

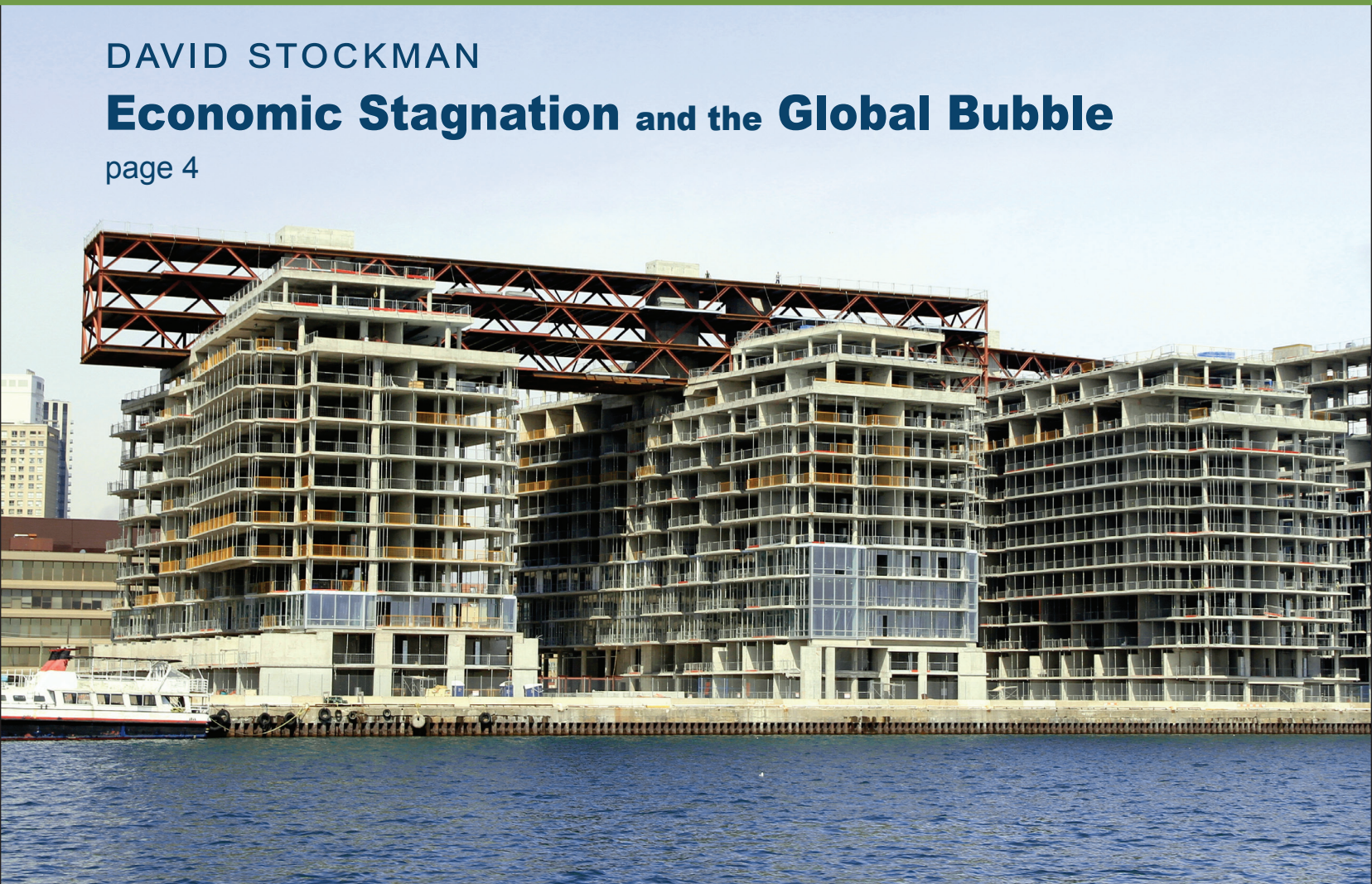
The Austrian

A PUBLICATION OF THE MISES INSTITUTE

DAVID STOCKMAN

Economic Stagnation and the Global Bubble

page 4



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from the publisher

Jeff Deist

“The typical dynamics of the business cycle have re-emerged, and are prompting a firming in economic activity.”

Alan Greenspan, February 2002

“The Federal Reserve is not currently forecasting a recession.”

Ben Bernanke, January 2008

“Some recent studies have raised the prospect that the economies of the United States and other countries will grow more slowly in the future. ... At an extreme, such developments could even amount to a type of ‘secular stagnation’.”

Janet Yellen, March 2015

The
Austrian

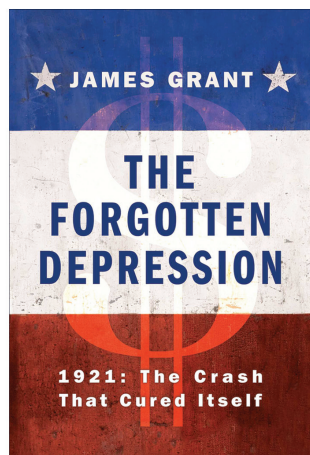
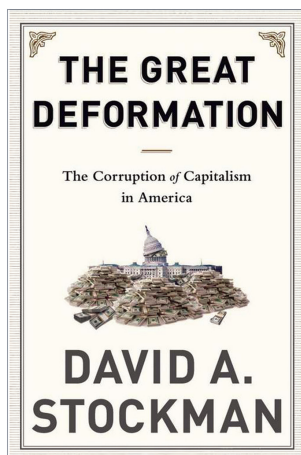
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Publisher: Jeff Deist Editor: Ryan McMaken Managing Editor: Judith F. Thommesen
Contributing Editors: Thomas J. DiLorenzo, Jeffrey M. Herbener, Robert Higgs, Mark Thornton

Mises Institute • 518 West Magnolia Avenue, Auburn, AL 36832-4501 • 334.321.2100 • Fax: 334.321.2119 • contact@mises.org • mises.org. The Mises Institute is a nonprofit organization. Contributions are tax-deductible to the full extent of the law.

