

# The Austrian

A PUBLICATION OF THE MISES INSTITUTE

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## After Obama: A New Dawn or More of the Same?

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# From the publisher

## Jeff Deist

Every New Year brings hope, but does it bring courage? As William Anderson explains in our cover story, courage is much-needed today — both within the Trump administration and at the Fed. Reality must be reckoned with. The spiral of exploding Treasury debt, false entitlement promises, and radical monetary expansion must come to an end. Interest rates must be allowed to rise, and a badly-needed restructuring of malinvested capital must be permitted.

Unless and until this happens, no real economic recovery is possible. Allowing markets and interest rates to operate freely would effectively “mark to market” the entire US economy, undoubtedly causing real pain for millions of Americans. But there is no other rational way forward. Nothing short of a global restructuring of the worldwide economy — so distorted by profligate governments and their obliging central banks — is at hand.

We can face this with courage, or kick the can down the road with more smoke and mirrors like quantitative easing and near-zero interest.

Trump needs his own Andrew Mellon, who as Treasury Secretary allegedly advised Herbert Hoover to “liquidate labor, liquidate stocks, liquidate farmers, liquidate real estate. ... it will purge the rottenness out of the system. High costs of living and high living will come down. People will work harder, live a more moral life. Values will be adjusted, and enterprising people will pick up from less competent people.”

It’s hard to imagine a Cabinet secretary brave enough to say that today, but in fact the only way to Make America Great Again is to liquidate decades of bad investments and bad debt.

The Fed likewise needs another Paul Volcker, the last Chairman with the courage to buck political pressure and ignore his critics. Volcker’s willingness to tighten monetary policy in the face of stagflation enabled the US to endure a sharp but short recession in 1982, instead of lingering malaise.


Is it foolish to expect this kind of courage to issue from the Eccles Building or the White House in 2017? Perhaps, but we should hold ourselves to a higher standard. As liberty-minded people, we believe in free will and human volition. ... We are not determinists or fatalists, but optimists dedicated to human flourishing. We believe that liberty is the natural and proper condition of man. So let’s have the courage of our convictions.

Peter St. Onge, an economist and former Mises Institute Fellow living in Taiwan, reminds us that what we call the global economy is really the sum total of 7 billion individuals acting to further their own happiness and well-being. The vast majority of those 7 billion people wakes up every day and strives to better their economic and material lives. We understand this as a simple axiom of the human condition.

But sometimes we underestimate the power of individual action and markets to overcome the worst excesses of governments and central banks. Economic growth is a natural consequence of human action, which is why markets always find the cracks in even the most oppressive regimes. We fret so much about government that we miss the economic, technological, and material miracles all around us!

Hayek warned against any pretense of knowledge, and we should resist the temptation to believe that any particular economic future is preordained. We can’t know that gloom and doom is around the corner any more than we can know what billions of economic actors will do. Economics is choice, unlike biology or physics. We should not lose sight of the fact that governments are not omnipotent, and cannot master the human spirit. This should give us courage and hope.

This issue also contains a tribute to Ralph Raico, whose death we were sad to report in December. Dr. Raico was one of a kind, displaying a combination of brilliance and wit that is rarely found among modern intellectuals. Ralph helped bridge the gap between his teachers (Mises and Hayek), his colleague (Rothbard), and today’s generation of Austrian scholars. We can only hope that his impact, like Rothbard’s, grows posthumously.

Everyone at the Mises Institute wishes you and your family a very happy, hopeful, and courageous New Year. 

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Jeff Deist is president of the Mises Institute.



# After Obama, a New Dawn or More of the Same?

by William L. Anderson



**N**early four decades ago, political pundits were shocked as voters turned away President Jimmy Carter and voted in Ronald Reagan, who promised to bring fundamental change to Washington and the indwelling political establishment. At the time, unemployment was rising quickly and inflation raged in double-digits, and Reagan had promised to deal with the economic failures by cutting income tax rates, slashing government spending, and reducing the regulatory burden.

As we know, Reagan succeeded in convincing Congress to do one of those three things — cut income tax rates — but the spending and regulatory monster continued to grow. The Carter administration already had initiated most of the major deregulation initiatives, and Reagan's role in that area was minor at best. Reagan had to deal with something else in 1982 that threatened to turn his presidency into a one-term failure: a major recession in which the nation's unemployment rate rose to above 10 percent and the disappearance of whole swaths of the nation's industrial sector, resulting in what has been called the "Rust Belt" of the northern United States.

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## Ending 1970s-Style Inflation

We know the rest of the story. The economy recovered (despite interest rates that were above 10 percent) and Reagan won re-election in 1984 in a huge electoral landslide. We also know that while the Reagan administration had many failures, capital investment nonetheless turned toward the “high-technology” sectors and telecommunications.

The one thing that was on no one’s political agenda in 1980 was on Federal Reserve Chairman Paul Volcker’s mind: how to wring inflation out of the system and re-establish some balance in the monetary sector. Reagan claimed that by cutting tax rates, businesses would follow with new investments and increase the supply of goods available to consumers, thus reducing inflation on the “supply side.” This is why the Reaganites referred to their plan as “Supply-side Economics.”

Volcker understood, however, that while supply-side’s boosters might have claimed it to be a painless way to end inflation, it clearly would be doomed to failure, something Austrian economists like Murray Rothbard and others also comprehended. Inflation is first and foremost a monetary phenomenon and reducing inflation would not come about by just cutting taxes and producing more goods. Instead, Volcker and the Fed needed to stop expanding the economy’s money supply and also allow interest rates to rise — and rise they did.

