

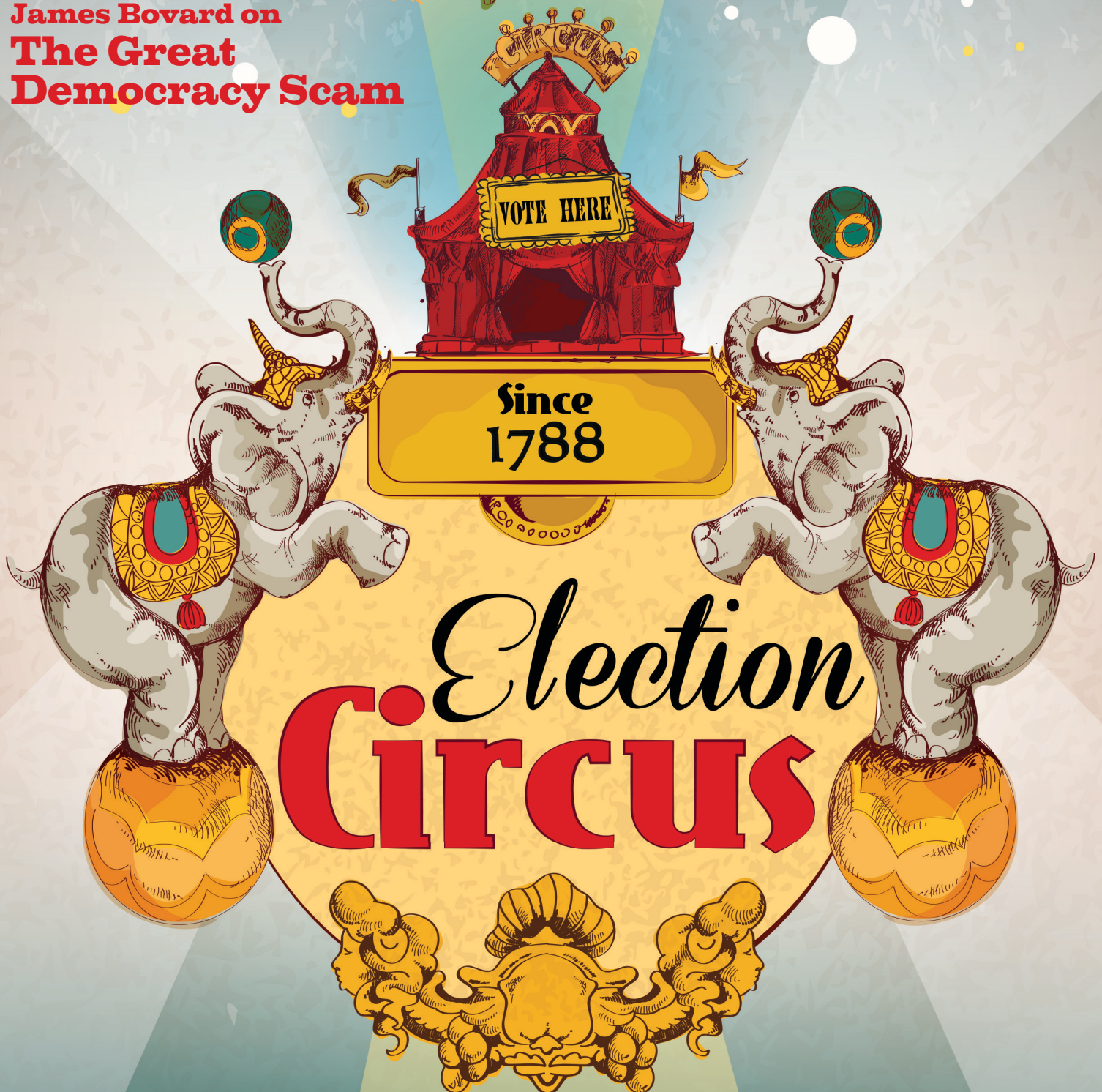
The Austrian

A PUBLICATION OF THE MISES INSTITUTE

Vol. 2, No. 5

September – October 2016

**James Bovard on
The Great
Democracy Scam**





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Publisher: Jeff Deist
Editor: Ryan McMaken
Managing Editor: Judith F. Thommesen
Contributing Editors:
David Gordon
Joseph T. Salerno
Mark Thornton

Mises Institute
518 West Magnolia Avenue
Auburn, AL 36832-4501
334.321.2100 | Fax: 334.321.2119
contact@mises.org | mises.org

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jeffdeist@mises.org •  @jeffdeist

From the publisher

Jeff Deist

We may someday look back on the summer of 2016 as a turning point for America and the West. Certainly the last few months will be remembered as a time of great upheavals: the Brexit vote, horrific terrorist attacks across Europe, a coup attempt in Turkey, police shootings and protests in American cities, and a thoroughly divisive US presidential race.

As the election nears, the political class struggles to maintain the façade of business as usual. But the old political paradigms are crumbling all around us, as people across the planet awaken to the stark choice between globalism and self-determination. This new reality presents us with an opportunity to make the case for liberty — the case for the individual against the state — like never before.

Brexit in particular was a stunning moment. It made us remember that ideas still have power. Elites in Europe and the US — always clamoring about “democracy” — were dumbfounded. Their agenda, once inevitable, suddenly seemed vulnerable. Brexit represented a symbolic triumph of good ideas over bad ones.