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Secular stagnation?? What has gotten into Janet Yellen? When it comes to pronouncements about the economy from the Chairman of the Federal Reserve, we expect “irrational exuberance” or at least “cautious optimism,” not gloom and doom.

Throughout the Obama years we’ve been told by the administration and the financial press that the economy is recovering, GDP is positive, unemployment is dropping, rising equity prices are rational, and inflation is well under control.

Yet now we have the head of the world’s most powerful central bank conceding that the US may be headed for a period of little or no economic growth — even using a term coined during the Great Depression to describe an economy stagnating for years with low growth, low productivity, and low interest rates.

Given this sobering possibility, Ms. Yellen and her Fed Open Market Committee cohorts have committed to not committing to anything. We only know (from FOMC minutes) that Fed officials disagree about when — if ever — to begin targeting a higher Fed Funds rate.

Yellen undoubtedly is uneasy about the efficacy of pushing on a string indefinitely. Rate cutting, or at least rate holding, has been the *de facto* policy of Fed officials in the last two downturns. Now it’s the only tool they have left: using monetary expansion (in the form of quantitative easing) to create demand-side stimulus.

But will it work? Can the Fed compel banks to loan, businesses to hire, and consumers to spend? Or are we on the edge of another economic abyss, one that will make the Crash of ’08 pale in comparison?

David Stockman, the great chronicler of crony capitalism, provides the answer in our cover story. Far from being our savior, he identifies the Fed as the chief architect of prolonged economic downturns: its relentless Keynesian monetary expansion consolidates power in the banking class and destroys honest pricing across all assets. Stockman predicts the current bubble will burst with more pain and more intensity than the last.

Speaking of David Stockman, he recently joined us at our Mises Circle event in Stamford, Connecticut to discuss this very topic. Joining him was an all-star lineup including James Grant, Judge Andrew P. Napolitano, and our own Dr. Joe Salerno. If you couldn’t attend, audio recordings of all the talks are available via mises.org or the Mises Institute YouTube channel.

James Grant, of *Grant’s Interest Rate Observer* fame, discussed his new book entitled *The Forgotten Depression*. The deep economic downturn of 1920–21 was resolved using policies quite opposite of those applied today: interest rates were permitted to rise, government spending was cut, and the budget was balanced. No stimulus, no bailouts, and no “too big to fail” banks. And yet the downturn was short-lived, in stark contrast to the coming 1929 calamity known as the Great Depression.

Dr. Joe Salerno discussed the growing War on Cash, with negative real interest rates causing some banks to charge depositors and forbid actual currency in safe deposit boxes. Salerno views this as an ominous trend, one akin to capital controls often imposed by governments fearful of an economic collapse.

Judge Napolitano, the great libertarian legal theorist, foresees the complete erosion of any remaining constitutional rights to substantive economic due process — and predicts our DC command economy will only intensify during the next crisis.

We hope you take the time to view these great talks, and we hope you enjoy *The Austrian*. In addition to the essay by David Stockman, this issue features James Bovard on silly and servile DC think tanks, Paul Cantor’s review of the new AMC series *Better Call Saul!*, and our interview with Carmen Elena Dorobăţ, another rising star in Austrian economics.

As always, thank you for your support of the Mises Institute and the cause of liberty. ■■■

Jeff Deist is president of the Mises Institute.

David Stockman

Economic Stagnation and the Global Bubble



YOU'D THINK WITH ALL THE “stimulus” from Washington over the fifteen years since the dot-com bust, American capitalism would be booming. It's not. On the measures which count when it comes to sustainable growth and real wealth creation, the trends are slipping backwards — not leaping higher.

After a look at new jobs data in April, we find the number of breadwinner jobs in the US economy is still two million below where it was when Bill Clinton still had his hands on matters in the Oval Office. Since then we have had two presidents boasting about how many millions of jobs they have created and three Fed chairmen taking bows for deftly guiding the US economy toward the nirvana of “full employment.”

When you look under the hood, it's actually worse. These “breadwinner jobs” are important because they're the only sector of the payroll employment report where jobs generate enough annual wage income — about \$50k — to actually support a family without public assistance.

Moreover, within the 70 million breadwinner jobs category, the highest paying jobs which add the most to national productivity and growth — goods production — have slipped backward even more dramatically. There were actually 21 percent fewer payroll jobs in manufacturing, construction and mining/energy production reported in April than existed in early 2000.

PRODUCTIVITY SLIDING

Now let's look at productivity growth. If you don't have it, incomes and living standard gains become a matter of brute labor hours thrown against the economy. In theory, of course, all the business cycle boosting and fine-tuning from fiscal and monetary policy, especially since the September 2008 crisis, should be lifting the actual GDP closer to its "potential" path, and thereby generating a robust rate of measured productivity growth.

Not so. Despite massive policy stimulus since the late 2007 peak, nonfinancial business productivity has grown at just 1.1 percent per annum. That is just half the 2.2 percent annual gain from 1953 until 2000. So Washington-engineered demand stimulus is self-evidently not pulling up productivity by its bootstraps.

