

The Austrian

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GUIDO HÜLSMANN

TODAY'S LEADING
MISES SCHOLAR ON
THE MAN AND
HIS LEGACY





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Publisher: Jeff Deist
Editor: Ryan McMaken
Associate Editor: Tho Bishop
Managing Editor: Judith F. Thommesen
Design/Layout: Kathy White
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

Perhaps no one alive today has spent more time inside the mind of Ludwig von Mises than Dr. Guido Hülsmann.

Hülsmann's epic biography, *Mises: The Last Knight of Liberalism*, ranks among the best-selling titles in our bookstore. Dr. Hülsmann spent 10 painstaking years researching and writing it, sometimes working full-time and sometimes whenever he could. It was hardly an easy task for an academic economist, someone not trained as a biographer or historian.

But the result is magnificent. The book is not only an historical account of the man himself — a difficult task, given Mises's famous reticence — but more importantly an astonishing look at the vast body of his work. Anyone who reads the book comes away knowing far more about economics, philosophy, property, history, and civilization itself.

If you're not familiar with Dr. Hülsmann, consider this issue's cover interview an introduction. He trains students from throughout Europe in his PhD program at the University of Angers, and serves as mentor to many of them for years afterward.

Most of you, though, already know him as a formidable dean of the Austrian school and one of the leading continental scholars (along with Jesús Huerta de Soto in Spain) working to advance proper economics. He and Huerta de Soto are truly the Austrian voices in the wilderness, warning against the depredations of the profligate European Central Bank and the malevolent, anti-market European Parliament.

Hülsmann's speciality is money and banking, but he's far from a dry technician studying the mechanistic workings of monetary systems. He is instead a real Misesian, someone devoted to explaining economics as the stuff of life and an integral part of human society. His excellent book *The Ethics of Money Production* is a short but lucid explanation of what happens when the state controls money: inflation, war, welfarism, deficits, loss of capital, loss of savings,

and even personal destruction — all engendered by high time preference and low interest rates.


We're honored to have our friend Guido here in Auburn this summer, and encourage you to keep abreast of this great scholar.

We're also happy to report that our Associated Scholar and Mises University alum Jacob Huebert was the victorious attorney in the Supreme Court's recently-decided *Janus vs. AFSCME* case. Thanks to the great work of Mr. Huebert, his co-counsel, and the brave Mr. Janus, public sector unions no longer will be able to force non-members to pay union dues for the "benefits" provided by union lobbyists promoting leftwing causes. Mr. Huebert appeared on all the major networks in the days following the decision, and enjoyed an especially favorable profile in *The Wall Street Journal*. Kudos to him for a great victory against compelled speech, and for being the rare lawyer who understands economics.

"People may disagree on the question of whether everybody ought to study economics seriously. But one thing is certain. A man who publicly talks or writes about the opposition between capitalism and socialism without having fully familiarized himself with all that economics has to say about these issues is an irresponsible babbling."

Ludwig von Mises

Finally, don't miss David Gordon's review of *Radical Markets: Uprooting Capitalism and Democracy for a Just Society*. The authors, a legal theorist and a Microsoft researcher, are neoliberals as the word currently finds currency: grudgingly willing to accept that markets make us all richer, but hypervigilant against the progressive sacred cow of inequality. It's a warmed-over "market failure" argument, Gordon explains, couched in familiar but debunked language about unequal bargaining power.

The good news, at least, is the authors' willingness to recommend bold (though borderline bizarre) proposals. They are, however, not prepared for Mr. Gordon's rebuttals — because they don't understand economics, much less praxeology. 

Jeff Deist is president of the Mises Institute.



TODAY'S LEADING MISES SCHOLAR

ON THE MAN
AND HIS LEGACY

GUIDO HÜLSMANN

Jörg Guido Hülsmann is Senior Fellow of the Mises Institute and author of *Mises: The Last Knight of Liberalism* and *The Ethics of Money Production*. He teaches in France, at Université d'Angers.

JEFF DEIST: You are German, but not from a big city in Germany.

GUIDO HÜLSMANN: That's correct, a small town.

JD: Did your small-town upbringing influence your career and outlook?

GH: I think so. The town where I went to high school in those years had the highest communist voter percentage in all of Western Germany. And this presence made itself felt also in the school, not necessarily among the teachers, although there was at least one communist, but especially among the student body. We always had very engaged discussions, sometimes heated discussions about policy issues. I still remember that I actually gave my first public talk at the age of 15, in the context of the rearmament debate. All communists were against it and since the communists were against it, it must have been the default position for any other human beings. So, they didn't find any older people to stand up to them, and I was ignorant enough and had enough personality to do this. So, I did it at the age of 15 and that was my first experience.

JD: You didn't go through a leftwing phase as a young man?

GH: Not very much. I was flirting with some leftwing ideas when I was at the university.

JD: You decided to go to Technical University in Berlin, and studied engineering rather than economics.

GH: After school, I spent one year in the military for mandatory service, so I had a lot of time to give it some thought. There were two options for me at the time. Either I could become an airline pilot or do something with the economy. As far as the economy is concerned, either it would have been business law or engineering with complementary economic instruction. I knew that I was interested in this because I took a class in economics while in the military. In the evening, there were various activities, and one of the things you could do is take classes. And I took a class on macroeconomics. It was Keynesian style macroeconomics, not as technical as what was taught at the university, but it gave me some introduction and I found this very interesting.

JD: Then you pursued a business degree, at Toulouse in France?