Ludwig von Mises and Murray Rothbard understood the importance of self-determination. They knew that centralization meant totalitarianism. Mises saw firsthand what Hitler meant for Europe, and offered a strong antidote: radical political devolution and secession, even down to a single individual. Rothbard saw the fall of Soviet communism and called for highly decentralized “nations by consent” — real nations, not phony political unions. Only this could save the world from future wars and collectivist bloodshed.

But elites in the US and Europe failed to apply the lessons learned from twentieth-century collectivism. Instead of embracing *laissez-faire*, the West doubled down on social democracy — just a soft version of pure socialism. They granted more power to Brussels and Washington, not less.

But today cracks in the globalist wall grow wider, and Brexit is just the beginning. All around the world, elites and their narrative are under fire. Central bankers are openly

challenged. Political unions in Scotland, in Catalonia, and even Texas threaten to dissolve. Millions of people see no benefit to themselves from going along with plans hatched at the UN or IMF.

Here in the US, politicians have lost control of the narrative — with social media leading the way.

Hillary and Obama have conspired to avoid her indictment, paving the way for her coronation as president. But she remains as unpopular as her agenda of Wall Street enrichment, bombs-first foreign policy, and social justice nonsense.

“Majorities are no less exposed to error and frustration than kings and dictators. That a fact is deemed true by the majority does not prove its truth. That a policy is deemed expedient by the majority does not prove its expediency. The individuals who form the majority are not gods, and their joint conclusions are not necessarily godlike.”

Ludwig von Mises, *Omnipotent Government*

Trump has taken on PC enforcers and damaged the political establishment. He’s said things you aren’t allowed to say. But he doesn’t understand free trade or noninterventionism, and backed off from earlier laudable statements about the Fed. Meanwhile the Libertarian Party candidate doesn’t seem to understand or defend liberty at all.

Americans want something better. They’re turning their backs on DC and Congress. They’re questioning politicians, media, and big banks like never before. They’re dismissing the self-appointed intelligentsia and self-appointed academic gatekeepers. This is not the era of Walter Cronkite or *Newsweek* or the *New York Times*. This is the era of a million instant social media responses to every official pronouncement. This is the era of feedback, where everyone has a voice — for better or worse. And for elites, it’s worse!

Why should 100 million Americans, give or take, be governed by someone they hate? It’s the most important question of our time, and a huge opportunity to make the case for a society organized around civil society and markets instead of politics. 

Jeff Deist is president of the Mises Institute.

The Great Democracy Scam of 2016

by James Bovard



No matter who wins the presidential election next month, the media and the political class will whoop up the result as another triumph of American democracy. Regardless that the winning candidate's path to power was paved with lies and shenanigans, we will be assured that "the system works." But the only certainty at this point is that America will have another bad president for the next four years.

Only 9 percent of Americans cast a ballot during the primaries for one of the two major party candidates. The Democratic National Committee emails disclosed by Wikileaks proved that the Democratic Party did everything it could to stifle popular choice and fix the process to assure that Hillary Clinton received the nomination. On the Republican side, Donald Trump ran against a series of self-detonating candidates. There was nothing at the end of that race for old-fashioned G.O.P. voters who preferred a candidate who at least pretended he would obey the law.

We've Been Voting for "The Lesser Evil" for Many Years

Surveys show that most voters this year will choose a candidate based on who they consider the "lesser evil." But this has been standard fare in elections for decades. A *New York Times* story on the eve of the 1996 presidential election quoted one voter who summarized the reality of modern democracy: "It's a question of who can hurt us the least. I don't think Mr. Clinton is going to hurt us, because he's got too many other things to worry about" (referring to the Whitewater, Paula Jones, and other scandals).

The sanction of "lesser evil" elections is paltry compared to that of elections won by a candidate who stands for the ideas and principles shared by a majority of voters. The fiction of majority rule provides a license to impose unlimited controls on the majority and everybody else.

Because modern presidents combine vast arbitrary power, pervasive secrecy, and a docile media, they can usually do as they please. Rather than a democracy, we increasingly have an elective dictatorship. People are merely permitted to choose who will violate the laws and trample the Constitution.

The Mythology of Democracy

Modern democracy is based on faith that the people can control what they do not understand. Election results are often only a one-day snapshot of transient mass delusions. Most voters make little or no effort to understand the policies that increasingly dominate their lives. Even policies which decimate the savings of scores of millions of Americans, such as the Federal Reserve's zero interest policy, rarely if ever show up on the radar screen. When candidates do discuss federal policies, they are confident most listeners do not know enough to recognize malarkey when they hear it.

After election day, pundits and politicians will remind us that the winning candidate will boss us around because he or she has "the consent of the governed." But, rather than magic wands to direct government, voting levers are now unreliable Kevlar jackets against political and bureaucratic attacks. Regardless of how people vote, the National Security Agency will still read their emails,

the Internal Revenue Service will still have power to hammer who it pleases, and federal agents will continue to have a *de facto* license to kill.

Voting is now a way of conferring power and honors on politicians, rather than a method of reining in rulers. In the early American Republic, candidates would stress their fidelity to the Constitution. But the Constitution has long since vanished from the campaign trail, replaced by competing promises of new handouts and fiercer attacks on imagined perils.

People are merely
permitted to choose who
will violate the laws and
trample the Constitution.