Unfortunately, the pundits (along with most economists — who should have known better) employed the *post hoc ergo propter hoc* fallacy, claiming that higher interest rates *caused* the severe recession of 1982. Instead, the higher interest rates exposed the economic malinvestments that needed to be liquidated before the economy could have a real recovery, and while Austrian economists are not necessarily satisfied with what the Fed and US government did during the 1980s, some positive things happened with the economy during the 1980s.

## Will Trump Pop the Bubble?

Donald Trump faces a much different situation post-election than did Ronald Reagan, but nonetheless a recession looms, as the Federal Reserve policies of the past two decades have piled up a mountain of

malinvestments, and especially since 2008, when the housing bubble finally crashed.

Since then, the economic “game plan” for the Fed and the Barack Obama administration has been to prop up the weak sectors of the economy through a combination of outright subsidies and Fed security purchases. The stunning diagram below explains in part why both interest rates are extraordinarily low *and* the US economy remains sluggish.

**The end of the Fed’s  
experiment in massive  
debt and easy money  
will come “some day.”  
But definitely not today.**

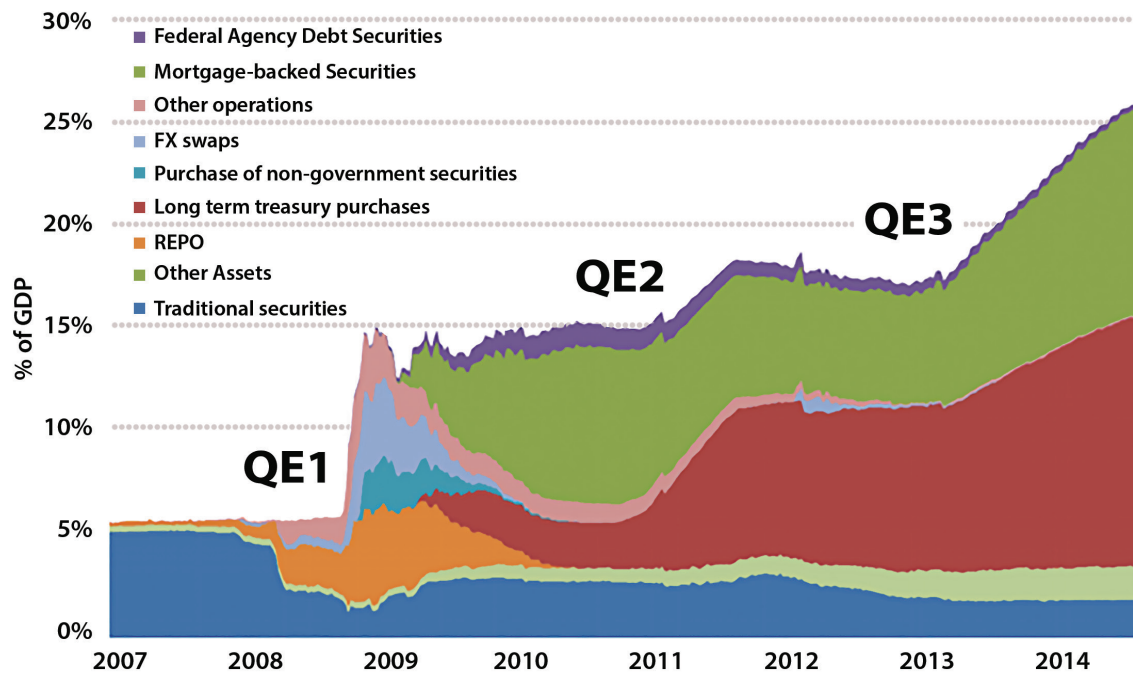
As one can readily see, Fed purchases pre-2008 meltdown consisted mostly of six-month U.S. Treasury Bills, with the dollar amount being about 5 percent of US Gross Domestic Product (GDP). Post-meltdown purchases, however, have skyrocketed, and the Fed, while cutting back on six-month T-bills, has engaged in two very questionable activities, including the purchase of massive numbers of mortgage securities to continue what is left of the housing bubble, and buying long-term US bonds in order to decrease the interest rate spread between short-term and long-term securities. This is something that former Fed Chairman Ben Bernanke called “Operation Twist” (or what Peter Schiff more aptly said should be named “Operation Screw”).

The purchases tended to level off after 2014, but not until the Fed was propping up a quarter of U.S. GDP through its purchases. Yes, the official rate of unemployment in this country is less than 5 percent, but no one — not even Paul Krugman — is claiming that all is well. Certainly, both Bernie

CONTINUED ON NEXT PAGE



### Federal Reserve Asset Composition (% of GDP)



Market Realist

Source: Federal Reserve

WILLIAM L. ANDERSON, CONTINUED

Sanders and Donald Trump were able to

generate a lot of political enthusiasm for saying the economy is in peril.

### The Real Problems Underlying This “Expansion”

Because Keynesians are wedded to the false “theory” of aggregate demand and aggregate supply, they are incapable of understanding the real issues facing the economy, and no one should be surprised. After all, Japan’s political and business leaders have been delusional for a quarter of a century, as the government now is trying to “stimulate” the economy via *negative* interest rates, something that truly places the government in a war with nature. For that matter, Krugman’s recent claims that future “austerity” measures — presumably imposed by the future Trump administration — will lead to a

recession actually demonstrates a terrible ignorance of what actually causes economic downturns.

