



The Austrian

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DR. JOE SALERNO

ON HIS CAREER AS AN HEIR TO ROTHBARD



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From the publisher

Jeff Deist

Jerome Powell, the new chairman of the Federal Reserve, had an inauspicious start to his new job in January—the Dow rudely lost 1000 points on just his second day.

We don't envy him. His predecessors, Greenspan, Bernanke, and Yellen, saddled him with the task of unwinding the most radical expansion of money and credit in human history. Using monetary policy to prop up economic growth, once considered a radical idea, is the new normal in the US and across the western world. It is monetary Keynesianism, a faith-based belief in the duty of central banks to create consumer demand.

Now Mr. Powell is expected to keep the whole experiment together. He is described as a "consensus builder," which sounds like Fed-speak for "more of the same." But more of the same is not tenable. He is charged with bringing an end to quantitative easing, the process by which the Fed bailed out commercial banks by purchasing their Treasury debt (and worse), driving down interest rates in the process. In a nutshell, an end to QE means an end to cheap money and credit propping up the US economy.

Can Powell do it? Can he simultaneously raise interest rates, avoid a recession, and keep stock markets humming along blithely at their current clip? More importantly, will he resist more QE if those markets react negatively to higher rates?

It will take courage beyond that of any central banker since Paul Volcker.

There's one other detail for Mr. Powell to consider: historically average interest rates, in the 5–8% range, would blow the roof off the federal budget. Debt service would triple within a decade, becoming the single biggest item in the federal budget.

This will not make the new chairman popular with Congress.

One book ought to be required reading for Mr. Powell and every central banker: *The Theory of Money and Credit*. First published in 1912, it was an astonishing achievement for the young Mises, barely 30 at the time.

It explained not only the origins of money in society and its preexisting use as a commodity, but also the nature of interest rates, the dangers of unbacked substitutes for real money, the case for gold currency and redemption, and the expansionist seduction of central banks. It laid the foundation for our modern understanding of business cycles. It provided an explanation that had evaded classical economists and earlier Austrians, showing how the theory of marginal utility and price applied to money.


More than a century later, it stands as perhaps the most important book on money ever written. It still serves as the authoritative Austrian work on the subject. Every word remains vital, every word remains relevant, whether we're discussing Mr. Powell's dilemma, the rise of cryptocurrencies, or the latest actions of the European Central Bank. It truly is a book for our time.

"Attempts to carry out economic reforms from the monetary side can never amount to anything but an artificial stimulation of economic activity by an expansion of the circulation, and this, as must constantly be emphasized, must necessarily lead to crisis and depression."

Ludwig von Mises, *The Theory of Money and Credit*
(preface to the English edition)

Speaking of money, our interview features Dr. Joe Salerno, a dean of the Austrian monetary school and a close associate of the late Murray Rothbard. Joe takes us through the renaissance in Austrian economics since the 1970s, his own work on money and banking, and trendy attempts to reform central banking with "rules-based" policies. Joe is the leading anti-Fed voice in the Austrian world today, and you won't want to miss his engaging perspective.

Our reviewer David Gordon tackles the enduring question of state power against the private marketplace, raised once again by Niall Ferguson's new book *The Square and the Tower*. Ferguson is an interesting theorist and formidable modern thinker, but David identifies blind spots and misapprehensions in Ferguson's strange apologia for the state. As usual, David is more interesting than his subject author.

Thank you, as always, for supporting the Mises Institute. Our message, in an era when far too many Americans believe in monetary alchemy, has never been more important. 

Jeff Deist is president of the Mises Institute.

DR. JOE SALERNO



ON HIS CAREER AS AN HEIR TO ROTHBARD

Joseph T. Salerno is a professor of economics in the Finance and Graduate Economics Department in the Lubin School of Business of Pace University in New York City. He is the editor of the *Quarterly Journal of Austrian Economics* and the Academic Vice President of the Mises Institute where he holds the Peterson-Luddy Chair in Austrian Economics. He also holds the John V. Denson II Endowed Professorship in the economics department at Auburn University.

JEFF DEIST: How does a kid from New Jersey get interested in economics, much less decide to get a PhD?

JOE SALERNO: Well, I didn't really plan it. I think it all began back in fifth grade when my mother's cousin visited from Italy, and during the course of conversation, he revealed that he was a member of the Italian Communist Party. My father, a New Deal Democrat who had voted for JFK, was also an ardent anti-communist. He got into a big argument with the cousin and then threatened to throw him out.

This made me wonder what made my father so passionate, so I started reading books in sixth grade about communism. They were all pretty much lurid right-wing screeds against communism with very little analysis. So, by the time I was in eighth grade, I was politically aware and became interested in Barry Goldwater's presidential campaign. I began to read more sophisticated books

like Barry Goldwater's political manifesto, *Conscience of a Conservative*, which was ghost written by Bill Buckley's brother-in-law, Brent Bozell. I also recall reading Goldwater's authorized biography, *Freedom is His Life Plan*, by Stephen Shadegg. Ayn Rand's *Anthem* was another book that I read at that time.

By the time that I entered high school, then, I was a conservative with strong anti-communist leanings. The atmosphere at the Catholic prep school I attended was politically highly charged and I was exposed to a broad range of ideological opinions among the faculty. Three members of the lay faculty were members of or sympathetic to the John Birch Society, while a number of the younger religious faculty were Vatican II liberals who supported the welfare programs of the Kennedy and Johnson administrations.

I took a course in civics and economics in my senior year from a very liberal lay faculty member who assigned us John Kenneth Galbraith's *Affluent Society* and some sections of Adam Smith's *Wealth of Nations*. *The Wealth of Nations* struck a chord with me, because it seemed very logical saying something definite about social relationships and it seemed very scientific to me. I really did not understand Galbraith's book, and I thought his writing was empty and overblown. I decided to be an economist at that point, and I never thought about it again.

When I went to college I became an economics major and went on to receive a PhD in economics from Rutgers University. I didn't really discuss it with my parents and just came to that decision on my own.

JD: And you find yourself somehow attending the now infamous 1974 South Royalton Conference in Vermont. Tell us how you even knew the conference was happening and how you managed to get invited.

