# The Free Market

October 1984 • The Ludwig von Mises Institute

## Austrian Economics Newsletter Available on Request

In its five years of publication, the *Austrian Economics Newsletter* has published many important interviews, articles, and book reviews covering almost every facet of Austrian economics.

The publication was founded by New York City's Center for Libertarian Studies, which generously donated it to the Mises Institute last year, along with the rights to two important monographs: *The Austrian Theory of the Trade Cycle* by Ludwig von Mises, F.A. Hayek, Gottfried Haberler, and Murray N. Rothbard; and *The Methodology of the Austrian School Economists* by Lawrence H. White. (Both are available in new editions from the Institute.)

CLS Board Chairman Burton S. Blumert, who is also chairman of the Institute's Entrepreneurs Council, felt--along with the other CLS board members--that the Mises Institute was the appropriate publisher for works on Austrian economics.

The six-page Fall 1984 issue of the *Austrian Economics Newsletter* features a long excerpt from Murray N. Rothbard's new introduction to Ludwig von Mises' *Theory and History* and a review-article on T.W. Hutchison's *The Politics and Philosophy of Economics: Marxians, Keynesians, and Austrians* by Lawrence H. White.

Edited by graduate students Don Boudreaux (Auburn), Sanford Ikeda (NYU), and Mark Thornton (Auburn)--AEN goes to more than 3,500 scholars, students, and others with a strong interest in Austrian economics.

Students and faculty may receive the *Austrian Economics Newsletter* free on request, as may Institute Members. A list of back issues is also available.

Austrian Economics Newsletter

Fall 1984 • The Ludwig von Mises Institute

Theory and History
by
Murray N. Rothbard

Ludwig von Mises published many books and articles in his long and productive life, each of them making important contributions to the theory and application of economic science. But there stand out among them four towering masterpieces, immortal monuments to the work of the greatest economist and scientist of human action of our century. The first, which established Mises in the front rank of economists, was *The Theory of Money and Credit* (1912), which for the first time integrated the theory of money and the theory of relative prices, and outlined his later theory of the business cycle. Mises' second great work was *Socialism* (1922), which provided the definitive, comprehensive critique of socialism and demonstrated that a socialist order could not calculate economically. The third was his stupendous treatise *Human Action* (1949), which set forth an entire structure of economics and analysis of acting man. All three of these works have made their mark in economics, and have been featured in the "Austrian" revival that has flowered in the United States over the past decade.

But Mises' fourth and last great work, *Theory and History* (1957), has made remarkably little impact, and has rarely

*Ludwig von Mises, 1881-1973*

not so far gone in jargon and muddled writing that they would fail to respond to Mises' lucid and sparkling prose.

It is likely, instead, that the neglect of *Theory and History* has more to do with the content of its philosophical message. For while many people are aware of the long and lone ...ruggle that Ludwig von Mises wa... against statism and

## Institute To Publish New Edition of Theory and History

Ludwig von Mises' *Theory and History* was first published by Yale University Press in 1957. It was reissued in 1969 by Arlington House, Publishers, under the supervision of Lew Rockwell, then Senior Editor there.

Through the initiative of Mrs. Ludwig von Mises, who suggested the project to Institute Director Lew Rockwell and made the rights available, *Theory and History* will be again available, in a new quality hardback and paperback edition. Included in the almost 400-page book will be a new introduction by Murray N. Rothbard showing the central importance of this often-neglected work on economic methodology.

The *Times Literary Supplement* has noted that "*Theory and History* is a defense of individualism in the social sciences . . . an excellent book. It is original, interesting, and lucid." Henry Hazlitt, writing in *Newsweek*, called it "a brilliant new philosophical work." It is all of that, and the Ludwig von Mises Institute is most grateful to Mrs. Mises for making its republication possible as the first volume in the Institute's new book publishing program.

**Inside**

**"Is Japanese Trade Policy 'Unfair'?"**

**"A Walk on the Supply Side"**

## The Mises Institute on the Air

The Mises Institute has begun a weekly economic commentary for the stations of the American Public Radio Network.

The programs treat current issues from a free-market viewpoint, and are transmitted by satellite to the 285-member stations of the APRN.

Produced by S.D. Yana Davis of WBHM--the station of the University of Alabama at Birmingham--the programs are transmitted from station WABE in Atlanta, and have been aired from Alaska to Florida.

## Is Japanese Trade Policy Really "Unfair"?

*by Steve H. Hanke*

Bashing the Japanese has become a popular American, if not international, sport. The objective is to fabricate "facts" and use them to demonstrate how Japan's international trade policies create economic disruption that warrants retaliation.