Indeed, if you go back to the 1953–1973 peak-to-peak period, which also encompassed several business cycles, the annual productivity growth rate averaged 2.7 percent, or two and one-half times the last fifteen year outcome.

The same picture occurs on real median household income. During the same 1953–1973 interval, real median family income grew at 3.0 percent annually, rising from \$26k to \$46k during the period.

By contrast, over the course of the next twenty-seven years, and after Washington ended both the Bretton Woods gold standard anchor on money and the practice of balanced budgets, real median incomes grew by only 0.8 percent annually, rising to \$57k by the year 2000.



Needless to say, it's been all downhill since then. Real median income was \$53k in 2014. That means median living standards of US households have been falling at a 0.5 percent annual rate since the turn of the century. There is no prior fifteen year period that bad, including the years after the 1929 crash.

LABOR FORCE FUNDAMENTALS DECLINING

The argument of the Keynesians is that capitalism is a chronic underperformer. Left to its own devices it is always leaving idle labor and capital resources on the table, and is even prone to bouts of depressionary collapse absent the counter-cyclical ministrations of the state and its central banking branch.

Well, then, given the monumental size and chronic intensity of policy stimulus during the last fifteen years, that particular disability should have been eliminated long ago. The US economy should be surfing near its full potential.

In that regard, one measure of high resource utilization most surely would be the labor force participation rate. However, after the one-time boost of increased female participation after 1980, the trend has been in a nose-dive. And it's not due to the baby-boomers getting old and repairing to the shuffleboard courts.

Since the year 2000 — a time when the Fed's balance sheet soared by nine-fold from \$500 billion to \$4.5 trillion — the prime age labor force participation rate has plummeted by 10 percentage points.

A similar trend can be seen in the measures of aggregate labor hours. Even if productivity has turned punk, it might be thought that all this policy stimulus would flush labor hours into the economy. But despite an increase from 212 million to 250 million of the working age population since the year 2000, there has been virtually no gains in labor hours utilized by the private business economy, and this is all the more obvious when we remember that not all headline jobs are created equal — even though it is well known that the BLS counts a four hour window-washing gig and a 40-hour week in a steel mill the same.

So the underlying truth is that actual apples-to-apples labor utilization has been going nowhere. In Q4 2014, the index of non-farm labor

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JAMES BOVARD

The Washington Intellectual Gravy Train



Intellectuals have long been glorified as champions of truth and defenders of society's highest values. But in Washington, they serve as Leviathan's Praetorian Guard. Intellectuals are thriving in DC thanks in large part to the ruinous policy advice they proffer.

The District of Columbia has 120 times more political scientists per capita than the rest of the nation. But rather than producing "good governance," the 3,200 political scientists and legions of other would-be Brain Trusters provide endless excuses to further extend the federal sway. Intellectuals usually come to Washington to help

politicians leash other Americans, not to leash the government. And since they presume their preferred policies are better than freedom, intellectuals propel government programs to force their inferiors to "take their medicine."

Washington think tanks have proliferated at the same time federal policies have become far more intrusive and hare-brained. There are now roughly 400 think tanks in the Washington area, some of which are little more than "cash machines for power" for politicians. Clifford May, the president of the Foundation for Defense of Democracies, commented in 2005: "It is the job of think tanks to create political capital. It is the job of politicians to spend it." May's think tank extols politicians who advocate bombing Muslim nations. Journalist Ken Silverstein, in an excellent report last year on think tank corruption, noted, "The Lexington Institute, a Virginia-based think

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

tank, has never met a weapons program it didn't like. That is not surprising since a good chunk of its funding — about \$2.5 million in 2010 — comes from defense giants like Boeing, Lockheed and Northrop Grumman."

Some think tanks are fronts for political operatives. Jack Abramoff, the most powerful lobbyist in Washington, placed an aging beach lifeguard at the head of American International Center, a think tank he created to funnel money to himself and his favorite causes. The scam was fruitful until Abramoff's other machinations won him admission to federal prison. Newt Gingrich's boutique think tank, the Center for Health Transformation, pocketed \$37 million from health care corporations and industry groups before going bankrupt in 2012 after Gingrich's presidential campaign floundered. Gingrich used his op-eds and speeches to tout positions favored by his think tank donors and omitted mentioning who was bankrolling his operation.

Think tanks are increasingly lackeys for foreign governments. The *New York Times* last June exposed how the government of Norway paid the Center for Global Development \$5 million to hustle Washington officials to boost foreign aid spending. The Brookings Institution received a windfall from the government of Qatar to set up a research institute that, according to the Qatar government, would devote itself to "reflecting the bright image of Qatar in the international media, especially the American ones." After an especially tawdry fixed election in 2011, the Kazakhstan government image was burnished

by two think tanks on its payroll — the Center for Security and International Studies and the Institute for New Democracies. The Atlantic Council, another prominent DC think tank, pockets cash from Saudi Arabia, Bahrain, the United Arab Emirates, and NATO.

Some think tanks offer little more than an intellectual version of "rent-a-mobs" of political protestors. In the same way that medieval kings grabbed any shabby pretext to invade neighboring countries, today's politicians perennially seek pretexts to further invade citizens' lives. And there is never a shortage of intellectuals who, like the courtiers of medieval courts, assure their masters that God — or at least social science — blesses their aggression.

Washington think tanks provide a sheen of intellectual legitimacy to Leviathan. The profusion of think tanks and policy wonks also spawn the illusion that ideas drive policy in Washington. But in most cases, the ideas are simply pretenses to sanctify the pursuit of power.