JS: I had heard of libertarianism in college, and then, in my junior year, I read an article in the *New York Times Sunday Magazine* by two libertarian students from Columbia. The article mentioned the Austrian school and referred to Murray Rothbard as the leader of this

nascent Austrian and libertarian movement. I started to read all the libertarian books I could get my hands on. On the summer break between my junior and my senior years, I scoured local bookstores and libraries and read most of the basic Austrian works, as well as a number of books on libertarianism. By the time I was a senior, I was a libertarian and a budding Austrian economist.

While I was in grad school, I became a founding member of the New Jersey Libertarian Party. This was the year that John Hospers was running as the first Libertarian presidential candidate. The New Jersey party was going to hold a convention to nominate a gubernatorial candidate and we needed a keynote speaker. As party vice president, I was in charge of engaging the speaker.

The Wealth of Nations struck a chord with me, because it seemed very logical, saying something definite about social relationships.

I had seen Murray Rothbard speak for the first time a few months before and I found him very, very engaging and quite funny, so I worked up the courage to call and invite him and he accepted. Realizing as a new party that we had very few funds, he graciously accepted a speaking fee of \$75.

When he arrived at the convention I met and greeted him. To my surprise he was very eager to discuss my activities and what I was reading. I told him that I was a graduate student in economics, and that I was reading some of the works he had cited in the footnotes of his book, *Man, Economy, and State*. He became very excited at that point

CONTINUED ON NEXT PAGE

and like an absent-minded professor, began frantically searching his pockets for a pen. I finally handed him one and he took my name and phone number down and said that there were a group of Austrian students and faculty in New Jersey who met weekly to discuss Mises's works, and he would have one of them get in touch with me. Sure enough, a couple of days later someone called me and asked if I wanted to join the reading group. I said yes, and that was how my connection with the Austrian movement all began.

I met several people at the meeting who were very prominent in libertarian scholarly circles in the New York area, including Walter Block and Walter Grinder, who had both participated in Rothbard's famed living room soirées. Several months later I invited Murray over to present a talk to the graduate students and faculty at Rutgers University. A little later, he invited me to his apartment in New York City for refreshments and discussion. Although his manner was light and humorous, I could tell he really was evaluating me as a libertarian and as an Austrian, and I guess I must have favorably impressed him.

JD: Let's go back to South Royalton. You're a young guy, a grad student, meeting this incredible list of people: Rothbard, Israel Kirzner, Ludwig Lachmann, Henry Hazlitt, and Milton Friedman just for starters.

JS: I met Richard Ebeling on the first day. As the participants were arriving, Richard and I were sitting

together talking with William H. Hutt, a distinguished economist and follower of Mises, who had studied at the London School of Economics, where he knew Hayek and Lionel Robbins, the leading British Austrian. Well, we were sitting with Hutt and we saw Ludwig Lachmann come in, and Hutt said to us, "What's he doing here?" Richard said, "he's an Austrian." Hutt replied, "no he isn't, he's a Keynesian." As you might guess, with all those people in the same room, we were already beginning to see, even at that point, some schisms among the different groups within Austrian economics.

The three main speakers at the conference were Murray Rothbard, Israel Kirzner, and Ludwig Lachmann. Since I was a graduate student, I just sat riveted and eagerly absorbed these talks but I noticed even then that the three speakers weren't always saying the exact same things on crucial issues. I was trying to understand how the different views presented by the speakers all hung together, but I didn't know if there were real differences between their positions or if it was just my ignorance as a novice that prevented me seeing the connections between them. I figured out only years later that Rothbard's position was far different from Lachmann's, but also, to some extent, from Kirzner's position. But, they were all inspiring lecturers and the lectures were stimulating and provocative. So, it was a once in a lifetime experience.

JD: At the time, summer of '74, Mises had died just that past October. Had Murray Rothbard already



developed, or at least addressed some of his differences with Mises vis-à-vis utilitarianism? I remember reading how Rothbard felt very nervous about criticizing his mentor Mises at the conference.

JS: At that time, when he did criticize Mises's utilitarianism during the South Royalton conference, it was the first time that he had done so in public. In fact, he confided to a number of us, me and Richard Ebeling included, that he felt a bit nervous criticizing his mentor in public. So, that just shows not only Rothbard's great respect for Mises, but also the importance he attached to the mentor-protégé relationship, which was central to the development of Austrian economics.

JD: People talk about a renaissance in Austrian economics in the 60s and 70s, do you think that's accurate?

JS: Yes, I think the South Royalton conference was the culmination of the renaissance of Austrian economics. Initially and for a number of years I thought that the conference in 1974 was a seminal event in the rebirth of Austrian economics. But then when I thought more deeply about it two decades later I said, "Well how and why did 30 people show up there?" You know, where did these people come from? Was it a "Field of Dreams" scenario where a voice from on high says, "If you hold it, they will come." In fact, what participants had in common who showed up there was that almost to the man — actually there was one woman there — everyone was a Rothbardian. They had all read and were influenced by Rothbard's works. So it is now my view that the renaissance really began with the flurry of publications that Rothbard had written from 1961 to 1963: *Man, Economy, and State*, *America's Great Depression*, and *What Has Government Done to Our Money?* Then *Power and Market* came out in 1970 and in 1973, the year before South Royalton, *For a New Liberty* was published. Everyone there had read and absorbed those books.

The only two other books of note published prior to the conference were Israel Kirzner's, *The Economic Point of View*, which had some influence, but it wasn't a treatise in the style of Rothbard's. People were also abuzz about Kirzner's *Competition and Entrepreneurship*, which came out in 1973, but it was really Rothbard's works that

everyone had absorbed and that had motivated people to begin to study Austrian economics on their own.

So, I think that Rothbard will be known as the person who almost single-handedly revived Austrian economics and then drove it forward. Rothbard unlike Israel Kirzner, for example, was always looking for new people, people who he thought were up to the task of carrying on Austrian economics. He was always encouraging scholars, no matter what degree of productivity you showed, he always pushed you; he encouraged you. He was always willing to be your mentor. I think Rothbard was the reason, at least in the 1970s and early 80s, for the movement not just withering away after the conference.

I think that Rothbard will be known as the person who almost single-handedly revived Austrian economics.

