been awarded by the Swedish Academy have gone to people who completely, economists who are completely in the opposite camp as Professor Hayek.

In other words, economists who are mathematical forecasters, and also left liberals, if you want to use that term, who believe in government planning of the economy. Now, for the first time the Hayek award goes directly and completely contrary to this tradition of the Nobel award, which surprised all of us enormously.

Perhaps a clue to why the Nobel Committee did this—presumably they were hedging their bets—was that any award, they said, they hailed, here's a Hayek quote, "His pioneering work in the theory of money and economic fluctuations." Well, they didn't say what this pioneering work was.

What I'd like to do tonight is to go into this and try to explain why I think not only was Professor Hayek's work pioneering, but it's also the only correct analysis of business cycles past, present and future. The only phenomenon of the business cycle really began approximately in the mid-18th century.

Before that, there was no real business cycle. Business would be going along in a certain sort of even pace, and then something would happen. Usually the government would mess things up, which they're accustomed to do. The king would decide to raise money fast by

confiscating all the gold of the merchants, and this of course would cause a severe depression.

It wasn't a business cycle sort of thing, wasn't any kind of mysterious boom-bust phenomenon. It was simply the king suddenly confiscated everybody's money and depression set in. So that was the sort of thing that happened until about the mid-18th century, when we began to have this peculiar phenomenon of boom-bust cycles, which appear not periodically, but recurrently.

In other words, the phenomenon of an inflation and prosperity and so forth—rising prices, usually, followed by a bank collapse and depression and unemployment, and then followed again by a recovery and then a boom and so forth. This is kind of a puzzling phenomenon because it didn't fit into the general economic theory.

So shortly after the phenomenon appeared, economists began to try to explain what was going on here. Why was there this recurring phenomenon? Not directly—well, clearly related to the king confiscating somebody's money. In other words, something else seemed to be going on here. Couldn't clearly pinpoint the cause.

As time went on, two groups of theories began to develop. Of course, there are a lot of different kinds of theories, but essentially they could be classified into two groups. One group which has been dominant generally, and certainly dominant up until, well, right now, up until the Austrian school revival.

Generally, the dominant school held that the recourse must be, since around the middle of the 18th century, at about the time business cycles first developed, the boom-bust cycle, at about that time also came the Industrial Revolution—industrialization and the modern capitalist economy first comes in at really that point.

So therefore these various economists concluded that the cause of the business cycle must somehow arrive deeply rooted within the free market industrial capitalist system. In other words, the blame, because usually it's considered blameworthy, a boom-bust cycle, the blame rests with free market capitalism.

Karl Marx is one of the first economists to propound this theory, and John Maynard Keynes, in his famous work in 1936, not only also has a similar view, establishing Keynesian orthodoxy, but also said very explicitly that before him, before Keynes wrote, that classical or free market economists had no theory of the business cycle, they had no explanation of the business cycle or for unemployment or depression, or they hadn't thought about it, they hadn't really given their attention to it. He was the first one to really do it, and he therefore understood that depression was caused by some virus of under spending in the private market economy, which was supposed to be made up by government spending.

In other words, if the cause of a depression, say, is deficiency of spending—obviously, a government is the *deus ex machina*, the god out of machine, because the government can come out of the system and spend more, they can print money—he didn't quite say that, but that's clearly the implication.

If you can print money, you're in a good position to engage in deficit spending. The cure, then, for—let me put it this way: The Keynesian vision of the economy was, which has been dominant up until the present—so this is not just an antiquarian kind of exercise—the picture was essentially this: Well, a free market economy can do very well when it handles so-called microeconomic problems.

It can clear the market, it can solve the problem of how much wheat to produce or how much brandy or whatever, and it can set the prices and production of these various areas. In the microeconomy the market works very well. However, in the macro, so-called macro economy, the free market doesn't work, the theory being that the free market can't provide the proper amount of total spending.

And so the Keynesian picture of the economy is essentially one where the free market economy, is essentially where the economy is like an automobile. You're driving down a very narrow sort of tightrope or ledge, with two abysses on either side. One is the abyss of unemployment, which occurs if there's too little spending; the other is the abyss of inflation, which occurs if there's too much spending.

The task of the government—the government is sort of the [papa] driver of the car. Obviously, if the economy is a car, you have to have somebody driving it. So the task of Big Brother government is to be at the steering wheel, fine-tuning the economy in such a way as to keep total spending perfectly and precisely attuned to the so-called full employment line, which is, the economy doesn't fall off on the one hand to the abyss of depression, on the other hand to the abyss of inflation.

So the task of government is to keep the economy on this line. The Keynesians came to the conclusion very early that they have the proper tools of doing this. They can pump spending in, as I said before, in case there's too little spending, and they can push the steering to the wheel, so to speak—they can take spending out if there's an inflation.

This was essentially what we can call the established Keynesian orthodoxy of what the government's supposed to be doing and what causes recession. But this has clearly not worked, as is pretty evident by this time, even to Keynesians, who were desperately flailing around to try

to find some other explanation of why they have to go back to the old drawing board.

Because obviously what's happening now is that there's accelerated inflation, and at the same time there's a recession, and there's recurring recessions, which we're going through right now. And as Arthur Burns said, we all have to resign, except nobody does it.

That's one school of thought, one general area of thought, which locates the cause of the business cycle, the cause of depression, the cause of inflation, somewhere within the market economy, somewhere within the industrial capitalist system.

There is another group of economists, another tradition in economics which has been neglected until very recently, which says something very different. Actually, this was the view of Ricardo and the classical economists of the 19th century, in sort of rudimentary form.

Essentially, what the second group says is there's something else happening in the middle of the 18th century—not just the industrial revolution—but another institution which is directly the cause of the business cycle, and that is the banking system, or more precisely the fractional reserve banking system.

And even more precisely than that, the government involvement with the banking system through the central banks. The first simple model of this, the so-called monetary U business cycle, came about with Ricardo and the classical economists. Essentially, they had a very simple kind of U, but it was pretty good, considering that it was in 19th century economics.

Basically, what they said was that the government and the banking system, government promotes bank credit expansion, expansion [via] fractional reserve banking. Money and credit, the supply of money and

credit go up, this raises prices, creates a prosperity or a phony prosperity or a real prosperity, whatever variant they took on that.

This causes the inflationary boom part of the cycle, and then what happens is that the gold of banks in the country begin to lose gold to other countries, because as domestic prices go up and the foreign prices still remain the same, gold drains out to other countries, until finally the pressure gets really intense on the banks while the gold drains out and their bank credit is increased, and so the reserve ratio keeps dwindling, and finally they've got to stop expanding and contract in order to save themselves.

This contraction causes the recession part of the business cycle. And during the recession, the money supply falls, prices fall, and gold flows back into the country, and you start a recovery. And then after this happens, the banks are ready to start in again, start expanding again. This is very simple model of a business cycle, but it's pretty accurate as far as it goes.

It pinpoints, in my view, the basic cause of the business cycle is not embedded deep within the industrial capitalist free market economy, but within the banking system and the government-controlled banking system. Why is the government and the banking system always desirous of increasing the money supply? Well, it's fairly simple.

