

# FREEMarket

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## SAVE THE PIANO INDUSTRY?

Jeffrey Tucker

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Today the highest-price good that people buy besides their houses is their car, and this reality leads people to believe that we can't possibly let the American car industry die. We couldn't possibly be a real country and a powerful nation without our beloved auto industry, which is so essential to our national well-being. In any case, this is what spokesmen for the big three say.

What about the time before the car? Look at the years between 1870 and 1930. As surprising as this may sound today, the biggest-ticket item on every household budget besides the house itself was its piano. Everyone had to have one. Those who didn't have one aspired to have one. It was a prize, an essential part of life, and they sold by the millions and millions.

That too was new. Americans before 1850 mostly imported their pianos. American manufacturing was nearly nonexistent. After 1850, that changed dramatically with the flowering of what would become a gigantic US piano industry. The Gilded Age saw a vast increase in its popularity. By 1890, Americans fed half the world market for pianos. Between 1890 and 1928, sales ranged from 172,000 to 364,000 per year.

It was a case of relentless and astounding growth. They were used in classrooms everywhere in times when music education was considered to be the foundation of a good education. They were the concert instruments in homes before recorded music and iPods. They were essential for all entertainment. American buyers couldn't get enough, and private enterprise responded.

New York, Boston, and Chicago were the homes of these companies. There was the great Chickering piano made by a company founded in 1823 and which later led the world in beauty and sound. There was Hallet and Davis in Boston, J. and C. Fischer in New York, as well as Strich and Ziedler, Hazelton, William Knabe, Baldwin, Weber, Mason and Hamlin, Decker and Sons, Wurlitzer, Steck, Kimball in Chicago, and, finally, Steinway.

The American piano industry was the greatest in the world, not because the Americans came up with any new and great manufacturing techniques, though there were some innovations, but because the economic conditions made it most favorable to be manufactured here.

With the rise of this industry came a vast marketing apparatus. Piano ads were everywhere, as a tour of old magazines shows. It was widely believed that spending ➞



money on a piano wasn't really spending. It was an investment. The money you paid would be embedded right there in this beautiful and useful item. You could always sell it for more than you paid for it, and this was generally true. So people would make great sacrifices for these instruments.

With the growth of this manufacturing came an explosion of shops that served the piano market all up and down the industry. Piano tuning was a big-time profession. Retail shops with pianos opened everywhere, and the sheet-music business exploded with them. Ever notice how in big cities the music stores are typically family owned and established 40, 50, and even 100 years ago? This is a surviving remnant of our industrial past.

All of this changed again in 1930, which was the last great year of the American piano. Sales fell and continued to fall when times were tough. The companies that were beloved by all Americans fell on hard times and began to go belly up one by one. The war was devastating, as the state requisitioned copper and steel, and pretty well killed private enterprise. After World War II the trend continued, as ever more pianos began to be made overseas.

In 1960, we began to see the first major international challenge to what was left of the US market position. Japan was already manufacturing half as many pianos as the United States. By 1970, a revolution occurred as Japan's production outstripped the United States, and it has been straight down ever since. By 1980, Japan made twice as many as the United States. Then production shifted to Korea. Today China is the center of world piano

production. You probably see them in your local hotel bar.

And what happened to the once-beloved and irreplaceable American piano industry? Steinway survives to make luxury instruments that few can afford. Mason & Hamlin has made a great comeback in the high-end market. The rest moved overseas under new ownership or were completely wiped out.

Does anyone care that much? Not too many. Have we been devastated as a nation and a people because of it? Not at all. It was just a matter of the economic facts. The demand went down and production costs for the pianos that were wanted were much cheaper elsewhere.

Now, a piano aficionado reading this will say, buddy, you are crass. Listen to the sound of an older model Chickering and you can tell the difference. It was warm and wonderful, nearly symphonic. It is mellow and perfect for the best repertoire. By comparison, this new Chinese piano is sharp and angular and pointed. It sounds like a marimba. You can't play Schubert or Brahms on such junk. No one wants to hear that thing. Bring back the old days when pianos made sounds that sounded like real music!

Well, you can still get that old Chickering sound, even from a piano made in New York. You can buy a Steinway. Of course you have to pay \$50,000 plus and even as much as \$120,000, but they are there. You say that is unaffordable? Says you. It is all a matter of priorities. You can forgo your house and live in a tiny apartment and still own the most gorgeous instrument money can buy. In any case, it makes no economic sense for you

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to demand a magnificent piano at a very low price when reality does not make that possible.