Hayek won the Nobel Prize a few months later in October of 1974. In addition, Hayek came back very strongly in economics after he had won the prize and he began to write more for the public as well as for other scholars. But, what was important was that he became more combative and uncompromising than he had been since the 1930s. People don't realize that after the Nobel Prize, Hayek took direct aim at the Keynesians and didn't pull any punches, as he had done in his middle-period writings on political and social theory.

JD: Are you ever shocked by the degree to which economic history is ignored? You're known, for example, as someone who writes about the sociology of the Austrian school.

JS: I'm not shocked when I look at the mainstream because they are aping physics, and you don't go back and read physics articles or books from even a decade ago, but that's not true with Austrians. For the most part, Austrians have always looked at their history, have always gone back to study the great men in the

tradition, like Menger and Böhm-Bawerk. It seems to me that there's been a conscious attempt to narrow the economists that are considered a part of the Austrian tradition. For example, you have this idea that you can weed out Rothbard and downplay Mises as compared to Hayek. That was done deliberately in the late 70s and early 80s. Mises was thought to be too abrasive and too uncompromising. When we gave lectures, for example, for IHS, we were supposed to couch the presentation of the *laissez-faire* or anarcho-capitalist message with sort of a Hayekian twist with references to spontaneous order and social coordination.

But that approach seemed to have backfired and the same people have re-embraced Mises. Now those same people are trying to read Rothbard out of the tradition and water it down by renaming it and bringing in other people, especially those who have won the Nobel prize. These include James Buchanan, Elinor Ostrom, Douglass North, and Vernon Smith. Even classical economists like Hume and Adam Smith, whose main doctrines on value and cost were refuted by Menger and the early Austrian school are considered part of this expanded tradition. Oh, they don't call it Austrian economics — they have another name for it — but it gives a very skewed and twisted view of where Austrian economics comes from and how it developed.

JD: You coined this great term “Austro-punkism” to describe a lack of reverence for the old masters and, this tension between undue deference to the past and the need for economic science to progress. It also goes to credentialism, how we shouldn't judge economists based solely on their credentials instead of their actual knowledge and work.

JS: What we see sometimes in Austrian circles is that people aren't reading other people's articles. They're reading their CVs instead to see where they have published. I've often heard this criticism: “well you haven't published your view in a mainstream journal and therefore, we assume that your opponent who has an article in a higher ranked journal is correct.” This is just another example of how credentialism promotes poor scholarship. There's nothing wrong with wanting to get a job in academia and pursuing this goal by publishing

in mainstream journals. In fact, we encourage young people who come through the Mises Institute Fellows program to write articles for mainstream journals, but to try to incorporate Austrian truths and insights into those articles and to stay true to the praxeological tradition. And increasingly young faculty associated with the Mises Institute are showing that this can be done without deferring or selling out to the mainstream.

JD: You mentioned attempts to read people out of the movement, and also attempts to define Austrian economics too broadly by including fellow travelers. In your article for Hans-Hermann Hoppe's *festschrift*,

Austrians have always looked
at their history, have always
gone back to study the great
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Menger and Böhm-Bawerk.

you provide a definition based on praxeology — and you remind everyone that definitions are by necessity exclusionary. Give us your working definition of what an Austrian economist is.

JS: I want to say a few words about it. The term Austrian was actually not used to define the economics that Mises was doing. Mises didn't use that term in his *Human Action*, except to talk about his masters who were economists in Austria such as Menger and Böhm-Bawerk.

JD: He's using it in the geographical sense.

JS: Yes, he uses it in a geographical and history-of-thought sense and he held the view that was current at the time that Austrian economics was a closed chapter of economic thought. Mises used to refer to his doctrines as “subjective-value economics” or just “modern economics,” but by the time he came to publish *Human Action* in 1949, his views were held by a tiny minority of the profession and the term “modern economics” was commonly used to mean

something entirely different. Rothbard followed the same convention as Mises and even in *Man, Economy, and State* published in 1962, he used the term “Austrian economics” only two or three times, and every time put it in quotation marks, to indicate that the school was a historical episode. When the conference was held, and then Hayek won the Nobel Prize, we saw that there was a living movement and that it was going to grow, so it really cried out for a name. Rothbard began to use the term, “Austrian economics.” At the time, it seemed like the natural solution. But, as it turns out, the choice of such a broad name had an unforeseen and unfortunate consequence because now there are many people who claim to be Austrian economists yet hold *fundamentally* different views of economics.

So, to get back to your original question, my view of what an Austrian economist is — freely acknowledging that there is confusion about it — is someone who sticks to the praxeological paradigm, who believes that economics begins from the actions of individual human beings. And then, it infers from that premise or axiom of action, combined with certain obvious facts about the world, all of the related deductions that compose the structure of economic theory. In other words, for the praxeological economist, economic theory is the spinning out of the structure of implications of human action in the world that exists. That’s how I would define Austrian economics. Others have different definitions of it and unfortunately, they clash with one another.

The people at George Mason, for example, for a while tried to distance themselves from the term “Austrian economics” when Ron Paul began to popularize it during his presidential campaigns. They began to lump together and uncharitably denounce as “internet Austrians,” both lay people who supported Ron Paul’s pro-free-market program as well as academic economists associated with the Mises Institute. They came up with new more academic-friendly labels for their own, allegedly more scientific brand of Austrian economics, for example, “spontaneous order” economics or “coordination problem” economics. But they were never able to convert the term into a smear, and have embraced it yet again, although as I mentioned they are now trying to submerge it in a broader makeshift tradition.

JD: So it’s a useful term of convenience. It’s human nature to want to put some sort of broad label on a school of thought.

JS: Well, I think you have to. There are still different schools of thought. I think it’s a good thing that you’re starting to see this recognition by mainstream economists. The real business cycle people are labeled. They’re different from the new Keynesians, who in turn differ from the modern monetary theory people. There is even a burgeoning school of new monetarism, who differ on crucial points from old Friedmanite monetarists. You see it most clearly in macroeconomics, where there is a factionalizing of economists, which I think is magnificent.

JD: You’re probably best known in Austrian circles for your work on monetary theory and monetary policy. You’ve written a lot about the 19th century, the currency school versus the banking school. Give us a quick summary of this work, and how both schools still influence monetary policy today.