Any group which ceases control of the money supply—in other words, any group which has the only legalized... Let me put it this way: The government and its control of the banking system is the only institution in society which has the right to counterfeit—in other words, the right to increase the supply of money.

If the rest of us start counterfeiting, printing dollars, not only will you go to jail, but you'll go to jail very very swiftly and for a very long period of time.

Counterfeiter is always one of the most reviled criminals on the government books, because a private mugger will get off with a slap and a suspended sentence, perhaps, because he's only mugging individual citizens.

But the counterfeiter strikes at the root of the government's monopoly on the creation of money, which is much more important for the government than the mugger. So one of the first things that a government does early in the game is to seize control—in other words, acquire compulsory monopoly of the right to print money.

And my contention is if you have the right to print money, you're going to use it, if anything else, because you can print money, you can spend it, or you can print money and you can lend it out to favor the groups, politically favored groups. So the natural tendency of government and its controlled banking system is to inflate. There's no mystery about it. This what they always want to do anyway. There are certain checks on the process, such as the fact of losing gold when you're on the gold standard, losing gold abroad, runs on the banks before the FDIC came in in '33 to stop that.

But in the natural course of events there are basic market checks on this phenomenon which keep the process at least a little bit in hand. We've managed to eliminate most of those checks at this point, by the way. So here we have sort of the basic model, which places, as I say, the blame for the business cycle in the banking system, and I should say the government-controlled banking system.

The inflationary process of money creation. This, however, wasn't a totally satisfactory theory of the business cycle, it left out a lot of stuff. For one thing, it left out the problem—why is it, for example, that there's

always a greater boom and bust in the capital goods industries? The machine tools and industrial raw materials and construction.

And why is it that there's a much greater business cycle in that area than there is in consumer goods? Why is there a sudden collapse of business forecasting? Businessmen, after all, are sort of expert forecasters—they usually know what's going to happen fairly well. How come they've all suddenly collapsed at the crisis point when a recession or depression arrives? And so these various deficiencies meant there were certain gaps in the theory which have to be fleshed out.

Well, what happened was that Ludwig von Mises, the founder of the modern Austrian school, began with the so-called Austrian theory of business cycle in 1912, and published his theory of money and credit. But he built on the Ricardian foundation and the classical foundation, also added the insights of a Swedish economist, Knut Eckcel, on the key difference between the free market interest rate or so-called natural interest rate, and the loan rate of banks, and integrated this whole thing into a theory which, as far as I'm concerned, is the only theory which is integrated completely with regular economics, with so-called microeconomics.

Mises simply outlined this very briefly in 1912, and it was left to Fredrick Hayek in the late 1920s to spin the whole thing out in two beautiful books which I recommend, still recommend as the best books on the topic—still in print, I believe—*Prices And Production* and *The Monetary Theory of the Trade Cycle*. *The Monetary Theory of the Trade Cycle* sort of introduces this whole subject, sets the thing in perspective, and *Prices and Production* is more technical.

Both of these were written in the late '20s. But what Mises and Hayek did in the late '20s, and the thing which really struck the rest of the

economic, the world of economists, was that they more or less predicted the Great Depression. In other words, here you are in 1927 or '28, the whole world of establishment economics said there's going to be permanent prosperity.

There ain't gonna be no depressions no more, no more. And everybody said this. We were living in what the Coolidge-Hoover Administration called the New Era, and the reason was we had created this wonderful engine called the Federal Reserve system, and the Federal Reserve system was to keep everything on an even keel.

It was sort of a pre-Keynesian theory. The idea was that if prices fell, the Federal Reserve would pump money in; if prices rose, the Federal Reserve would take money out. As a result, there couldn't be a depression. In the meantime, all this euphoria was being engaged in among establishment economists. Mises and Hayek in Austria were saying, "No, no, there's going to be a depression because," well, because what?

Well, for one thing, [unintelligible] who was one of the classical economists, said that the cause of the business cycle was not industry or the market economy or industrialization, but the banking system, and the problem was not so much in the price level, not so much the fact that prices went up when money was pumped in, but that when an inflationary credit expansion was pumped into the system, it not only tended to raise prices, it did something even worse than that, in a sense.

It tended to distort the production system. In other words, it tended to cause an over-investment in things like construction and capital goods and industrial raw materials, and under-investment in consumer goods. And that the long this happened, part of this was wrapped up with the

fact that interest rates were pushed down artificially by the expanded bank credit.

And the longer this process continued, the longer the government kept pushing it, the more severe the recession would have to be. The idea being this: This is I think unique in the history of economic thought. [unintelligible] the recession, instead of being a terrible thing coming from a God-given blight or something—in other words, something like an earthquake or a plague, which has to be fought—the recession becomes not that, but a necessary medicine, which is the consequence of the real evil, which is the inflationary boom, which was created by government itself.

In other words, as the government and its banking system pumps in more credit to the economy, it not only raises prices; it also distorts production, it causes over-investment in all sorts of unsound investments and unsound machine tool and construction and so forth. And therefore it becomes more and more necessary to have a recession in order to shift the resources back into the healthy free market kind of economic system.

It's necessary to liquidate these unsound investments as fast as possible. And if the government tries to eliminate the recession by prolonging the agony—in other words, by stopping this process in all sorts of ways—all it will do is prolong the agony and lengthen and make the depression chronic instead of acute.

An example is Benjamin Anderson, the late economist of Chase National Bank at the time, called the last free market recession or last free market recovery was 1921. It was a very severe post-World War One depression. Prices fell very rapidly, unemployment went up very sharply. However, the depression, even though severe, since the government

didn't interfere with it, didn't try to help out the unemployed by unemployment relief, didn't try to shore up unsound investments through government lending operations, didn't try to create deficits to cure it, didn't try to engage in public works programs and so forth, they didn't do anything—and the result, the depression was over very very rapidly.

As a matter of fact, by the time the government figured they should do something about the depression, it was all over. In 1929, when the Hoover Administration came in, Hoover acted very very quickly, unfortunately, and engaged in all the New Deal programs, which we associate with Franklin Roosevelt, which were really begun by Herbert Hoover. And the whole business—government loans to unsound investments, keeping wage rates up, keeping prices up, deficit spending, cheap credit [unintelligible] measures, were really begun by Hoover.

Incidentally, in a recent interview, Rex [Tugow], the famous Franklin Roosevelt advisor, admitted that Hoover started the whole thing, but he couldn't say it at the time, couldn't admit it, there's a political fight. Well, as a result of the New Deal program, the Hoover-Roosevelt New Deal was instead of the recession being over in approximately nine or 12 months, as the 1921 recession was, it was over, it lingered for about 11 or 12 years, until World War Two got us out of it.

So the Mises-Hayek approach then is, the public policy that emerges from the Mises-Hayek position is virtually the direct opposite of the Keynesian policy. In other words, the Keynesian policy is if there's a recession, you pump spending in or you pump money in, and if there's an inflation you take money out.