The US economy clearly is sluggish, yet interest rates are very low, thanks to Fed programs like quantitative easing. Yet, while Keynesians call for increased amounts of government borrowing and spending (called “fiscal policy” in Keynesian jargon), the problem isn’t a lack of government-bred “stimulus.” The problem is that of large-scale malinvestments. When the Fed finds it necessary to use its large checkbook to manipulate huge swaths of the economy through playing with interest rates, there is no doubt that there are large underlying weaknesses throughout the economic system. Combine that with the vast government subsidies of “green” energy and the gargantuan amounts of money being poured into the unproductive US Armed Forces, and one can see that the government is cannibalizing the *productive* sectors in order to prop up the *unproductive* ones.



## What Must Be Done

What needs to be done, or more specifically, what must the government *not do* so that a real economic recovery can occur? First, and most important, the Fed must stop purchasing mortgage securities and long-term treasuries. That means that both mortgage rates and long-term interest rates will rise, and this also will pull up short-term rates. The economy cannot have a recovery if the Fed fails to do this.

All of this seems to be counterintuitive, since both Keynesians and Austrians agree that the immediate effect of the Fed's discontinuation of such purchases would mean a steep, short-term recession. Permitting interest rates to rise means that both housing and related industries will be hit hard (as was the case in 1982 — and the industry demanded a bailout). The current economy — sluggish as it is — is *addicted* to low rates, and this cannot go on if the USA is going to avoid the fate of Japan and Europe, where the economy also is weak.

## Austrians vs. Keynesians

However, Austrians and Keynesians diverge at interpreting what actually is happening after interest rates increase. Keynesians claim that aggregate demand is falling and will continue to fall until the economy reaches bottom *unless* government intervenes through spending and more money creation. Austrians, on the other hand, realize that in the short term, malinvestments that built up during the credit-caused boom are being liquidated, and if government and monetary authorities permit the liquidation and do not block the redirection of resources, entrepreneurs will lead the economy into a real recovery.

For that matter, Austrians and Keynesians are not even on the same planet when it comes to interpreting the role of interest. Austrians note that interest rates are connected to time preferences of borrowers and savers, and that interest rates send signals regarding the direction of capital goods and consumer goods. Keynesians, on the other hand, see interest rates as the gateway for aggregate demand, and suggest that interest rates generally should be lower than they would be if set by the market.

This difference of thinking is crucial. Keynesians demand an economic version of the alleged Einstein

definition of insanity: doing the same thing repeatedly and expecting different results. Japan has engaged both in massive government spending (read that, building tunnels, roads, and bridges to nowhere) *and* monetary manipulation, even resorting to negative interest rates, and yet Japan suffers from anemic economic growth — and will continue to experience the same until someone is willing to admit that 25 years of “stimulus” does not an economy make.

Donald Trump will face this moment, like it or not. Barack Obama faced it and decided to kick the can down the road and opt for yet more “stimulus.” How Trump deals with it will determine whether or not the US economy recovers from bad policies, or goes the way of Japan and Europe.

The irony (at least for Keynesians and fellow True Believers) is that the very thing that Keynesians believe will create long-term economic downturn — raising interest rates — is what the US economy needs most. More than a decade of artificially-low interest rates has distorted the economy's structures of production to the point where it will take a sharp recession to bring back productive balance — as counterintuitive as that may seem to many readers. There is no doubt that should Trump agree to allow rates to rise, he will pay a steep political price, as there is no doubt that the Dow Jones Average will tank and short-run liquidation of malinvestments will create some havoc.

What should Trump do when higher interest rates expose many of the dislocations? In a word, nothing. When the 1982 recession was in full force and much of official Washington, along with journalists, was calling for reflation of the economy, bailouts, and other “corrective” measures, President Reagan simply replied, “Stay the course.” Although, as noted earlier, Reagan did a number of things that were both politically and economically harmful throughout his presidency, nonetheless, he was right on that point, and ultimately his stubbornness bore some economic fruit. ■■■

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William L. Anderson is professor of economics at Frostburg State University in Frostburg, Maryland, and is an Associated Scholar of the Mises Institute. His Ph.D. in economics is from Auburn University, where he was a Mises Fellow.





On November 5 in the Dallas-Fort Worth, Texas area, a packed house joined the Mises Institute for a pre-election analysis of how we must move beyond politics to bring about the necessary ideological and societal changes needed for a turn toward freedom and peace.

Jeff Deist began the program with a discussion of how the 2016 election — regardless of the winner — has brought about positive changes in how we view elections and the political establishment. One of the biggest gains, Deist noted, is the fact that the media has lost control of the narrative. Meanwhile, the old political alignments are breaking down, perhaps leaving room for a more effective libertarian message.

Deist's talk was followed by two presentations on the nature of democracy and elections by Robert Murphy and Ryan McMaken. Both Murphy and McMaken explored how what we're taught in school about democracy has little to do with the reality.

