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ARTICLES

Rothbard on Interventionism: Writing the Last Chapters of Economic Theory

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Autobiographical Note

Let me begin with an autobiographical note. During my junior year in college, I read an article in *The New York Times Magazine* titled "The New Right Credo—Libertarianism," which briefly referred to Murray Rothbard, whom I had never heard of before (Lehr and Rossetto 1971). At a subsequent meeting of the Boston College chapter of the Young Americans for Freedom (YAF), I mentioned the article. The next week, a fellow member of the chapter handed me a book by Rothbard. It was really a minibook the size of an index card, measuring three-and-a-half by five inches and comprising thirty pages. I eagerly devoured the book in one sitting and quickly realized that I had learned more about inflation and recession in forty-five minutes than I had learned in my introductory and intermediate macroeconomics courses. Rothbard wrote clearly and convincingly, yet I was puzzled by what I then thought was the book's rather clumsy title: *Economic Depressions: Their Cause and Cure*. Why was the main title pluralized, while the nouns in the subtitle remained oddly in the singular? Why not the more euphonious title *Economic Depressions: Causes and Cures*? Little did I realize then that Rothbard was very deliberate and precise in his choice of title.

During the summer break that followed, I scoured public libraries near and far for books written by Mises, Hayek, and Rothbard. I was finally able to locate and borrow six or seven dusty volumes from a library in another county. To my recollection, none of the books had ever been checked out more than once. The book that I read first was Rothbard's *America's Great Depression*. I was working as a janitor at the time and usually finished my work by midafternoon. I would then retreat to the cramped janitor's closet illuminated by a single naked light bulb. There, I sat uncomfortably among smelly cleaning supplies, poring over Rothbard's book until the end of my shift. By the end of the summer, I came out of the closet—as a committed student of Austrian economics. Although

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I grasped Rothbard's exposition of the Austrian theory of the business cycle, I was still a neophyte, especially with respect to Rothbard's unique methodology. So, I was again puzzled. This time, I was perplexed by Rothbard's (2008, xxxv–lxii) insistence, both in the text of the book and especially in its introduction, that Austrian business cycle theory was both "monocausal" and "exogenous." In other words, *all* business cycles have a single cause, and that cause is external to the market economy. It was not until much later that I realized that Rothbard's position derived from his pathbreaking theory of interventionism, which he deduced and integrated into the body of pure economic theory using the praxeological method. This realization also resolved my confusion about the title of Rothbard's minibook: Economic depressions—wherever and whenever they occur and despite their apparent complexity—have a single cause and a single cure. But I will speak more about this later.

Contributing to my early confusion about Rothbard's comments on the nature of causation in business cycle theory was the fact that I unwittingly adopted an approach to learning Austrian economics that was completely backward. For the praxeological research method Rothbard used dictates that, in learning economics, one must begin with the study of isolated action in the Robinson Crusoe economy. One must then proceed step by step through the analysis of barter and then of monetary exchange in a free-market economy. Only after grasping the laws governing the operation of a purely free-market monetary economy is one equipped to deal with the explanation of the complex effects of government interference with the market economy. This point was emphatically stated by Ludwig von Mises's mentor, Eugen von Böhm-Bawerk (quoted in Mises 2006, 56), who wrote, "A theory of crises can never be an inquiry into just one single phase of economic phenomena. If it is to be more than an amateurish absurdity, such an inquiry must be the last, or the next to the last, chapter of a written or unwritten economic system. In other words, it is the final fruit of knowledge of all economic events and their interconnected relationships."

Rothbard was the first economist to answer the challenge that Böhm-Bawerk posed. Employing the praxeological method, which he adopted from Mises, Rothbard developed a theory of interventionism that was integrated with general economic theory. He was thus able to write "the last chapters" of economic theory: a systematic theory of all types of intervention, including the business cycle, that was deduced from and consistent with the action axiom.

In this lecture, I will discuss some of the important but neglected aspects and implications of Rothbard's theory of interventionism.