The Austrian view is if there's an inflation, in the first place stop inflating, which means stop creating new money and credit through the government's controlled banking system. And if there's a recession,

don't do anything about it, and let it work itself out as quickly as possible. Now, obviously this is the direct opposite of the Keynesian prescription.

It's also pretty clear, it seems to me, which policy the government's going to adopt when any kind of a crisis emerges. You see, for example, every time there's a slight problem with liquidity, the cry goes up among business men, among bankers, etc., there's a liquidity crunch, and therefore government have to step in to create money to solve this liquidity crunch problem.

Well, liquidity crunch is precisely the Austrian retribution catching up with an inflationary boom. The government always exceeds the short-run pressure to ease the problem, thereby pumping more inflation. One of the differences about the '20s was, one of the reasons why the economists, most of the economists in the 1920s did not forecast the Depression was because in those days prices did not go up. The general price level remained about constant.

The official theory was if the price level remains constant, there can't be any problem with inflation. The Austrian view, however, was that in the normal course of events, prices don't remain constant, they fall. And we can see this—in other words, if you allow a capitalist economy to proceed unhampered, productivity goes up as new inventions, as mass production comes in, etc., prices will tend to fall.

We see that for example with TV sets, which cost about \$2,000 in 1948 for a really crummy set where you could hardly see anything. For this present situation, where a TV costs \$100 or something for a much better set, if you divide that by the price level, in real terms, of course the price of TV sets has fallen fantastically.

This sort of thing happens all over [unintelligible] in an unhampered system. During the 1920s, when you had an increase in productivity, the

tendency would've been for falling prices—the government and the banking system kept pumping new money into the system, thereby creating the whole boom-bust cycle even though prices did not go up.

And the Austrians, as I say, foresaw that. But what happened was, and Mises and Hayek had predicted the '29 Depression—so when the '29 Depression came, their prestige went up in economic circles. Also, fortunately for American economics, Hayek at that point left the University of Vienna and came to the London School of Economics. He started gathering around him the best minds among younger English economists.

And so from 1931 approximately until '35, '36, most English economists adopted this Austrian position, adopted the view that the cause of the business cycle was [unintelligible] expansion, distortion in production, the government should leave things alone, stop inflating and leave things alone, and so forth.

So John Hicks, who won the Nobel Prize last year, was an early Hayek student, and Alvin Hansen, and so forth and so on, a whole group of people who later shifted. The Austrian theory was adopted precisely because it was the only one that predicted and could also explain the Great Depression, and it began to be adopted also in the United States.

Just at that point comes the so-called Keynesian Revolution, where Keynes wrote his book in 1936, and the whole gang flip-flopped. What happens—this is very often true in the history of thought, by the way, not just in economics, but the social sciences generally—it wasn't that the Keynesians refuted the Austrian theory; the Austrian theory was just forgotten.

Nobody ever refuted it. They didn't talk about it. The fashion changes. It's something like ladies' hemlines, I guess. Fashion changes, and they

just stopped talking about the Austrians and they deal with a completely different set of items, and that was it. The Keynesian revolution was facilitated by the fact that Lord Keynes was extremely popular in English elite circles, so to speak, and English professors all knew each other in those days, it was a very tightly knit group.

He had a very charismatic personality, and so he swept the whole group with him. Also, one of the significant things about the Keynesian theory was, for the first time in the history of economic thought—there had been many differences among economists before that, but this was the first time that economists, official economists—professors and writers, etc.—actually advocated inflation and deficit spending.

Before that, economists almost unanimously advocated balanced budget, sound money, the gold standard, and so forth. And so in other words, here we have Keynes, he's advocating what governments would love to do anyway, because before that economists were sort of like the [unintelligible] bad boy or sort of the dour pessimist in the group. Governments would try to advocate all sorts of wild boondoggles and fancy schemes; economists would always say, "No, it's not going to work."

The economists are sort of the official wet blanket among intellectuals and statesmen and stuff. Here we have Keynesians, who are not wet blankets. They were very exuberant about the idea of government inflation, deficit spending and so forth. So their ideas were adopted with great enthusiasm by the official political establishment.

[unintelligible] Keynes said, in his book, when he was answering criticisms that in the long run his theories won't work, and one of his very famous statements was, "Well, who cares? Because in the long run

we're all dead." Well, the problem is, of course, that right now Keynes is did and we're still alive.

In other words, we're living in the Keynesian long run and we're suffering from it. If you're interested in them solving the problems created by the Keynesian long run, which we're now living in, we have to return, it seems to me, to the so-called Austrian approach. What's happening is that as the Keynesian theory's becoming more and more discredited, younger professors and graduate students are more and more adopting and rediscovering the Austrian approach, which to those of us who are veteran Austrians, this is a real phenomenon.

At any rate, what happens in the 1920s is a bog settles on American economics—namely, institutionalism. I apologize to Pete [Betke] if he's here. I consider institutionalists frankly as [dumb German historical] school types. The German historical school people [unintelligible] scholarship or background or anything, sort of a moronic version of the German...

--essentially say there is no economic law, there's no economic theory, there's only institutions, and we should study institutions. Dorfman, who was an institutionalist, tried to claim there were certain subtle differences within the German historical school, I could never really figure them out, they're distinctions without a difference.

So what you have then in the 1920s, almost no theory going on. Institutionalists like [unintelligible] Commons, who was Dealey's assistant at Wisconsin [unintelligible] idea and Dealey's interpreter and assistant, and post-millennial pietist, head of the, vice chair of the Institute For Christian Sociology, etc., and the only guy actually studying institution. Most institutionalists just gas around a lot and attack everybody else. They don't really do anything. Commons actually did a lot. He studied legal property rights and American labor history, which he's an excellent

labor historian. So at least he did something, so I have to honor him for that.

And of course Torstein Veblen, famous institutionalist and general pain in the neck. The only thing I can say about, I have no respect for Veblen whatsoever, I must say. All I can say is he kept pushing the distinction between production for profit and production for use, which we've already talked about.

That the terrible thing about capitalism, it produces for profit, it should be producing for use and favor the engineers taking over and running the society and producing for use. In other words, he knew no economics whatsoever, is the only thing you could say about it. Mencken called him a Marxist with dishwater, [unintelligible] water—in other words, a diluted Marxist.

I guess Marx was too systematic for him. Another thing about Veblen, he's sort of a Galbraith that couldn't write very well. [laughter] Galbraith [unintelligible] Veblen, Galbraith is a good writer and Veblen wasn't. Galbraith of course never acknowledges Veblen either. [unintelligible] conspicuous consumption and the affluent society, we're all too affluent, and all the rest of it. I don't think it's really worth discussing more than that.

Another interesting thing, the only interesting thing about Veblen, he didn't get along with the left liberals. Being extreme leftist, he only got along with right wingers. Kind of an odd duck. I've seen that happen in other places. [unintelligible] phenomenon. Eugene DiGenovese, a brilliant Marxist historian, probably the only scholarly Marxist historian around, has broken everybody on the left. The only person he talks to are right wingers.