The mythology of American democracy is being beaten like a rented mule this year. It is time to recognize how the government and much of the media have sought to make people submit via the same type of delusions that long propped up monarchs. In the 1500s, peasants were encouraged to believe that the king was chosen by God to serve His purposes on Earth. Today, Americans are encouraged to believe that a presidential candidate's election is a sign of divine approval of his victory. In the 1600s, English yeomen were told that any limit on the king's power was an affront to God. Today, Americans are told that any restraint on the president's power thwarts the Will of the People. In the 1700s, the downtrodden of Europe were told that their king possessed the sum of all Earthly wisdom. Today, people are encouraged to believe that the president and his top cadre practically know

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JAMES BOVARD, CONTINUED

all and see all and need
boundless power to
keep people safe. In the early 1800s, people were encouraged to believe that kings automatically cared about their subjects, simply because that was the nature of kings. Now, people are taught that the government automatically serves the people, simply because a plurality of voters assented to one of the politicians the major parties offered them.

A Ticking Time Bomb

Almost 200 years ago, Sen. John Taylor of Virginia warned: “Self-government is flattered to destroy self-government.” The same Republican and Democrat politicians who are heaping praise on voters pre-election will do little or nothing to stop the next onslaughts from federal agencies issuing dubious or inane rules to bring citizens to their knees. And, when government victims complain, a servile media chorus will remind them that

“government is just the people acting together,” as President Bill Clinton declared in 1996.

Democracy is merely a form of government. It is not a mode of salvation. It is not a catapult to the Promised Land. But a democratic government that respects no limits on its own power is a ticking time bomb, waiting to destroy the rights it was created to protect.

Are Americans free simply because they are permitted a perfunctory choice on who will molest their rights and liberties? In the coming years, the most important battles for freedom will take place in the minds and lives of Americans far from the Beltway. But in the meantime, let’s hope that whoever wins in November does not destroy the nation with pointless wars or wreck the economy beyond repair. ■■■

James Bovard is the author of ten books, including 2012’s *Public Policy Hooligan*, and 2006’s *Attention Deficit Democracy*. He has written for the *New York Times*, *Wall Street Journal*, *Playboy*, *Washington Post*, and many other publications.



JOSEPH T. SALERNO

The Good Thing About Old-Fashioned Protectionism



Donald Trump has announced his economic advisory team and unveiled a preliminary broad-brush economic program that his prospective administration would implement. He has promised to fill in the details of his America First Economic Plan as the election approaches. So how should we grade his choice of advisers and his economic plan at this point?

Trump's thirteen-man economic advisory team has more current or former CEOs (4), more billionaires (5), and more guys named Steve (6) than it does former academic economists with a PhD (1). And the lone academic economist, Peter Navarro, while a Harvard PhD is a faculty member at the University of California at Irvine, hardly an elite institution. As the title of one article harrumphed, "Trump's economic team has a lot of billionaires, very few economic experts." But this, of course, is all to the good.

Although economist Navarro is very well published, his ten books are written primarily

for popular and investor audiences and most of his specialized articles were published in business and policy journals aimed at business professionals and policymakers rather than his fellow academic economists. He has never published an article in a top economics journal, although he has co-authored a book about US economic policy with R. Glenn Hubbard, the prominent Columbia economist and former chief of the Council of Economic Advisers under George W. Bush. Of late, Navarro has been a one-note economist who takes an old-fashioned protectionist stance on international trade, especially with regard to China. He favors a crackdown by the US government on China's "unfair trade practices" such as export subsidies, currency manipulation, and intellectual property theft. Between 2008 and 2015 Navarro wrote three luridly titled books and produced a low-budget Netflix documentary about the economic and geopolitical risks posed by China.

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Joseph T. Salerno is professor of economics in the Lubin School of Business of Pace University in New York. He is editor of the *Quarterly Journal of Austrian Economics*; Academic Vice President of the Mises Institute, and Director of the Mises Institute Fellows Program.

JOSEPH T. SALERNO, CONTINUED

Now the absurd and counterproductive China bashing and raw protectionism of Trump, Navarro and some others on the Trump team should be roundly condemned. However, there are two good things about old-fashioned protectionists. First, their naïve fallacies are easy to refute and, second — and maybe more important — they tend to be anti-globalists who reject phony multilateral “free trade” deals. These deals are opaquely crafted by design, run to thousands of pages, and mainly benefit US politicians and bureaucrats and their allied bankers and crony capitalists. And, indeed, Navarro and Trump passionately oppose the Trans-Pacific Partnership agreement, NAFTA, CAFTA, and the South Korean Free Trade Agreement.

Now, simple unilateral free trade — legally guaranteeing the right of domestic residents to freely trade with a resident of any foreign nation regardless of its trade regime — is always the ideal policy for a nation from the point of view of justice and prosperity. However, the nineteenth-century style bilateral trade “deals” that a Trump administration promises to negotiate with other nations are much more transparent and more likely to produce movement toward genuine free trade than the secretive and labyrinthine deal-making that characterizes modern multilateral trade agreements. One need only think of the great Anglo-French treaty of 1860 negotiated by the classical liberal free-traders Michel Chevalier of France and Richard Cobden of Great Britain.

Trump’s America First Economic Plan also deserves some applause. It is true the plan seems to take only a modest step toward lightening the burden of taxes on the long-suffering American middle class and freeing US business from increasingly onerous taxes and regulations that are choking off capital accumulation and growth in labor productivity, but it is a movement in the right direction. More important is the populist anti-globalism theme that pervades the document, because it clarifies and changes the entire tenor of the debate on US international economic policy. For no less than old-fashioned protectionism, genuine free trade is also a populist, America First, anti-globalist policy.