GH: Yes, that's because we had an exchange program between the Technical University and the Toulouse Business School. They offered a major in business-related research, which was designed for all those kids whose parents had sent them to the business school and who were unhappy there and were really aiming to do more intellectual sort of work. The professor who was running this program, was an economist and he accepted me as his student and it allowed me to actually spend most of my time in the second semester of that year on economic research.

JD: After business school you returned to Germany for a PhD in Berlin. Living in France turned you into an aspiring Austro-libertarian?

GH: Or so it seems. I had joined the Austrians in France, out of all places. My research director in France realized that I was interested in liberal ideas and alternative ideas. So, he had me read Hayek and a book by Rothbard that had just been published in France. This is how I got in touch with the Austrian ideas. I was not immediately

won over, but I found this very interesting. What did convert me really was Ludwig von Mises's *Theory of Money and Credit*. It was not a religious experience, but it very strongly impressed me and convinced me that this was an approach that was much more realistic, powerful, and pertinent than anything else I had seen in economics and prompted me to take this as a starting point for my own works. That was when I returned to Berlin, at the beginning of my doctoral studies.

JD: And you returned to France in your professional career. Today you're at the University of Angers and run the economics program there for both masters and doctoral students. Many of your students know you by reputation and seek out an opportunity to study with you, much like Rothbard at UNLV.

What converted me was Ludwig von Mises's *Theory of Money and Credit*. It convinced me that this was an approach that was much more realistic, powerful, and pertinent than anything else I had seen in economics.

GH: It's a great privilege for me to have students who do not just want to get a doctorate with anybody, but who want to study with me, so I can pick those students. Moreover, of the students that I had as *undergraduates* in Angers, I think there was only a single one who stayed and became my doctoral student and this is a young man who came from Austria to study with me in France. The [undergraduate] students that we have, usually they do not have really a strong interest in economics and if they have an interest in economics, they usually have great emotional difficulties with Austrian economics, not so much on methodological

CONTINUED ON NEXT PAGE

grounds, but because the political conclusions are very libertarian and this is very irritating to most young people in France.

So, as a consequence, the people who are doing a doctorate with me, they come from all kinds of places, only one quarter are French students. Most others come from abroad.

JD: Let's talk about Mises the man. You're probably best known for having written the definitive biography of him. Tell us how the project came about, and your recollections of struggling with it as an academic economist thrust into the role of biographer.

GH: It came into being because Lew Rockwell asked me if I would be interested in writing a Mises biography. That was in January 1997. Lew and I had met in Auburn, Alabama, at the Mises University in 1995. He had seen some of my writings that I had published or presented in English. He was convinced that I had sufficient knowledge of Austrian economics and he knew that I, of course, was a German native speaker and also I was speaking French. So, all of this was very helpful to engage in this kind of work.

Now, why did he seek to commission a Mises biography? Well, because thanks to the collapse of the Soviet empire, the secret archive in which the Mises documents, the prewar Mises documents were hosted, had become known and were available. The news had spread to the US and Richard Ebeling had traveled to Moscow to look at these papers, the first Austrian economist who had his hand on this material, and Lew thought it would be worthwhile to have me also do this kind of research and write a Mises biography.

JD: Mises was not a man who liked to talk about himself. And his own memoirs were unsatisfactory in this sense, the sense of getting to know who he was.

GH: Absolutely not.

JD: Did that come through to you as his biographer? Was it like pulling teeth?

GH: Yes. I was fortunate that this prewar material existed. I'm sure if Mises had had a hand on this — if he could have determined what survives into the mix and not — most of the stuff that is interesting that sheds light on Mises as a person, would have been destroyed. I'm absolutely certain about this because you wouldn't find similar writings in his postwar material. He was very discreet about these social relations. And having that sort of material, it's not much, but certainly, his correspondence with his mother, his correspondence with Margit, whom he later married, then some exchanges with other people that shed a little light on Mises the person would probably have vanished if he had a choice in this.

Thanks to the collapse of the Soviet empire, the secret archive in which the Mises prewar documents were hosted had become known, and they were available. Lew thought it would be worthwhile to have me write a Mises biography.

JD: How long did it take you to complete the project?

GH: From start to finish, about 10 years, a little more than 10 years — from January 1997 to September of 2007.

JD: Obviously the Mises Institute promotes the work of our namesake. So we were not an impartial publishing house, and you were not an impartial biographer — although certainly honest and thorough in your assessment of him. Did you have to defend the book against reviewers claiming it was hagiographic?

GH: There were many reviews of the book I think, almost 40 reviews, but only one of them accused me of being a hack, a sycophant who distorted reality in the light or to the benefit of a certain ideology. What is true, of course, is that your own conceptions, methodological conceptions, political conceptions, they color

the kind of questions that you ask, they color the selection of material that you present, this is unavoidable. But the scholarship, of course, goes beyond this because the point of scholarship is to assess facts always, all the known facts, and to do justice to the material as far as we can. There are constraints, of course, because your knowledge that allows you to interpret and to assess any material is limited. So, given this, I would say it was an honest effort at scholarship and it was appreciated by most people. I wanted to provide a service, by presenting this material, this quite massive amount of material, I mean there's more to be seen and more to be investigated about Mises and some people have already started doing this. And there is a service in bringing all of this together and presenting it in a coherent way, relating the scholarship of Mises's writings to the context of his times and his other activities. And that's what I've tried to do, however imperfect, but it has been done.