So in the 1930s there was a vacuum in American economics. There's no theory at all, really, it's just [unintelligible] around, talking about institutions, or somebody else talking about institutions. And so bingo, when Keynes comes in, it sweeps the board. In other words, the path was open for a Keynesian revolution because there was no competing theory here.

This brings me to the Keynes stuff. Hayek—you probably all know this—Hayek was Mises' most famous and best student, got an appointment—Austrian academia—by the way, there's a great article out, just came out in HOPE, History of Political Economy, a long article by Aileen Carver, the wife of [unintelligible], about Austrian émigrés to the United States, Austrian economists.

It talks about all these people, Mises and all these people, it's a great [unintelligible]. Austrian economics was tightening up. Academic posts were and still are, in Europe, very scarce, so they started emigrating to the United States. And Hayek got an offer of a post in London, London School of Economics.

Lionel Robbins was a Misesian, and brought the knowledge, he was a professor at the London School, a young professor then, and brought Hayek over. He got a chair, and Hayek then hits the English system like a thunderbolt. Had never heard of Austrian economics. Marshallians—they had no capital theory, never applied anything to money and all the rest of it.

So this whole thing hit—Hayek's lectures—*Prices and Production* was originally a series of lectures, late book by Hayek. Originally lectures at London School. *Monetary Theory and the Trade Cycle*, which originally in German and then translated quickly. So Wellman started sponsoring

the translation of a whole bunch of stuff—several books by Hayek—and Hayek converts all the London School people like that.

Almost everybody that we now think of as Keynesians are originally Hayekians, money and business cycle in particular. Ada Lerner, John Hicks, Cal Lour, all the top English economists originally are young Hayekians.

And Keynes of course was a big shot intellectually. All the English intellectuals knew each other. In the United States nobody knows anybody else particularly, it's all very diffuse. There it's all London, Oxford and Cambridge, a small, restricted area, and Keynes was a glittering big shot for a long time.

First of all, he started out as a big shot mathematician writing, unfortunately, a bad book on the theory of probability, a book hailed in its time, and was also a big intellectual and a member of the Bloomsbury set, effete, artistic side of Bloomsbury, friend of Virginia Woolf and all these people, and then became advisor of the treasury in World War One, and [unintelligible] Versailles Treaty.

So he was very well-known as one of Marshall's top students at Cambridge. Marshall being at Cambridge was the heart of the English economic establishment. [Tagu] and Keynes were his two top students. Of course, Keynes had to destroy Tagu in order to destroy his dominance, which he did by [unintelligible] Robinson and other intellectual thugs of the time [unintelligible] upset [unintelligible] Robinson, of all people—disrupting classes and attacking him, and so on.

Keynes wrote his *Treatise On Money*, Keynes sort of waffled around. I think his best book was the *Tract on Monetary Reform*, in which he analyzed, I think great insight, analyzes hyper-inflation, runaway inflation

as the people taking back their resources from the government. In other words, government's printing money all the time and grabbing resources from the public, and hyperinflation is a method by which the public speeds up prices ahead of the increase in the [unintelligible] so they can at least keep some resources. Interesting insight.

Treatise On Money was supposed to be his big book of money, and Hayek destroyed it. It was one of the great demolition jobs in *Economica*, the London School of Economics... By the way, *Economica* is a marvelous publication. In the early and mid-'30s, was published at the London School, had a lot of Austrian stuff in it, Robbinsian stuff.

Robbins', by the way, *Essay On The Nature of Significance of Economic Science*, which was the big methodology book in English until Friedman's evil article on positivism. And Robbins, I have a disagreement with Curg on this—Curg tends to think that Robbins was really a modern positivist, but I think it's semi-Misesian, it's Mises diluted.

The first edition of Robbins' book is even more Misesian. The second edition, which is the one we know about, it's in the libraries, it cuts out reference to Mises and includes stuff about a difference curve, things like that. He's beginning to waffle. But basically it's Misesian. It's a border [unintelligible] Misesian book.

And Robbins has a very good article, critique of Marshall and so forth, and does a very good job on this whole thing, and translates *The Theory of Money and Credit* at long last in 1935. The first time, the first English translation, gets it translated. By the way, this is an interesting footnote on Keynes:

Keynes reviewed *The Theory of Money and Credit* in German when it came out. Keynes was the editor [unintelligible] Economic Journal, which was the big Cambridge publication, and says, "Well, it's an

interesting book, but there's nothing new in it." If there's anything you can say about *The Theory of Money and Credit*, that isn't it.

He then writes in his memoirs later that he didn't really know German very well. He knew enough German to read stuff he already knew, but he couldn't absorb any new ideas in German. Okay, so how did he have a goal to review books in German? Hayek demolished *The Treatise On Money* in two long, great articles in *Economica*, much of which applies to the *General Theory*, by the way, an attack on capital theory and so forth, alleged capital theory and the rest of it.

Keynes then goes back to the drawing board, essentially acknowledges that he's been smashed, and writes his new work, *The General Theory*. When Keynes' *General Theory*, Keynes being a big shot, it was reviewed by every journal and review. Go back and read the scholarly reviews. They're all totally negative.

[Kadula] attacked it, Weiner attacked it, Knight attacked it, they all attack it, all the big shots, including Alvin Hansen. The case of Alvin Hansen is interesting. Alvin Henry Hansen was a free market type, professor at University of Minnesota, wrote a semi-Austrian book called *Business Cycle Theory* about 1933. Not really Austrian, didn't really understand it, but pretty favorable.

He also wrote a book called *Economics in an Unbalanced World* or something like that in 1931, attacking the idea of public works to cure depression. Great free market right wing work. *The General Theory* came out, he attacked it, denounced it in reviews. I don't think there's any favorable review of it.

Two years later it swept everybody, everybody was converted to Keynesianism, including Hansen, who became the country's outstanding Keynesian. So what are the reasons for the sweeping of the board?

Samuelson—I forget now whether it's Samuelson's foundation who writes this—in the introduction he says, “And a wonderful world it was, to be in a world young enough to read Keynes' *General Theory* when it came out, and to be under 30,” because the mind is open to this great new revelation.

So why was this super-successful? I went to college or graduate school at a time just—Keynes' *General Theory* had just come—we were reading Keynes' *General Theory*. Nobody reads the *General Theory* now because we read Keynesian interpretations of it. This is before the Keynesians came out with equations. We actually had to read this stuff in the real thing, *General Theory*. Totally incomprehensible work. Keynes was a good writer when he wanted to be, when he was clear-headed, like in the book on the Versailles Treaty, *Economic Consequences of the Peace*, it's a very clearly written book.

When he was a muddled thinker, he became a muddled writer. So nobody could really understand—also, he contradicted himself on every page. For example, he'd say, “A key to my thought is that savings always equals investment, always always always equals investment.” A page later it says, “The key to my thought is that savings always differs from investment.”

Kind of muggy. If you're an average rational person, you say this is garbage and thrust it in the wastebasket, which the older economists did. So as a result, you had younger people saying, “Ah, we're the only ones who can understand the master,” sort of a culture situation. “All those over 30 are locked into the old paradigm, and we can understand it naturally, we've got this,” and the fact that he's very obscure makes it even more challenging.

