

The

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## The Second Austrian Revival

Joseph T. Salerno and Jeffrey Tucker

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When the first Austrian Scholars Conference was held in 1992, we were at the very beginning of the Great Bubble Economy, brought to you by Alan Greenspan and Ben Bernanke and their associates at the Fed. This shiny, bubbly “new economy” has finally gone the way of all bubble economies in history, deflating into stale dishwater and swirling slowly but surely down the recessionary drain. But it has left in its wake something truly amazing, something that never could have been foreseen: a second Austrian revival.

The first Austrian revival blossomed in 1974 as a result of the conjunction of two unique events. In June, a group of 50 Austrian economists and graduate students met in the tiny hamlet of South Royalton, Vermont. (Some participants still swear that the place was haunted, but that is a story for another day.) In October, Friedrich A. Hayek, a protégé of Ludwig von Mises and an eminent economist in his own right, was awarded the Nobel Prize in economics for his pathbreaking theoretical work on money, capital, and business cycles. But despite these events, Austrian economic theory did not leave much of an impression on mainstream economics. Nor did it make inroads into the economic journalism and financial commentary of the day.

Hayek and Murray N. Rothbard, Mises’s preeminent American follower, were relegated to the “soft” areas of economics, like methodology, political economy, and social philosophy. True, some mainstream economists did admit that the Austrians had insightful criticisms of positivist methodology and that they made a provocative, albeit extreme, case against socialism and for the free-market economy. But Austrian economic theory itself was either completely ignored or dismissed out of hand as backward and outmoded. Thus many young Austrians soon abandoned research in technical economic theory altogether and drifted off into methodology and comparative economic systems, where they could at least get a hearing for their views. Unfortunately, the lofty theorists of the mainstream considered these areas the intellectual backwaters of economics, whose inhabitants were mere essayists.



All that has now changed with the sudden implosion of the false prosperity that was built upon more than a decade of low interest rates and fiat-money inflation. Without a landmark conference or the fanfare of another Nobel Prize winner, a second Austrian revival has grown spontaneously out of the failure of mainstream macroeconomists to adequately explain the inflation and bursting of the high-tech and real-estate bubbles. The subsequent collapse and the Fed bailout and virtual nationalization of the entire financial sector also caught the macroeconomists completely unawares, overturning their theory of central banking and monetary-stabilization policy that had been so carefully developed in countless journal articles since the 1980s.

We can date the second Austrian revival almost precisely to the fall of 2008. From that point on, the use of online Austrian resources on Mises.org abruptly doubled from one year earlier, as investors, media commentators, and the public at large frantically sought answers from all quarters while witnessing one iconic financial institution after another topple into bankruptcy. In addition, the Austrians have benefitted from bestselling books, public figures who champion their cause, prominent financial experts who defend the Austrian point of view, new research tools made available via digital media, and a burst of new interest from a new generation.

Happily, unlike the first revival, the second revival of Austrian economics has focused on the economic theory of

Mises, Hayek, and Rothbard. Paul Krugman and Brad DeLong, two prominent ultra-Keynesians, now felt compelled to learn about and try to refute the Austrian theory of the business cycle. Other macroeconomists such as Lee Ohanian of UCLA were inspired to reexamine the historical record and found that Rothbard was right about the causes of the severity of the Great Depression. In an article published in one of the leading mainstream theoretical journals, the *Journal of Economic Theory*, Ohanian concluded,

“My analysis also provides a theory for why low nominal spending—deficient aggregate demand—generated such a large depression in the 1930s, but not in the early 1920s, which was a period of comparable deflation, but when industrial firms cut nominal wages considerably. In the absence of Hoover’s program, my analysis indicates that the Depression would have been much less severe. The 1930s would have been a substantially better economic decade had the government not adopted programs that artificially raised real wages in industrial labor markets and prevented those markets from clearing.”

Recognizing the inability of their sophisticated models to predict or even explain the financial collapse and subsequent Great Recession, leading macroeconomic theorists of the day have lapsed back into raw and simplistic Keynesianism. They call for ever more fiscal and monetary stimulus via massive deficits and zero interest rates. These traditional stimulus policies

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have failed to ignite a strong recovery even though they were implemented on a massive scale.

