

The Free Market

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A Call to Activism

by Margit von Mises

Mrs. Mises delivered this speech on February 27, 1984, at the Mises Institute dinner in her honor in New York City.

Thank you, Mr. Rockwell, for your most generous and gracious remarks. Thank you all who came here tonight, for without you, I would not be here. And thank you especially for your kind welcome. I know, of course, that this welcome is really meant for my husband, in whose name I gladly and gratefully accept it.

People often ask me, "Aren't you proud of what you have done?" I can only say, "no." I really am not. I am happy that the ideas of my husband get more and more recognition, but I am not proud. I did only what I *had* to do. It was an inner "must."

Perhaps you will be interested to learn how this book, which you will all receive through the kindness of Mr. Rockwell, came into being.

When my husband died on October 10, 1973, I could not even cry. I was like a stone. It took two months until the first tears came into my eyes. My daughter, Gitta, and Don, my son-in-law, who live and work in London, insisted that I come and stay with them for a while. They suggested that I make a reservation on the Queen Elizabeth, which at that time still regularly crossed the Atlantic. They knew how much I loved the sea. And so I got my reservation for the month of February 1974.

The sailing was rough, but I loved every minute of it. Most of the time I spent on deck, where I was pretty much alone. It was so stormy and cold that most passengers preferred the warmth of the staterooms. But a friendly steward kept a chair for me facing the water. He covered me with blankets, and I could watch the seagulls following the boat from morning to night, shrieking, their wings fluttering, always moving. Dark clouds covered the sky. Sometimes the wind was so strong that water came over the railing. But I was safe and warm, watched over by this kind steward.



Margit von Mises

I tried to read, but I couldn't. Always I thought of my husband and the years we spent together. But suddenly, it was as if a thunderbolt struck me. "Why don't you write about him? Why don't you put down on paper everything you know?" And I decided to do so.

I did not even have a notebook or pencil with me when my mind started to work. But in my thoughts I divided the book into eleven chapters. I decided on all their titles, and I never changed a single one of them. For example, I knew I had to write one chapter about *Human Action*. People had to know how my husband suffered about this, his greatest work.

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The boat landed one day late, and I stayed with my children and started writing, never telling anyone a word. It took me two years to finish the book. Often I rewrote a chapter four or five times, but I never changed the table of contents. (Except for the second edition, which has two new chapters.) All research was done carefully, and every word I wrote is true.

If I told you before that I am not proud of the work I have done, then I must tell you now that there is something I *am* proud of. And that is that all of my husband's former students, from the Vienna seminar as well as the New York seminar — with very few exceptions — became, since my husband's death, my friends also. They stayed by my side all the time, all the way, and helped me when I needed help.

I want to mention first of all my very dear friend Professor Fritz Machlup, who died on January 30, 1983, of a heart attack. Since his student days in Vienna, he had been especially devoted to my husband, even though they did not agree in all their economic views. But it was as if — after my husband's death — he wanted to prove his great admiration for his beloved teacher by helping and advising me. It was on his advice that I wrote the new chapter about the Vienna seminar. He guided and supervised and helped me, in his wonderfully kind and charming way, and I shall never forget him.

I also want to give special thanks to Professor Israel Kirzner, who helped me put the material together for a chapter on Austrian economics. Here is another example of a famous man who has helped me because of his devotion to his great teacher. Another one of these famous pupils who has always most willingly helped is Nobel-Prize winner Friedrich von Hayek, about whom I wrote so much in *My Years With Ludwig von Mises*.

But now I have to come back to the story of how the book came to life. I had already finished five chapters, and still no one knew anything about it.

Let me first tell you about a good friend of mine, Nellie Erickson. Nellie is the creator of the famous bronze bust of my husband, with copies now in so many different parts of the world. One day Nellie and her husband George invited me to join them on a Sunday trip on their yacht on Long Island Sound. With them were Ilo and George Koether, our mutual friends. It was a beautiful day. The sun was hot and the sea glittered like gold. I was sitting on a winch when George Koether joined me and said, "You know, Margit, I thought so much about you. I wonder why you don't write a

book about your husband." It was then that I could no longer keep my secret. The words poured out of me, and I told him everything.