Adoption of the Praxeological Method

The striking originality of Rothbard's theory is due to its foundation in praxeology. Before he had read even half of *Human Action*, Rothbard was converted to the praxeological approach to economics, writing to Mises on September 22, 1949, "Your development of the relationship between praxeology and economics is a tremendous contribution" (Rothbard Papers). The method of praxeology that Mises expounded involved logically deducing the entire system of economic theory from the undeniable fact that humans act, plus a few other self-evident truths about reality. In a set of undated notes written decades after the publication of *Man, Economy, and State* and titled "MES: A Retrospective," Rothbard reminisced about his state of mind as he embarked upon writing the treatise. Rothbard revealed the depth of his early conviction that praxeology was the proper research method for economic theory: "How did I know it will hang together in a deductive system? . . . I knew it all hanged together, I could see the 'vision' in *Human Action*. . . . I never doubted the coherence of the system" (Rothbard Papers).

Imaginary Constructions as the Method of Praxeology

Rothbard wielded the praxeological method masterfully in his treatise. For, although not often recognized, praxeology calls for more than a straightforward application of the logical-deductive method to the action axiom and other self-evident truths. It also requires careful formulation and use of varying sets of false assumptions to aid the development of the chain of praxeological reasoning, which becomes increasingly complex as it proceeds. Mises referred to these aids to reasoning as "imaginary constructions" and was the first to explicitly recognize that they were essential to economic analysis and the core of the praxeological method.

In Mises's (1998, 237–38) words, "the specific method of economics is the method of imaginary constructions. . . . It is the only method of praxeological and economic inquiry." The praxeological method, Mises explained, involves abstracting from some of the actual conditions of action in order to logically deduce the "hypothetical consequences" of their absence. This allows the economist "to conceive the effects of their existence" (238). For instance, we conceive the phenomenon of time preference as the sole source of interest by first imagining that all individuals are indifferent between satisfactions equal in intensity but differing in their remoteness from the moment of action. In other words, in the assumed absence of time preference, people value the satisfaction from a present action equally whether it accrues to them at the instant of action or ten, twenty, or fifty years after it occurs. Furthermore, absent time preference, the time horizon for which people provide is infinite, and the consumption of the limited services of durable goods is postponed *indefinitely*. For example, someone contemplating consuming an imperishable frozen pizza for dinner does not consider whether the preparation time is twenty minutes, twenty hours, or twenty years. The value of the satisfaction is equal no matter when the pizza is consumed. In this world, future money cannot possibly trade at a discount against present money, and therefore there is zero interest return on loans or on investments in time-consuming production processes. From the analysis of this fictitious and impossible world, we logically infer that time preference is the necessary and sufficient condition of interest in the real world.

We use a similar method to isolate and identify the cause of profit and loss. In this case, we imagine a world in which the economic data—value scales, technology, and available resources—are eternally frozen and uncertainty is absent. Supply, demand, and price in every market thus recur unchanged period after period, as does the allocation of resources. Since past, present, and future prices are known to everyone, there is no room for pure profit. No gap larger than the pure interest rate can possibly emerge between prices and costs of production in any production process. Using this imaginary construction, which Mises called the "evenly rotating economy," economists logically deduce several important theorems about the real world. First, change and uncertainty are the source of profit and loss. Second, the primary function of the entrepreneur is to judge uncertain and continually changing future market conditions in order to efficiently allocate resources. And third, profit is a dynamic income separate and distinct from interest.

For Mises (1998, 237), imaginary constructions are thus "indispensable" for theorizing about the real economy even though they depict worlds that are improbable or may never have existed. In some cases, these mental constructs may even be "inconceivable, self-contradictory, and unrealizable." A world without time preference, as we saw, is inconceivable because it contradicts the action axiom: Without time preference, people would postpone action into the indefinite future; that is, they would never demonstrate a preference for present consumption. The evenly rotating economy is unrealizable because money would not be held in a world of perfect certainty, and an economy deprived of the means of economic calculation could never come into being. In addition, where the future is known with certainty, there would be no possibility of changing it, and human action would be futile.

Rothbard was in full agreement with his mentor on the essence of the praxeological method and its necessity for economic inquiry. In an unpublished chapter from the original manuscript of *Man, Economy, and State* titled "Chapter XII: Government and the Free Market," Rothbard stated, "Economics employs the praxeological method; i.e. it is a logical, deductive science, drawing out its conclusions from certain universally acceptable axioms. It proceeds on the basis of 'imaginary constructions,' permitting some factors to vary while others remain constant, and deducing the consequent effect on other factors" (Rothbard Papers).