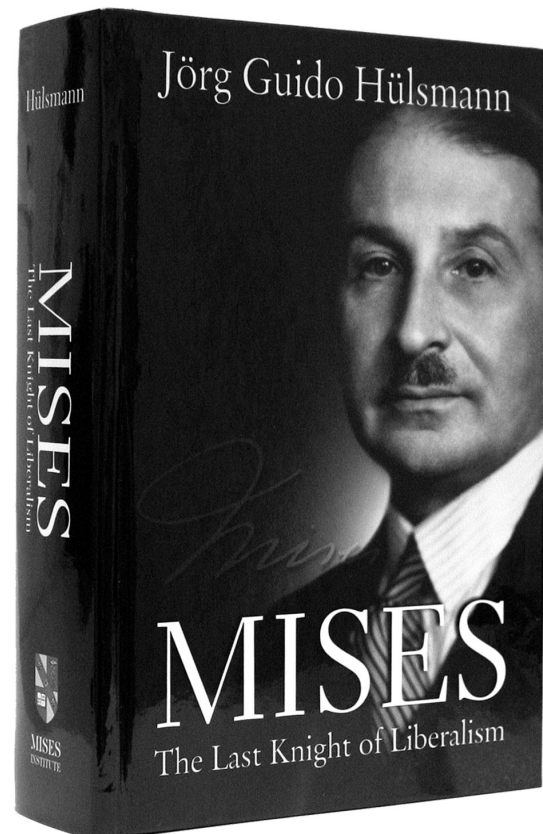
JD: His memoirs are fairly pessimistic, having seen the Habsburg Empire collapse and the rise of both communism and Nazism. He also wasn't treated well by academia, either in Europe or upon his arrival in the US. Fast forward to 2018, and I wonder if he would think the intellectual atmosphere for his work and for Austrian economics generally is much more favorable than during his lifetime?

GH: Absolutely. It's thanks to his courageous stance, which has inspired many others as well, but there are few economists of his standing who have resisted in the way that he did and his own courageous stance has inspired many other economists and intellectuals who were not necessarily Austrians, and who didn't become Austrians. Think, for example, of somebody like Milton Friedman. Milton Friedman received a Nobel Prize in economics for some of his technical research, which none of his many admirers outside of economics know. He's best known to the large public for his popular works, *Capitalism and Freedom* and so on. Now, these works are very strongly inspired by the Austrians. Of course, he had a different methodological take. But his vision of the operation of the market is inconceivable, is incomprehensible, I would say, if you don't have the knowledge of Austrian economics as a background. And that's one of the reasons why today I think people have difficulties understanding and

appreciating Friedman if they don't know the Austrians because he appears as somebody who just professes libertarian value judgments. He was quite clever in the way he presented his arguments, but you don't see the overall edifice on which it stands.

JD: Do you think Mises's reputation and work benefited indirectly from Friedrich Hayek winning the Nobel Prize in '74, although Mises died a year earlier?

GH: Well, I don't think that this raised much interest in Mises. As you know, very often there is the implicit hypothesis in assessing anybody who is the pupil of anybody else, if the pupil gets a great prize, they'll say well, the pupil is actually greater than the master, so probably everything that the master has produced is in one way or another in the work of the pupil. Now, that's certainly not the case with Mises and Hayek and I explained this in my book. I have also stressed that the foundations on which these two men were reasoning was somewhat different, not in all respects, but in multiple respects different. So, you still can gain a lot of insight by studying Mises separately from Hayek. Hayek was never as accomplished an economist as Mises. He turned away



from economics relatively early on and focused more on questions of general social philosophy and the transformation of society and of politics and so on, which was a subject that Mises did not touch upon very much. There is if you wish some sort of division of labor as far as economic analysis is concerned. It's clear that Mises was two or three levels higher than Hayek and the same thing was true for Murray Rothbard. Rothbard was not quite as good an economist as Mises I would say, but certainly much, much better than Hayek. So, you could not dispense with Mises and Rothbard just by reading Hayek.

JD: Do you think Mises is the most formidable and influential economist who never received a Nobel?

GH: It's a difficult question.

JD: Political, in a sense.

GH: There is a very strong political dimension to this. One funny fact that I always emphasize when it comes to the Nobel Prize is that no economist has received the Nobel Prize after having expressed himself very strongly against central banks. Hayek opposed central banks vigorously after 1974 with choice in currency and the denationalization of money. So, this alone would have probably made life for Mises very difficult, but then also



you have to consider that the Nobel Prize in economics was created in 1969. Mises died in 1973. So, realistically, there was just a five year window in which he could have gotten the prize. He was clearly one of the outstanding economists of his time. The committee in the first few years awarded the prize to privileged people who have made technical contributions and also to the application of mathematical methods in economic analysis, which from an Austrian point of view were, by and large, superfluous and sterile, so that they don't really help us to increase our knowledge, but this was the hope at the time.

Allow me this additional comment, even if he had obtained the Nobel Prize, would this have helped his reputation? Would it have helped Austrian economics? Marginally, yes, but Mises stands very much on his own legs, so Mises doesn't need a prize to attract readers to his works. He has produced works of such outstanding quality and of perennial value, that he doesn't need a Nobel Prize. How many people today are reading Paul Samuelson [who won the prize in 1970]? Even his textbook is now in an edition that has been so much transformed that it's completely dissimilar to the initial version published in 1948. Mises, on the other hand, is still read, and actually with the exception of Friedman and one or two others, there are no Nobel Prize winners in economics who are still read today.

JD: His first full length work is *Theory of Money and Credit*. This was quite a book for someone so young, just over 30.

GH: Yes, he was 31.

JD: He applies the concept of marginal utility to money, and thus improves upon Menger. It's a bold book, and prescient. Do you think it's his biggest achievement, in some sense?