JS: Mises always referred to himself as a descendant of the mid-19th-century British currency school. The currency school said there was really no reason for the amount of money in the economy to change except through the balance of payments, that is, if a country got richer and sold more abroad, there would naturally be an inflow of gold and therefore an increase in the money supply. So, in other words, you didn’t need government to create money.



If a nation demanded a greater amount of money because it was more productive, that money would automatically flow in. And for nations that were declining economically, money would flow out through the balance of payments. All of these nations were of course using the same money, gold. I give my classes the example of Silicon Valley and Detroit. We don't say that there is a deflation in Detroit because its money supply and prices have declined as the auto industry and its suppliers have shrunk, jobs have left, and the city's income and wealth has declined. Nor do we say that Silicon Valley has suffered an inflation because money has flowed in, housing, restaurant, and retail prices have exploded upward, as the area has become increasingly more productive. As Mises and especially Hayek pointed out many years ago, a redistribution of the money supply from those regions or nations that have become relatively less productive to those areas that have become relatively more productive does not constitute deflation or inflation, respectively, but merely a market response to changes in relative demands for money. That was what the currency school was basically saying, that you didn't need governments to increase or decrease money supplies in various countries or regions with a common currency, like gold, because this function was taken care of automatically by the price system.

JD: But, isn't volatility in the amount of money, the money supply, generally a bad thing because entrepreneurs need to make predictions about the future? So, isn't it better for prices to adjust than for the money supply in a country to expand or contract rapidly?

JS: Where there's one currency, for example, either the dollar in the present day United States or the classical international gold standard in the 19th century, there's never a need to increase the overall amount of money in the system, but that doesn't mean that money supplies should not vary in different nations as some nations become more productive than others, and that automatically occurs under the gold standard. It's called the price-specie flow mechanism, and it keeps overall prices, or the purchasing power of money, roughly equal throughout the gold currency area.

The overall world money supply never needs to be expanded as the capitalist economy becomes more productive, as it did during the 19th century. The reason is that as supplies of goods increase, with the same money supply, costs of production and prices naturally fall. If you look at industries that are flourishing today, HD TVs have come down in price from \$36,000 in the 1990s to \$400 today. Lasik eye surgery has come down from \$3,000 or \$4,000 per eye, all the way down to \$300 to \$500 per eye, and that's because there's been more capital investment and improvement in technology that's increased output. So, yes, you're right. Prices adjust slowly over time to changes in supply and demand. Now, volatility in prices is something else entirely. It is bad for households and businesses and it is only caused by government trying to centrally plan money through its central banks.

UPCOMING Events

March 23–24	Austrian Economics Research Conference; Mises Institute
April 14	Mises Institute in Nashville, TN
May 19	Mises Institute in San Francisco, CA
June 2	Mises Institute in Ft. Worth, TX
June 10–15	Rothbard Graduate Seminar; Mises Institute
July 11–14	Mises Institute at Freedomfest, Las Vegas, NV
July 15–21	Mises University; Mises Institute
September 28–29	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

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

JD: You've written about the gold standard and alternatives to it, modern corollaries to it. Give us your thoughts on whether the gold standard is a dead historical relic at this point, whether it can still work, and whether cryptocurrencies can actually provide a new form of money that's not controlled by government and politics.

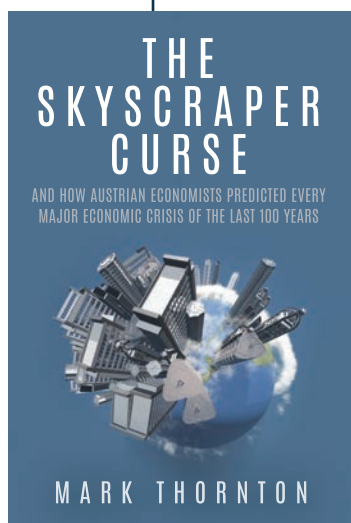
JS: I've written about the gold standard and I've come out in favor of restoring it, but the term gold standard really means market money. I think the best road back to a gold standard is simply to allow people to use whatever money they want in making contracts. I agree with Hayek's little booklet in the 1970s, *Choice in Currency*, in which he advocates that all taxes — sales taxes, excise taxes, capital gains taxes — and other legal measures hindering the use of gold, silver or foreign currencies be abolished. This would allow citizens of the US, for example, to contract in gold, silver, or foreign currencies, or in US dollars if they wish. Then we could sit back and allow competition to determine the best currency. Leave the US dollar exactly as it is and let's see how it fares in this competition. I used to think that a mass movement could put pressure on the US government to return to a gold standard, but given what the Fed has done, I don't trust the Fed or government agencies to restore a gold standard. I think they would try to sabotage it, so it is better if it should come about naturally.

Regarding cryptocurrencies, I wouldn't call them currencies because look, we don't have pricing in terms of

cryptocurrencies. It is not the standard unit of account. We don't have Bitcoin prices in Walmart, although you can buy some things directly with Bitcoin. Bitcoin is a good method of making payments anonymously, like cash. Whether or not Bitcoin is a bubble, as some people are saying, and its value will eventually fall to zero, is another question. I think that's more of a historical question rather than a theoretical one. It's here. It is a valued good, it's a declaration, an electronic declaration basically and it has value because people are willing to pay both money and goods and services in exchange for it and to hold it as an asset. But we'll see how long that lasts. I mean, its value seems to be very, very volatile and that's really not a good mark of a sound money.

JD: Mises wrote about the socialist calculation problem at length, but one thing you're known for is echoing the idea that it's a *calculation* problem. In other words, entrepreneurs need actual money prices to make good or at least rational decisions about the future, whereas the Hayekian end of Austrian economics viewed it more as a knowledge problem or an information problem. Can you discuss this a little further?