Elsewhere, he elaborates, "The constructs are imaginary because their various elements never coexist in reality; yet they are necessary in order to draw out, by deductive reasoning and *ceteris paribus* assumptions, the tendencies and causal relations of the real world." Thus, for Rothbard, "the evenly rotating economy is unrealistic, for it cannot actually be established and we cannot even conceive consistently of its establishment. But the idea of the evenly rotating economy is indispensable in analyzing the real economy; through hypothesizing a world where all change has worked itself out, we can analyze the directions of actual change" (Rothbard 2009, 576n15, 329).

For Mises and Rothbard, then, the use that the praxeological method makes of imaginary constructs or "false assumptions" has a single aim: to deduce and elaborate a unified body of theory about the causes of economic phenomena in the world as it is, was, or is likely to be. For example, theorems relating to entrepreneurial judgment and profit refer exclusively to the real world and make no reference to the changeless construct of the evenly rotating economy. This contrasts sharply with the "models" of perfect competition or dynamic stochastic general equilibrium used by mainstream economists. These constructs are used to directly generate testable propositions about cause and effect in the real-world economy or, worse, to serve as standards by which to judge its efficiency.

The Rothbardian Construct of the "Purely Free Market"

Rothbard's mastery of the praxeological method of imaginary constructions is manifested in what is perhaps his greatest advance in economic theory: the incorporation of the analysis of government intervention into the chain of praxeological reasoning that extends back through the theorems of the free-market economy to the action axiom. In a private letter to Richard Cornuelle, dated July 19, 1955, Rothbard, in discussing how the writing of his treatise was progressing, revealed that he had achieved his long-held desire to repair this gap in economic theory: "What I had always been searching for . . . is some sort of integrating explanation, which would permit me to do for the hampered market part what I did for the free market part, deducing everything step by step from the original axioms of action. Mises showed the way for the free market, but even he did not accomplish this for analysis of intervention" (Rothbard Papers).

In other words, Rothbard aspired to formulate a complete system of economic theory. Paraphrasing Böhm-Bawerk, this meant writing "the last and next to last chapters" of economics, which pertain not only to the business cycle but to all government interventions. But to accomplish this feat, Rothbard needed to thoroughly rework the imaginary construct of the "purely free market." As Rothbard (2009, 875) pointed out, "this model, imperfectly considered perhaps, has been the main object of study of economic analysis throughout the history of the discipline." The imperfections in this model, as it is generally conceived, are *not* the result of the unrealistic assumption of a complete absence of external interference with the market by government institutions or private criminals—a condition which has never existed in the past and will likely never exist in the future. The real problem with the free-market construct as it was handed down from the earliest days of economics is precisely that it does not depict a market totally free from government intervention. In a sense, *it is not unrealistic enough*, for it builds into the construct a laissez-faire government exercising the coercive power to tax and endowed with a legal monopoly of defense services to enforce property rights.

Let us take the example of Mises, the economist who made the most explicit and consistent use of the praxeological method of imaginary constructions prior to Rothbard. According to Mises (1998, 238–39), “the imaginary construction of a pure or unhampered market economy . . . assumes that the government, the social apparatus of compulsion and coercion, is intent upon preserving the operation of the market system, abstains from hindering its functioning, and protects it from encroachments on the part of other people. The market is free; there is no interference of factors, foreign to the market, with prices, wage rates, and interest rates.”

As a radical advocate of laissez-faire capitalism, which is based on voluntary exchange and consumer choice, Mises surely understood that taxes involve a coercive exchange of money for government services. Indeed, Mises (1998, 730–31) demolished the very idea of the neutral tax, which supposedly leaves the operation of the market economy undisturbed. Yet Mises then did an about-face by bizarrely redefining “taxes” as part of the market economy as long as government refrains from intervening in the economy and levies taxes low enough to avoid disarranging the market.