They write two billion journal articles on it interpreting what he really thought. So this is one intellectual reason, plus the fact that Keynes was important in intellectual life in England and they all knew him. But the interesting thing is why do Hayekians shift over and Misesians? In other words, every Misesian, every Hayekian in England except Hayek and [Lockbonn]—partially—I think Lockbonn is really Keynesian.

Everybody except Hayek, by the end—by the early '30s everybody at London School, all the younger people in England, economists were Hayekian, Misesian and Hayekian.

By the end of the '30s they were all Keynesian, all had shifted over. Including, all the Misesians shifted over, partially shifted over. So if you read these people, Machel, for example, one of Machel's—the low point of Machel's intellectual career was his book on the multiplier, the foreign trade multiplier, came out in the '40s. Straight Keynesian analysis. But the thing about these people, Machel and Harboer and all these people sold out to Keynesianism or shifted over—there's always a Misesian strain there. All the good stuff is Misesian. Everything else is Keynes...

In other words, they were never quite pure Keynesian, they always had a slight drawback, holding back. Again, [unintelligible] attrition. He was always slightly apologetic about it, although it's true that we have assumptions here which aren't really true, etc., [unintelligible] Mises' student.

And same way with Morgenstern, with his critiques of GNP statistics and all that, was fantastic, within the framework, trailing clouds of Misesian glory, so to speak. So why did they all shift over? In the case of Hansen I think it's fairly clear, at least according to Wilford King, an old [unintelligible] I met in the '40s, who was the originator of income

statistics, unfortunately, in the United States, national income statistics—also a price [stable] inflationist.

I think he preferred [unintelligible] young Irving. So Wilford King was a free market person, laissez-faire person, except with money and stabilization. He taught, I think, in Minnesota, “Yes, yes, Hansen was a very good lad when he was in Minnesota. As soon as he got to Harvard, he changed,” that’s certainly part of the picture.

According to Schumpeter, has a very good, assiduous critique of Keynes and *The General Theory*, the reason for the big shift, in addition to the obscurantism and so forth, is the fact that this is what the government wanted. First of all, governments always want to incur deficits and spend more. That’s the essence of government, they’re always straining at the leash, and the only people with their finger in the dike, so to speak, holding us back, have been economists.

It’s always economists who are saying, “No, no, you shouldn’t increase the budget, shouldn’t have deficits, it’ll cause bad consequences later.” So all of a sudden you had economists saying, “No, the great thing is to have deficits; the more deficits, the better, the more spending, the better, it’s good. And the guys who say it’s bad are really reactionary old fuddy-duddies, they’re not into the new dispensation.”

And so of course the governments love Keynesianism, and Keynesians love the government. You had the marriage of intellectuals and government and the state. Keynesians then take their place in the planning structure. For example, I don’t know if you know this, but I remember a world where there was no Council of Economic Advisors, it was a magnificent world.

No planning, no rotten forecasts of the next five years, which are dead wrong. No positions for economists and that sort of stuff, it was great.

And then everybody became more or less Keynesian. Even Arthur Burns, who was my professor, claimed he wasn't a Keynesian; of course, really was.

So there was all intra-infighting within the Keynesian framework. By the way, I was around when the Keynesian [unintelligible] first started coming out, Moliari and all these people. My own view is that the current revisionist view is the Keynesians distorted Keynes. Keynes is a really great guy, and Keynesians are really the bad guys.

I don't believe it. I think Keynes was a Keynesian, insofar as he was anything at all. In other words, the equations are the only thing that made sense out of a mess, made sense out of these contradictions, and they made a certain sense. They're all wrong, but at least they're a coherent structure.

Keynes conveniently died early enough that he can't be challenged to whether he agrees with the Keynesian equations or not. Then there's also stories like Hayek said that, just before Keynes died, he wrote to Hayek and said, "The Keynesians are going too far," I don't really credit that too much. I don't credit letters like that.

It's a pleasantry more than anything else. So as far as I'm concerned, Keynes is a Keynesian until proven otherwise. As I say, justified deficits, etc. The best reputation of Keynes—this is kind of a sad story—by Henry Haslitz, who wrote a magnificent book, which nobody has ever read, as far as I know, called *Failure Of The New Economics*. Page by page, going through the entire *General Theory*, a mighty effort, and doing a hardcore Misesian critique all the way, step by step.

Nobody read it, nobody paid attention to it, much less refute it. It sunk without a trace. I guess for two reasons. One is Haslitz did not have a faculty position, didn't have a Ph.D. Therefore he was not an

“economist.” He was ruled out of the paradigm by the establishment. Secondly, of course, he was anti-Keynesian and Misesian, which is also bad.

It’s a great book. It’s very clearly written, which of course was a black mark against him too. Also he doesn’t deal with the neo-Keynesian equations. He deals with the actual *General Theory*. So I guess that’s another black mark. I don’t see why he has to deal with the equations, he’s got the whole thing there.

He also then followed up with a collection of criticisms of Keynes, of negative reviews full of critics of the new economics. So at any rate, not having a scholarly union card and all that, his book was totally ignored. [unintelligible] is another great case. Hud was also not a Keynesian, he was Edwin Canon’s student in the London School, and he’s very close to Austrianism, the Canon-Hud position, the London position, and Robbins was a student of Canon, it was very easy for him to become an Austrian.

All these guys, they all shifted over—Robbins, Hicks, the whole gang—to an amazing extent. They recanted. Very few people actually publicly recant. As far as I know, the only people who really did it are ex-communists who publicly repent. And Hicks and Robbins—Robbins wrote an excellent book called *The Great Depression*, a Misesian analysis of the 1929 Depression in 1934, and later in life he attacked the book as being a bad book, a terrible book, and nobody should read it.

This of course was his Misesian book. After he became a Keynesian and became a lord and a government planner. Hicks’ *Theory of Wages* was essentially Austrian, the first edition. He later repudiated it as being a terrible book, evil, and Austrian, so forth and so on. Later in life—Hicks is an interesting guy—in later life, he became a sort of semi-Austrian again.

He appeared at Austrian conferences, [unintelligible] situation, wrote a friendly story about Hayek. As Austrianism became recrudescent, reviving, in other words, Hicks is essentially the person who's finger is always to the wind, trying to figure out what the next trend is and hopping it.

So Austrianism was in vogue, he was an Austrian; when Keynes is in vogue, he's a Keynesian; when Austrian is coming back again, he becomes an Austrian again, in a very cautious way, of course. So I think the reason for the shift over, these people knew better—I mean after all, these people, Misesians and Hayekians knew about Keynes, knew the fallacies, and couldn't have been swept away in a young ecstasy like Samuelson.

The only explanation I could tell was sellout, the only explanation I've got for this, and usually it's a pretty fairly good explanation. One of my favorite phrases from that, a famous phrase in the Woodward-Bernstein book and movie on Watergate—if you remember, when Woodward can't figure out what's going on, all his leads are gone, he goes to Deep Throat and he says, "Deep Throat, I'm lost, I have to stop the investigation. Tell me what to do." And he says, "Follow the money."