He was enthusiastic about the news, and immediately offered all the help he could give. I asked him to keep silent about it, and told him I would accept gladly — but I wanted no ghost writing. The story was absolutely mine. He promised, and from that moment he became one of the best advisors and helpers I could have found. Always ready to do something for me, he never let me down.

When I had finished the book, George Koether showed the manuscript to Neil McCaffrey, then president of Arlington House, Publishers, and one day later the book was accepted. No other publisher had ever seen it.

What happened afterwards came without my asking for it: one work followed another. And so these ten years went by, and it still seems to me as if my husband had died only yesterday.

Those who have read my book will remember much about my husband that the general public does not know. But there was one aspect of his life that I did not describe in my book, and this is an appropriate occasion on which to emphasize it.

Professor Hayek once called my husband "a great radical, an intelligent and rational radical, but nonetheless a radical on the right lines." This was correct, but Ludwig von Mises was also an *activist* — an *activist of the mind*. Not only did he write scholarly books containing great wisdom — he also promoted the free market in speeches, articles, lectures, and seminars. And he worked hard as an *activist* at his desk in the solitude of his study.

He did not confine his interest and time to writing and to contact with scholars only — although the brilliant scholars who developed out of his teachings, the professors Hayek, Haberler, Morgenstern, Machlup, and many more, could justifiably have claimed all his attention. He also had the time and interest for others: businessmen, journalists, and members of many professions other than teaching. To all of those people with whom he came in contact he was an *activist of the mind*. He stimulated the interest, and then the understanding of all the people he met. And he did even more. He stimulated them to *action*.

Think, for example, of Professor Murray Rothbard, who has written, and is still writing, brilliant books extending the influence of Austrian economics, and who — with some friends — founded the Center for Libertarian Studies which

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Dinner in Honor of Mrs. Ludwig von Mises

In the years since her husband's death in 1973, Mrs. Ludwig von Mises has worked tirelessly to make sure all his works are suitably in print. She has also spent many hours advising students and scholars, and the Mises Institute.

In recognition of all she has done in the last ten and a half years, and of the fact that she was Ludwig von Mises' indispensable partner during their life together, the Institute sponsored a gala reception and dinner in her honor.

Held at New York City's elegant Westbury Hotel on February 27, 1984, the reception and dinner was hosted by Messrs. Arnold Bernhard, Burton S. Blumert, Lewis E. Lehrman, and J. William Middendorf II. More than 150 people attended, and the speakers included Congressman Ron Paul of Texas; John V. Denson, Esq., Trustee of Auburn University; Mr. Burton S. Blumert, chairman of the Insti-

tute's Entrepreneurs Advisory Council; Professors Israel M. Kirzner and Murray N. Rothbard, students of Ludwig von Mises; and Dr. Richard Ebeling of New York University. The moderator was Llewellyn H. Rockwell, Jr., founder and director of the Mises Institute.

The highlight of the evening was — without doubt — the eloquent and moving speech given by Mrs. Mises (see page one). Written and delivered in a manner that had the audience alternating between respectful hushes and standing ovations, the speech appropriately capped a glittering evening.

Video and audio tapes are available, and all the talks given that evening will be reprinted in a booklet by the Mises Institute.

Scenes from the Dinner



Institute Vice Chairman John V. Denson greets Mrs. Mises.



Mr. Guido Sereny of Caracas, Venezuela, and his mother, Mrs. Mises.



Mrs. Mises and Dr. Matthew T. Monroe of Houston, Texas.



Professor Israel Kirzner and graduate student Marguerite Guinta.



Mrs. Carol Paul, Mrs. Mises, and Congressman Ron Paul.



Olivia and Maxwell Newton of the New York Post.

works to foster libertarian scholarship, following in economics solely the ideas of Ludwig von Mises.