Both policies are represented by their supporters as the proper means for promoting the welfare and prosperity of American consumers and workers. Unfortunately, since the Bretton Woods conference in 1944, the genuine free trade position has not gotten a fair hearing among the American public. The reason is that the term “free trade” has been co-opted by advocates of an alien, globalist doctrine that has very little to do with promoting the economic welfare of ordinary Americans and everything to do with centralizing control of international trade, investment, and monetary affairs in the hands of US and foreign political elites.

Consider that post-World War II multilateral economic agreements and supranational organizations (GATT, WTO, IMF, World Bank, NAFTA, EU, TPP) are all explicitly aimed at “coordinating” and collectively “managing” economic activities among nation-states. As Murray Rothbard insightfully wrote about NAFTA: “What the Establishment wants is government-directed, government-negotiated trade, which is mercantilism *not* free trade. What it wants also is institutions of internationalist super-government to take decision-making out of American hands and into the hands of super-governments, which would rule over Americans and not be accountable to the American people. ... [NAFTA] is worse than open socialism; for it’s international socialism camouflaged in the fair clothing of freedom and free markets. Populists, even protectionist populists, are right to view it with deep suspicion.”

Trump’s economic team and economic plan also merit praise for whom and what they exclude: orthodox macro-economists and their relentless and profoundly fallacious promotion of the Federal Reserve and its ultra-Keynesian policies aimed at stimulating spending, as the panacea for the serious problems afflicting the US economy. As noted above,



the Trump team includes only one academic economist, and a heterodox one at that. Aside from its flawed trade policy, the Trump plan is broadly consistent with sound classical Austrian economics and focuses on cutting taxes, spending, and regulations and balancing the budget. While the plan is unfortunately silent on how a Trump administration would deal with the Fed and what monetary regime it would pursue, it is refreshingly free of any endorsement of the current Fed's unconventional techniques for endless money creation, which redistributes real wealth and resources from productive

Americans to parasitic financial firms and other capitalist cronies.

In sum, pending further details, I assign a tentative grade of C+ to Mr. Trump's performance in economic policy. But I am a notoriously easy grader who gives students multiple opportunities to earn extra points and increase their grades, so if Mr. Trump adds items to his plan dealing with "auditing the Fed," or "subjecting the Fed's budget to Congressional appropriations," or "considering the gold standard as a monetary alternative," I will gladly raise his grade to a B. ■■■

Mises's Bibliographer

BETTINA BIEN GREAVES TURNS 99

and supporter of the Mises Institute, and has been a key resource in compiling Mises's works and in the writing of his biography, *Mises: The Last Knight of Liberalism* by Jörg Guido Hülsmann. She is the recipient of the Mises Institute's Gary G. Schlarbaum Prize for Lifetime Defense of Liberty.

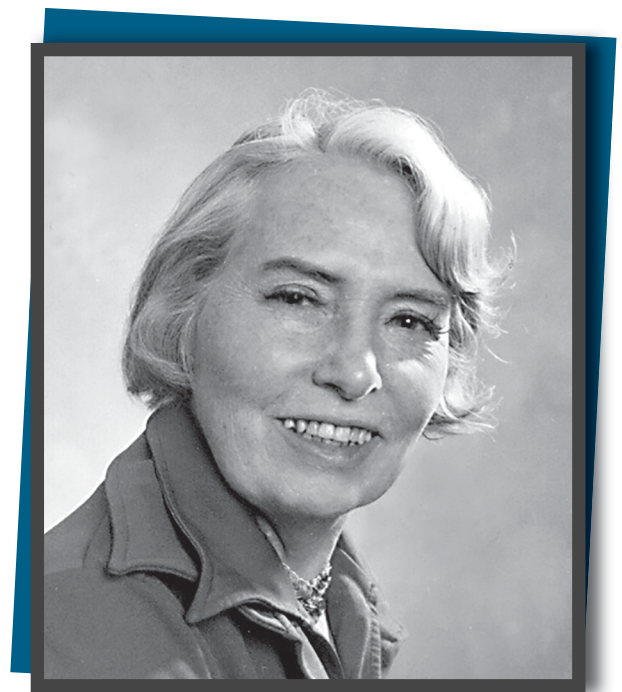
Greaves first became acquainted with both Ludwig von Mises and his wife Margit through his seminars. As Greaves remembers: "It began in the late 1950s, when I began attending Mises's New York University seminar. Then, one summer when the Miseses were going to Europe, his wife Margit gave me a key to their apartment so that I could catalog his books. I did that over the summer. Among the books and pamphlets were Mises's own writings. Also over the years when I was in Mises's seminar, he would hand me a copy of anything he wrote. I began accumulating things over time. ... That eventually became the bibliography I presented to him on his eightieth birthday [in 1961]."

Greaves and her husband, economist and historian Percy Greaves, both attended Ludwig von Mises's New York University seminar, and later collaborated on editing and translating Mises's work. She has recounted how when working with Percy on translating several of Mises's German-language essays for *On the Manipulation of Money and Credit*, "[t]he two of us often spent hours, with dictionaries and thesaurus at hand, discussing the most suitable words to use."

Greaves has long been an important source for scholars researching Ludwig von Mises, although Greaves maintains that Mises's ideas are more important than the details of his life, "I enjoy talking about him and discussing his career. But as interesting as the details of his life are, his ideas and economic theories are more important. Promoting them will be the most fitting tribute possible to Mises."

Happy Birthday, Bettina!