And that revives the thing, and that's it. Looking at the money factor or the economic factor I think is important here. In other words, the guys who left the Misesian/Hayekian camp and became semi-Keynesians or Keynesians got posts at Harvard, Princeton, etc., and the others didn't. I'm not going to go into a critique of Keynesianism, I haven't got the time, and also it's a pretty vapid theory, filled with fallacies and riddled with it, so forth and so on.

My favorite critique is of the multiplier, maybe I'll quote myself here. I can demonstrate on Keynesian grounds that if you give me \$1,000,

there'll be a huge, like a two million multiplier, and the national income will go up by about \$2 trillion. The magic multiplier. What we have, as I said, there's been an Austrian revival since about '74.

I think actually in '73 we had the first Austrian conference ever since old Austria, the first United States Austrian conference with young Austrians in it. And in '74 Hayek got the Nobel Prize. It was an interesting thing. When he got the Nobel Prize all the economists said, "Who the hell is Hayek? Who's this guy who got the Nobel Prize?" The aim of every economist, objective.

"Who is he?" So they had to go back and find out what he was, at least, even for sociological purposes, and this created a Hayek boom, which is still on. One of my pet peeves—I wrote this in an article in the Quarterly Journal of Economics many years ago—is that government functions by statistics. If you cut the statistics out, government can't function at all.

You can't even pretend to plan, they won't know what's going on. In other words, the market provides information to entrepreneurs, businessmen or whatever, for the price system, etc. So businessmen don't really need much statistics. What they need is statistics they themselves generate, and qualitative knowledge of the market.

The whole overall statistics, all the stuff that's launched from the Department of Commerce, Department of Labor, etc., is all for government information, basically. In other words, for the government, the bureaucrats, the politicians to do anything, they have to have statistics. They don't have any real world knowledge except for statistics.

Therefore, if we cut the statistics off, they're helpless, they can't do anything. So as a laissez-faire person I've been advocating for many years, eliminating all appropriation for government statistics. Statistics in

general have been in the service of the state. In other words, the first statisticians in economics were German historical school people who realized you had to use it to plan, the government has to use it to plan.

19th century statisticians, that was their aim, “We have to gather statistics so the government can plan things. We have to know how much unemployment there is so the government can cure it,” etc. Richard Keeley, my old buddy, who I already mentioned, [unintelligible] government was a major instrument of redemption, of course was a big empiricist statistician type.

He himself didn’t gather statistics, he’s in favor of it. He said we need empirical data to “move the forces at work in society and to improve existing conditions.” Samuel Rubbels, who was the American delegate to the International Statistical Congress in Berlin in 1863, said that, “Statistics are the very eyes of the statesman, enabling him to survey and scan and have a clear and comprehensive version, the whole structure and economy of the body politic.”

It’s true. Of course, the converse of it, if you strip the government of statistics, they can’t do anything. They can’t even pretend to know anything, which is great. Cal Reit, one of the first commissioners of labor in the United States, who was a big statistician, was influenced as a student of Ernst Engol, the German Historical School member, the head of the Royal Statistical Bureau of Prussia, and a founder of Engol’s Law, whatever that is, [unintelligible] consumption.

Richard Eley was a former student of Engol. Henry Carter Adams was also a progressive economist along with Eley, and established the Statistical Bureau of the Interstate Commerce Commission to carry on Engol’s great work, believing, “That ever-increasing statistical activity by

the government is essential for the sake of controlling naturally monopolistic industries.”

And Irving Fischer, whose life was dedicated, even though fairly free market in many areas, his life was dedicated to stabilizing the price level from manipulation of money at the Federal Reserve—always working on making an index number to try to show what the scientific index number, solution to the index number problem, which of course there isn't.

There ain't no scientific index number. Those are things, the scientific index number—the cost of living, for example, because everybody's got a different buying pattern. In other words, I buy a lot of books. The cost of living index, which pinpoints the classic Dayton, Ohio housewife with two kids and the wife of a steel worker, they don't buy any books, except maybe a Reader's Digest summary or something.

So the book prices, which have been skyrocketing, as you all know, that never gets in the inflation index. My inflation index is very different from the Dayton, Ohio housewife index. That's not of course [unintelligible] stamp out. Fischer said in the bookmaking of index numbers, “Until this difficulty could be met, stabilization could scarcely be expected to become a reality.”

You can't stabilize the price level if you don't know what the price level is. Deprive them of that, boy, we have them. All these people—Carol Wright was a Bostonian, a Progressive reformer, Henry Carter Adams was the son of a New England pietist congregational preacher, a missionary [unintelligible] Iowa, who started out to study for the ministry to follow his alma mater, Andover Theological Seminary.

Irving Fischer—okay, we get to Irving Fischer, one of my pet peeves here, alleged greatest economist of the 20th century—was the son of a Rhode Island Congregationalist pietist preacher. Watch out for sons of

preachers, I guess. His parents are both of old Yankee stock, his mother a strict sabbatarian.

He was an inveterate reformer with a crusading spirit. He was an unbelievable prohibitionist. As a matter of fact, he wrote three books during the 1920s saying that Prohibition works, proving by statistics that Prohibition was good. He also believed in outlawing—get this—he was particularly enthusiastic about purging the world “of such iniquities of civilization as alcohol, tea, coffee, tobacco, refined sugar and bleached white flour,” which he wanted to outlaw. He was an early health nut. For those of us in the anti-health nut movement. [Laughter]

And of course, he loved Benjamin Strong because he was stabilizing price level. Then we have Wesley Clair Mitchell, institutionalist, founder of the National Bureau of Economic Research, and beloved figure. Student of Thorsten Veblen, and who also was dedicating himself—he wanted a lot of government statistics, especially during World War One, to be able to plan a system.

All these guys, by the way, loved World War One, they all took their spots in the collectivist planning system. As Dorfman, who was a friend and student of Mitchell, put it about Mitchell, that he was clearly the type of social scientist—paraphrasing something about Mitchell—said clearly the type of social invention most needed today is the one that offers definite techniques [unintelligible] the social system can be controlled and operated to the optimum advantage of its members—that’s Mitchell.

And Dorfman says, “To this end, Mitchell sought to extend, improve and refine the gathering and compilation of data. Mitchell believed that business cycle analysis might indicate the means to the achievement of orderly social control of business activity.” See, now all this time Mitchell was claiming to be a value-free scientist.

A value-free scientist gathering statistics, in order to do what? In order to be able to plan the system. That's allegedly value-free. Mitchell's wife and collaborator, Lucy Mitchell, in her memoirs, talking about herself and her husband, said that Mitchell envisions the great contribution the government can make to the understanding of economic and social problems.

If the statistical data gathered independently by various federal agencies were systematized and planned for the interrelationships among them could be studied. The idea of developing social statistics not merely as a record, but as a basis for planning emerged early in his own work. So he joined war collectivists in World War One.

At the end of World War One, an interesting event happened—namely, this is December 1918, one month after the armistice, the American Economic Association and American Statistical Association had a joint meeting. I don't think they've ever done that before or since. A joint [unintelligible] in Richmond, Virginia, fairly close to Washington, where they had been percolating during the war.