Think of Antony Fisher, whose Atlas Economic Research Foundation has brought about the creation of nineteen institutes in twelve countries throughout the world, always mentioning Ludwig von Mises and quoting Weaver, "Ideas have consequences."

Think of Leonard Read, the late founder of the Foundation for Economic Education, who — after meeting my husband and reading all of his books — gave students as well as teachers the opportunity to learn about individual freedom and the free market. Out of his foundation came great men like Baldy Harper, who founded the Institute for Humane Studies, and George Roche, who is now president of Hillsdale College, which shelters the Ludwig von Mises Library, and who heads his own Shavano Institute in Colorado, never asking for help from the government.

Think of Dr. Hans Sennholz, who is chairman of the economics department at Grove City College, a great traveler and lecturer who educates one student after another in Mises' ideas.

And last, but certainly not least, think of Lew Rockwell and the Ludwig von Mises Institute, which in a very short time has attracted 14,000 contributors, begun an extensive teaching, fellowship, and publications program, held a very successful conference on the gold standard in Washington, DC, and become integrated with Auburn University. Never before have a university and an institute of this kind entered into a partnership.

Yes, Ludwig von Mises was an activist, whose influence has reached — and is still reaching — far over the world. Imagine how much better our world would be today if all those "activists" who chant for womens' rights, for gay rights, for tenants' rights, for minorities' rights, were working to correct the *true* cause of our social problems! Imagine how much better off we would be if those who blame the West for the plight of the so-called underdeveloped nations could be taught the economic facts of life as demonstrated by Ludwig von Mises!

They *can* be taught, if all of us become activists of the mind. If each of us will do this — in his or her own way — we may accomplish more than we now imagine. And we will do it, not like mindless sports fans cheering for their hero, but out of dedication to those principles of truth and freedom

for which my husband fought. We *must* do it — not simply out of admiration for a man like Ludwig von Mises. We must do it because we are dedicated to the principles which he elaborated so well in his many great works.

Is it idle — now, in these dark days when the shadows of Communist dictatorship reach over more than half the world — to dream of a day when knowledge instead of ignorance, respect instead of hate, peace instead of war, freedom instead of force, will reign over the world? Not if we spread the truth as my husband did.

I can see a day when *every* great university will have in its economics department a bust of Ludwig von Mises, when all of his writings will be combined in one grand edition available in every library of any size.

I can see a day when economics will be taught as human action — including every subject that those words imply — and not broken up into courses that produce mathematicians instead of economists.

I can see the day when more and more followers of my husband's thoughts will produce book after book and paper after paper elaborating on the fundamental ideas contained in his works. (And this day has arrived already.)

I can see an anthology of my husband's thoughts published in a series of books dealing with specific issues that are getting attention in the daily press. The special edition of the *Freeman* magazine that appeared on the 100th anniversary of my husband's birthday indicates the possibilities I see in this direction.

I can see more universities asking the Ludwig von Mises Institute for assistance in choosing professors to teach the economics of the free market. And I can see, as an activity of the Institute, establishment of fellowships to permit young journalists to enjoy a full year of study in Austrian economics to further their understanding and ability to better report events in the daily press.

I could go on and on — but many of you have even more ideas than those I have just mentioned. In order to achieve *anything*, however, we must *all* become activists. We have no choice. As Ludwig von Mises said many years ago, in words I once quoted at Hillside:

Everyone carries a part of society on his shoulders; no one is relieved of his share of responsibility by others. And no one can find a safe way for himself if society is sweeping towards destruction. Therefore everyone, in his own in-

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terest, must thrust himself vigorously into the intellectual battle. No one can stand aside with unconcern: the interests of everyone hang on the result. Whether he chooses or not, every man is drawn into the great historical struggle, the decisive battle into which our epoch has plunged us.

I feel confident that the Ludwig von Mises Institute will do much more than "carry its part of society on its shoulders." We have the intellectual leadership, the managerial expertise, and the burning desire to succeed. And, happily for us, we have the truth on our side.

If anyone doubts that, let him or her look at all the calamities, the miseries, the cruelties, and the stupidities of every form of collectivism and interventionism. With truth on our side we cannot, we must not, we *will not* fail!