JS: What Mises said was that no matter how much knowledge a person has, or a group of people acting in concert has, they would not be able to calculate. They may have knowledge of all existing resources and the latest technology at their fingertips. They could even know what people's values are or even substitute their own values, but that's all qualitative knowledge, which lacks



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a common denominator. There's no way to calculate the most valuable uses of these resources and the most efficient ways of combining them in producing consumer goods. What Mises says is that the planner needs to transform this qualitative knowledge — people's value scales, the size, locations, and skills of the labor force, the quantities and physical productivities of different kinds of capital goods and natural resources — into quantitative knowledge of the exchange ratios between these resources expressed in a common unit, that is, money prices. Without market prices all the knowledge in the world is useless, because the planner cannot find out his costs of production, or if the production of one batch of consumer goods involves sacrificing the production of more valuable quantities of different consumer goods. But the prices of the means of production can only come into being when there exists private property and exchange in all kinds of capital goods and natural resources. Capitalist-entrepreneurs then may forecast the prices of consumer goods and then bid, on the basis of these prices, for capital goods. This entrepreneurial bidding process brings about a structure of prices for capital goods that permits anyone to calculate the costs of production for any conceivable consumer good.

Take Steve Jobs, for example, appraising the commercial viability of the iPhone. There was no price for an iPhone. He had to forecast it. He had to look at what competing and complementary goods were likely to be available when the iPhone came to market and then make some sort of a forecast of what consumer demand for his product would be in money terms. He needed to compare his forecast money price to the money cost of producing an iPhone. He couldn't just compare the physical inputs into the iPhone to subjective consumer values. There had to be money prices and costs for a comparison to take place. That was what Mises was saying. Hayek was saying that if a single mind had all the knowledge in the world, it wouldn't be practical, but it would be theoretically possible to come up with the correct quantities and kinds of goods to be produced, market prices wouldn't be necessary, but that's just not the case. Hayek missed the point that you need entrepreneurs to competitively bid for productive resources — entrepreneurs who own their own capital, who take their own risks and who can

forecast future consumer prices. So Mises was right, economic calculation is *impossible* without market prices.

JD: So, what makes socialism impossible is that only a system of private property can give us real price signals.

JS: Look, you can have private ownership and prices of all consumer goods, but without private ownership and markets for capital goods you can never find out what the costs of producing those consumer goods are. You would never know if you were producing the right kinds of consumer goods in the cheapest possible way or if you're giving up something more valuable by producing, for example, X amount more cars and Y fewer motorcycles. You don't know where resources are most valuable. You don't know if the car's bumpers should be made of titanium or steel or fiberglass like they are today. Who would think that a fiberglass bumper is more efficient than a steel bumper? Well, it's not just an engineering problem, it's an economic problem.

JD: Switching gears a little bit, I want to talk about some of the monetary policy prescriptions we hear about from the financial press and DC think tanks. Some of them are libertarian-ish, some of them are not. Give us your thoughts on some of the trendy ideas like the Taylor Rule, inflation targeting, and the like. Talk about some of the theories gaining traction out there.

JS: John Taylor has taken credit for the fact that his rule indicated that money was too loose from 2001 to 2005, that with his rule, there would have been a much higher interest rate that would possibly have prevented the real estate and financial bubbles and subsequent financial crisis.

And that may be true, if you look at the interest rate generated by his rule compared to the actual interest rate. If we go back to the late 90s, from about '95 to '99, we find his rule indicating the interest rate should be *lower* than it actually was and yet, the US economy experienced the dot-com bubble during that time. So, his rule would have exacerbated the tech bubble and he never talks about that. His rule also depends on arbitrary coefficients that have to be inserted into his equation. Lastly, the Taylor rule is a recipe for the Fed to manipulate the interest rate, which Austrians vigorously oppose. The interest rate is

set on the market by people's time preferences, by the preferences of people who want to abstain from present consumption and save and invest money in the structure of production, the production of capital goods that will yield consumer goods in the future.

JD: Aren't ideas like a "rules based" Fed or inflation targeting just another form of monetarism? You're looking at external data and using that data to tighten or loosen monetary policy, to put more money and credit into the economy or less.

JS: You're right. It's the central planning of money. The value of money and the height of the interest rate can and should be determined by the market. Any time there's an expansion of bank credit, any time new money is injected into the economy, the interest rate is shaken loose from its moorings in the market economy, in individual time preferences. Artificially lowering the interest rate in this way causes entrepreneurial miscalculation and errors that cause imbalances between the production of consumer and capital goods — what Austrians call "malinvestments." So, the bottom line is that, interest rates, like all other prices, should be left to find their own level on the market.

Now, there's a number of free-market economists — George Selgin is one, Larry White another — who have recently made the case that the Fed has not pushed down interest rates since the financial crisis to below the natural rate of the market, even when the nominal rate was effectively at the zero bound. They argued that interest rates were low not because of inflationary Fed policy but because the natural interest rate had mysteriously fallen. I wrote a blog post criticizing this view. I pointed out that the loan rate of interest for Austrians is really determined by the rate of return on investment in capital goods, because entrepreneurs are willing to pay up to this rate for borrowed funds. Well, when I went back and looked at those rates of return since 2009, they weren't at zero, they weren't at 2 or 3%, they fluctuated between 7 and 8%. So, my response to Selgin and White is, okay, have the Fed stop increasing the money supply and then let's see what happens to the interest rate. We all know the interest rate would sharply rise. That's why the Fed is so apprehensive about raising the interest rate even by

a quarter of a point, because there are asset bubbles sitting out there ready to burst. The student loan bubble, the bubble in urban housing markets, the unprecedented height of equity prices and so on. So, let's have the Fed stop manipulating interest rates and then let's see what happens to the interest rate. Will it fall below zero? Will it stay at zero? Of course not.

JD: Given how entrenched the Fed is now after 100-odd years, what do you suggest instead of tinkering? Simply allow other forms of money to compete, to be used for settlement of payments and for taxes? What's a practical way to reform our monetary system?

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JS: I would do that, but I would also do something else in the short term and that is make the Fed accountable to the Congress. Right now, it's the only federal agency that isn't so accountable. I think Ron Paul was absolutely right on this. The next step is to have the Fed audited, to have Congress take control of its budget and eventually to transform the Fed into a sub-department of the Treasury — a policy Milton Friedman advocated early in his career. Then the elected members of Congress will be held directly responsible for inflation and other monetary mishaps. So, having an independent Fed — to the extent that it really is independent — provides great leeway for unaccountable Fed bureaucrats to experiment with the latest craze in academic monetary economics. But no matter what new theory or policy comes down the pike from academic economists, it always boils down to a new method for printing money and suppressing interest rates in order to raise economic growth and employment to unsustainable levels that eventually ends in a financial crisis and recession. So, I say get rid of Fed

independence. I think that is the first thing to be done to restore sound money. Ron Paul was the first modern politician to recommend such a course, to his everlasting credit. This policy will work and is something that we should really push for.