*From left: Jeff Deist, Ryan McMaken, and Robert Murphy*



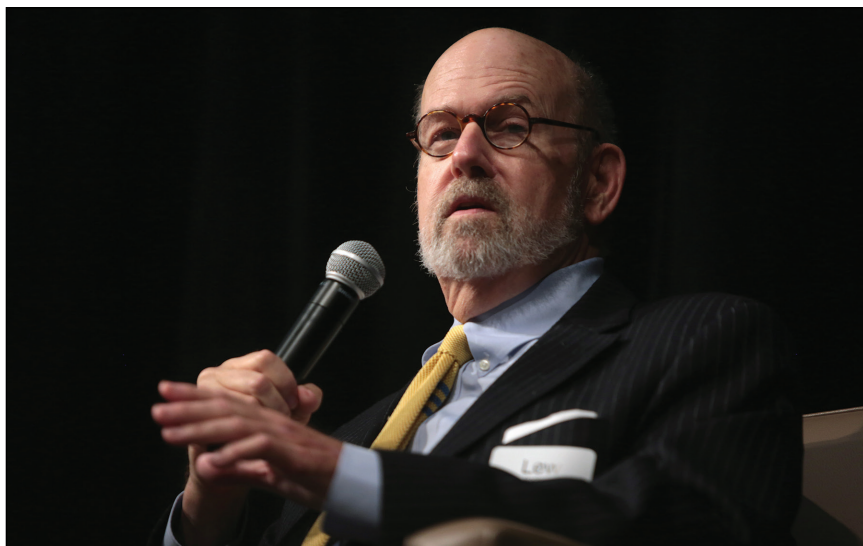


The featured lectures were followed by a panel of speakers including Ziad Burkett, Ryan Griggs, Marta Hidalgo, and Brittany Hunter. These speakers offered their insights into elections and political activism as students and young entrepreneurs.

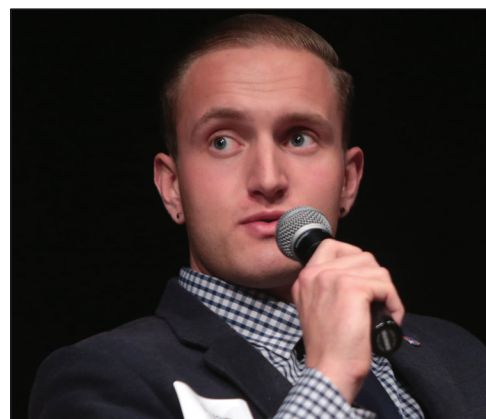
The program concluded with an interview of Lew Rockwell who, drawing upon decades of experience with elections and ideological trends, discussed the political landscape of today and what can be learned from the campaigns of the past including those of the Goldwater and Reagan movements.

Attendees had the opportunity to meet with all speakers and with other supporters from the Mises Institute.

Special thanks to Klaas and Anastasia Talsma for making this event possible. ■■■



*Lew Rockwell and Jeff Deist speaking to attendees at the Ft. Worth Mises Circle*



*Above: Ziad Burkett, Ryan Griggs  
Below: Marta Hidalgo, Brittany Hunter*





# RALPH RAICO

## IN MEMORIAM



In December, Ralph Raico, longtime Senior Fellow of the Mises Institute, passed away. David Gordon reflects on Dr. Raico's role in the fight for peace and freedom:

"His intellectual brilliance was evident from an early age, and while still in high school, he attended Ludwig von Mises's seminar at New York University. There he met Murray Rothbard, who became his lifelong friend. Ralph was one of the most brilliant members of Rothbard's Circle Bastiat. He received a PhD from the University of Chicago, working under Friedrich Hayek.

"Ralph became the leading historian of classical liberalism and also a renowned authority on revisionist history. His books *Classical Liberalism and the Austrian School* and *Great Wars and Great Leaders* show penetrating analytical skills, immense learning, and devotion to liberty. He lectured at the Mises University and other conferences of the Mises Institute for many years.

"Ralph was one of my closest friends for over thirty-five years, and I wish I could convey to those who didn't know him his intellectual sharpness, wit, and kindness.

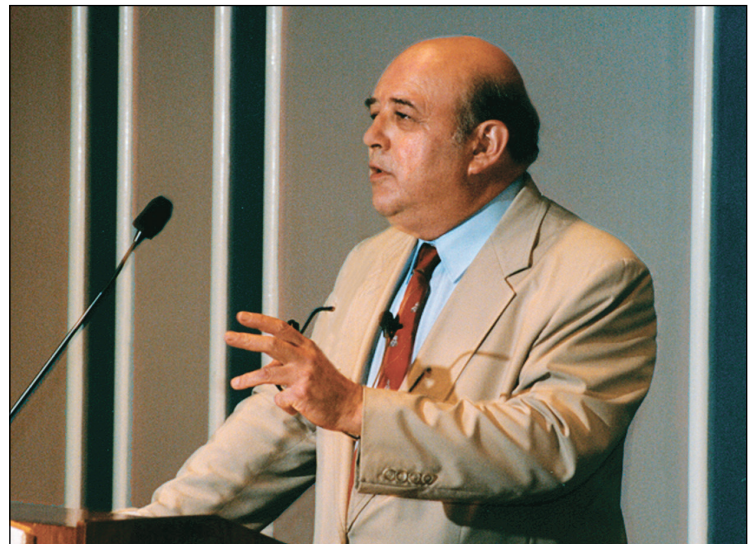
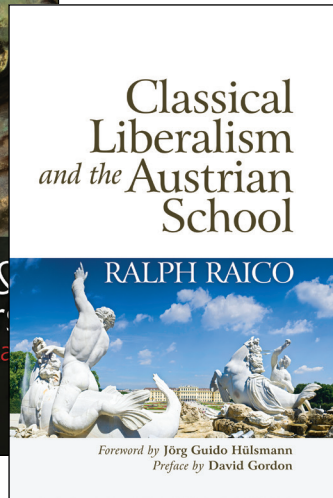
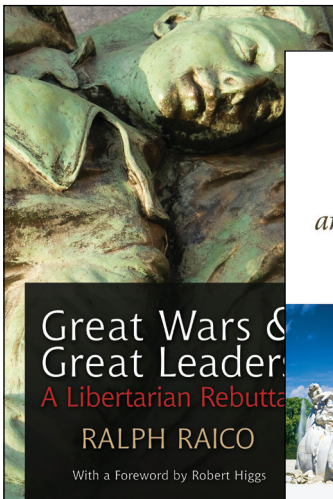
"Ralph was a great man, and I was very fortunate to have been his friend."