Thank you. Thank you very much for listening to me.

Telegram From President Ronald Reagan

Dear Mrs. von Mises:

Nancy and I are delighted to send our warmest congratulations and best wishes as you are honored on this special occasion.

Throughout your life with Ludwig von Mises you played a major role in the success of his work. Your dignity and character were felt and appreciated by all who came to know this great master of economic thought. As wife and confidante, you and your gentle presence enhanced the spirit of cooperation and leadership this wise and kindly mentor brought to colleagues and students alike.

As author of a volume on your life with Ludwig, you have provided many engaging and treasured insights into the mind and ways of one of the towering intellects of our age.

Once again, congratulations on this well-deserved recognition and may you continue to pursue the ideals of liberty in the years ahead.

Sincerely,
Ronald Reagan

Thanks From Margit von Mises

I would like to thank every one, especially President Ronald Reagan and Mr. Llewellyn Rockwell, director of the Ludwig von Mises Institute, for the kind words they said about me at the banquet on February 27, 1984.

If I were well enough, I would have written everyone of the speakers a personal letter. Maybe one of them would pull it from his jacket pocket one day as Professor Israel Kirzner did with so much charm on that remarkable evening.

Many, many thanks.

Seminar on Central Banking and the Federal Reserve

Also on February 27th in New York City, the Mises Institute sponsored a one-day seminar on "Central Banking and the Federal Reserve."

The seminar, which was divided into four sessions, featured Professor Murray N. Rothbard of New York Polytechnic with discussion by Professor Roger W. Garrison of Auburn University. The moderator was Professor Stephen O. Morrell, also of Auburn.

Session I, "A History of Central Banking," discussed the beginnings, in the Bank of England and elsewhere, of government central banking, and the inflationary booms and busts that inevitably follow. Session II, "The Founding of the Federal Reserve," showed the economic and political forces that cooperated to establish America's present central bank.

Session III, "A History of the Federal Reserve," demonstrated the unfortunate role the Fed has played in the American economy since 1913, especially in causing and deepening the Great Depression. Session IV, "The Alternative to Central Banking," discussed the necessity of a gold standard, and why it is so important to strip the Federal Reserve of its power to inflate.

The seminar was recorded on video and audio tapes, and both are available from the Mises Institute.

TEN GREAT ECONOMIC MYTHS

Part II

by
Murray N. Rothbard

Myth #6

There is a tradeoff between unemployment and inflation.

Everytime someone calls for the government to abandon its inflationary policies, Establishment economists and politicians warn that the result can only be severe unemployment. We are trapped, therefore, into playing off inflation against high unemployment, and become persuaded that we must therefore accept some of both.

This doctrine is the fallback position for Keynesians. Originally, the Keynesians promised us that by manipulating and fine-tuning deficits and government spending, they could and would bring us permanent prosperity and full employment without inflation. Then, when inflation became chronic and ever-greater, they changed their tune to warn of the alleged tradeoff, so as to weaken any possible pressure upon the government to stop its inflationary creation of new money.

The tradeoff doctrine is based on the alleged "Phillips curve," a curve invented many years ago by the British economist A.W. Phillips. Phillips correlated wage rate increases with unemployment, and claimed that the two move inversely: the higher the increases in wage rates, the lower the unemployment. On its face, this is a peculiar doctrine, since it flies in the face of logical, commonsense theory. Theory tells us that the higher the wage rates, the *greater* the unemployment, and *vice versa*. If everyone went to their employer tomorrow and insisted on double or triple the wage rate, many of us would be promptly out of a job. Yet this bizarre finding was accepted as gospel by the Keynesian economic establishment.

By now, it should be clear that this statistical finding violates the facts as well as logical theory. For during the 1950s, inflation was only about one to two percent per year, and unemployment hovered around three or four percent, whereas nowadays unemployment ranges between eight and 11 percent, and inflation between five and 13 percent.