The role of intellectual grafters in contemporary Washington is epitomized by Jonathan Gruber, an MIT economist who received a \$297,000 federal contract for aiding the push for the Affordable Care Act and earned the nickname, "the Oracle of ObamaCare." He boasted in 2009 of his "black box" software program he used to gin up the numbers to promote the Obama legislative agenda. Invoking a secret computer model is the

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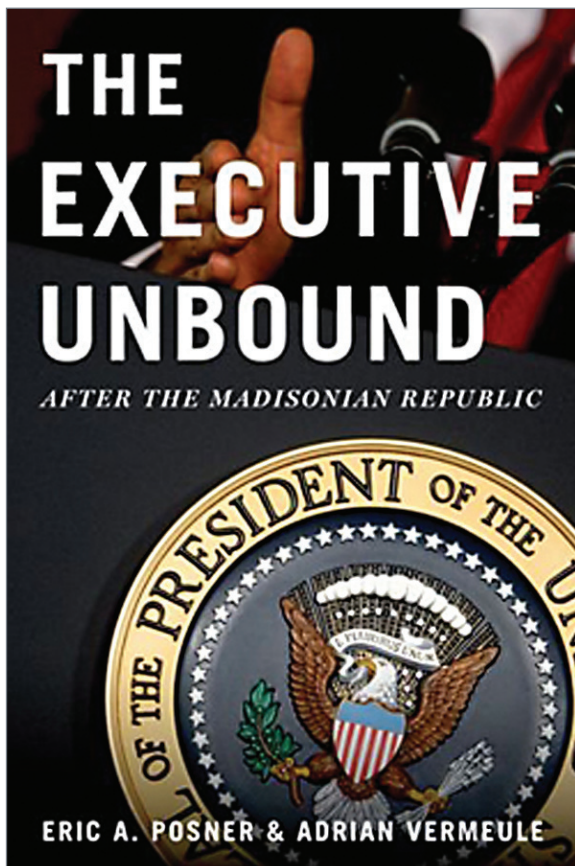
DAVID GORDON REVIEWS

The Executive Unbound:
After the Madisonian Republic

Eric A. Posner and
Adrian Vermeule

Oxford University Press, 2011

256 pages



As I read *The Executive Unbound*, I found myself in a world turned upside down. I take the following to be not only true, but obviously true: Today and in the recent past, all-but-uncheckable presidents have involved us in unneeded wars, invaded our liberties, and subjected us to economic controls that bear an uncomfortable resemblance to fascism.

Some hope for relief from a return to limited government, as set forward in the Constitution, but that path has failed. As Lew Rockwell explains in *Against the State*: “This solution can’t work. It suffers from a fatal flaw. The Constitution creates a government that is the judge of its own powers. The branches of the government, legislative, executive and judicial, are in theory supposed to check and balance each other. The problem with this is that the Supreme Court ... is itself part of the federal government. In a dispute between the federal government and the people, it is unlikely to side against the government.”

Now we are in a position to see the astonishing character of *The Executive Unbound*. Eric Posner and Adrian Vermeule are eminent and influential academic lawyers. (Posner, by the way, is the son of the even more eminent Richard Posner.) They agree that the hope for limited government through the separation of powers, what they call the “Madisonian Republic,” has failed. Far from deploring this, though, they embrace it with enthusiasm.

In their view, we must have a strong government in order to cope with the continual crises that confront America. Not any strong government will do, either. It should be a government with a powerful executive. Only a dominant leader can cope adequately with an emergency: legislatures, by contrast, are mired in interminable debates and arrive, at best, at general rules rather than the necessary immediate action. “Emergencies and crises, in our definition, are just one end of a continuum, in which the economic and political environment changes with maximum speed; problems or threatened problems require immediate response and large-scale, extremely rapid shifts in government policy ... legislatures are incapable of supplying the necessary policy adjustments at the necessary pace.”

They quote with approval the German jurist Carl Schmitt who “famously claimed that legislatures and courts ‘come too late’ to crises in the administrative state, meaning that in crises the rate of policy change becomes so great that legislators and judges have little choice but to hand the reins to the executive.” They find Schmitt a more perceptive theorist for our times than James Madison. True enough, Schmitt was in the years 1933–1945 a member of the Nazi party; but his insights can readily be separated from his fascist propensities.¹

To those, like me, who say that the executive dictatorship they want has led to disaster, they answer: Not at all! Does not everyone acknowledge that Lincoln and Franklin Roosevelt, both of whom acted in the lawless way they want, were great leaders? “If there is consensus about anything in American history, it is that Lincoln and Roosevelt were great presidents.” (Theodore Roosevelt also qualifies as a great president, but they do not claim here the backing of a consensus.) Lincoln suspended civil liberties in order to help win the Civil War, and Roosevelt wisely concealed his plans to bring America into World War II from the naively isolationist American public. “Franklin Delano Roosevelt understood the threat posed by Nazi Germany to the United States’ long-term interests long before the U.S. public did ... he needed to devise ways to ensure support for his particular war aims and strategies, whose particular justifications would always remain at least partially obscure to the public.” More recently, the Bush and Obama administrations needed to act illegally to cope with the massive economic crisis that began in 2008.

It will come as no surprise that none of these assertions strikes me as plausible. The warmongering policies of Lincoln and Roosevelt are matters for dismay rather than acclamation; and no financial bailout was needed to end a crisis that had in fact been brought about by the Fed’s reckless policies.

At this point we might appear to have reached an impasse. Posner and Vermeule rest their case for a powerful executive on their assessments of particular incidents.