But the manifest failure of such policies does not give their proponents pause; it only incites them to propose ever more bizarre schemes. One such proposal is inspired by the monetary crank Silvio Gesell, who Keynes once called a “strange, unduly neglected prophet.” The modern version of Gesell’s plan calls for a tax on the public’s bank deposits and currency holdings as a means of driving nominal interest rates below zero and thereby stimulating total spending.

The only coherent alternative to this antiquated Keynesianism and monetary crankism is Austrian monetary and business-cycle theory. It is the 1930s revisited. The dust has settled, and the wreckage of modern macroeconomics has been cleared, and once again the Hayekians face the Keynesians across the intellectual battlefield. Indeed this message has been brought home even to the layperson in the recent online Keynes-Hayek rap-video sensation, “Fear the Boom and Bust,” produced by John Papola and Russ Roberts.

It is important to note that the renewal of interest in Austrian theory might have never occurred or quickly fizzled out if the resources had not been available to support it. These intellectual resources were provided by the Mises Institute, which almost singlehandedly kept the Austrian tradition in monetary and business-cycle analysis alive.

Examples abound. Rothbard’s *America’s Great Depression* was kept in print, and a second edition of his *Mystery of Banking* was brought out in 2008. *Prices and Production and Other Works*, a collection of Hayek’s most important theoretical writings, many long out of print, was published in 2008. This was followed by *A Tiger by the Tail* in 2009, a compact collection of excerpts from

Hayek’s work, tailored to a popular audience.

The Mises Institute also published fresh perspectives on Austrian macroeconomics, most notably Jesús Huerta de Soto’s treatise, *Money, Bank Credit, and Economic Cycles*, published in 2006 and, in a second edition, in 2009. In addition, the Mises Institute has made available online almost all the important works in Austrian economic theory that have been published since the founding of the school by Carl Menger in 1871.

The result of all this material and intellectual preparation is that the battle between the Austrians and Keynesians is likely to turn out very differently this time around. The Austrians are well armed with sound and true theoretical weapons that have been renewed and enhanced since the clashes of the 1930s.

So this year the Austrian Scholars Conference marks something very special. We gathered, not just to teach and learn from one another, but to set the agenda for the future of economic science. ■ FM

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# The Founder of Political Science: Machiavelli

Murray N. Rothbard

*Murray N. Rothbard (1926–1995) was academic vice president of the Mises Institute and an economist, economic historian, and libertarian political philosopher. This is an excerpt from An Austrian Perspective on the History of Economic Thought (Mises Institute).*

Niccolò Machiavelli was born in Florence, to a moderately well-off Tuscan noble family. His personal preference was clearly for the old oligarchic republic rather than for the signori, and in 1494, when the republicans kicked the Medicis out of Florence, young Niccolò entered the city bureaucracy. Rising rapidly in the government, Machiavelli became secretary of the Council of Ten, which managed the foreign policy and the wars of Florence. He held this important post until the Medicis reconquered Florence in 1512, serving in a series of diplomatic and military missions.

Machiavelli was nothing if not “flexible,” and this philosopher extraordinaire of opportunism greeted the return of the hated Medicis by attempting to ingratiate himself in their eyes.

During the year 1513 he wrote *The Prince*, superficially yet another in the traditional series of advice-books and panegyrics to princes. Hoping to induce the Medicis to read it so that he might be restored to a top bureaucratic post, Machiavelli had the lack of shame needed to dedicate the book “to the magnificent Lorenzo de Medici.”

The Medicis, however, did not take the bait, and the only thing left for Machiavelli was to embark on a literary career, and to drift back into republican conspiracies. Machiavelli

took part in conspiratorial republican meetings at the Oricellari Gardens on the outskirts of Florence. It was at the Oricellari Gardens that Machiavelli discussed the drafts of his second most important book, the *Discourses on the First Ten Books of Titus Livy*, written from 1514 to 1519.

Niccolò Machiavelli was reviled throughout Europe during the 16th century and on into the next two centuries. He was considered to be someone unique in the history of the West, a conscious preacher of evil, a diabolical figure who had unleashed the demons in the world of politics. The English used his given name as a synonym for the Devil, “Old Nick.” As Macaulay put it, “Out of his surname they have coined an epithet for a knave, and out of his Christian name a synonym for the Devil.”