GH: Oh yes, definitely. It's a book of astonishing quality. Joseph Schumpeter at the time was even younger when he produced something similar. Schumpeter's book was brilliant in its exposition of complex material, but I would say it was a typical Schumpeter. It was very brilliant and it was clear that this person had comprehensive knowledge of the literature that he was addressing. But, essentially, it's wrong. Schumpeter's *Theory of Economic*

Evolution is wrong in the main assertions. It's like John Maynard Keynes's work. It's intriguing, there's also new vocabulary and so on, but essentially wrong. As Henry Hazlitt has said once in his discussion of Keynes's general theory, there's nothing in this book that is both new and correct. So, there are some new things that are there but they are not correct and there are correct things that are not new. What Mises did was something else. He produced a book that did not just contain new and solid insights on specific questions, such as the nature and origin of business cycles. He produced a great synthesis. Or, to use a metaphor, he did not just add a new top floor to Menger's edifice. Adding an additional layer would have been a nice contribution, but an ordinary one. Any talented pupil can stand on the shoulders of his teacher and then add a little something on top and these additions then completely depend on the solidity of the grounds on which you build. But, Mises did something else. He not only built on Menger, he integrated his new insights with the entire literature on monetary economics and the debates on monetary policy in the nineteenth century. He used Menger's edifice as a framework, and then he solidified its foundations and proceeded to build an entire basilica on top of it. It was an enormous achievement.

JD: When we go back and read it now, about 106 years in hindsight, there are still passages that are absolutely relevant.

GH: Oh yes, definitely. A classic piece of literature, a classic text, it is a masterful exposition of a subject. This is the first criteria and the second one is, it's still relevant for us today. And definitely that holds for all of Mises's texts. The reason why it's still relevant for us today is not of his own making, it's especially because the mainstream in economics has so thoroughly decided to neglect it, to not read Mises, to not absorb him, so the major economists of the twentieth century have not done what he had done at the beginning of the twentieth century. Economists have become increasingly moronic, increasingly ignorant, not only of classical economics and all the literature of the nineteenth century, but also of the great contributions that were made by Mises and several others in the 1920s and 30s.

JD: So let's jump to the interwar period, he writes and releases *Nation, State, and Economy; Liberalism; Bureaucracy; and Socialism* during this prolific period in his life. All of these remain foundational, and beyond pure economics.

GH: I agree.



JD: Let's talk about *Liberalism* first. He says that we can distill the entire liberal program down to one word: "property." "Neoliberalism" was still a new concept at the time. What do you think Mises would think about what "liberalism" has become, both conceptually and politically?

GH: Well, he saw it coming. He saw it coming in the postwar years and all the different strands of neoliberalism were already present. The difference between neoliberalism and classical liberalism can be defined exactly around this one word that you mentioned — "property." In classical liberalism, private property is the starting point. And in neoliberalism, it's something that is a technical option for the arrangement of social affairs in ways that are most conducive to whatever, some other variable, justice or efficiency or whatever you might call it. Mises saw this, how this played out in the aftermath of World War II and he saw where this reasoning eventually leads: to more interventionism. You cannot even define liberty in a social context without reference to private property. And the same thing holds true for economic reasoning. Neoliberalism has abandoned this starting point. It focused on other criteria in the light of which you are trying to justify property. It's an abortive attempt.

JD: Fast forward to his biggest book, *Human Action*. It is really a culmination of a lifetime of work. It's a synthesis of his entire body of thought and work. Should we give more weight to *Human Action* than his earlier writings because he evolved and synthesized things into a full treatise?

GH: Yes, I think so. It's certainly a combination of a lifetime of reflecting on all these questions. Moreover, for Mises himself, economics is the science of relationships, so it's the science of how all different aspects of human life, all different markets, all different activities, all different spheres in which we are making choices, which we act, and how they relate to one another. So, for this reason alone, *Human Action* is unavoidable. It's the embodiment of Mises's thought and I would also say on virtually all questions of detail, we find his most mature thinking on these pages. You can argue on one or two occasions, it's not of course, perfection, like no human work can be perfect, but you can raise the question, is it

better than how he had put it in previous works? Then you can argue on one or two things.

JD: You don't find a lot of gross contradictions in his work over the years.

GH: No. I mean, usually what you find is that in previous works, he had lacked the necessary nuance or he had given in too much to the opposing argument and so he would set the record straight in *Human Action*, for example, as far as money is concerned. But then, for example, there are other questions, but these pertain more to discussions of policy issues such as immigration where you might say, well maybe he had a different point of view in previous writings which was more adequate. But, clearly, as I said, in virtually all cases, we find in *Human Action*, the most mature, the most nuanced statement of his own ideas.

JD: Especially Part I of *Human Action*, which is more philosophical. What strikes me about reading the book, and his earlier work, is the fearless approach to philosophy, sociology, and ethics, fields beyond economics. Today the trendy word is intersectionality, where academic disciplines come together, but he certainly felt capable of addressing the bigger picture beyond his academic confines. Today academics are criticized if they wander too far from their chosen specialty.

GH: Yes, that's right, it is especially strong in economics. But, the truth is that the way young economists are trained today, they are turned into morons because all that they learn is to mimic the natural sciences. They learn how to apply econometric methods to datasets, and of course in order to do this you don't really need any training in economics. You can come from any natural science. You can come from engineering, you can come from mathematics, you can come from physics, it doesn't matter, as long as you know a little bit about mathematics and applied mathematics. You take one or two years of classes in econometrics, you're there. Anybody can do this. You don't need any knowledge of economic literature, you don't need any knowledge of economic history, you don't need any acquaintance with praxeological analysis, the logical analysis of human action, which we find in classical economics and in Austrian economics.