I dispute their interpretation of these cases. Must we not at this point put the book aside, and proceed to analyze the cases to see whether their praise, or my condemnation, of the policies of the strong executives better accords with the facts?

I do not think so. We can ask: even if, for the purpose of argument, we accepted their claims about these historical events, would their case for a strong executive be convincing?

The warmongering policies of Lincoln and Roosevelt are matters for dismay rather than acclamation.

They are astute enough to recognize a strong objection to their own position. Even if presidents’ strong leadership have helped us through particular crises (as I do not for a moment believe), do not these positives have to be set against the chance that a president will act badly? Do the risks of disaster outweigh the benefits of fast action during a crisis?

How could we tell? Perhaps, faced with uncertainty, we ought to be cautious. It will come as no surprise that our authors, ardent for plebiscitary dictatorship, do not think so. They bemoan “tyrannophobia,” an unreasoning fear that they find had a bad influence throughout much of America’s history. They fear that restrictions aimed to prevent a power-seeking politician from gaining dominance may inhibit a wise leader who aims at the public interest.

Does not our question recur: how can we assess the risks and costs of these possibilities? (Again, it needs to be borne in mind that I am here speaking from within the authors’ framework.) The authors suggest that the public has good ways to judge whether a president sincerely seeks the public good or is a mere seeker of personal power.

¹They do not confine their distaste for legislation to situations of crisis. They are ardent partisans of administrative law. Vermeule has in a hostile review reacted in horror to Philip Hamburger’s excellent work of demolition, *Is Administrative Law Unlawful?* (University of Chicago Press, 2014).

Soft Tyranny in Albuquerque

PAUL CANTOR REVIEWS

"Better Call Saul!"

In *Breaking Bad*, Vince Gilligan created one of the best shows in television history. He has followed it with a prequel, *Better Call Saul!*, which traces how the ethically-challenged lawyer featured in the earlier show—Saul Goodman—developed out of a perennial loser named Jimmy McGill. *Breaking Bad* fans are overjoyed that Gilligan has struck gold twice, and *Better Call Saul!* looks to become another television classic. And, although the show is not overtly libertarian, libertarians can learn from it.

With only its first season completed, I'm sure the show has many surprises in store. But one thing is already clear: Gilligan continues to be the champion of the little guy against the establishment, and the poet of the shabbiness of ordinary existence in twenty-first-century America. He captures all the frustration, humiliation, and despair of living in the administered world of the modern state.

Paul Cantor

Jimmy McGill is a bottom feeder in the swamp of government regulation that now covers the American landscape. As a rookie lawyer, Jimmy becomes a creature of the court system, trying to exploit it even as it exploits him. As the series opens, Jimmy is working as a public defender. In a heavily credentialed society, he is at a huge disadvantage—his law degree is from the University of American Samoa.

Forced to beg for cases from an officious clerk, Jimmy is a parasite on society. If it weren't for a myriad of government rules and regulations and a multitude of misfits who violate them, Jimmy would be out of work. Scratch beneath the surface of his world, and it's government regulation all the way down.

In only ten episodes, Jimmy has already run the whole gamut of modern bureaucracy. While struggling with the court system, he is also constantly interacting—and fighting—with a large, high-powered law firm that epitomizes the impersonality and coldness of modern office life. Jimmy has also run up against an uncaring hospital bureaucracy, which tries to commit his brother against his will to psychiatric treatment.

As a named partner in the big law firm, Jimmy's older brother Chuck might seem to represent the establishment himself. But he has developed a psychosomatic ailment, and thus joins the ranks of all the loners in *Better Call Saul!* who do not fit into society's categories and thus incur its bureaucratic wrath.

Another loner who runs afoul of the law in *Better Call Saul!* is Mike Ehrmantraut, Saul Goodman's fixer and cleaner in *Breaking Bad*. When we learn his backstory in episode 6, we discover that he is a basically good man, who has turned to crime only because of his involvement with a corrupt police precinct in Philadelphia.

In the final plot arc of the season, Jimmy develops a specialty in elder law, which takes him into the figurative bowels (and the literal dumpster) of

an assisted living facility. In his efforts to help the old folks, Jimmy runs up against a new pack of lawyers, who swamp him with demands for paper work. The mounting cartons of case files Jimmy is continually dragging around symbolize the insane demands for documentation that bureaucracy imposes.

Jimmy is fighting back against these bureaucratic forces, but only by turning his class action lawsuit into a RICO case, which will triple the damage award. Legal eagle Jimmy would have no talons without a federal statute originally intended to combat organized crime, but now routinely applied to white collar crime. In the end, the paperwork demands of the case force Jimmy to turn it over to the large law firm he despises. With all its complex rules, the state makes it impossible for a little guy like Jimmy to do business on his own.

Libertarians tend to concentrate on the classic forms of government intervention: taxation, the monetary system, economic regulations. *Better Call Saul!* reminds us that government tyranny is actually more insidious and pervasive than might at first appear. When he was working on *The X-Files*, Gilligan had already explored the modern state's panoptical regime, as analyzed by French philosopher Michel Foucault—a world rife with institutions, like schools, clinics, and prisons, that are not, strictly speaking, part of the government but nevertheless keep tabs on us and monitor our lives for the government's purposes.

A theme that unites *Breaking Bad* and *Better Call Saul!* (inherited from *The X-Files*) is that we live in a surveillance state and our government records can mark us for life. Jimmy is haunted by a single trumped-up sex crime charge.