In modern times, Machiavelli’s reputation as a preacher of evil has been replaced by the admiration of political scientists as the founder of their discipline. For Machiavelli had cast off outdated moralism to look at power coolly and hardheadedly. A tough-minded realist, he was the pioneer developer of modern, positive, value-free political science. As the mercantilist, power-oriented founder of modern “scientific” method, Sir Francis Bacon, was to write early in the 17th century: “We are

much beholden to Machiavel and others, that write what men do, and not what they ought to do.”

Well, which was Machiavelli, a teacher of evil or a value-free political scientist? Let us see. At first glance, *The Prince* was very much like other mirror-of-princes advice-books of the late 15th-century humanists. The prince was supposed to seek *virtú*, or excellence, and was supposed to pursue honor, glory, and fame in the development of such excellence. But within this traditional form, Machiavelli wrought a radical and drastic transformation, creating in this way a new paradigm for political theory. For what Machiavelli did was to redefine the critical concept of *virtú*. For the humanists, as for Christians and classical theorists alike, *virtú*, excellence, was the fulfillment of the traditional classical and Christian virtues: honesty, justice, benevolence, etc.

For Old Nick, on the contrary, *virtú* in the ruler or prince—and for the late humanists, after all, it was only the prince who counted—was, simply and terribly, as Professor Skinner puts it, “any quality that helps a prince ‘to keep his state.’” In short, the overriding, if not the only, goal for the prince was to maintain and extend his power, his rule over the state. Keeping and expanding his power is the prince’s goal, his virtue, and therefore any means necessary to achieve that goal becomes justified.

The more naive humanists also favored the prince’s keeping his state and achieving greatness and glory. They believed, however, that this could only be done by always maintaining and cleaving to the Christian virtues. In contrast, Machiavelli realized that cleaving to justice, honesty, and other Christian virtues might sometimes, or even most of the time, conflict with the goal of maintaining and expanding state power. For Machiavelli, orthodox virtues would then have to go by the

board. Skinner sums up Machiavelli as follows:

“Machiavelli’s final sense of what it is to be a man of *virtú* and his final words of advice to the prince, can thus be summarized by saying that he tells the prince to ensure above all that he becomes a man of ‘flexible disposition’: he must be capable of varying his conduct from good to evil and back again ‘as fortune and circumstances dictate.’”

Professor Skinner, however, has a curious view of what “preaching evil” might really be. Who in the history of the world, after all, and outside a Dr. Fu Manchu novel, has actually lauded *evil per se* and counseled evil and vice at every step of life’s way? Preaching evil is to counsel precisely as Machiavelli has done: be good so long as goodness doesn’t get in the way of something you want, in the case of the ruler that something being the maintenance and expansion of power. What else but such “flexibility” can the preaching of evil be all about?

Following straightaway from power as the overriding goal, and from his realism about power and standard morality being often in conflict, is Machiavelli’s famous defense of deception and mendacity on the part of the prince. For then the prince is advised always to appear to be moral and virtuous in the Christian manner, since that enhances his popularity—but to practice the opposite if necessary to maintain power. Thus Machiavelli stressed the value of appearances, of what Christians and other moralists call “hypocrisy.”

The prince, he writes, must be willing to become “a great liar and deceiver,” taking advantage of all the credulous: for “men are so simple” that “the deceiver will always find someone ready to be deceived.” Or, in the immortal words of P.T. Barnum centuries later, “There’s a sucker born every minute.”



There is, of course, an inner contradiction in a preacher of deceit candidly(!) broadcasting such views to one and all. For, as rulers begin to adopt a “pragmatic” philosophy which is their natural inclination in any case, the deluded public may begin to awaken to the true state of affairs (“the suckers may wise up”), and then continuing deceit by the ruling class might well prove counterproductive. The “great liars and deceivers” might no longer find so many subjects so “ready to be deceived.”

Niccolò Machiavelli, therefore, was unquestionably a new phenomenon in the western world: a conscious preacher of evil to the ruling class. What of his alleged contributions in founding a hard-nosed, realistic, value-free political science?