You don't need any of this because all that you do is to look at data and to apply methods that people from all other walks of scientific life would and could apply if they had no idea what economics was all about. This is the work of a moron. Unsurprisingly, these people typically have great difficulties engaging in interdisciplinary or multidisciplinary work with scholars from the social sciences, and also with philosophers and jurists.

JD: Let's discuss his cultural outlook. Certainly he viewed himself as a cosmopolitan, someone without a parochial perspective. He certainly was an anti-nationalist and a democrat, especially in the context of national socialism and what was happening in his beloved Vienna. But he also eschewed universalism, and advocated for self-determination and secession as safety valves for democratic overreach and state tyranny. And he did not necessarily accept the left-cultural elements of society often associated with cosmopolitanism.

GH: You can get the impression that Mises had a left liberal orientation, if you start from the context of his time, which was in general, much more conservative, much more Christian than the world that we live in today. And of course, relative to that world, in many respects, you could say, he was a progressive. He pushed progressive policy items and for example, in his promotion of women doing research, he was one of I think the first

research directors of a female doctoral student in economics at the University of Vienna and, all of this of course, we would associate today with progressive policy. But of course, we need to keep in mind that Mises himself, when he discussed feminism, said feminism is a force of progress to the extent that it's part of the general classical liberal movement, which tries to give greater precision to the definition of property rights. But as soon as it steps beyond this, it becomes a force of destruction, it joins socialism, a generally destructive movement. So, this is what we cannot sway from for Mises, both the starting point and the conclusion, is always the validity of property rights. If property rights are respected, they lead to social outcomes that are greatly at odds with what present day self-styled progressives or left liberals or whatever you want to call them, would like to see, at least that is my impression.

JD: You mentioned earlier Mises's era of "high theory," and sometimes he is attacked as being too stubbornly *laissez-faire*, too intransigent and philosophical for his own good. But he spent 25 years in the Vienna Chamber of Commerce, involved in the minute day-to-day workings of Austrian fiscal, monetary tax, and regulatory policy. He didn't live in an ivory tower at all.

GH: Exactly. His ideas were not just a kooky conception of somebody who is out of touch with bricks and mortar. He is today very famous as the theoretician of

UPCOMING Events

September 27–29	Supporters Summit; Mises Institute
October 20	Libertarian Scholars Conference; New York, NY
November 3	Symposium with Ron Paul, Lake Jackson, TX
December 1	Mises Institute in Orlando, FL
March 22–23, 2019	Austrian Economics Research Conference; Mises Institute
June 2–7, 2019	Rothbard Graduate Seminar; Mises Institute
July 14–20, 2019	Mises University; Mises Institute

Student scholarships available for all events. See mises.org/events for details.

economic science as an *a priori* science, but that doesn't mean that he came to learn economics through a series of syllogisms. He learned from the analysis of economic policies, in the brewery, in agriculture, in clothing production and so on. All these fields where Austrian entrepreneurs were very active and very successful in those years and where their endeavors were hampered by government interventions. As Mises relates in his memoirs, at the beginning, he was convinced that interventionism was based on sound reasoning. But then he had second thoughts. He said, "how does this square with what I observe in practice" and he was led to question the logic of the basic reasoning behind the interventions. And then he came to realize that in fact the exact opposite was true. It's not because of government interventionism that the living standard of workers in Austria had increased, it was the exact opposite. It was capital accumulation and the activities of entrepreneurs that created more wealth in the country and thereby increased the living standards of the population. And what the government always did was just to redistribute existing wealth while creating disincentives for the creation of further wealth, so it was actually impoverishing by nature. It was certainly surprising for him at the beginning, but Mises was the sort of fellow who, once he understood something, he would cling to it and he would not give up. If you wanted him to give up, you really had to demonstrate to him where he was wrong. But nobody could demonstrate to him where he went wrong with his reasoning. And he would not give in just because it's unfashionable, it's unpalatable, because that doesn't show that he's wrong.

JD: Let me ask you about the Austrian school itself. There were deep divisions within the original Austrians. Some people claim that so-called "American Austrians," who also have deep divisions, represent a bastardization of the old true Viennese school.

GH: Well, there's no doubt that the American Austrians were essentially a Misesian school. Then, especially after Hayek received the Nobel Prize, the Hayekian blend of Austrian economics gained in importance, but during the 1950s and 1960s and even the 1970s, when Austrian economics spread in the US, it was essentially a Misesian movement and it's true that this is what sets it apart from Austrian economics as it was known in the nineteenth

century and then in the early twentieth century. So that is correct, but that of course, doesn't mean that this Misesian economics is not a pure outgrowth of Austrian economics. It was certainly not the only direction Austrian economics could take. For example, the works of [Friedrich von] Wieser took it into a very different direction. But undoubtedly it is a representative, a very faithful elaboration of the original Mengerian ideas. Of course, it's not perfect and not complete, and there probably is some truth in all branches of Austrian economics. But then again, we have to state as a matter of fact that no other branch of Austrian economics has produced works of the quality that we find in the Misesian branch, works such as *Human Action* and *Man, Economy, and State*. No other branch.

JD: Let's talk a bit more about you. You're probably best known for your work in monetary economics, focused on money and banking. Is this because you're an Austrian, you naturally gravitated toward money as opposed to other areas of specialization?