Dr. Raico's influence spanned generations as well. In 2016, he donated his extensive library of notes, writings, and books to the Mises Institute Library and Archives. He even took care to set aside his papers on French liberals for Mises Fellow and student Louis Rouanet, who was a Research Fellow at the Mises Institute at the time.

Upon hearing news of Dr. Raico's death, Rouanet writes: "I am very saddened that Dr. Ralph Raico has passed away. He was, for sure, one of the most eminent libertarian intellectuals of his generation as well as a great man. Some of his articles, especially 'The European Miracle,' are amongst the best I ever read and many of his lectures which can be found online are still worthy of being watched."

For more tributes, including a fascinating interview, see [mises.org/wire](https://mises.org/wire). ■■■





# Events

**February 25** — Mises Institute In San Diego, California

**March 10–11** — Austrian Economics Research Conference; Mises Institute

**April 8** — Mises Institute In Lake Jackson, Texas

**May 20** — Mises Institute In Seattle, Washington

**June 4–9** — Rothbard Graduate Seminar; Mises Institute

**July 23–29** — Mises University; Mises Institute

**August 31** — Mises Institute in Orlando, Florida

**October 6–7** — Mises Institute 35th Anniversary; New York City

Student scholarships available for all events. See [mises.org/events](http://mises.org/events) for details.

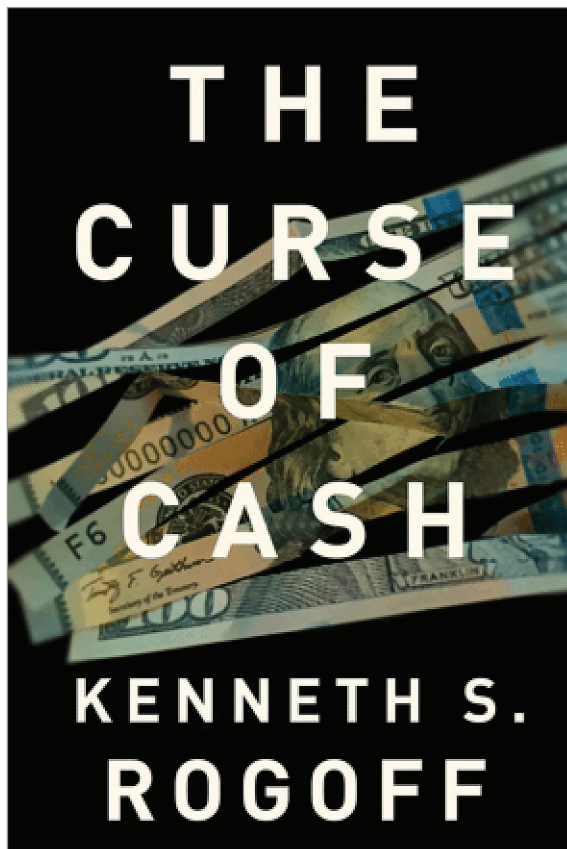
# THE WAR ON CASH FINDS ITS GENERAL DAVID **GORDON** REVIEWS

The Curse of Cash

Kenneth S. Rogoff

Princeton University Press, 2016

x + 283 pages



**K**enneth Rogoff would sharply disagree with Peale, a character in the 1915 novel *It Pays to Advertise*, who said that the most beautiful word in the English language is “cash.” For Rogoff, a distinguished monetary economist (and chess grandmaster) who teaches at Harvard, cash, especially in large denominations, ought to be eliminated.

Rogoff has two main arguments for his proposal; but, before examining them, let us look at exactly what he wishes to do. In his suggested plan, which “can be adapted and tweaked in many directions,” “All paper currency is gradually phased out, beginning with all notes of \$50 and above (or foreign equivalent), then next the \$20 bill, leaving only \$1, \$5, and (perhaps) \$10 bills. ... The government provides all individuals the option of access to free basic-function debit card/smartphone accounts, either through banks or through a government option. ... Regulatory and legal framework aims to discourage other means of making large-scale payments that can be completely hidden from the government. ... Government helps facilitate ... real-time clearing for most transactions.”

One word reverberates throughout this proposal: “government.” For Rogoff, the government must combat nefarious characters in the “underground economy,” not to mention tax cheats, who transact



business in paper money. Think of all the revenue the government has lost, owing to the selfishness of these miscreants!

The problems posed by the underground economy, Rogoff tells us, are far-reaching in scope: there is a great deal of “missing” cash, mostly in large denominations. “The bulk of US cash in circulation cannot be accounted for by consumer surveys. Obviously, if consumers are holding only a small fraction of all cash outstanding, they cannot possibly be holding more than a small fraction of the \$100 bills in circulation, since \$100 bills account for nearly 80 percent of the value of US currency.”

Where are the missing \$100 bills? Much of it is used in illegal activities, like the drug trade. “The drug trade is a famously cash-intensive business at every level. ... The RAND Corporation has estimated the combined size of the market for four major illegal drugs in the United States to be more than \$100 billion in 2010. ... Eliminating cash would hardly eliminate drug cartels. Nevertheless, it would be a significant blow to their business model at many levels.”