JD: Well, if they're so independent they certainly seem to respond like timorous mice whenever there's a hiccup in the stock market. What has "Fed independence" gotten us in the Greenspan-Bernanke era?

JS: All it's gotten us is an easy way for Congress and the president to have giant budgets that exceed taxes and that result in deficits the Fed finances. If the Fed was an agency of the federal government, at least we would know where to lay some blame. Congress could no longer say, hey, that's not us, that's the Fed. I think just in that respect, it's important. I have written an article on taming the Fed and I think that's an important step. Rothbard, if you look at his book on the Progressive era, was always against bureaucrats being set up as experts and running our lives. He was a democrat with a small "d," in the sense that he wanted democratic oversight over bureaucrats because he thought that was a more direct way of people being able to express their preferences and throw out the people that have caused the problems.

JD: But, then wouldn't there be dangers in a pure greenbacker system where the central bank doesn't exist and Congress simply tells the Treasury how much money they create.

JS: I don't think that's necessarily true, even though I don't agree with the greenbackers that this is a permanent solution. The gold standard or some other private monetary arrangement is the permanent solution to getting rid of the business cycle. But, once again, if you have Congress telling the Fed how much money to create, you'll get inflation and you'll get people being upset and you get them reacting. I think it's better to know where to place the blame and that is directly on Congress, on the people that you can vote out, where you can't vote the Fed bureaucrats out. We need to get rid of the cloak of scientific mystique that surrounds monetary policy and expose it for what it really is: a method for benefitting one group at the expense of other groups by redistributing real income and wealth through money printing.

JD: One of your roles over a long career has been mentoring a lot of young PhD economists who have come through the Mises Institute, along with teaching thousands of undergraduates. You've certainly mentored a lot of superstars like Peter Klein and Guido Hülsmann. Tell us about a few up and coming Austrians whose names you think are worth watching.

JS: Matt McCaffrey at the University of Manchester, is an up-and-coming Austrian who has published some very good articles and chapters in the area of entrepreneurship. He's creative and he's already made some contributions. Also, his wife, Carmen Dorobăţ, who writes on international money and international trade and who has applied the calculation debate to the division of labor. That is, Mises's point that all society is based on voluntary exchange and prices. It's prices that tell us where we can best use our labor, where we can best use our resources, both on the individual level, and on the level of nations. In a sense, she's deepening our understanding of the social relation, that is, the division of labor, what makes some people better at certain tasks and other people better at other tasks. This, again, is all based on entrepreneurs being able to calculate where to allocate resources. I think hers is a very exciting research program.

Per Bylund, who has written a lot following Peter Klein on entrepreneurship and the theory of the firm and has also written two books. He is someone that I have high hopes for. And of course, Patrick Newman, who has edited Murray's book *The Progressive Era*, but has also done some good work of his own on monetary policy in the 1920s and 30s. I think he's a rising star in the tradition of Murray Rothbard and Robert Higgs as an economic historian. Malavika Nair, at Troy University has done some important work on monetary theory and applications, especially in the area of cryptocurrency. G.P. Manish, also at Troy, is hard at work researching and publishing in the area of economic development and, especially, causal-realist price theory. I could go on and on listing young scholars who are contributing to the Mengerian tradition in Austrian economics, but these are some of the rising stars. ■■■

FOR NIAL FERGUSON, FREEDOM CAN'T SURVIVE WITHOUT THE STATE

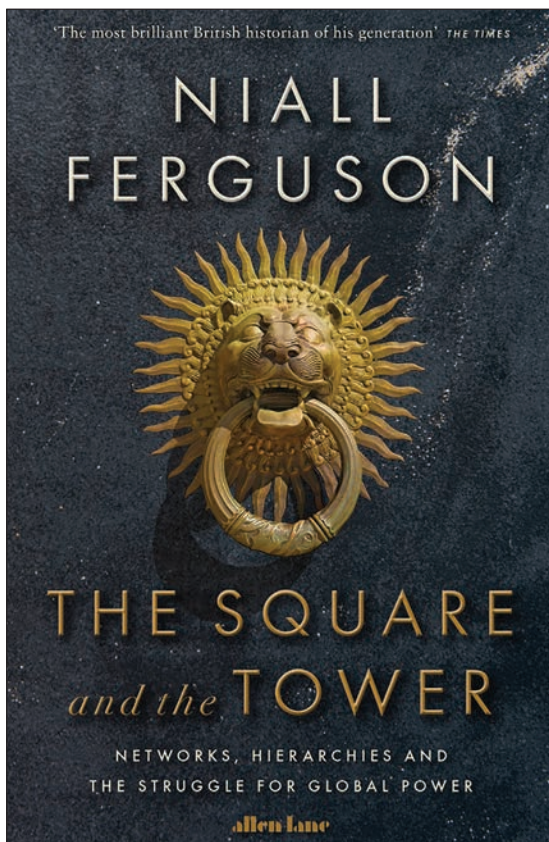
DAVID GORDON
REVIEWS

The Square and the Tower: Networks and Power,
from the Freemasons to Facebook

Niall Ferguson

Penguin Press, 2018

xxvii + 563 pages



Niall Ferguson has impeccable credentials as a member of the “Establishment” (a word that comes, he tells us, from the historian A.J.P. Taylor). He has taught history at Oxford, Cambridge, Harvard, and NYU and is also a consultant to a global hedge fund. As one might expect, he is not a libertarian. Nevertheless, he has often challenged conventional opinion in a way libertarians will find congenial. In *The Pity of War*, for example, he argued that the British ought to have stayed out of World War I, despite the prevailing orthodoxy that the Crusade against Kaiser Bill was a “good thing.” In *The Square and the Tower*, he continues and expands his challenge to prevailing leftist dogmas.