In order to regulate every aspect of our lives, the government cannot go it alone—it works through a web of intermediaries. Many of these institutions purport to take care of us, but in the process they chip

A CONVERSATION

WITH FORMER MISES FELLOW **CARMEN ELENA DOROBĂȚ**

AN INTERNATIONAL AUSTRIAN



Former Mises Fellow
Carmen Elena Dorobăț is a
lecturer at Coventry University.

THE AUSTRIAN: How did you first become familiar with the Mises Institute?

CARMEN ELENA DOROBĂȚ: Back in 2009, in my second year of undergraduate studies, I took an elective course in comparative economic policies. It happened to be taught by Vlad Topan, the president of the Ludwig von Mises Institute Romania, and a senior lecturer at my university. The syllabus contained readings from Mises and Rothbard, such as *Economic Policy: Thoughts for Today and Tomorrow*, and *What Has Government Done to Our Money?*, and a long list of links to the Mises Institute website. Until that day, I had seriously doubted my choice of major, but this fortunate encounter changed everything. I began to read the website regularly, and listen to the lectures, and economics finally started to make sense. Later that year, Vlad gave me my first copy of *Human Action*. That's how it all started.

MI: Why did you decide to pursue an academic career?

CED: A career in education was on the radar from the beginning of my undergraduate courses. I had been influenced by my father, who had tried to leave Romania as a young man and study philosophy abroad, but was not able to because of the communist regime. And after I read Mises and Rothbard, who have repeatedly stressed the importance of ideas and economic education, I really wanted to make my own contribution to this goal, just like Vlad had done for me with that class. Now I believe

I have made the right decision. I greatly enjoy teaching, and interacting with students is perhaps the most exciting part of the job. But I have also been fortunate to meet outstanding professors who have shown me how rewarding research can be.

MI: What convinced you to apply to become a Mises Fellow?

CED: The fellowship was a tremendous opportunity to work for a few months at the Mises Institute, and to read economic literature that was otherwise unavailable. Most importantly, it was a great chance to do research under the supervision of professors Joseph Salerno and Mark Thornton, as well as meet the rest of the Mises Institute's faculty during the Rothbard Graduate Seminar and Mises University. So I did not have to think twice before applying, I knew that it was too good an opportunity to miss. Even so, when I arrived here for the first time in 2011, I was overwhelmed by the warmth and care of the staff, and by how quickly we all became good friends. Each year I have been a Fellow has been one of the most important and formative experiences, both professionally and socially.

MI: What was your favorite part of being a Fellow?

CED: The benefits of the fact that Professor Salerno's office is just down the hall, and that his door is always open for the fellows cannot be stressed enough. He has this great capacity to understand your ideas even before they have become clear to you, and he can guide your research with just the right reading recommendations. We also had weekly research seminars where all the Fellows would present their ongoing work, and bounce around ideas, and we were fortunate enough to read and discuss Professor Salerno's working papers. By the end of the summer, we could tell that our research process had become more structured, more focused, and even that we had new energy for new projects. No other academic experience has had this kind of impact on my development.

MI: What topics do you now focus on in your academic work?

CED: So far, I have done most of my research in international trade, both on theory and policy. And through the collaboration with Professor Guido Hülsmann (at the University of Angers, France), whom I met at the Mises Institute during my fellowship and who became

my PhD adviser, my work has gradually expanded to incorporate monetary theory and international finance. For example, my PhD thesis analyzes the Cantillon effects of inflation in a global context, looking into the impact of monetary policies on trade, finance, and the distribution of wealth. I also currently work as a lecturer in international business at Coventry University in the UK, where I teach my students about international trade, globalization, and the challenges of operating in global markets. But in general, wherever my particular research interests take me, I always return to Mises's works in search for the grounding framework.

MI: How have your experiences with the Mises Institute affected your plans for the future and future academic work?

CED: Through the summer fellowships, and the mentorship of Professors Salerno and Hülsmann, the Mises Institute has become my intellectual alma mater. The support network of peers and faculty that the Institute makes available every year, through its resident fellowships and conferences, was crucial to my academic efforts as a student, and now as a teacher. I learned what good research is, and how to strive to achieve it. I learned what a good teacher should be, and I can only hope to be half as good as my teachers. I am humbled and grateful by every renewed opportunity to be part of this wonderful community of scholars. ■■■



Scholar and Alumni News



ROBERT HIGGS

Thanks to our scholars and alumni who have been doing the hard work of spreading the scholarship of freedom and free markets in recent months:

ROBERT HIGGS delivered the Frederic Bastiat Guest Lecture at Nicholls State University; and granted two recorded interviews for KTTZ-TV at Texas Tech University; he received the Juan de Mariana Prize at the Instituto Juan de Mariana's annual Cena de la Libertad (Liberty Dinner) in Madrid.



PASCAL SALIN

PASCAL SALIN published several books over the past year including *La tyrannie fiscale*, Odile Jacob Press; *Libérons-nous*, Les Belles-Lettres Press; *Concurrence et liberté des échanges*, Nice, éditions Libréchange Press; *Money and Micro-economics*, published by the Institute of Economic Affairs; *Competition, Coordination and Diversity — From the Firm to Economic Integration*, Edward Elgar Publishing Ltd.; and a forthcoming textbook on international monetary systems. Dr. Salin also published the chapter "The Neglected Importance of Austrian Thought in Public Economics" in *A Handbook of Alternative Theories of Public Economics*.



JO ANN CAVALLO

MARK THORNTON discussed flat taxes as a guest on *NewsmaxTV*.