But could we not instead deal with this problem by ending the drug war? In a legal market, could the drug cartels survive? Rogoff has in part anticipated this response, but he rejects it summarily. “Obviously there are other ways of reducing drug-related crime. A simple one would be to legalize marijuana ... [but] hard drugs would remain problematic.” The thought that the drug war should be ended entirely has not entered his head.

He might reply in this way: “Even if you crazed libertarians would make all drugs legal, you still have to acknowledge that some activities that *should* be illegal, like human trafficking, depend on dealing in cash. This fact by itself suffices to justify my proposal.”

And this is not all that concerns Rogoff. Cash transactions enable people to avoid paying taxes. “The largest holdings and use of cash in the domestic underground economy likely derive from residents of all types ... who are broadly engaged in legal activities but who are avoiding taxes, regulations, or employment restrictions ... the tax gap is sufficiently huge that if eliminating cash can close it by as little as, say, 10 percent, the revenue gains would be quite substantial ... the gains would be on the order of \$50 billion from federal taxes alone and perhaps

another \$20 billion for state and local taxes.” Rogoff recognizes that many people do not want tax regulations to be “rigidly enforced” but responds that tax evasion creates a “horizontal equity” problem: if you evade your taxes, others, who do not, will have to pay more. But once again, the libertarian response does not occur to him: taxes are unjust exactions that violate people’s rights.

He has read Rothbard  
and cites him on  
paper money in the  
colonial period. But  
the Austrian theory of  
the business cycle is  
not within his  
range of vision.

Suppose, though, that one grants to Rogoff that taxes are legitimate and also that ready access to cash makes some crimes much easier to commit. Has he made his case for the abolition of cash? As he recognizes, the advantages of his proposal must be balanced against concerns about privacy: “It is important to separate out protection from government snooping and protection from relatives, friends, employers, or other private entities. Of course, people will always want to keep some expenditures or income secret from spouses, parents, and friends. The government can perfectly allow such transactions as long as they do not entail recurrent large expenditures and income to be completely hidden from the government.”

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DAVID GORDON, CONTINUED

Incredibly, he fails to realize that many of us do not want the government to monitor what we are doing. As long as our neighbors cannot snoop on us, everything is fine. Where liberty is concerned, Rogoff just does not “get it.” He points that a critic of his proposals quoted against him Dostoevsky’s remark, “Money is coined liberty,” but notes that the remark in *The House of the Dead* describes life in prison. “To draw an analogy between life in a Tsarist prison and life in the modern liberal state as a defense of large-denomination notes borders on the absurd.” The modern liberal state is your friend; why worry?

What we have discussed so far is only Rogoff’s first argument for the abolition of cash: he has another as well. If the economy is in a recession, the monetary authorities may need to “turbocharge” the economy by pushing interest rates down. Doing so, they hope, will stimulate production and increase aggregate demand. But at present an obstacle blocks these plans. The money rate of interest has already fallen to zero. Further reductions require negative rates. But if these are imposed, depositors will withdraw their funds. Why keep money in the bank if part of your money will be confiscated?

Rogoff describes the problem of the “zero bound constraint” in this way: “paper currency can be thought of as a zero-interest-rate bond. ... As long as people have the choice of paper money, they are not going to be willing to accept an interest rate that is significantly lower on any kind of bond ... the zero bound has essentially crippled monetary policy across the advanced world for much of the past 8 years since the financial crash of 2008. If unconstrained negative rate policy was possible ... central banks would never ‘run out of bullets’ (i.e., room to keep cutting interest rates)” (p. 5).

If paper money is eliminated, depositors will no longer be able to withdraw their money. What could be simpler?

It is disappointing that Rogoff fails to mention Austrian arguments that stimulating aggregate demand through monetary expansion is not the appropriate response to recession. He has read Rothbard and cites him on paper money in the colonial period (p. 235, note

26). But the Austrian theory of the business cycle is not within his range of vision.

He does, though, address an argument by Milton Friedman that is highly relevant to stabilization policy. “Friedman perfectly well understood that monetary policy could be a potent tool for economic stabilization, but he argued that central banks were so incompetent and so prone to inflationary finance that life would be simpler and better if the whole concept of Keynesian activist monetary policy was simply forgotten” (p. 188).

He replies that Friedman’s alternative of limited monetary expansion according to a fixed rule has not worked. Friedman thought that there was a fixed relationship between the quantity of money and prices, but this has not always proved to be the case. Rogoff may be right, but he has not responded to Friedman’s argument against central bank discretion. The fact, if it is one, that a particular alternative to discretionary policy fails is irrelevant. If someone argues that policy A will fail, claiming that alternative B is no better is hardly a response.

Regardless of whether Rogoff’s way of dealing with the zero bound constraint is economically sound, though, is it not unfair on its face? If you deposit money in a bank, why should it be subject in part to confiscation? Rogoff answers that those who press this objection are victims of a “money illusion”: “Many people will likely regard negative interest rates as a violation of the trust citizens place in their government. ... To see negative nominal interest rates as unholy but moderate inflation as just bad is to suffer what economists call ‘money illusion’” (emphasis in original). But why not take this point to be an argument against government-mandated inflation rather than, as Rogoff wishes, a defense of negative interest rates? Rogoff complains of the “zero bound constraint,” but he is himself bound by statist assumptions. ■■■

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



# WHAT'S IN STORE FOR THE NEXT FOUR YEARS?

A CONVERSATION WITH **ALLEN MENDENHALL**



A frequent collaborator with the Mises Institute, Allen Mendenhall is associate dean and executive director of the Blackstone & Burke Center for Law and Liberty at Faulkner University and is the author of *Literature and Liberty: Essays in Libertarian Literary Criticism* (2014) and *Oliver Wendell Holmes Jr., Pragmatism, and the Jurisprudence of Agon: Aesthetic Dissent and the Common Law* (2016). He recently spoke with us about his legal work, how the Mises Institute has influenced him, and his predictions for the new president.