First, one of his main contributions has been claimed to be the overwhelming use of power, of force and violence, by the rulers of state. But there is a certain refreshing realism in Machiavelli’s total casting off the cloak of virtue in politics and in his seeing the state plainly as unadorned brutal force in the service of sheer power.

There is a profound sense, too, in which Machiavelli was the founder of modern political science. For the modern “policy scientist”—political scientist, economist, sociologist, or whatever—is a person who has put himself quite comfortably in the role of adviser to the prince or, more broadly, to the ruling class. As a pure technician, this counselor advises the ruling class on how to achieve their goals, which, as Machiavelli sees, boils down to achieving greatness and glory by maintaining and expanding their power. The modern policy scientists eschew moral principles as being “unscientific” and therefore outside their sphere of interest.

In all this, modern social science is a faithful follower of the wily Florentine opportunist. But in one important sense

the two differ. For Niccolò Machiavelli never had the presumption—or the cunning—to claim to be a true scientist because he is “value-free.” There is no pretend value-freedom in Old Nick. He has simply replaced the goals of Christian virtue by *another* contrasting set of moral principles: that of maintaining and expanding the power of the prince.

As Machiavelli knew full well, in taking on their role of adviser to the rulers of state, the “value-free scientist” is willy-nilly, committing himself to the end, and therefore to the overriding morality, of strengthening the power of those rulers. In advocating public policy, if nowhere else, value-freedom is a snare and a delusion; Old Nick was either too honest or too much of a realist even to consider thinking otherwise.

Niccolò Machiavelli, therefore, was *both* the founder of modern political science and a notable preacher of evil. In casting out Christian or natural-law morality, however, he did not presume to claim to be “value-free” as do his modern followers; he knew full well that he was advocating the new morality of subordinating all other considerations to power and to the reasons of state. Machiavelli was the philosopher and apologist par excellence for the untrammelled, unchecked power of the absolute state.

Throughout the *Discourses*, Machiavelli preaches the virtue of deceit for the ruler. He insists, also, in contrast to previous humanists, that it is better for a ruler to be feared than to be loved, and that punishment is far better than clemency in dealing with his subjects. Furthermore, when a ruler finds that a whole city is rebelling against his rule, by far the best course of action is to “wipe them out” altogether. . . . Machiavelli is still at one and the same time a preacher of evil and a founder of modern political and policy science. ■ FM

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- ROTHBARD GRADUATE SEMINAR  
June 6–11 • Mises Institute • Sponsored by Alice Lillie
- THE MISES CIRCLE IN LAS VEGAS AT FREEDOMFEST  
July 10 • Bally's
- MISES UNIVERSITY (WITH MISES UNIVERSITY ALUMNI REUNION JULY 31)  
July 25–31 • Mises Institute
- THE DELUSION OF GOOD GOVERNMENT — THE MISES CIRCLE IN COLORADO SPRINGS  
September 18 • Cheyenne Mountain Resort • Sponsored by Pike's Peak Economics Club
- FREEDOM THROUGH TECHNOLOGY — SUPPORTERS SUMMIT AND SCHLARBAUM AWARD TO JIM ROGERS  
October 8–9 • Mises Institute
- ECONOMICS IN ONE LESSON — ECONOMICS FOR HIGH-SCHOOL STUDENTS  
November 19 • Mises Institute • Sponsored by Anastasia Thiele
- AUSTRIAN SCHOLARS CONFERENCE  
March 10–12, 2011 • Mises Institute

## News from the Institute

### Mises Academy

The Mises Institute has rolled out an interactive learning environment with a class taught by Professor Robert Murphy. See [academy.mises.org](http://academy.mises.org) for details. This represents the next stage of the Institute's teaching mission.

The first class began on April 12 and ends on June 18. Each Monday, there is a whole-class lecture session in which Murphy will introduce and summarize the topic of the week (audio and video). Students can ask questions in live chat. The sessions will be archived for any students who can't attend in real time.

Topics include an overview of the Austrian School, time preference and interest, money, banking, economic growth, the circulation theory of the business cycle, some diagrammatic expositions, historical applications, and current events.

The software framework offers great potential for the future of learning in the Austrian tradition. This is a project that we have been working on some ten years and it has taken this long for the technology to arrive at the point. ■ FM

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