Ferguson finds a unifying theme that he applies to a great many historical episodes: a conflict between hierarchies and networks. Hierarchies are “vertically structured organizations characterized by centralized and top-down command, control and communication.” Networks, by contrast, are informal channels of communication among individuals. Ferguson complicates matters by contending that “far from being the opposite of a network, a hierarchy is a special kind of network,” one in which one “always adds nodes downwards, but never connect nodes laterally.”

This means that people at the same level in a hierarchy communicate only with those above or below them, not those at the same level. (Is this always true?) Ferguson often complicates matters unduly, and his learned references to Euler’s solution to the Königsberg Bridge Problem and his many mathematical diagrams and reports of research on networks in various fields do not contribute to his accounts of historical events. His scholarly range is

impressive, though he unaccountably fails to cite Harrison White, one of the most influential sociologists writing on networks.

The real contrast that the book illuminates is not between top-down organizations and other networks: it is rather the clash between state coercion and people's free activities. The book moves from prehistoric times to the present, and always the malign effects of the state are unmistakable. Ferguson cites the great historian Sir

Ronald Syme, who in "his classic study *The Roman Revolution* ... argued that the Republic had ... been run by a Roman aristocracy whose feuds had allowed Italy to descend into civil war. ... It was by building his followers into a 'Caesarian party' that Augustus was able gradually to concentrate power in his own hands while nominally restoring the Republic. 'In certain respects,' wrote Syme, 'his Principate was a syndicate.'"

Ferguson has become an even more resolute revisionist about World War I than in his earlier book. "Russia appeared intent on exploiting the Bosnian crisis with a view to the permanent weakening, if not the dismemberment, of Austria-Hungary. ... If any individual deserves to

be blamed for the systemic failure that occurred [after the assassination of Archduke Franz Ferdinand], it was the British Foreign Secretary, Sir Edward Grey. Britain was supposed to be the balancing power in a crisis such as this." Blundering and rash actions by those at the top of the hierarchies of the European Great Powers led to catastrophe.

The success of the Bolshevik Revolution, Ferguson holds, stems in large part from a state-sponsored conspiracy. "Yet the one German plot that worked proved to be so successful that it very nearly revolutionized the whole world. This was the plot to send the Bolshevik leader Vladimir Ilyich Lenin, then living in Switzerland,

back to Russia, in the wake of the February 1917 Revolution that overthrew Tsar Nicholas II. ... The German government supplied Lenin not only with a railway ticket from Zurich to Petrograd ... but also with lavish funds to unseat the new provisional government."

In his account of the rise of Nazism, Ferguson shows how worship of a political movement can lead to disaster. "To many observers, it seemed like a religious awakening. ... The Nazis developed a self-conscious liturgy, with 9 November (the date of the 1918 Revolution and the failed 1923 Beer Hall putsch) as a Day of Mourning, complete with fires, wreaths, altars, blood-stained relics and even a Nazis book of martyrs." Ferguson has here rightly drawn from Eric Voegelin, who is incorrectly called a Catholic.

Ferguson ardently admires Henry Kissinger, but even those of us who do not share his favorable view of this Machiavellian intriguer will gain much from Ferguson's extensive research on how Kissinger propelled himself to the summit of power. Ferguson puts his account of networks to good use: "The hypothesis must be that

The book moves from prehistoric times to the present, and always the malign effects of the state are unmistakable.





Kissinger's influence and reputation were products not only of his influence and industriousness, but also of his preternatural connectedness. ... The network was the precondition for his 'chain reaction' diplomacy. ... That was what justified the claim that 'Kissinger [probably] had more impact than any other person in the world.'"

Opponents of the free market sometimes argue that the internet came about through the expansion of a program sponsored by the Defense Department. Ferguson does not agree. After describing the governmentally sponsored Advanced Research Projects Network (ARPANET), he says, "It therefore mattered greatly that what became the internet was not designed that way, but rather arose more or less spontaneously and organically, with academics and private sector computer engineers rather than military planners taking the lead."

Both here and in his earlier book *The Ascent of Money*, Ferguson ignores the Austrian theory of the business cycle, but he has no illusions about the role of the Federal Reserve System in provoking the financial crisis of 2008: "The Federal Reserve allowed monetary policy to

be too loose between 2002 and 2004. ... [Even after the Lehman bankruptcy.] Incredibly, however, staff economists at the Federal Reserve saw no reason to anticipate a recession."

Ferguson mordantly criticizes the role of the state in the modern economy. "The federal government has degenerated into what has been called an 'administrative' or 'managerial' state, hierarchical and bureaucratic in its mode of operation, dedicated to generating ever more complicated regulation that had precisely the opposite effect of that intended. ... The administrative state has found an easy solution to the problem of increasing the number of public 'goods' without making commensurate increases in taxation, and that is to finance current government consumption through borrowing. ... Yet all these expedients of the administrative state impose burdens on the private sector that ultimately reduce the rate of growth and job creation. ... In short, the administrative state represents the last iteration of political hierarchy: a system that spews out rules, generates complexity, and undermines both prosperity and stability."

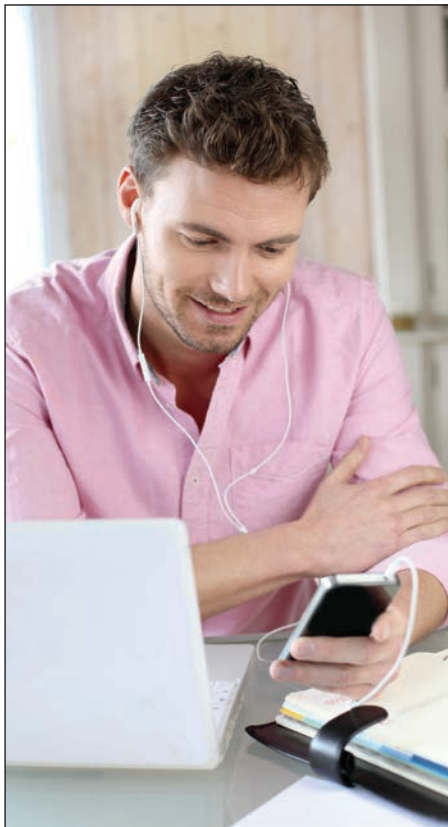
Given his powerful case against the state, it is disappointing that Ferguson ends by calling for stronger state hierarchies. These are needed, he thinks, to combat future cyber warfare and Islamic jihad. This is not the first time that an author has failed to draw the correct lessons from his own book, and readers of *The Square and the Tower* would be well-advised to benefit from the author's insights into the evils of the state while they ignore his conclusion. ■■■