GH: Well, it is what attracted me at the time to Austrian economics and is certainly one of the areas in which Austrians are most different from all other branches of economics. It's still an area where Austrians need to be heard today, where they need to stress these things that we have inherited from Menger and from Mises on money. So, it's very important, but also difficult, especially for young academics. If you want to become a professor, then working in monetary economics is an uphill battle because you are so much outside of the mainstream that you cannot get published in any of the mainstream journals.

JD: Whereas someone like Peter Klein focuses on entrepreneurship, where Austrian views are perhaps less radical than they are when it comes to central banking, for example.

GH: Correct. But of course, we still need to have people who are thinking and writing on these issues and also developing Austrian economics and money and banking, even though it's difficult to make a career in that respect. But then also, I consider myself to be a generalist, so I've dabbled into various other fields of economic analysis, which, of course, are always related and it's easier to do this from an Austrian point of view because you

see how these different things are related. I've written on the methodology of economic analysis, like equilibrium analysis and counterfactual laws, I've written on interest theory, on business cycle theory, on capital theory, on financial markets, on uncertainty theory and interest rates, on secession, on Catholic social doctrine, and various other topics.

JD: Your book *The Ethics of Money Production* is really fantastic from my perspective. I enjoyed it very much and think it's very lay friendly. Why is it dedicated to the late professor Hans Sennholz?

GH: Hans Sennholz was an important Austrian monetary economist who kept up the flame after Mises. At the time, when I published the German edition in 2007, Sennholz was still alive. So, I wanted to dedicate the book to a living economist. I dedicated my doctoral dissertation to two dead persons and did not want to turn this into a tradition. And then Hans Sennholz best represented the kind of monetary economics which I considered to be foundational for my own analysis. He actually died soon thereafter.



JD: Well, he died having read it! One of the points that you make is that money has civilizational and cultural elements. Its provision and regulation is not simply a matter for technocratic bankers. Central banks affect every part of life, with enormous ramifications for society. How do we do a better job of making this point to average people?

GH: I think this point can most easily be made with people of a certain age. It's very difficult to have this discussion with younger people. It's not something that they've lived through themselves, but if you talk to people who are 50, 60, and older, they have seen the cultural decay and they conceive it to be problematic. There are very few people who are 70 years old who would say, all in all, American society has taken just a great turn in the past 30 years, very few. Most people are unhappy and they would just say, well, that's just how things are. And some would say that the decay comes from capitalism, there's too much freedom, so we need to rein people in and we need to pursue a more conservative policy agenda. This is where we can, as Austrian economists, provide genuine service by explaining that the decay is actually a fruit of interventionism and most notably of monetary interventions. It's crucially important to see that interventionism is not only destructive in material terms, but also the driving force of cultural destruction. Mises himself perfectly understood this and he said so in the concluding pages of *Socialism* where he stated, as a matter of course, that socialism has turned out to be a force of cultural destruction on a massive scale. But unfortunately, he didn't go into detail. And so, this is where we can still provide a service today.

JD: You have a chapter in your book called "The Cultural and Spiritual Legacy of Fiat Inflation." I love this chapter because you demonstrate how an express policy of inflation makes government grow at home and abroad, by financing welfarism and foreign wars. But you go farther at the end of the chapter, and suggest inflation makes us worse people on an individual level. I sense there's another book you could write on this idea alone.

GH: Actually one of my doctoral students is working on this topic. Let's see how well he does! One big problem with monetary intervention is that it "de-responsibilizes"

us, destroys the virtues in us. It destroys morals from within. The whole point of morals is to lead a successful life. This is something that's often not sufficiently appreciated because you associate morals with a whole item list of constraints that you put on what people would like to.

JD: Self-sacrifice.

GH: Self-sacrifice for the mere sake of sacrifice, rather than in the pursuit of a higher end. But this is not the traditional conception of the virtues, as we find it most notably in the Christian canon of cardinal and theological virtues. These are attitudes, mental dispositions that make for success in life, that make us more successful, not only on our personal way to heaven, but also in our social relations. Now, monetary interventionism destroys this because what is virtuous holds true under the premise that you have clearly defined and protected private property rights, that you have something like responsibility, that if you make a wrong choice, there will be negative feedback because it ultimately falls back on you, you're responsible for the wrong things that you do. You mess up your social relations, you mess up a friendship, you betray your relatives and your wife and so it will ultimately fall back on you. But, in our society, we do all kinds of things and have the government intervene

in various ways, to prevent the cost being too high on people who behave recklessly, both in their social relations and as far as their own individual behavior is concerned. Think of drug consumption or sports that are excessively risky, or of divorce. We are socializing many of the risks associated with such behavior, and this of course cannot fail to destroy virtue from within, and at the end of the process, everybody asks themselves, well, first of all, why should I behave virtuously?

JD: A lot of economists would say I don't want to talk about virtue and values. I'm not a priest, I want to talk about inverted yield curves. Mises really thought economics was about real life, and reasonably intelligent people ought to think about it.