According to Mises (1998, 733–34), “taxation is a matter of the market economy. It is one of the characteristic features of the market economy that the government does not interfere with the market phenomena and that its technical apparatus . . . absorbs only a modest fraction of the total sum of the individual citizens’ incomes. Then taxes . . . are appropriate because they are low and do not perceptibly disarrange production and consumption. If taxes grow beyond a moderate limit, they cease to be taxes. . . .” As an aside, this appears to be the rare case in which Mises did not heed his own warning about the dangers of using the method of imaginary constructions. Thus, Mises (238) had written, “It is, to be sure, a method very difficult to handle because it can easily result in fallacious syllogisms. It leads along a sharp edge; on both sides yawns the chasm of absurdity and nonsense.”

Rothbard’s Theory of Property Rights

The construct of an economy which consists of purely voluntary exchanges but includes an agency that is endowed with a compulsory monopoly on defense services and engages in coercive taxation is blatantly incoherent. By construing a free market in this manner, Rothbard (2009, 1048–49) argues, “laissez-faire theorists . . . are caught in an insoluble contradiction.” This inner contradiction is traceable to a deeper problem with the orthodox conception of the free market, for the concepts of free or voluntary and compulsory or coercive are meaningful only within the framework of property rights and just ownership. As Rothbard (2009, 1047) points out, although economists have routinely invoked the idea of a free market, they have neglected "the fact that free exchange *means* exchange of titles of ownership to property, and that, therefore, the economist is obliged to inquire into the conditions and the nature of property ownership that would obtain in the free society." Without a theory of property rights, Rothbard maintains, "an economist cannot fully analyze the exchange structure of the free market."

To purge the free-market construct of its flaws, Rothbard grounds it on a systematic theory of property rights. His theory is a natural-rights theory of just ownership. This approach to property rights is founded on natural control of one's own body and of the previously unowned resources that one appropriates. It totally banishes violence from human affairs and is therefore the proper starting point for conceiving the purely free market for analytical purposes. In Rothbard's (2009, 1047) words, "a firm property right in one's own self and in the resources that one finds, transforms, and gives or exchanges, leads to the property structure that is found in free-market capitalism."

Rothbard's reformulation of the free-market construct draws a bright line between voluntary or free actions and aggressive or hegemonic actions. On one side of that line stand voluntary exchanges and gift giving and, on the other, coercive government interventions and private criminality. As Rothbard (2009, 1048) explains, "this would imply the complete absence of a State apparatus or government; for the State, unlike all other persons and institutions in society, acquires its revenue, not by exchanges freely contracted, but by a system of unilateral coercion called 'taxation.' Defense in the free society . . . would therefore have to be supplied by people or firms who (*a*) gained their revenue voluntarily rather than by coercion and (*b*) did not . . . arrogate to themselves a compulsory monopoly of police or judicial protection."

In short, according to Rothbard (2009, 1048), the praxeological conception of a free market assumes "no invasion of property takes place . . . either because everyone voluntarily refrains from such aggression or because whatever method of forcible defense exists on the free market is sufficient to prevent any such aggression." Rothbard recognized that his formulation of a coherent conception of the free-market economy was an important step forward in *positive* economic analysis. Shortly after completing the section of his treatise in which he presented his perfected construct, Rothbard, in his letter to Cornuelle, commented, "This purely free market, of course, is our purist system, and so for the first time, this system sees the light of print. All done very scientifically, with no views of my own exhorting the reader" (Rothbard Papers).

Note that in defining the free-market economy in light of a systematic theory of property rights, Rothbard was not trying to import ethics into economics. Far from it, his intention was to rigorously depict, for analytical purposes only, the specific pattern of human interactions in which violence or the threat of violence is completely absent. Deducing the theorems applicable to a purely free-market economy is a necessary first step to a complete praxeological analysis of all conceivable economic systems, including those based on violence; namely, interventionism and socialism. Rothbard explained what he called the "path of analysis" from the free market to violent intervention in the unpublished "Chapter XII" of the manuscript of *Man, Economy, and State*: "It is most convenient to begin with a pure system, either purely free or purely slave, to analyze it at length, and then to bring into our analysis, one after the other, various types of violence (or of free relations), and so to analyze the consequences of these various 'mixed systems'" (Rothbard Papers).