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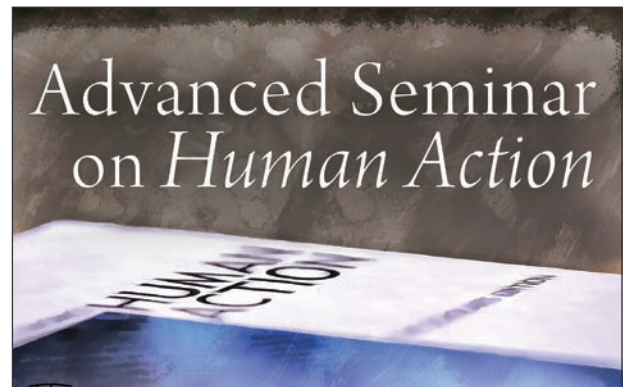
David Gordon is Senior Fellow at the Mises Institute, and editor of *The Mises Review*.



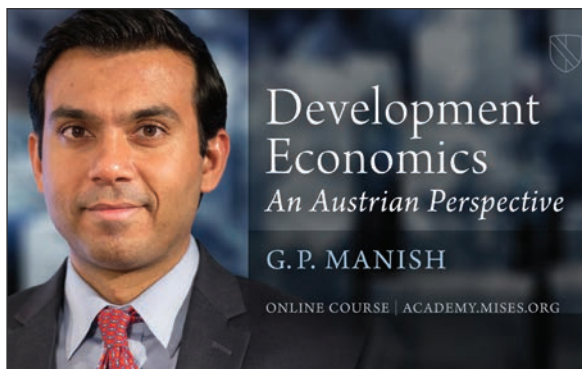
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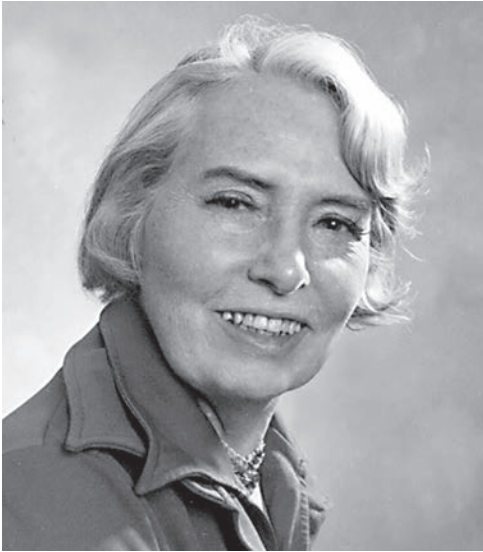
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Bettina Bien Greaves

QUITE A LADY

By Llewellyn H. Rockwell, Jr.

When Bettina Bien Greaves died at 100 earlier this year, she left an extraordinary legacy as Mises's right-hand woman. Then after his death, she worked with his widow, Margit, whom Murray Rothbard called a "one-woman Mises industry." Bettina was #2 in that business, helping Margit make sure his works were in print, transcribing and publishing his 19 years of seminars at NYU that she had taken down, and compiling a huge two-volume bibliography.

Born in Washington, DC, Bettina received a BS in botany from Wheaton College in 1938, later noting that since she was far more interested in people than plants, her choice of major was a mistake.

Even aside from plants, jobs were hard to find in the depths of the Depression, but her father, an architect, hired her to manage an apartment building he had remodeled from his parents' large Victorian house.

To earn more, she learned shorthand and typing, and also worked as a part-time secretary. But FDR's wartime price controls made tenants easier to get, but expenses harder to cover. So Bettina applied for work with the Bureau of Economic Warfare.

Note that at this time, Bettina believed in price controls, and similar measures. But she was smart and hard-working, and was quickly hired for the DC office, then Bolivia, then postwar Austria. She had also, in the meantime, learned Spanish and German.

In Vienna, however, an Army major who had been an economics professor began to set her straight. Indeed, she had had enough of government, so when her Viennese assignment was up, she looked for a private-sector job, in DC and was hired by economist and historian Percy Greaves, later her husband.

Soon, however, Percy — who had sparked her deep and scholarly interest in Mises, was spending most of his time in New York, and he urged Bettina to apply for a job with Leonard Read, and to tell him, as she had told Percy, that she had had enough of government bureaucracy. There she first met Mises, and continued her vast reading and study, and her extensive editorial assistance to him.

There, too, I first met Dr. and Mrs. Mises, as editorial assistant for new Arlington House editions of three of his great works. I also met Bettina, who was clearly taken seriously by the great couple.

In the intervening years, I learned to do the same. Her advice and gifts to the Mises Institute — of money and Mises memorabilia — awed us all, as did her work ethic, and never-ending intellectual devotion to Mises. We were so glad to bestow on her the Gary G. Schlarbaum Prize for Lifetime Achievement in Liberty in the Tradition of Mises, and to name her an Associated Scholar. We are also honored by her generous financial bequest in her Will, and the gift of her amazing library.

When she was almost 90, Bettina fell and broke a hip. Her doctor told her she would never walk again. She later told me she closed her eyes, lay back on her pillow, and thought: I've lived a good long life. Maybe it's time for me to go.

Then her eyes popped open. I can't die, she thought. I haven't edited Percy's book on the truth about Pearl Harbor, and I still have Mises seminar transcriptions to publish.

Bettina finished both projects with a flourish, and even attended our later conference in Salamanca — walking.

But this year, at age 100, it was finally time for her to lay back and close her eyes. Bettina, we miss you and honor you.

The Austrian

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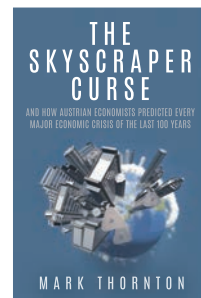


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