GH: Well, certainly Mises himself did not refrain from commenting on this. And I'm not taking up the position of a philosopher and saying, look, *these* are the virtues. The work has been done, I don't need to do this. What I do with economic analysis is to show how government interventionism reinforces this particular conception of what values and virtues are all about, and diminishes another; and how it sometimes inverts the traditional conceptions and sometimes destroys them. ■■■



THE ERROR OF IDOLIZING "EFFICIENCY"

DAVID GORDON

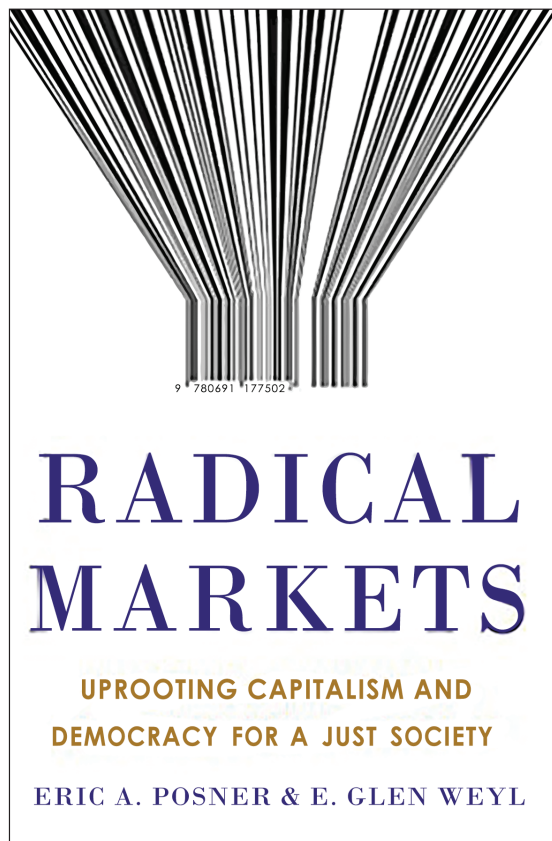
REVIEWS

Radical Markets: Uprooting Capitalism and
Democracy for a Just Society

Eric A. Posner and E. Glen Weyl

Princeton University Press, 2018

xxii + 337 pages



Radical Markets has at least one virtue. The book contains many unusual proposals, and I propose to concentrate on one of the strangest of these. Eric Posner, a legal scholar, and Glen Weyl, a principal researcher at Microsoft, call for speculative boldness, and they have given us that; but sound argument is another matter.

The authors agree with prevailing leftist dogma on one matter, but differ with it on another. They accept the conventional wisdom that inequality in the world economy is extreme. “Together, the trends of rising inequality and stagnating growth mean that typical citizens in wealthy countries are no longer living much better than their parents did. ... These trends pose the same problem for the neoliberal economic consensus that stagflation posed for the Keynesian consensus before it. We were promised economic dynamism in exchange for inequality. We got the inequality, but dynamism is actually declining.”

Posner and Weyl do not discuss skeptics about the rise of inequality, such as Thomas Sowell and the authors of *Anti-Piketty*. Let us leave that point, vital as it is, to one side. They also fail to address this question: why is inequality bad? Like almost all egalitarians, they just assume that it is and proceed from there. Though they continually call for fresh thinking, they never question this prevailing shibboleth of our age.

They differ with the left, though, in their view of markets. For Posner and Weyl, the market deserves praise: “Our premise is that markets are, and for the medium term will remain, the best way of arranging a society.”

Posner and Weyl support markets and favor equality. The free market does make the poor, along with everyone else, better off; but

this does not for our demanding authors suffice. The market allows too much inequality.

What then is to be done? The authors have detected a crucial flaw in markets as they are now constituted. Markets are not perfectly competitive, “meaning that there are a small number of homogeneous commodities, and no individual holds or buys a large fraction of them.” Because of this, most buyers and sellers have “bargaining power.” This wastes time and resources. “Each party works hard to ascertain what the other would be willing to pay or accept and jockeys for the best price possible. Such strategic behavior often causes trades

to fail. Even when they succeed, huge amounts of time and effort have been wasted in the process. These problems are magnified in complex business transactions.” In other words: bargaining power withholds vast amounts of resources from the market.

Just as the authors never pose the question, why is inequality bad, they never provide an argument that all resources should at all times be available for sale. Why is it bad to withhold resources in the hope of better terms later? We are never told.

The best the authors manage is this: “How can we measure ‘the greatest happiness for the greatest number’? How is it possible to compare the happiness of one individual to that of another? Many economists have argued that this task is impractical. They suggest that all we can hope for is ensure that no one’s happiness can be increased without decreasing anyone else’s, a condition called *Pareto efficiency*, and that the total happiness is distributed fairly.”

Now the cat is out of the bag. If an increase in the monetary value of resources is taken as roughly equal to an increase in utility, then bringing withheld resources into the market generates efficiency gains. It is Pareto superior, as neoclassical economists phrase it.

This merely pushes back our question: why should Pareto efficiency be the criterion by which economic

policies are assessed? Murray Rothbard has trenchantly remarked: “there are several layers of grave fallacy involved in the very concept of efficiency as applied to social institutions or policies: (1) the problem is not only in specifying ends but also in deciding whose ends are to be pursued; (2) individual ends are bound to conflict, and therefore any additive concept of social efficiency is meaningless; and (3) even each individual’s actions cannot be assumed to be ‘efficient’; indeed, they undoubtedly will not be. Hence, efficiency is an erroneous concept even when applied to each individual’s actions directed toward his ends; it is *a fortiori* a meaningless concept when it includes more than one individual, let alone an entire society.”

How do Posner and Weyl propose to curtail bargaining power? Their solution is a “common ownership self-assessed tax (COST) on wealth.” In this proposal, everyone would set a price for each of his assets, and that assessment would be the basis for taxes. If you object that people would set this assessment absurdly low to avoid taxation, here the ingenuity of the scheme emerges. Once someone makes his self-assessment, anyone could purchase the asset at that price. In this way, efficiency goes up, because the purchaser would not buy the asset unless he thought he could generate a greater return than he paid for it. Wealth, our proxy for efficiency, rises, and bargaining power has been curtailed.