The main reason that Rothbard begins with analysis of the pure free market rather than pure socialism is because an advanced socialist economy could not calculate and thus would be unable "to rise above local self-sufficiency and preserve the market economy's division of labor, calculation, a high standard of living [and] must result not in order or 'planning,' but in chaos. . . . And it is obviously absurd to ground economics on an analysis of chaos" (Rothbard Papers). Rothbard (2009, lxii) therefore concludes, "The effects of coercive intervention can be studied only after fully analyzing the construct of a purely free market."

Starting with analysis of a purely free market, properly conceived, Rothbard was then able to proceed with the systematic investigation of violent interventions, which had been lacking in economics from its inception as a science. As Rothbard lamented in his letter to Cornuelle, "every treatment of intervention so far simply has taken isolated chapters: price controls, taxes, inflation, etc. with no systematic integration between them, or logical deductions of one from the other" (Rothbard Papers). Rothbard's breakthrough in expunging all traces of violent action from the free-market construct would allow him finally "to complete the economic picture of our world" by extending economic analysis "to the nature and consequences of violent actions and interrelations in society, including intervention in the market and violent abolition of the market ('socialism')" (Rothbard 2009, 875).

Rothbard was not yet finished forging the tools necessary to analyze government intervention. He needed what he called an "integrative handle" to unify and systematize the analysis of the large number and variety of violent interventions. He thus created a tripartite classification or "typology" of intervention. "Autistic intervention" refers to coercive interventions that involve the individual's person or property alone, such as the censorship of certain types of speech or the enforcement of a religious observance. It generally has no effect on market outcomes. Slavery, taxation, and conscription are classified as "binary interventions" because they entail a coerced exchange between two persons, the intervener and the subject. Lastly, product prohibition, price controls, and grants of monopoly privilege exemplify "triangular interventions," which establish a coercive relationship between the government and a pair of subjects. In the triangular type of intervention, government forcibly alters the terms of the contract between a buyer and seller or compels the buyer to refrain from contracting with anyone but a legally privileged group of sellers (Rothbard 2009, 877–78, 1058–61). This typology thus exposes and highlights the defining element of intervention; namely, hegemony of one person over another. In Rothbard's (1059) words, "all these types of intervention ... are subdivisions of the *hegemonic* relation—the relation of command and obedience—as contrasted with the contractual relation of voluntary mutual benefit."

Triangular Intervention and Welfare Economics

Rothbard's typology yields two further insights. First, it reveals a major flaw in mainstream economics, which distorts the theory of interventionism and shunts it onto the wrong track. Most economists, including many free-market economists, deal almost exclusively with triangular interventions like the minimum wage or rent controls. They overlook nearly the entire class of binary interventions—especially taxation, government expenditure, and monetary inflation. Because these latter interventions are viewed as part of the necessary institutional framework for the free market, they are not treated as interventions at all. This is curious because binary interventions are the starkest examples of the hegemonic relation and, historically, have had the greatest effects on market outcomes. Nonetheless, they are cut off from general economic theory and relegated to separate compartments of economics such as public finance and monetary economics.

Second, Rothbard's typology of intervention combined with his use of the praxeological method brings individualistic utility theory to the forefront in the analysis of interventionism. For Rothbard, all actions—whether nonviolent or violent, private or governmental—are performed by individuals and, therefore, subject to praxeological analysis. Both voluntary and hegemonic interactions affect the utility of the individuals involved. As Rothbard (2009, 878–79; emphases in the original) explains,

> when the society is free and there is no intervention, everyone will act in the way that he believes will maximize his utility, i.e., will raise him to the highest possible utility on his value scale. In short everyone's utility *ex ante* will be "maximized." ... Any exchange on the free market ... occurs because it is expected to benefit each party concerned.... Coercive intervention, on the other hand, signifies *per se* that the individual or individuals coerced *would not have voluntarily done what they are now being forced to do by the intervener*.... The man being coerced, therefore, *always loses in utility as a result of the intervention*, for

> his action has been forcibly changed by its impact. . . . Who gains in utility ex ante? Clearly, the intervener; otherwise, he would not have made the intervention.