This past July, **Bettina Bien Greaves**, Ludwig von Mises's longtime associate and bibliographer turned 99 years old. Greaves is a longtime friend



MISES UNIVERSITY 2016

2016 marks thirty years of Mises University, and this year was one of the biggest gatherings yet, with more than 180 students from 17 countries, and 31 states. Students and faculty joined us from more than 100 colleges, universities, high schools, and home schools.

Mises University is our biggest event of the year and lasts seven days as students and faculty members work closely to introduce students to all of the basics of Austrian economics and to help students expand the role of sound economics, history and law in their own academic work.



Since we began the program thirty years ago, with Murray Rothbard as our academic head, we have brought thousands of students through the program, with many going on to careers in academia, finance, medicine, and journalism.

Several of our former students, such as Tom Woods, Peter Klein, and Robert Murphy, teach at Mises University today. And, for many Austrian economists now teaching in colleges and universities, Mises

University was their introduction to the world of Mises and Rothbard, and Menger and Hayek.

This year, Tom Woods kicked off the event Sunday night, July 24, with his lecture stressing the limits of politics in bringing about real change. Dr. Woods was followed by Joseph Salerno who introduced students to the history of the Austrian school. From there, students went on to a variety of courses in the fields of economics, history, and law, with Judge Andrew P. Napolitano offering a multi-lecture course on constitutional law.

Seven days later, students reported leaving with a renewed desire to pursue the scholarship of freedom and sound economics. As in the past, many of these students will apply in the future for our fellowship program and for other programs such as our Rothbard Graduate Seminar.

For many students, it all begins with Mises University.



I am writing to thank you for your tremendous generosity in sponsoring me to attend the Mises University summer programme this year at the Mises Institute. It almost can't be put into words quite how unique an opportunity this programme provides, to interact with and learn from what are undoubtedly the greatest living minds in their field, assembled into one place in such a constructive and lively atmosphere. I am fully certain that the importance of this one week, to educating the next generation of Austrian economists and furthering the cause of liberty, cannot be overstated. I write to you during only the third full day of the Mises University programme, and yet the sheer number of people (myself included) who have already proclaimed that the experience has changed their lives, perhaps says more about the importance and appreciation of your donations than any words could.

Having first heard about the Austrian School and this programme through the writings of Tom Woods, I am now certain that Mises University has allowed me to deepen my knowledge far beyond what would have been possible on my own. I very much look forward to being able to apply these new insights when I continue my undergraduate studies in Economic History at the London School of Economics in the fall. I further hope that one day I too will be able to count myself amongst the Institute's benefactors, but until such time the least I can do is extend my most heartfelt thanks to you for supporting this extraordinary programme and the ideas it represents.

Wishing you the very best in health and happiness,

George Pickering
London School of Economics



DID TARIFFS MAKE AMERICA GREAT?

DAVID GORDON

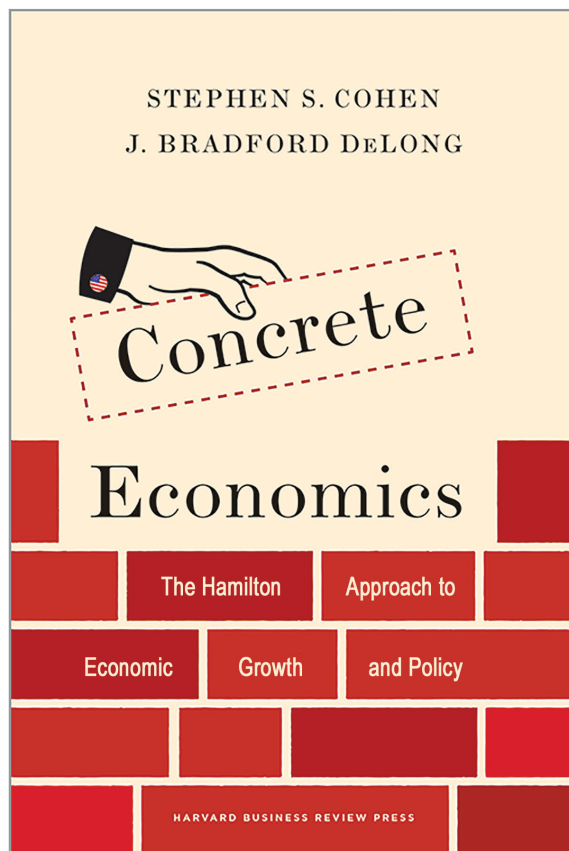
REVIEWS

Concrete Economics: The Hamilton Approach to
Economic Growth and Policy

Stephen S. Cohen and J. Bradford DeLong

Harvard Business Press Review, 2016

xi + 223 pages



Cohen and DeLong are well-known economists, but they indict their fellow economists for an overemphasis on theory. Away with models that have little relation to reality, our authors say. Instead, we need to grasp a simple lesson about the source of America's prosperous economy.

What is this simple lesson? "In successful economies, economic policy has been pragmatic, not ideological. And so it has been in the United States. From its very beginning, the United States again and again enacted policies to shift its economy onto a new growth direction. ... These redirections have been big. And they have been collective choices. ... Government signaled the direction, cleared the way, set up the path, and, where needed, provided the means. And then the entrepreneurs rushed in, innovated, took risks, profited, and expanded that new direction in ways that had not and could not have been foreseen."