Although accomplished players employ a variety of techniques to score game-winning points, one that usually secures victory involves a heralding of the following "facts": claim that Japan's markets are closed to American exports and that ours are open to imports from Japan; then state that this unfair asymmetry steals business and jobs from Americans; and conclude that this theft can only be stopped by erecting trade barriers to protect American markets and jobs.

To unveil the real nature of this game, let's consider the claim that Japan's markets are protected and closed to American exports.

Tariffs are a popular method used to protect home markets from foreign competition. However, contrary to the "'Jap' bashers" claims, Japan's tariffs are among the lowest in the world along with Sweden's and Switzerland's. For all non-agricultural industries, Japan's average tariff rate is 36 percent lower than the average for the same industries in the United States. Japan's highest tariff rates are imposed on 20 agricultural products. But even for these goods, the rates are low when measured by international norms. This explains, in part, why Japan continues to be the largest net importer of agricultural produce in the world, and why it ranks as the largest foreign market for American limes, lemons, grain sorghum, beef, grapefruit, pork, chicken and the second largest market for our soybeans and wheat.

Quotas are another means of protecting home markets from foreign competition. But, as is the case for tariffs, an examination of the evidence about quota restrictions reveals that Japan does not, when measured by international standards, use quotas in excess. In fact, Japan has one of the best international records for eliminating quota restrictions on foreign imports.

Since the early 1960s Japan has reduced the number of items covered by restrictive quotas by 85 percent. Furthermore, the Japanese have raised the quota ceilings on the items still covered by quotas, so that these quotas aren't as binding as they once were. This is attested to by the fact that, during the decade of the 1970s, the value of Japanese imports still covered under quotas grew at an annual rate of 21 percent, a rate that almost matched the 22 percent per annum of import growth for items not protected by quotas.

Faced with the fact that Japan has low tariff and quota restrictions on imports, skilled "'Jap' bashers" will, no doubt, play their last card, the one labeled "other non-tariff barriers." These barriers, when they exist, include a host of restrictions and red tape that make it difficult for foreign exporters to enter protected markets. For example, it is frequently asserted that the Japanese use health and safety standards to keep foreign goods from penetrating Japanese markets. However, Japan is a signatory to the General Agreement on Tariffs and Trade's "Standards Code," and was one of the first to implement it. This code does not allow signatories to use health and safety standards to discriminate against imports. Moreover, it contains well defined procedures to settle complaints about discriminatory standards. To date, however, no complaints have ever been filed against Japan.

Studies of other alleged no-tariff barriers confirm that Japan generally does not employ these barriers, and when it does, the barriers are less restrictive than those in America and the European Common Market. And, like most games played by special-interest groups and politicians, "'Jap' bashing" has no connection with reality. It is indeed disturbing that the press reports, as facts, what are nothing more than self-serving, emotional arguments. But what is more repre-

*(Continued on page 3)*

(Continued from page 2)

hensible is that some members of the administration, for all of their bluster about free trade, have allowed themselves to participate in such a misleading and destructive activity.

*Steve H. Hanke is professor of applied economics at the Johns Hopkins University and an adjunct scholar of the Mises Institute.*

## A Walk on the Supply Side

*by Murray N. Rothbard*

Establishment historians of economic thought--they of the Smith-Marx-Marshall variety--have a compelling need to end their saga with a chapter on the latest Great Man, the latest savior and final culmination of economic science. The last consensus choice was, of course, John Maynard Keynes, but his *General Theory* is now a half-century old, and economists have for some time been looking around for a new candidate for that final chapter. For a while, Joseph Schumpeter had a brief run, but his problem was that his work was largely written *before* the *General Theory*. Milton Friedman and monetarism lasted a bit longer, but suffered from two grave defects: (1) the lack of anything resembling a great, integrative work; and (2) the fact that monetarism and Chicago School Economics is really only a gloss on theories that had been hammered out before the Keynesian Era by Irving Fisher and by Frank Knight and his colleagues at the University of Chicago. Was there nothing new to write about since Keynes?

Since the mid 1970s, a school of thought has made its mark that at least gives the impression of something brand new. And since economists, like the Supreme Court, follow the election returns, "supply-side economics" has become noteworthy.

Supply-side economics has been hampered among students of contemporary economics in lacking anything like a grand treatise, or even a single major leader, and there is scarcely unanimity among its practitioners. But it has been able to take shrewd advantage of highly placed converts in the media and easy access to politicians and think tanks. Already it has begun to make its way into last chapters of works on economic thought.