JO ANN CAVALLO published the book chapter "Encountering Saracens in Italian Romance Epic and its Folk Performance Traditions" in *Teaching Medieval and Early-Modern Cross Cultural Encounters Across Disciplines and Periods*, Palgrave Macmillan Publishers.



MATEUSZ MACHAJ

DAVID HOWDEN published new articles including "Oil and Water Do Not Mix" in *Journal of Business Ethics* with Philipp Bagus and Amadeus Gabriel; "Causes and Consequences of Inflation," in *Business and Society Review* with Bagus and Gabriel; and "Unintended Consequences of China's One-Child Policy," *Economic Affairs* with Yang Zhou.

The Mises Institute of Poland, founded by Associated Scholar and former Fellow **MATEUSZ MACHAJ**, has published a new Polish translation of Hans-Hermann Hoppe's *A Theory of Socialism and Capitalism*.



BUTLER SHAFFER

PHILIPP BAGUS published a new English edition of his book *In Defense of Deflation*, and a Chinese version is coming soon.

PAUL PRENTICE was published in the *Wall Street Journal* responding to Thomas Vilsack's article in favor of greater spending on food stamps.

BUTLER SHAFFER spoke at the Los Angeles chapter of "Liberty on the Rocks" with a talk titled "WHOSE Rocks?: An Inquiry into the Social Nature of Property."



PER BYLUND

PER BYLUND published "Give Managers Decision-Making Power by Balancing Freedom With Responsibility" in *Middle Market Executive* magazine.

JAMES BOVARD
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contemporary version of the tricks Merlin the magician practiced in King Arthur's court. Gruber told a conference of economists in 2013 that the administration had to bamboozle the public about ObamaCare due to "the stupidity of the American voter." His comments sparked a conservative firestorm but the liberal *New Republic* exonerated him as an "independent-minded professor" devoted to the public good.

The more power politicians capture, the more profitable lying about government becomes. Nobel Laureate Friedrich Hayek, in his famous 1944 essay in *The Road to Serfdom*, "Why the Worst Get on Top," showed why, once government acquires vast power, "the readiness to do bad things becomes a path to promotion." In the same way, Washington is biased in favor of intellectuals who defend torture, total government surveillance, and the president's assassination prerogative. The advocates and apologists for George W. Bush's invasion of Iraq

continue to be esteemed inside the Beltway as foreign policy visionaries.

The bigger government becomes, the more the "intellectual playing field" is tilted in favor of servility. Kowtowing is also spurred by Medals of Freedom, National Humanities Awards, and other honorifics bestowed by the White House and federal agencies. Regardless of how badly previous government policies failed, the expert consensus is almost always in favor of new programs and new interventions. Washington intellectuals fret far more about public distrust of government than about federal oppression of American citizens.

The closer that intellectuals get to politicians, the more weaselly they usually become.

The Washington definition of "independent thinker" is merely someone without a visible receipt for his opinions. Americans should be as wary of "gravy train intellectuals" as they are of congressmen and other serial perjurers. ■■■



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hours utilized by the business sector posted at 109.8 — virtually the identical level recorded in early 2000.

That's right. After growing at a 1.6 percent annual rate for a half-century running (1953 to 2000), labor resources deployed have flat-lined for the past 15 years. Rather than contributing to higher utilization of resources, the massive, chronic stimulus policies of recent years have been associated with just the opposite.

So when it comes to the building blocks of prosperity, policy stimulus has not been stimulating much of anything — except a slide downhill.

And while the American economy stagnates, serious global risks remain on the horizon.

CHINA AT RISK

In China, the most fantastic credit bubble in recorded history is beginning to burst. That is, notwithstanding Wall Street's sell-side propaganda, China's vaunted \$10 trillion GDP is not capitalist GDP in any familiar or meaningful sense; nor is it the product of organic market-based economic growth.

Instead, it is "constructed GDP" which has been fabricated out of centrally issued and allocated fiat credit. Over the past two decades the People's Printing Press of China issued virtually unlimited bank reserves in the process of buying up dollars to peg the RMB exchange rate in support of its national policy of export mercantilism. This, in turn, has enabled China's total public and private credit outstanding to soar from \$2 trillion at the turn of the century to \$28 trillion today.

In short, the overlords of red capitalism in Beijing caused the entire nation to borrow itself silly in order to fund a construction and investment mania that has no historical parallel. Indeed, the fourteen-fold explosion of debt in fourteen years has resulted in not only trillions of artificial "printing press GDP," but, more importantly, in a stupendous accumulation of over-valued and uneconomic "assets" on both public and private accounts.

There are currently an estimated seventy million empty high rise apartment units in China, for example, because under the baleful influence of unlimited credit these apartments were built for asset appreciation, not

occupancy. In fact, most of China's tens of million of punters who have invested in these units have taken pains to keep them empty and spanking new; like contemporary works of art, appreciation potential can be impaired by marks and scrapes.

Needless to say, there is a huge problem when you turn rebar, concrete, and wallboard into tulip bulbs. Namely, when the price mania finally stops not only do the speculators who put their savings into empty apartment units get crushed, but, more importantly, demand for new units quickly evaporates, causing a devastating contraction up and down the building supply chain.

THE EUROZONE'S WISHFUL THINKING

Meanwhile, in Europe, Greece and the EU are pinned between a rock and a hard place. There is not a chance that Greece can service its monumental debt, yet the eurozone politicians are now petrified by the fiscal trap they have concocted during their can-kicking rituals since 2010.

Greece and the EU are pinned between a rock and a hard place.