The heroic leaders include, first and foremost, Alexander Hamilton; Hamilton's nineteenth-century successors, who continued his high tariff policies; Teddy Roosevelt and FDR; and Dwight Eisenhower. Hamilton, a "major economic theorist," favored "high tariffs, high spending on infrastructure, assumption of the states' debts by the federal government [and] a central bank." The rationale for this ambitious program was to reshape the economy "to promote industry ... the aim was not to shift the new and fragile economy to its comparative advantage, but rather to shift that comparative advantage."

Hamilton's policy is open to an obvious objection, but Cohen and DeLong stand ready with an answer. The objection is that free trade benefits everyone engaged in it. If, by contrast, the government picks "winners," such as industries it wishes to support, there will be losers as well. If so, do we not have here a case in which the value preferences of the policymakers have been substituted for the freely expressed wishes of the consumers?

The authors answer in this way: "The textbooks tell us that the operations of a free trade system produce a positive sum game: all sides gain. But in industries of substantial economies of scale, of learning and spillovers, there is a major zero-sum element to the outcome. Few governments, if any, place the welfare of the rest of the world above that of their own citizens — my gain can well be your loss. ... In terms of the structure of production and employment, the gain of one side comes at the expense of the other side, unless ... the other side (in this case, the United States) can move its resources and people into still higher-value-added activities, industries of the high-value future."

This response blatantly begs the question. Of course, they are right that if an industry subsidized by the government drives out of business a competing industry from another country, the subsidized industry benefits and the losing industry suffers. It hardly follows from this, though, that a free trade policy puts the welfare of the world above that of its own citizens. Why do the losses to the unprotected industry outweigh the gains of consumers in one's own country now able to buy products more cheaply from the foreign firm? Of course, if one assumes that a prosperous economy must be heavily industrialized, our question can be answered; but this is just what is at issue. Why not let the balance between industry and non-industrial products be settled by the freely expressed wishes of consumers?

Cohen and DeLong cannot yet be forced from the field of battle. They say about the "East Asian Model," "The objective was to steer investment into industries that would pay off over the long run. It is not to direct resources into industries that earn the largest immediate profits for businesses at some set of [Adam] Smithian free-market prices. The object is to direct resources to industries that will pay off in terms of economic development."

Is not the far-seeing state able to see into the future better than businessmen, heedless of the long run out of avidity for current profits? Readers more skeptical of the state than the authors will be pardoned for doubting the matter, all the more so when the authors themselves acknowledge problems with their scheme: "Can such policies go wrong? Yes. Can such policies produce horrible economic disasters? In many cases they have."



Further, even if the state spotters of future trends "get it right," from the viewpoint of the industrial policy our authors favor, the fundamental question recurs. Why should the balance between current production and production for the future be set by anything other than the decisions of the consumers? Why is a greater emphasis on the future than consumers wish somehow "better"? The authors suggest that if the economy grows fast enough, sacrifices of present consumption will be repaid by higher consumption in the future. Even if they are right, though, who are they to say that the sacrifices are worth it? Once more, Cohen and DeLong substitute without basis their own value judgments for those of the free-market consumers.

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DAVID GORDON, CONTINUED I suspect that the authors, if they deigned to read these remarks, would respond with derision: “Raise all the free-market purist points you want. What we propose works!” They say, “What we do know is that since the days of Hamilton, it is a fact that America’s successful economic policy has been pragmatic, not ideological. It has been concrete, not abstract.”

America, under the high tariff pro-industrial policy the authors support, became the most prosperous economy in the world; and the success of state-directed economies in China and East Asia adds further evidence. Is it not simply obstinate to deny this?

This argument is vulnerable at two points. The first of these will be familiar to any reader of Bastiat and Hazlitt. Granted that the American economy has attained great prosperity, how do we know that prosperity would not have been even greater under the *laissez-faire* regime our authors disdain? Must we not examine “what is unseen,” as well as “what is seen,” as Bastiat long ago noted?

Have we been too hasty in this response? The authors might be taken to answer us in this way: “The United States had every chance of sharing what W. Arthur Lewis called the economies of temperate European settlement. These other countries — Australia, Argentina, Canada, and even the Ukraine — became in the nineteenth century great granaries and ranches for industrial Europe. But none of these developed the industrial base to become fully first-class balanced economies in the late nineteenth century. ... When commodity price trends turned against them, they lost relative ground. By contrast, the twentieth century became an American century precisely because America by 1880 was not a gigantic Australia.”

Here once more our authors have begged the question. They assume that, in the absence of “industrial policy,” the United States would have been a largely agricultural country. Why think this?

The doubt here is more than an abstract possibility, of the sort Cohen and DeLong view with contempt; and this raises the second line of attack that may be directed against their “it works” argument. There is little reason to think that Hamiltonian policies led to American prosperity. True enough, tariffs were often high,

and nineteenth-century governments favored internal improvements. But tariffs were virtually the only source of government revenue, and the size and scope of government was minuscule in comparison to today’s bloated state. Why not ascribe the success of the American economy to the relative freedom of the economy rather than to industrial policy? Appeal to the “concrete” avails nothing; facts without theory are blind. The question becomes all the more pressing when one considers that the authors count as a case of successful state intervention the government’s making land available through the Homestead Act of 1862. The fact that the government

How do we know that prosperity would not have been even greater under the *laissez-faire* regime our authors disdain?

made it very easy to acquire title, rather than selling land by auction to the highest bidder, is somehow counted as a triumph for state policy. If one is going to call a way of privatizing land an instance of state oversight of the economy, the case for state control of the economy is readily made. To readers who do not share the biases of Cohen and DeLong, though, their procedure will seem akin to calling white black. ■■■

David Gordon is Senior Fellow at the Mises Institute, and editor of *The Mises Review*.