And they have a joint meeting with, presidential speeches by Fischer, because it's the American Economic Association, and Mitchell, the American Statistical Association. They're both very optimistic. Boy, they love the war, and they love the [unintelligible] war, which they think will be an extension of the war, which of course in a sense it was.

Fischer looks forward to an economic world reconstruction that will provide glorious opportunities for economists to satisfy their constructive impulses. Plan the world, right? Class struggle, Fischer noted, would surely be continuing over the distribution of the nation's wealth. But by devising a mechanism of what he called readjustment, the nation's economists could occupy an enviable role of impartial arbiters of a class

struggle. These disinterested social scientists making crucial decisions for the public good.

In other words, this is the role of the intellectuals, and Fischer and Mitchell saw themselves, and all these other guys did too. Everybody else is bound by their own class interests, all selfish and narrow and so forth and so on, businessmen, unions, etc.

We, the intellectuals, the planners levitate above the class struggle. We believe only in the truth, and therefore we're the ones who are divinely appointed or whatever to plan everything for society, make all the decisions on the basis of the national interest and the common good.

In those days they said that openly. This is before the science of public relations had advanced to a high art. Everybody was pretty out front with their position. That's why it's interesting to study this whole period. The engineers would say, "We're engineers, and society is complex, and therefore we should plan the whole world."

Economists should plan the whole world—of course, a squabble there about who should be the planners. What's interesting, Charles Steinman, the great inventor, General Electric's main inventor, General Electric being a Morgan firm, by the way, Steinman called himself a socialist.

He wanted rural socialism, and his view was that rural socialism should be planned and run by the corporations, obviously mostly General Electric, and that the top inspiration and guide for the [unintelligible] should be the great world inventors, obviously, namely himself.

In other words, he saw a General Electric world and him running it, was his idea of socialism. I guess it was socialism, a different form. And Mitchell proclaimed that the war led to the use of statistics, as the

president of the American Statistical Association, not only as a record of what happened, but also as a vital fact of planning what should be done, same thing as Lucy Mitchell said,

He also said that the war had shown that when the community desires to obtain a great goal within a short period, far-reaching social changes can be achieved. The need for scientific planning of social change has never been greater. The chance of making those changes in intelligent fashion has never been so good.

The peace, he said, will bring new problems, but it seems impossible the various countries will attempt to solve them without using the same sort of centralized directing now employed to kill our enemies abroad, for the new purpose of reconstructing their own life at home.

This is a constant theme from then on, for the rest of the century, the New Deal period and World War Two. We did such a wonderful job in World War One planning everything and running everything and [unintelligible] everything, why can't we do that for peace as well as war? Why can't we use these great means of collectivism for peaceful purposes?

Then he says in contrast to the quantitative physical sciences, he tells the statisticians, said Mitchell, the social sciences are still immature, speculative, filled with controversy and class struggle. But quantitative knowledge, in other words, statistics, could replace such struggle and conflict by commonly accepted precise knowledge, objective knowledge, inimitable to mathematical formulation and capable of forecasting group phenomena.

A statistician, Mitchell opined, is either right or wrong, and it's easy to demonstrate which. As a result, a precise knowledge of facts, Mitchell

envisioned, we can achieve intelligent experimenting and detailed planning while we're in agitation and class struggle.

Then he says to achieve these vital goals, economists and statisticians would provide of course the crucial elements, for we would have to be relying more and more on trained people to plan changes for us, to follow them up, to suggest alterations, namely for himself and his buddies.

So what you have is a naked grab for power. By the way, the Marxist Karl Manheim, a German Marxist, was presented with a problem. If everybody's determined by their class interest, what about intellectuals? What about Marx, who was obviously a bourgeois type and so forth? Where do they fit in?

His answer was, "Intellectuals free float, they levitate above the class struggle." So everybody else is determined, but we're free. This is, by the way, the typical determinist argument. "All you guys are determined; I'm somehow broken through this, I have free will." There's some good material on all this.

There are two left wing books, one by Guy Alkan, Princeton University Press, I think it's called *The Invisible Hand of Planning*. It's about the 1920s and all these social scientists, their grab for power, and he quotes Mitchell and Fischer and so forth. First, what he's saying, he's attacking these centrists for selling out Marxism and Leninism or whatever, it really doesn't matter what the position of the author is, as long as he gets the right stuff.

James Gilbert wrote a book called *Designing the Industrial State*, came out about 20 years ago, about what he called collectivist intellectuals of the Progressive era and World War One. He's the one that talks about Steinman and General Electric socialism.

David Noble has a book, *America By Design*, which is in paperback, about scientists and the nationalization of science in World War One, how the scientists all grabbed for power in industry. Said, “Boy, World War One is great. We have government direction of science, we can channel science and research into different areas,” which required of course more funds. *Designing The Industrial State*.

A lot of good stuff on this, which is of course neglected by mainstream economists. There’s a lot of stuff to be done, a lot of research. This is tapping the surface of it. Manny wanted me to mention some overall reference to the history of economic thought. There’s no really good book on the history of economic thought [on extant], which his why I’m writing one.

The most inclusive book is by Henry W. Spiegel called *The Growth of Economic Thought*, something like that. The titles are all very similar. That’s a huge—it’s available in paperback and it’s huge, like 900 pages, and it’s got everything in it. Of course, he’s wrong about almost everything. But at least he’s got the facts.

The Development of Economic Thought or Growth of Economic Thought, something like that. Published by [unintelligible], so it’s widely available. He’s got a very good annotated bibliography, about 150 pages. It’s very comprehensive, and the best part of the book. He’s got all these people in there, got all the groups.

The really best book book is Alexander Grey, but it’s very short. Came out in 1931. It’s called *Development of Economic Thought*, it’s a similar title, and what he does is he only covers a few groups. He covers Smith, Ricardo, Marx, and he winds up with the Austrians, interestingly enough. Even though he wrote it in 1931, he ignored everybody, ignores Marshall and all the other stuff, goes right to the heart.

He's also a great writer, one of the great writers in economic thought. Witty, sardonic, and all the rest of it, perceptive. He demolishes people with two sentences, things like that. He also wrote a book called *The Socialist Tradition* on socialism, great on that. Great quip about, one of these crazy socialist books, one of these ten-volume books or something like that, impossibly written, he says, "It's the sort of book," he said, "you'd give as one of the six books that you'd take to a desert island."

Unfortunately, Grey's second edition, there's some guy named Thompson writing stuff about Keynes which is worthless. That's supposed to be in print, the Grey-Thompson book, but I understand now it's not in print, it's out of stock for three months. So this is where we stand.

You can get the older edition or you can get the newer edition, but they're both out of stock, but they're sometimes in stock. After that, it's sort of a swamp. The Schumpeter book is a great book, but it's very obscure, and it's also eccentric. Schumpeter's great on some things and bad on other stuff, and you can't predict which it's going to be at any moment.