Rothbard describes the utility effects of both voluntary and interventionary actions as "direct effects" because they are the immediate consequences directly affecting the individual participants. The "indirect effects" refer to the longer-run effects on prices and production of actions that affect the entire market. With respect to invasive actions, particularly binary interventions, mainstream economists generally ignore the direct effects on individual actors and concentrate on the indirect effects on relative prices, the allocation of resources, and the distribution of income and wealth. Rather than assessing the individual utility effects of a particular tax or expenditure, they focus instead on estimating changes in the holistic concept of "social welfare," which construes society as a mystical entity that transcends its individual members. Rothbard's extension of individualistic utility analysis to coercive actions and relations between individuals sounds the death knell for welfare economics, exposing it as, at best, superfluous. Rothbard thus purges economic theory of the implicit or explicit value judgments built into the analytical apparatus of Bergson–Samuelson social welfare functions, the Kaldor–Hicks compensation principle, and the Knight–Buchanan criterion of "agreement among reasonable people" on the rules of the game (Buchanan 1959; Robbins 1963).

Now, it is sometimes argued that Rothbard (2009, 879) himself smuggles value judgments into economic theory when he asserts that the purely free market "maximizes social utility." But Rothbard's claim about the maximization of social utility rests on a value-free analytical conclusion that the network of voluntary exchanges which constitutes the market benefits all participants in those exchanges. Hence, the judgment that everyone in the market achieves gains in utility is not a value judgment by the observing economist but is demonstrated by the voluntary participation of the buyers and sellers themselves in the transactions. In contrast, coercive interventions, which compel, prohibit, or alter the terms of exchanges, demonstrably do not improve social utility, because some individuals, including the interveners themselves, gain in utility at the expense of other individuals, who are forced into a lower position on their utility scales. It is worth noting that Rothbard emphasized his value-free individualistic approach to evaluating government intervention by generally avoiding the use of the nebulous term "welfare" and opting for the term "utility," which has firm grounding and clear meaning in the analysis of action.

Indeed, Rothbard went further and explicitly denied that the maximization of "social utility" constitutes a normative argument for the free-market economy rather than a positive conclusion of praxeological analysis. In a tape-recorded lecture, Rothbard revealed the strategic motivation underlying his use of the term "social utility" when analyzing voluntary exchange. Stated Rothbard,

> I had a lot of fun with this myself . . . in my first article that ever came out. If we want to use the term society, which I do not really like anyway, then we can say that social utility is increased. When the government enters the picture whatever the government does is decrease someone's social utility. . . . Unfortunately . . . it has been maintained that my whole basis for laissez faire rests on this social utility nonsense. Of course it doesn't. It's all really a gimmick to show that if you really go along with this whole Pareto-optimality-social-utility then you have to confine yourself to laissez faire. It is not my major argument for laissez faire. (Stringham 2010, 62)

For Rothbard, then, welfare economics—even his own individualistic approach—fails to establish the normative case for a purely free market. The evaluation of a market outcome or a government intervention as "good" or "bad" lies completely outside of economic theory, in the realm of ethics (Robbins 1963, 14–15). Rothbard defends the purely free market and condemns government interventionism not because of the utility or welfare effects they have on people as consumers, entrepreneurs, laborers, and capitalists but because of the effects they have on people as just owners of property. In Rothbardian political economy—or what he called the science of liberty—natural rights to one's body and property are therefore both the existential foundation of the free-market economy and the explicit normative standard by which all social and economic relations are judged (Newman, forthcoming).

Monocausality and Exogeneity in the Theory of Interventionism

The praxeological analysis of interventionism not only led Rothbard to expose welfare economics as a tissue of concealed and ad hoc ethical judgments. His step-by-step deduction of the consequences of each intervention into a purely free market led him to challenge a view that has plagued economics since its infancy. I am referring to the general and seemingly sensible view among most economists that complex phenomena such as the business cycle must have multiple causes that are deeply rooted in the market economy. In technical jargon, a correct theory of the business cycle must be "multicausal" and "endogenous." This position was famously stated by Gottfried Haberler in his book on business-cycle theory, *Prosperity and Depression*. Haberler rejected single-cause explanations of the business cycle, asserting that they "have been more and more discredited and should be regarded with suspicion. . . . Normally a complex phenomenon such as the business cycle is caused and conditioned by a large number of factors and circumstances." While Haberler admitted that factors external to the market economy may interact with "endogenous forces" to influence—and even reverse—cyclical movements, he proposed a "methodological rule of thumb," which is "to attach as little importance as possible to the influence of external disturbances." Practically speaking, for Haberler, business cycles are driven by endogenous forces emanating from deep within the market economy. Thus, he concluded, "there is an inherent instability in our economic system, a tendency to move in one direction or the other" (Haberler 2011, 5–6, 10).