The
Mises
Circle

Save the Dates!

For details see mises.org/events

Boston | October 1



Dallas/Ft. Worth | November 5



GREETINGS FROM MONGOLIA

In the May-June issue of The Austrian, we mentioned Ms. Oyunchimeg Bayarsaikhan in Mongolia who has begun translating books from mises.org while organizing new discussion groups on Austrian economics.

Ms. Bayarsaikhan recently wrote us about her latest successes:

I really appreciate that you assisted me in attending both Mises Academy and Virtual Mises University online. This means a lot to me. I would like to send my warm greeting to all of your team, sponsors, and Mises University students on behalf of Mises Mongolia and our Mises Mongolia Community.

Recently, I read *Economic Policy Thoughts for Today and Tomorrow* by Ludwig von Mises as part of a course on Mises Academy. I realized that when I read it in English, I would understand 40 or 50 percent of it, but when I translated it into Mongolian, this would increase to 80 or 90 percent. So I started translating this small book for me and for my fellows. Once I am finished, we will publish it and distribute to universities, and make copies available for sale. You may remember my friend Amartuvshin published *Anatomy of the State* by Murray Rothbard, and sold all copies.

We have found that in Mongolia, people don't read books in English even when free on the internet, but once translated and published in Mongolian, they will buy them and read them.

In a way, by helping me to study economics through the Mises Institute, you are allowing all my fellows and other youths to study in a broad sense, as well.

Please send our warm greetings to Mises Students, Sponsors, Teachers and your colleagues. We wish you great success!

My best regards,
Oyunaa, and Other Members of Mises Mongolia

A CONVERSATION

WITH ENTREPRENEUR **ROBERT LUDDY**



Robert Luddy is the founder and owner of CaptiveAire, a manufacturer of kitchen ventilation systems. He recently spoke with us about the role of Austrian economics in his education and entrepreneurship.

THE AUSTRIAN: How did you first become acquainted with Austrian economics and the Mises Institute?

ROBERT LUDDY: I was first introduced to Austrian economics by Dr. Bill Peterson, a student of Ludwig von Mises. We met when he was the Lundy Chair of the Philosophy of Business at Campbell University. Dr. Bill and I became lifelong friends and I was honored to learn under his mentorship until his death in 2012. Over the years, we attended Mises University with my two children as well

as many Mises conferences.

MI: How did your “Austrian” education with writers like Peterson and Mises differ from your formal education in college?

RL: I studied Keynesian economics in college and it was worthless. As a business owner, Austrian economics makes perfect sense to me because it’s free market.

MI: Has there been anything specific to Austrian economics that you think has been more useful than other schools of thought in economics?

RL: Austrian economists are truthful and provide real solutions that can be easily understood by most people. Austrians have a perfect understanding of how a free market works and why the competition of the free market produces excellent companies. They understand that competition breeds excellence and the absence of competition produces the inefficiencies of government and large bureaucracies (e.g., public education).

MI: You have said that understanding certain economic concepts like opportunity cost has been important in your decision-making as an entrepreneur. How has this helped you?

RL: Yes, we use a wide range of concepts including comparative advantage, opportunity cost, no free lunch, profits are a reward for efficiency, transaction costs, Say’s Law, and creative

destruction, to name a few. I always encourage new entrepreneurs to learn fundamental Austrian principles if they wish to succeed.

You mentioned opportunity cost — this helps us determine how we deploy our time and our resources. CaptiveAire's return on investment capital is the highest in the HVAC industry due to our product design, manufacturing process, material utilization, and efficiency. For example, in 1983, we bought a Darley hydraulic press break for our factory. The machine was revolutionary and reduced die changes, maximizing efficiency. I was very happy with it but it still required 2 die changes, which wasted time. After purchasing, I went to the manufacturer and requested a machine that didn't need any tooling changes. A year later I got it, years ahead of the industry and resulting in major efficiency savings.

MI: Having worked in your field for more than one business cycle, how has the boom-bust cycle impacted your business and your employees, and how has your knowledge of Austrian economics helped you gain insight into the process?

RL: The boom-bust cycle is challenging for manufacturers. In our early years, the 1981 recession was very difficult. Same with 2008. In 40 years of business, 2008 was the only year we ever downsized — we cut operating G&A by 20%. To combat changing conditions, we have built our system to be very resilient, which is enormously helpful. For example, a percentage of every employee's salary includes a monthly bonus that is based on profits and individual performance.

Bonuses aren't guaranteed, so if we don't make a profit, we don't pay bonuses. Another example is that our manufacturing plants can reduce production time from 5 days to 4 days if needed. This moves labor to a more valuable time. (E.g., all plants take a week off at Christmas during low production time. This is mandatory PDO, meaning that we have more man hours available for production during high demand time in other parts of the year.)

We have been able to grow sales in virtually every lean year except for 2008. We make sure that we are financially prepared to weather the worst recessions by having no debt, maintaining cash reserves, and not overextending the business even in good times. We also make sure that we test theories and look at things objectively and logically before putting them into practice. You have to be well-grounded in truth and have a good logical and analytical process to make good decisions. ■■■



events

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The Case for Unilateral Free Trade

BY LOUIS ROUANET

In the 2016 presidential election, Americans have been given a choice between two types of controlled and managed trade. On the one hand, there is Donald Trump who favors outright protectionism and controlled trade for the benefit of select industries and companies. On the other hand, there is Hillary Clinton who favors trade treaties in order to manage trade. Although she seems to oppose the Trans-Pacific Partnership, it is only because she does not believe this treaty to be “fair.” That is, for Clinton, the TPP is not protectionist *enough*. While Clinton describes her position as “pro trade” the fact is both Clinton and Trump favor two different types of protectionism. Even the disappointing third party candidate Gary Johnson fails to offer a credible alternative by mistakenly believing that the TPP and managed trade will “advance free trade.”