To this there is an obvious objection, and the authors have a response to it. The objection is that an investor would not buy an asset he wanted to develop over a number of years if he thought someone else could purchase it from him by paying his assessment price. They answer by lowering the tax rate; people who had to surrender less of their gain to the state would invest more. That is indeed so, but would this not defeat the purpose of the efficiency plan? With lower taxes, people would, in order to deter buyers, raise their self-assessment prices for assets they wanted to keep. You would no longer find it so easy to snatch someone’s assets out from under him. Posner and Weyl respond: “When the tax is reduced incrementally to improve investment efficiency, the loss in allocative efficiency is less than the gain in investment efficiency.” “A fully implemented COST,” they suggest, “could increase social wealth by trillions of dollars every

The authors support markets and favor equality. How are these beliefs to generate policies? Does not a free market lead to inequality?

year.” Further, the vast revenue generated by taxes on the added wealth could be used to reduce inequality.

The authors admit a drawback to their plan. What if you have assets that you do not wish to sell at any price? Is the only way to avert the chance someone will purchase your asset to set a price on it that will subject you to crushing taxation? They suggest averting this through exemptions; but they have a more fundamental response: “The COST could also make us think about property in a different and healthier way. A COST taxes objects, not personal relationships. Wouldn’t it be better if people invested less of their emotional energy in objects and more in their personal relationships? ... Fetishistic attachment to a privately owned automobile — an extremely expensive durable asset ... is, thankfully, becoming a thing of the past. Increasing economic evidence suggests that excessive attachment to homes is inhibiting employment and dynamism in the US economy, a problem a COST would greatly reduce.”

Here the difference between the position of Mises and Rothbard and the “radicalism” of Posner and Weyl emerges with complete clarity. Mises and Rothbard accept people as they are: from that starting point, they argue that the free market permits mutually beneficial trades. Posner and Weyl are “Progressives” who want to remold people in their own image.

When I read the authors’ account of COST, I wondered: if the authors are so concerned to increase social wealth, why allow individuals to choose their occupations? What if you could generate more revenue in a different occupation from the one you prefer? Suppose that a writer could earn vastly more money as a stockbroker. Should he be free to deprive society of all the taxable wealth he would earn in the higher paying job?

Sure enough, the authors head in this direction, though they draw back from its implications. “Consider a very radical extension of the COST: to human capital ... imagine that individuals were to self-assess a value of their time, pay a tax on this self-assessed value, and stand ready to work for any employer willing to pay this wage ... in principle, A COST on human capital would be immensely valuable.”

Unfortunately, society is not yet ready for this proposal. “A COST on human capital might be perceived as

a kind of slavery — incorrectly in our view, at least if the COST were properly designed. Still, we can see the problem.” For now, the proposal is premature.

Whatever the defects of their ideas, though, do not Posner and Weyl deserve credit on one score? They do, after all, say that markets “are ... the best way of arranging a society.” Alert readers will have noticed, though, a qualification in the passage where they say this, quoted earlier in this review: “and for the medium term will remain.”

What do they mean by this? They pay generous tribute to Mises’s socialist calculation argument, but unfortunately they misunderstand it: “The brilliant economist Ludwig von Mises argued that the fundamental problem facing socialism was not incentives or knowledge in the abstract but *communication* and *computation*.” Mises’s socialist critics argued that there was “no difficulty *in principle* with solving a (very large) system of equations relating the supply and demand of various goods, resources, and services.”

Mises was right. “Yet the later development of the theory of computational and communications complexity vindicated Mises’s insights. What computational scientists later realized is that even if managing the economy were ‘merely’ a problem of solving a large system of equations, finding such solutions is far from the easy task that socialist economists believed.” New developments in parallel and distributed processing, though, may enable these problems to be solved, and the market as we know it may be superseded. Mises is thus a pioneer in computer science. One can only quote, on Mises’s behalf, Eliot’s lines in “The Love Song of J. Alfred Prufrock”: “That is not what I meant at all;/ That is not it, at all. ■■■

Mises and Rothbard accept people as they are: they argue that the free market permits mutually beneficial trades. The authors are “Progressives” who want to remold people in their own image.

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

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From the beginning, one of the primary missions of the Mises Institute has been the development of new scholars within the Austrian tradition. For almost 30 years, the Rothbard Graduate Seminar has played a unique role in that mission, offering top students around the world the opportunity to study and discuss some of the great works of the Austrian school.

This year's RGS focused on Murray Rothbard's *Man, Economy, and State*. Faculty included Academic Vice President Joseph Salerno, Guido Hülsmann, Mark Thornton, Jeff Herbener, David Gordon, and Peter Klein. Each day featured two lectures going over chapters in the book, followed by a group discussion led by our Research Fellows.



Beyond being one of the few active economics-focused Great Book Seminars in the world, RGS is also unique in that it is open to non-economic disciplines. Members of this year's class included philosophers, legal scholars, historians, and even a linguist studying how changes in language impacts the development of economic concepts. Within the seminar, scholars are allowed the opportunity to utilize their own skills in forming debate and discussion to help enrich the learning experience for all that attend. As Dr. Salerno noted at the start of this year's seminar, he still manages to find something new every year they discuss one of the great books.





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CORRECTION

The print version of The May-June issue of *The Austrian* stated in the "From the Publisher" column that Mises lectured at the University of Houston in 1972. Mises actually lectured there in December 1970. The online version of the issue has been changed to reflect the correction.

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