In the last two or three decades, in short, *both* inflation *and* unemployment have increased sharply and severely. If anything, we have had a *reverse* Phillips curve. There has been anything but an inflation-unemployment tradeoff.

But ideologues seldom give way to the facts, even as they continually claim to "test" their theories by facts. To save the concept, they have simply concluded that the Phillips curve still remains as an inflation-unemployment tradeoff, except that the curve has unaccountably "shifted" to a new set of alleged tradeoffs. On this sort of mind-set, of course, no one could ever refute any theory.

In fact, inflation now, even if it reduces unemployment in the short-run by inducing prices to spurt ahead of wage rates (thereby reducing *real* wage rates), will only create more unemployment in the long run. Eventually, wage rates catch up with inflation, and inflation brings recession and unemployment inevitably in its wake. After more than two decades of inflation, we are all now living in that "long run."

Myth #7

Deflation — falling prices — is unthinkable, and would cause a catastrophic depression.

The public memory is short. We forget that, from the beginning of the Industrial Revolution in the mid-18th century until the beginning of World War II, prices generally went down, year after year. That's because continually increasing productivity and output of goods generated by free markets caused prices to fall. There was no depression, however, because costs fell along with selling prices. Usually, wage rates remained constant while the cost of living fell, so that "real" wages, or everyone's standard of living, rose steadily.

Virtually the only time when prices rose over those two centuries were periods of war (War of 1812, Civil War, World War I), when the warring governments inflated the money supply so heavily to pay for the war as to more than offset continuing gains in productivity.

We can see how free market capitalism, unburdened by governmental or central bank inflation, works if we look at what has happened in the last few years to the prices of computers. A computer used to have to be enormous, costing millions of dollars. Now, in a remarkable surge of productivity brought about by the microchip revolution, computers are falling in price even as I write. Computer firms are successful despite the falling prices because their costs have been falling, and productivity rising. In fact,

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these falling costs and prices have enabled them to tap a mass market characteristic of the dynamic growth of free market capitalism. "Deflation" has brought no disaster to this industry.

The same is true of other high-growth industries, such as electronic calculators, plastics, TV sets, and VCRs. Deflation, far from bringing catastrophe, is the hallmark of sound and dynamic economic growth.

Myth #8

The best and fairest tax is a "flat" income tax, proportionate to income across the board, with no exemptions or deductions.

It is usually added by flat-tax proponents, that eliminating such exemptions would enable the federal government to cut the current tax rate substantially.

But this view assumes, for one thing, that present deductions from the income tax are immoral subsidies or "loopholes" that should be closed for the benefit of all. A deduction or exemption is only a "loophole" if you assume that the government owns 100 percent of everyone's income and that allowing some of that income to remain untaxed constitutes an irritating "loophole." Allowing someone to keep some of his own income is neither a loophole nor a subsidy. Lowering the overall tax by abolishing deductions for medical care, for interest payments, or for uninsured losses, is simply lowering the taxes of one set of people (those that have little interest to pay, or medical expenses, or uninsured losses) at the expense of raising them for those who have incurred such expenses.

There is furthermore neither any guarantee nor even likelihood that, once the exemptions and deductions are safely out of the way, the government would keep its tax rate at the lower level. Looking at the record of governments, past and present, there is every reason to assume that more of our money would be taken by the government as it raised the tax rate back up (at least) to the old level, with a consequently greater overall drain from the producers to the bureaucracy.

And finally, *why* is a proportional income tax supposed to be "fair?" It is supposed that the tax system should be roughly that of pricing or incomes on the market. But market pricing is not proportional to incomes. It would be a peculiar world, for example, if Rockefeller were forced to

pay \$1,000 for a loaf of bread — that is, a payment proportionate to his income relative to the average man. That would mean a world in which equality of incomes was enforced in a particularly bizarre and inefficient manner. If a tax were levied like a market price, it would be *equal* to every "customer," not proportionate to each customer's income.

Myth #9

An income tax cut helps everyone because not only the taxpayer but also the government will benefit, since tax revenues will rise when the rate is cut.