As I noted at the outset of my lecture when discussing my early encounter with his work, Rothbard would have none of this. He insisted that the business cycle was monocausal and exogenous to the free market. As indicated by the title of his minibook, all economic depressions have a single cause and a single cure. In Rothbard's version of Austrian business-cycle theory, the only cause of business cycles is bank credit expansion through the creation and lending of fiduciary media, or unbacked notes and deposits. The sole *cure* is to permit the inevitable recession process to proceed, unhampered by further interventions, to liquidate the malinvestments of the inflationary boom and guide the readjustment of production and employment back to the pattern reflecting the genuine time preferences of consumers.

Rothbard's rejection of the mainstream view that complex sequences of events such as business cycles must have multiple endogenous causes is an implication of his rigorous praxeological analysis of interventionism—for, as a praxeologist, Rothbard does not begin with observed regularities among aggregates and then seek a causal explanation by testing hypotheses about their relationships. Rather, he starts out with an analysis of individual actions and builds up to a theory that renders visible the causal chain of interrelated events entwined with the complex facts of history. As Mises (2006, 103) put it, "only theory, business cycle theory, permits us to detect the wavy outline of a cycle in the tangled confusion of events."

In fact, it occurred to me as I was writing this lecture that Rothbard's argument about the nature of causality of business cycles applies to the complex market outcomes caused by any intervention. It is a direct implication of the praxeological approach to interventionism developed by Rothbard. First, his reformulation of the construct of the purely free market to exclude all coercive actions logically implies that all government interventions, which are coercive by nature, are exogenous to the free market. Second, his analysis of the purely free market demonstrates that all prices, wages, rents, interest rates, and production processes are mutually interdependent and intricately interconnected. It follows that any exogenous disturbance to one part of the market economy, all other things equal, will have a series of repercussions in all other parts of the economy.

Conclusion

Let me conclude. Using the imaginary construction of the purely free market purged of logical contradictions and inconsistencies, Rothbard was able to analytically isolate the economic system based on voluntary action from those systems containing elements of violent, hegemonic action. This procedure allowed him to deduce economic laws applicable to real-world economies, past and present, which are subject to varying mixtures of voluntary exchange and coercive intervention. In the last chapter of his treatise, Rothbard (2009, 1366) sums up the conclusions and practical implications of an ethically neutral economic theory finally made whole by the praxeological analysis of interventionism:

> No one disputes the fact that historically political systems have differed in degree—that they have never been pure examples of the market or of the hegemonic principle. But these mixtures can be analyzed only by breaking them down into their components, their varying blends of the two polar principles. . . . There are basically two types of interpersonal relations or exchanges: the free or the voluntary, and the coerced or hegemonic. There is no other type of social relation. . . . All the shadings of society are mixtures of these two primary elements.

Rothbard (1368–69) concludes: “Such are the laws that praxeology presents to the human race. They are a binary set of consequences: the workings of the market principle and of the hegemonic principle. The former breeds harmony, freedom, prosperity, and order; the latter produces conflict, coercion, poverty and chaos. Such are the consequences between which mankind must choose. . . . At this point, the praxeologist as such retires from the scene; the citizen—the ethicist—must now choose according to the set of values or ethical principles he holds dear.”

For Rothbard, then, economic theory, while purely free of value judgments in its praxeological deductions, constructs, and theorems, is bounded at both ends by ethics. Before analysis of (interpersonal) action can begin, a theory of just ownership of a person’s body and property must be invoked to establish the distinction between hegemonic and voluntary action. In particular, a theory of just ownership provides the acid test for establishing the purity of the analytically indispensable construct of a purely free market. Ethics then comes back into the picture again only after the last chapter of pure economic theory, the theory of interventionism, has been written. It provides the criteria for evaluating and choosing between the alternative outcomes of the voluntary and hegemonic principles and their different mixtures in human affairs.

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