So the baleful facts bear repeating. The eurozone governments have committed to \$200 billion of direct fiscal guarantees to Greece, but in cobbling these expedients together during the 2010 and 2011 crises what the politicians of Brussels really did was to stick the ECB with the ultimate Old Maid's card.

Stated differently, in the process of bailing out their own banks, which were stuffed with Greek sovereign and private credits, Brussels did just enough to stabilize the private credit markets and ward off the vultures. This, in turn, allowed the ECB to pretend that Greek collateral was money and to pacify the German monetary sticklers about the sin of monetizing state debt. At length,

the ECB became the money market for the entire Greek economy.

Greece owes the ECB upward of \$140 billion. That is, the Greek state and banking system owes the ECB more money than the entire deposits of the Greek banking system!

Altogether then, Greece owes the politicians and apparatchiks who rule the continent from Brussels and Frankfurt the staggering sum of \$340 billion. In fact, the sum is not staggering; it is lunacy itself. The cowardly, self-perpetuating rulers of the European superstate have managed to loan Greece what amounts to 3 percent of their own GDP when Greece itself only accounts for 2 percent of eurozone economic output.

In the event of a blow-up and Grexit, exactly how would this mountain of Greek collateral be collected? Would it be done by the German army sent in to occupy the Greek ports and railway stations?

THE SERIAL BUBBLE MACHINE

With our own flat-lining economy at home and serious risks of implosions abroad, one would think that now is a good time to take an honest look at the state of the global economy and do some serious planning.

But there's no danger of that happening because the monetary politburo in the Eccles Building ignores all these fundamentals in order to focus on the short-run "incoming data." It actually believes it can steer the business cycle as in times of yesteryear when the credit channel of monetary transmission still functioned effectively — even if destructively in the long-run.

But that was a one-time parlor trick. Nowadays, American households are at "peak debt" and on a net basis can no longer raise their leverage ratios to supplement wage- and salary-based income with more borrowings. Likewise, business borrows hand-over-fist in response to the Fed's dirt-cheap cost of debt, but the proceeds go into financial engineering, not productive investment.

So the Fed blunders forward, oblivious to the fact that it is now 2015, not 1965, maintaining the lunacy of zero or soon near-zero interest rates. That maneuver



"There are currently an estimated 70 million empty high rise apartment units in China."

creates floods of new credits, but in the form of gambling stakes which never leave the canyons of Wall Street.

In so doing, they inflate financial assets values until they reach such absurd heights that they collapse of their own weight.

The Fed has thus become little more than a serial bubble machine. Tracking the incoming data during the intervals between financial boom and bust, it mistakes unsustainable short-run gains for real economic growth. But overwhelmingly, the incoming data has been recording temporary GDP and born again jobs.

For the second time this century we have had a boom in the part-time economy of jobs in bars, restaurants, retail, leisure and personal services. These jobs on average represent twenty-six hours of work per week and average wage rates of around \$14/hour, thereby generating less than \$20k on an annual basis.

Since the top 10 percent of households account for upward of 40 percent of consumer spending it is not hard to see what will happen next. When this third and greatest financial bubble of this century finally collapses, the bread and circuses jobs will vanish in a heartbeat. ■■■

David Stockman is the author of *The Great Deformation: The Corruption of Capitalism in America*, and *The Triumph of Politics*. He was elected as a Michigan congressman in 1976 and joined the Reagan White House in 1981. Serving as budget director, he was one of the key architects of the Reagan Revolution.

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(It would be too much, I suppose, to ask the authors to bear in mind that politicians almost invariably are evil.) If, e.g., a president appoints the leaders of the opposing political party to high office, the public has good grounds to trust him. Roosevelt, faced with war in Europe, appointed two Republicans, Henry Stimson and Frank Knox, to positions in his cabinet. If Roosevelt had been intent on a nefarious scheme against the public good, would not these opposition leaders have been able to monitor his plans and expose him?

Their example is ill-chosen. Stimson and Knox were strong partisans of intervention in Europe. Roosevelt took great care that the alleged opponents he appointed to high office in fact supported his policies.

The difficulties with the claim that the public can evaluate the sincerity of a politician's concern for the public good go beyond the defects of this example. The danger of a "bad" leader with too much power is not confined to instances in which an insincere person falsely claims concern for the public good as a means to attain power. What if the unbound executive really does consider himself a servant of the public good but has

radically mistaken beliefs about what is best? Tests for sincerity are of no use here.

More generally, the authors argue that political leaders respond to public opinion. If they do not, they will be turned out of office. "What, then, prevents the executive from declaring spurious emergencies and using the occasion to consolidate its power — or, for that matter, consolidating its power during real emergencies so that it retains that power even after normal times return? ... Could this happen in the United States? The answer is, very probably, no. The political check on the executive is real. Declarations of emergency not justified by publicly observable events would be met with skepticism ... electoral democracy is alive and well." This contention ignores the extent to which public opinion can be manipulated by a powerful leader, in collaboration with a kept press. The authors' faith in the power of public opinion is touching but not convincing.

The authors' defense of the *Führerprinzip* is repellent; but the book has at least the value of showing how the world looks to a cast of mind enamored with power. ■■■

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

BETTER CALL SAUL!
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away at our freedom. *Better Call Saul!* brilliantly portrays the interlocking directorate of modern government, quasi-governmental institutions, and all their satellites. The courts, the law firms, the police, the corporations, the hospitals, the assisted living facilities—they all work together to constrain our freedom—and they all operate within the state's regulatory apparatus.

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Paul A. Cantor is Clifton Waller Barrett Professor of English at the University of Virginia.



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