But, there is a third option, and some intellectuals, such as Professor Patrick Minford at Britain’s Institute of Economic Affairs, have recently argued in favor of that other option: unilateral free trade.

Economists claim to have obtained a consensus in favor of free trade. But even if we assume this to be true, the question of how to get to a free-trade regime is left to be debated. Today, most economists put their faith in so-called “free trade” treaties. Inversely, Austrian economists traditionally look at them with suspicion. To this extent, those Austrians follow the *laissez-faire* doctrine of the nineteenth-century classical economists. For instance, J.R. McCulloch, in his *The Literature of Political Economy* (1845), remarked that trade treaties “have not been employed to remove the obstacles that oppose commerce” and in 1901, Vilfredo Pareto

argued that “From the point of view of the protectionist, treaties of commerce are ... what is most important for a country’s economic future.”

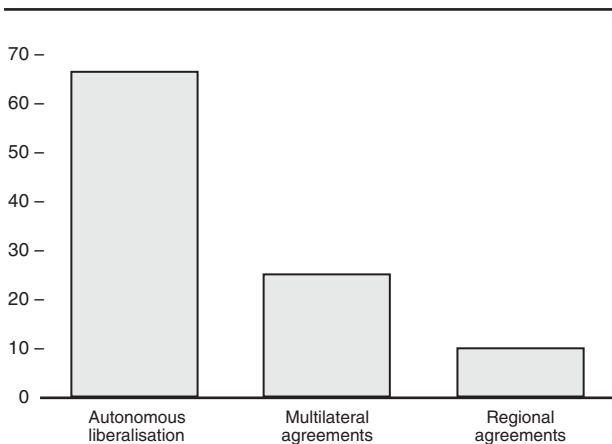
If in the past, some trade treaties may indeed have been beneficial for commerce, this is long gone. Negotiations are now left to unaccountable bureaucrats discussing which crony should benefit the most. It follows that “free trade treaties” consist in an avalanche of detailed regulations. The recent trade agreement between the EU and Canada, for example, is 1,598 pages long. But the opposite of protectionism is not thousands of pages long treaties about regulatory harmonization, intellectual property, labor standards, “sustainable development,” anti-trust, etc. There is no place for managed trade when it comes to real free trade.

On the free market, trade is about serving the consumers in the most valuable way, but with treaties, trade becomes an affair of power and politics where cronies, rather than the entrepreneurs, get rewarded.

The economic rationale for trade treaties consists in a simple application of game theory. While every government wants other governments to leave their doors open to foreign competition, they, at the same time, have an interest to erect trade barriers in order to raise taxes. It follows that in absence of international coordination, protectionism would prevail. The fallacy here is that the State is not an individual entity which only maximizes its wealth. In our Western democracies, governments are captured by numerous rent-seekers who all try to live at the expense of others. The fundamental question, then, is to understand what would be the impact of secretly conceived trade treaties on rent-seeking behaviors. By

asking this question, it seems improbable that we can achieve a better outcome by giving more power for the State to define what should or should not be subject to free trade. And it indeed happens that treaties are neither the best way to expend free trade nor the most common way to do so. As economist Razeen Sally has noted, according to the World Bank, “two-thirds of developing-country tariff liberalization since the early 1980s has been done unilaterally.”

Figure 14 Share of total tariff reduction, by type of liberalisation 1983–2003, %



Source: World Bank, http://siteresources.worldbank.org/INTGEP2005/Resources/GEP107053_Ch02.pdf

Instead of a top-down promotion of “free trade” driven by supranational institutions, we should consider unilateral free trade as an important part of a liberal political agenda. Sir Robert Peel, when announcing the

repeal of the Corn Laws in the House of Commons in 1846, brilliantly warned: “I trust the government ... will not resume the policy which they and we have found most inconvenient, namely the haggling with foreign countries about reciprocal concessions, instead of taking that independent course which we believe to be conducive to our own interests. ... Let, therefore, our commerce be as free as our institutions. Let us proclaim commerce free, and nation after nation will follow our example.”

Unilateral free trade is a boon for both parties involved in trade regardless of whether or not one of them continues to impose tariffs. For those engaged in unilateral free trade, free trade means they need to export less to import more. In other words, it makes the free traders richer.

The world would have gained much in listening to Sir Robert Peel. Unilateral free trade has the advantage that it needs the State to do only one thing: abstain from interfering. With this alternative, the State cannot grant privileges to interest groups nor can it slow down the liberalization process. Hence, if free trade is the goal, never-ending negotiations should not be the primary means.

We can have free trade now by declaring it unilaterally. For all the true friends of liberty and trade, the motto should be: liberalize first, negotiate later. ■■■

Louis Rouanet is a former Fellow of the Mises Institute and is a student at the Paris Institute for Political Studies.



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A PUBLICATION OF
THE MISES INSTITUTE

Ludwig von Mises Institute
518 West Magnolia Avenue
Auburn, AL 36832-4501

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