A central theme of the supply-side is that a sharp cut in marginal income-tax rates will increase incentives to work and save, and therefore investment and production. Put that way, few people could take exception. But there are other problems involved. For, at least in the hands of the famous Laffer Curve, income tax cuts were treated as the panacea for deficits; drastic cuts would so increase revenue as allegedly to yield a balanced budget. Yet there was no evidence whatever for this claim, and indeed, the likelihood is quite the other way. It is true that if income-tax rates were 98% and were cut to 90%, there would probably be an increase in revenue; but at the far lower tax levels we have been at, there is no warrant for this easy assumption. In fact, historically, increases in tax rates have been followed by increases in revenue and vice versa.

But there is a deeper problem with supply-side than the inflated claims of the Laffer Curve. Common to all supply-siders is nonchalance about total government spending and therefore deficits. The supply-siders do not care that high government spending takes resources that would have gone into the private sector and diverts it to the public sector. They care only about taxes. Indeed, their attitude toward deficits approaches the old Keynesian "we only owe it to ourselves." Worse than that: the supply-siders want to maintain the current swollen levels of federal spending. As professed "populists," their basic argument is that the people want the current level of spending and the people should not be denied.

Even more curious than the supply-sider attitude toward spending is their viewpoint on money. On the one hand, they say they are for hard money and an end to inflation by going back to the "gold standard." On the other hand, they have consistently attacked the Paul Volcker Federal Reserve, *not* for being too inflationist, but for imposing "too tight" money and thereby "crippling economic growth."

In short, these self-styled "conservative populists" begin to sound like old-fashioned populists in their devotion to inflation and cheap money. But how square that with their championing of the gold standard?

In the answer to this question lies the key to the heart of the seeming contradictions of the new supply-side economics. For the "gold standard" they want provides only the illusion of a gold standard without the substance. The banks would not have to redeem in gold coin, and the Fed would have the right to change the definition of the gold dollar at will, as a device to fine-tune the economy. In short, what the supply-siders want is not the old hard-money gold standard, but the phony "gold standard" of the Bretton

(Continued on page 4)

(Continued from page 3)

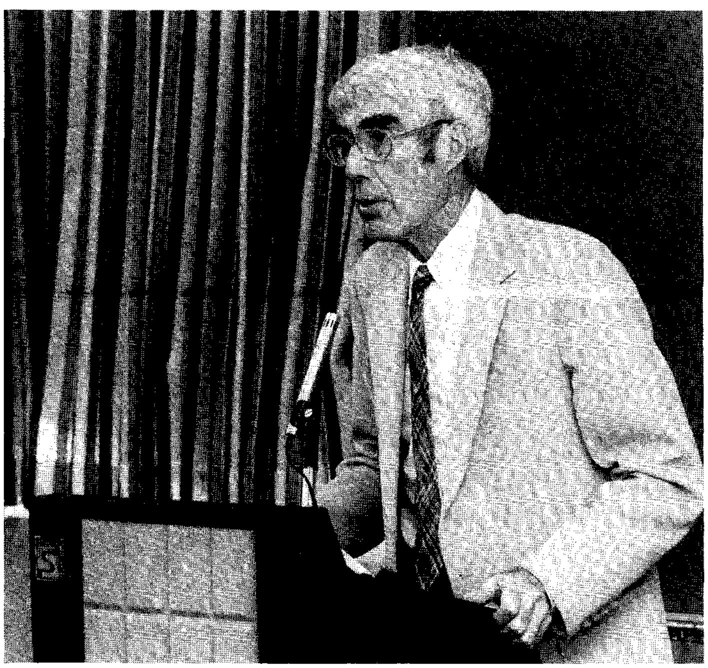
Woods era, which collapsed under the blows of inflation and money management by the Fed.

The heart of supply-side doctrine is revealed in its best-selling philosophic manifesto, *The Way the World Works* by Jude Wanniski. Wanniski's view is that the people, the masses, are always right, and have always been right through history.

In economics, he claims, the masses want a massive welfare state, drastic income-tax cuts, and a balanced budget. How can these contradictory aims be achieved? By the legerdemain of the Laffer Curve. And in the monetary sphere, we might add, what the masses seem to want is inflation and cheap money along with a return to the gold standard. Hence, fueled by the axiom that the public is always right, the supply-siders propose to give the public what they want by giving them an inflationary, cheap-money Fed *plus* the illusion of stability through a phony gold standard.

The supply-side aim is therefore "democratically" to give the public what they want, and in this case the best definition of "democracy" is that of H.L. Mencken: "Democracy is the view that the people know what they want, and deserve to get it good and hard."

*Dr. Rothbard, Professor of Economics at New York Polytechnic Institute, is S.J. Hall Distinguished Visiting Professor at the University of Nevada for 1984-85.*



*Professor Richard H. Timberlake of the University of Georgia, adjunct scholar of the Mises Institute, addresses the Institute's Austrian Economic Colloquium.*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