**THE AUSTRIAN:** Tell us about your new position at Faulkner University and how you came to be associated with the Mises Institute.

**Allen Mendenhall:** I'm an associate dean in the law school at Faulkner and the executive director of a new center there called the Blackstone & Burke Center for Law & Liberty. The center promotes the common-law tradition and coordinates educational programs and research initiatives on liberty and private ordering.

I first started reading publications of the Mises Institute when I was a law student. I was freeing myself from the bad presuppositions and habits of thinking that had entangled me as an undergraduate English major.

For many years, I was a distant observer of the Institute. I was working through economic ideas for the first time, startled at the depth of my ignorance and exhilarated by the discoveries I was making through Austrian economics.

One day, on a whim, I wrote a book review and emailed it to the editors of Mises Daily. The next day, the piece was published. I was thrilled. After that, I wrote more pieces for the Institute, and when I attended Auburn University for my doctorate, Lew generously gave me office space to use during the school year.

ALLEN MENDENHALL, CONTINUED While I worked toward my doctorate, I participated in an Austrian Scholars Conference, attended Mises Circle events, and completed Mises Academy courses with Thomas DiLorenzo, David Gordon, Stephan Kinsella, and Robert Murphy. I was also working with Paul Cantor on developing libertarian approaches to literary criticism, an effort that resulted in the publication of my first book, *Literature and Liberty: Essays in Literary Criticism*.

**MI:** Now that you've had time to take a look at Trump's appointments following the election, what do you expect will be the overall tone of the administration?

**AM:** It's hard to say. Trump can seem evasive and unpredictable about details, even if his broad vision for certain policies — say, immigration or trade — is clear. I do find it promising that Trump has favored the private sector in his choices for cabinet positions: Andrew Puzder at Labor, Wilbur Ross at Commerce, Betsy DeVos at Education, and Linda McMahon at the Small Business Administration. And I'm fascinated by his decision to nominate Oklahoma attorney general Scott Pruitt, a longtime enemy of the EPA, to head up that agency, which exercised extraordinary powers under the Obama administration.

Whether these nominees will, if confirmed, reduce the power and spending of government or, instead, facilitate corporatism and cronyism remains to be seen. One harbors doubts when figures like John Bolton are in the mix for cabinet positions.

**MI:** What do you think are the best parts of the new Trump administration and what are the worst?

**AM:** The best, as I've suggested, include the selections of non-politicians and non-government figures. The worst, at least on the basis of track record, involve foreign policy. Given the choices at Homeland Security, Defense, and National Security Advisor, I'm fearful this won't be a return to an Old Right foreign policy.

As of this writing, Trump's nominee for Secretary of State is Rex Tillerson, the chairman and CEO of Exxon. I don't know much about Tillerson's perspective on

foreign policy, but at least he's not John Bolton, and I consider his business experience to be valuable.

**MI:** As an attorney, do you foresee any meaningful changes in the federal judiciary — including the Supreme Court — as a result of Trump's election?

**AM:** Yes. The history of the federal judiciary demonstrates that, no matter who the president is, courts always institute meaningful changes in society, for better or worse. On this score, I'd prefer a President Trump to a President Clinton.

The framers of the Constitution believed they could restrain the powers of government through a system of federalism, separation of powers, and checks and balances. Perhaps they were quixotic; the state of the federal government today would seem to suggest that they were. Even an ardent nationalist like Hamilton would be shocked at the growth and power of the federal government, let alone the federal judiciary. Many libertarians take an anti-Jeffersonian approach to the federal judiciary, advocating for robust judicial powers that can be enforced against local communities and private businesses. This bothers me.

Imagine if Hillary Clinton had won this election and appointed judges to federal vacancies in the district and circuit courts, and also to the US Supreme Court. Imagine if these judges and justices believed in a fundamental right to basic income or subsistence and attempted to incorporate these alleged rights against the states through the Fourteenth Amendment. Imagine new judges and justices who believed that forms of politically incorrect speech constitute "hate speech" that's not protected by the First Amendment. Imagine new judges and justices who believe the government is responsible for remedying past wrongs against certain groups and thus favored affirmative-action programs in schools and businesses. Imagine judges and justices hostile to the Second Amendment. We might have seen the federal judiciary populated by such jurists had Clinton been elected.

Because Trump won't nominate jurists like these, at least if his list of 21 potential nominees to the US Supreme Court is any indication, I believe his election will affect the role of judges in our society.



**MI:** In spite of Trump's victory, it's hard to ignore that the election was extremely close. Do you think there's any real ideological change in the US going on, or could we just be looking at a return to another typical center-left presidency in four years?