This is the so-called "Laffer curve," set forth by California economist Arthur Laffer. It was advanced as a means of allowing politicians to square the circle; to come out for tax cuts, keeping spending at the current level, *and* balance the budget all at the same time. In that way, the public would enjoy their tax cuts, be happy at the balanced budget, and still receive the same level of subsidies from the government.

It is true that if tax rates are 99 percent, and they are cut to 95 percent, tax revenue will go up. But there is no reason to assume such simple connections at any other time. In fact, this relationship works much better for a local excise tax than for a national income tax. A few years ago, the government of the District of Columbia decided to procure some revenue by sharply raising the District's gasoline tax. But, then, drivers could simply nip over the border to Virginia or Maryland and fill up at a much cheaper price. D.C. gasoline tax revenues fell, and much to their chagrin and confusion, they had to repeal the tax.

But this is not likely to happen with the income tax. People are not going to stop working or leave the country because of a relatively small tax hike, or do the reverse because of a tax cut.

There are some problems with the Laffer curve. The amount of time it is supposed to take for the Laffer effect to work is never specified. But still more important: Laffer assumes that what all of us want is to maximize tax revenue to the government. If — a big if — we are really at the upper half of the Laffer Curve, we should then all want to set tax rates at that "optimum" point. But why? *Why* should it be the objective of every one of us to maximize government revenue? To push to the maximum, in short, the share of private product that gets siphoned off to the activities of government? I should think we would be more interested in *minimizing* government revenue by pushing tax rates far, far below whatever the Laffer Optimum might happen to be.

Myth #10

Imports from countries where labor is cheap cause unemployment in the United States.

One of the many problems with this doctrine is that it ignores the question: *why* are wages low in a foreign country and high in the United States? It starts with these wage rates as ultimate givens, and doesn't pursue the question why they are what they are. Basically, they are high in the United States because labor productivity is high — because workers here are aided by large amounts of technologically advanced capital equipment. Wage rates are low in many foreign countries because capital equipment is small and technologically primitive. Unaided by much capital, worker productivity is far lower than in the U.S. Wage rates in every country are determined by the productivity of the workers in that country. Hence, high wages in the United States are not a standing threat to American prosperity; they are the *result* of that prosperity.

But what of certain industries in the U.S. that complain loudly and chronically about the "unfair" competition of products from low-wage countries? Here, we must realize that wages in each country are interconnected from one industry and occupation and region to another. All workers compete with each other, and if wages in industry A are far lower than in other industries, workers — spearheaded by young workers starting their careers — would leave or refuse to enter industry A and move to other firms or industries where the wage rate is higher.

Wages in the complaining industries, then, are high because they have been bid high by *all* industries in the United

States. If the steel or textile industries in the United States find it difficult to compete with their counterparts abroad, it is not because foreign firms are paying low wages, but because other *American* industries have bid up American wage rates to such a high level that steel and textile cannot afford to pay. In short, what's really happening is that steel, textile, and other such firms are using labor inefficiently as compared to other American industries. Tariffs or import quotas to keep inefficient firms or industries in operation hurt everyone, in every country, who is not in that industry. They injure all American consumers by keeping up prices, keeping down quality and competition, and distorting production. A tariff or an import quota is equivalent to chopping up a railroad or destroying an airline — for its point is to make international transportation artificially expensive.

Tariffs and import quotas also injure other, efficient American industries by tying up resources that would otherwise move to more efficient uses. And, in the long run, the tariffs and quotas, like any sort of monopoly privilege conferred by government, are no bonanza even for the firms being protected and subsidized. For, as we have seen in the cases of railroads and airlines, industries enjoying government monopoly (whether through tariffs or regulation) eventually become so inefficient that they lose money anyway, and can only call for more and more bailouts, for ever more of a privileged shelter from free competition.

Murray N. Rothbard is professor of economics at the Polytechnic Institute of New York. He received his B.A., M.A. and Ph.D. in economics from Columbia University, and he studied under Ludwig von Mises at New York University.

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The Ludwig von Mises Institute
Thach Hall
Auburn University
Auburn, Alabama 36849

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