Schumpeter's a very interesting economist. I didn't have time to go into his doctrine. It's the only business cycle theory worth talking about aside from Mises and Hayek, I think. And I think it's wrong, but it's very interesting. It's derived from the [Balrasian], in fact he was a Balrasian. Unfortunately, he was a Böhm-Bawerkian and shifted to Balras.

Probably the best tribute to another economist ever written was Schumpeter's obituary, memorial article on Böhm-Bawerk, magnificent, part of his *Ten Great Economists*, I think. So I think it's a very interesting endeavor and interesting writer, but basically wrong on stuff.

His original business cycle theory was so obviously wrong, he had to create new epicycles in his two-volume work on business cycles. He said there were several business cycles all going on at once and accumulating. He unfortunately was responsible for bringing the [Kongochev] wave into American thought, of which it has still not yet been purged.

He's an interesting writer. He didn't finish this book. It's unfair to some people [unintelligible], so I can't really recommend it as a key book, as an overview, but not too much else. Scott has a book, it's very old. There are certain specific things and specific writers, of course, but as an overall situation, that's about it.

Unfortunately, Eckelund and Abehr textbook is extremely Whiggish. In other words, the sort of thing that everybody is great—Austrians are great, Keynesians are great, they all contribute to the world outlook. So for an Austrian it's of course kind of loveable, because here I'm cited in Eckelund and Abehr favorably, but everybody else is cited favorably too.

The thing is I think that since Austrian economics is true, there's certainly a desire for truth on the part of people. The truth value people. Scholars are supposed to be even more of the value of truth. Doesn't always work, but in some cases it does. So you have this shining truth coming up, as being combated by other influences. I think the shining truth—also what then begins to happen is, eventually faulty theories begin to collapse.

So what happens is that for various reasons, theories begin to collapse. Take Keynesianism, for example, which was dominant for many years, and the government loved it and they loved it and everything's great. Keynesianism began to decline on the theoretical level when the equations were worked out. When Modigliani's equations were worked

out in econometrics, I think in '48, '50, they found out the whole thing rested on the assumption of wage rates being rigid downward; otherwise, nothing works.

But it's not supposed to be that. It's supposed to be all blamed on capitalism. Now we find out the rigid wage rates, now it has to be blamed on either government or unions. The whole political focus begins to shift. Then other things begin to pop up—the magic multiplier gets reduced to about one by the Keynesian statisticians.

The magic evaporates. And gradually, on the theoretical level, Keynesianism begins to lose out. Not replaced by anything particularly good, but at least the Keynesian paradigm's losing out. And then when the Keynesian political predictions flopped—in other words, Keynesian rests basically on the idea that either you have a recession or you have an inflation.

In a recession, you pump money in, you pump spending in in whatever proportion you're going to do it. When you have an inflation, you take money out or you take spending out. What do you do, however, when you have inflation and recession at the same time? As [unintelligible] would say, blank out—there's no answer.

And this of course began to appear after World War Two, especially in 1973 recession, we have a galloping inflation along with a recession, then they had to bug out. They had it. Keynesian as an intellectual force stopped. It doesn't mean that Keynesians stopped. The Marxists will say the ruling class, in this case, had lost their will to rule. They didn't know what the hell to do.

Do you inflate, do you deflate? What do you do? So they sort of hung in there, trying everything, and putting their foot ultimately on the accelerator and the brake, trying to hope that something works. And

basically that's what the Keynesians have been ever since. That's why the Friedmanites won out. The Friedmanites didn't win out because of high theory; they won out because Keynesianism was dead, basically.

So people said, "Hey, maybe the money supply is important. Maybe those jerks out there in Chicago are right." Friedmanism was tried. So that's a reality check on faulty theory—eventually it begins to come a cropper, both on theoretical grounds and on practical policy grounds, and things collapse.

So there's still Keynesians around, but they really have nothing to say particularly. They're sort of spinning wheels. And interestingly enough, what happened to the monetarists politically in the Reagan Administration—when the Reagan Administration first came in, there were four contending economic groups.

There were the old-fashioned conservatives, of which libertarians were sort of an extreme variant—of course, lost out within a year, all kicked out or left. Martin Anderson and people like that. They were out. Those were never the favorite—big budget cuts, big tax cuts, not inflating things, they were out very fast.

Then you have the monetarists and the supply siders and the right wing Keynesians contending for power. The monetarists were big at the beginning. Sprinkle comes shooting his mouth off, Secretary of the Treasury. They were in charge of the money supply. The Reagan Administration, what they did was they put the Keynesians in charge of the budget, and put the monetarists in charge of the money supply, and each one gets his own turf.

So the monetarists were running the Fed for a couple of years, even though Friedman kept saying it's not really monetarist, it's a lot of baloney. They have two percent off or one-tenth—really it was a

monetarist policy for several years. Total flop on monetarists' own terms. Since Friedman says that science is prediction. They kept making predictions, they kept flopping, outrageous flops.

So if you live by the sword, by the prediction sword, you're going to die by the prediction sword, and when prediction comes a cropper, you've had it. The monetarists were discredited, with a whole bunch of folding predictions, including a prediction that you can tamp inflation slowly, turn down inflation without having a recession, which of course any Austrian could've told them is impossible.

That was it. These few predictions, monetarism was now politically discredited, not so much in the economics profession; in politics. As a result, [unintelligible] been relegated to the Council of Economic Advisors, which is now Siberia—no influence, no power, and he's kept his mouth shut.

So what's happening is supply siders are really Keynesians anyway, become Keynesians, a lovely stew pot coalition of supply sider Keynesians and conservative Keynesians. By the way, it's another thing, supply siders are people who now take up a torch of Ada Lerner, saying [unintelligible] "Who cares about a deficit?"

They don't quite say, "We owe it to ourselves," that's really the next step. By the way, on supply side, I would recommend everybody to read, to understand supply side doctrine, Yuveniski's famous book, *The Way The World Works*, which came out just before the Reagan election, 1980, '79. The thing about the Yuveniski book, which was a bestseller, but I can't find anybody who's ever read it—Yuveniski book is very interesting, it's fascinating because he has a whole philosophy of history at work.

Philosophy of history is basically this: He's what you can call very kindly a right wing Hegelian. He says history is working out the will of the

masses. The will of the masses is always correct. The masses know the truth. So the function of the intellectual and the politician is not to enlighten the masses, because the masses know everything anyway, the masses are always right; it's to embody the collective will of the masses into institutions, into history.

History is a providential onward and upward march, by which the masses' collective will is embodied in history. So the two ends in life for Weneski, the two goals of history are, one, world government, and two, world pure democracy, because democracy, the more democratic, the better, because the masses can express their will faster.

As a matter of fact, he's the only person who's written in the last 50 years who loves World War One. Usually, the famous story is right wingers love the Cold War and liberals love World War Two. He loves World War One. Why World War One, the most destructive war, a pointless war? Because it got rid of the kings. He considered the kings absolute evil because they're not democratic.

He says that Hitler and Stalin, despite their various defects, were better than the kings, because they were at least democratic. I swear it's in there. I had to review the book for somebody, I had to read the damn thing. I don't consider it a scholarly contribution in the least. Thank you very much.

end of transcript.