**AM:** Something has changed. Just four years ago, a Donald Trump presidency would have been inconceivable. I don't know whether a change in public opinion or culture or norms or attitude or demographics or whatever translates into a change in the size and structure of government at this point. We're experiencing political unrest, but it's not clear to me yet whether that will lead to more or less liberty and economic freedom in the long term. ■■■



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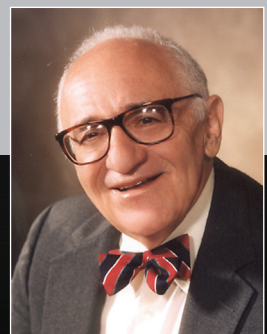
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# What Trump Means: A European Perspective

BY KARL-FRIEDRICH ISRAEL

Members of the European political and media establishment seemed to be sure that the 45th president of the United States would be Hillary Clinton, or at least they were desperately hoping so. The days after the election one could hear clamor of indignation from top journalists and politicians alike. It almost felt as if the European project had lost shoulder to shoulder with Clinton, now that America, Europe's most powerful ally, would be ruled by an "inhuman right-wing populist," an outspoken critic of the European Union, and a sympathizer of the UK Independence Party. And after all he says "America first." For the European establishment, this is an outrageous position to hold for the American president-elect.

General secretary of the ruling Socialist Party in France, Jean-Christophe Cambadélis, has compared Trump to the Front National's top candidate Marine Le Pen and noted that the French Left knew full well about the challenges ahead. French prime minister Manuel Valls emphasized that Europe needs to close its ranks, take responsibility and respond to the events on the other side of the Atlantic Ocean, adding that he does not believe in "the triumph of simplicity and demagoguery."

German minister of foreign affairs Frank-Walter Steinmeier who called Trump a "preacher of hate" during the election campaign stated shortly after the outcome was certain that "American foreign policy will now become less predictable," but that Germany "should not sit mesmerized like the rabbits before the snake." Germany "should remain self-confident

and needs to preserve its culture of public and political discourse." But who knows to what kind of cultivated discourse he was actually referring?

Indeed, Donald Trump was compared to Adolf Hitler in German television news at one point in his campaign when he had already far exceeded the expectations of most pundits. But, hardly anyone could imagine him becoming the next US president. On the very evening of November 9 when the unthinkable was taking shape, the consortium of public broadcasters in Germany (ARD) presented a survey according to which only 4 percent of the German electorate would have voted for Trump. One wonders whether this *representative* survey was conducted exclusively among the employees of the consortium.

When the Austrian presidential candidate and populist Norbert Hofer lost to Alexander Van der Bellen in early December, the EU establishment had its first moment of relief since the Brexit vote in the United Kingdom last June. "Hofer has hoped for the Trump effect in vain" ARD's news anchor declared somewhat triumphantly at the evening of the election.

However, at the same time the Italian people voted against President Matteo Renzi's proposal to change the Italian constitution, which led to his resignation and potentially a chance for the Eurosceptic Five Star Movement around comedian Beppe Grillo to form the new national government after early elections. This means that the three largest



countries of the Eurozone and the EU (UK excluded), Germany, France and Italy, will hold national elections within the next year. The Italian daily *La Stampa* wrote that the referendum “tells the same story as Brexit and Trump.”

Hence, it is pretty obvious that almost all political events and ongoing developments in Europe are now interpreted in light of Trump’s victory. There is no question that Trump already has had an impact on European politics regarding strategy and rhetoric.

## Looming Economic Realities in Europe

The most important issues, after the currency and debt crisis has mysteriously vanished from the scene for a time, is immigration, the stabilization of the Middle East, and how to react to millions of people coming into Europe.

Trump has such a significance for the political regime of the EU, among other things, because he was elected while openly advocating positions not expected to be capable of winning a majority, either in the US, and most certainly not in Europe. It runs completely against the position that the US government under Bush and Obama has taken, that Clinton sought to continue, and that the political leadership of the EU still wholeheartedly advocates and that is embedded in a broader political program. It is a program that mainstream media is vigorously promoting by emphasizing the benefits of open borders, diversity and multiculturalism, the importance of humanitarian assistance, as well as an official responsibility of the West to improve living conditions in the developing nations of Africa and Asia. That the latter so regularly turns into the very opposite in the form of aggressive military interventions is deliberately hushed up. Trump’s anti-interventionist positions in foreign policy have, against all odds, successfully challenged the globalist line of approach.

After an initial period in which Trump and his supporters were arrogantly ridiculed, a good dose of European superiority complex, vis-à-vis the US, was breaking through, and the general tenor has changed. In an act of self-defense, European political and media elites have desperately tried to make a bogeyman out of Trump and the movement behind

him as they saw the broader implications it might have.

Trump was admittedly courting some of the slogans used against him, but most of them are just hysterical exaggerations or allegations. And, while the European establishment claims a position on the moral high-ground, even the most promising aspect of Trump’s advocated isolationism from a humanitarian viewpoint — withdrawal from foreign military interventions — is turned against him. It is argued that Trump will abandon Europe and that European countries will have to substantially increase their own military budgets in the future.

The fact that the aggressive foreign policy of the West under the leadership of the US over the past decades has triggered the destabilization of the Middle East and Northern Africa in the first place, and hence reinforced the immigration crisis that Europe is facing right now, is not critically highlighted at all.

## Trump Will Be an Excuse for More Centralization

The EU establishment has obviously itself contributed to the problems it now tries to exploit in order to further centralize the political power structure of Europe. Trump will serve as a scapegoat that left Europe alone in the midst of an international conflict and humanitarian crisis. This narrative is already told without Trump having been in office for a single day, and it will be used as a justification for more intrusive EU policies if the peoples of Europe let it happen. However, chances are that the national governments all over Europe will face ever stronger opposition in the near future, if they are not directly replaced. Unfortunately, these opposition movements are not pushing in the right direction in every respect. But, all our problems will not be solved with next round of national elections anyway. They are much more fundamental and ideological. They are of a long-term nature. ■■■

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# The Austrian

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