In the same way, many people will bemoan the loss of the US car industry and wax eloquent on the glory days of the 1957 Chevy or what have you. But we need to deal with the reality that all that is in the past. Economics demands forward motion, a conforming to the facts on the ground and a relentless and realistic assessment of the relationship between cost and price, supply and demand. We must learn to love these forces in society because they are the only things that keep rationality alive in the way we use resources. Without them, there would be nothing but waste and chaos, and eventual starvation and death. We simply cannot live outside economic reality.

Let's say that FDR had initiated a bailout of the piano industry and then even taken it over and nationalized it. The same firms would have made the same pianos for decades and decades. But that wouldn't have stopped the Japanese industry from taking off in the 1960s and '70s.

Americans would have far preferred them because they would have been cheaper. American pianos, because they would be state owned, would fall in quality, lower and lower to the point that they would become like a Soviet car in the 1960s. Of course you could set up tariff barriers. That would have forced American pianos on us. Except for one thing: demand would still have collapsed. The

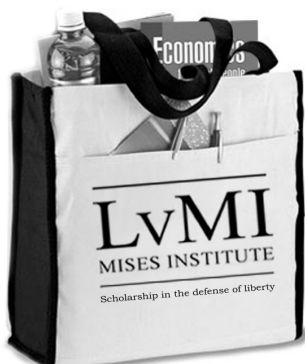
pianos still have to have a market. But let's say you find a workaround for that problem by requiring everyone to own a piano. You still can't make people play them and value them.

No one, but no one, tells the story of the Ford Motor Company like Gareth Garrett.

In the end you have to ask, is it really worth trillions in subsidies, vast tariffs, impositions all around, just to keep what you declare to be an essential industry alive? Well, eventually, as we have learned in the case of pianos, this is not essential. Things come and things go. Such is the world. Such is the course of events. Such is the forward motion of history in a world of relentless progress generated by the free market. Thank goodness that FDR didn't bother saving the US piano industry! As a result, Americans can get a huge range of instruments from all countries in the world at any price they are willing to pay.

Today government is even more arrogant and absurd, and it actually believes that by passing legislation it can save the US car industry. It can subsidize and pay for uneconomic activities, and pay ever more every year. The government can also pay millions of people to make mud pies because mud pies are deemed to be an essential industry. You can do this, but at what cost and what would possibly be the point? Eventually, even the government will have to accord itself to the reality that economics reminds us of on a daily basis. ■

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# THE TROUBLE WITH FIAT MONEY

Douglas E. French

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It is often said “there are no atheists in a foxhole.” The other week, as world financial markets melted down, CNBC go-to wise man Art Cashen put a market spin on that familiar line drolly saying, “there are no libertarians in a market crash.”

The crusty Cashen is certainly right for the most part. Plenty of financial talking heads who argue for free markets and smaller government on a daily basis suddenly screamed that government must intervene to “save capitalism.” Of course, the idea that government must print multiple blizzards worth of money to save a system where individuals and businesses trade with each other unfettered makes as much sense as presidents who claim that war must be waged to “protect the peace.”

The fact is that what we’ve been enjoying since the Federal Reserve was created is anything but free-market capitalism. The value of the dollar has been pushed down 99 percent and the economy has been a series of booms, followed by busts, ad nauseam since J.P. Morgan partner Harry Davidson and other big bank chieftains secretly took a train to go duck hunting on Jekyll Island in 1910.

Of course, the ducks were safe, but Americans since have paid the price for the Federal Reserve-system idea that was hatched that weekend. As historian Gabriel Kolko wrote, “The entire banking reform movement, at all crucial stages, was centralized in the hands of a few men who for years were linked, ideologically and personally, with one another . . . the major function, inspiration and direction of the measure [the Federal Reserve Act] was to serve the banking

community in general, and large bankers specifically.”

The TV pragmatists probably forget that Karl Marx and Friedrich Engels wrote in *The Communist Manifesto* that creating “a centralization of credit in the hands of the state, by means of a national bank with state capital and an exclusive monopoly” should be near the top of any communist’s agenda.

Is it any wonder that Treasury Secretary Henry Paulson’s plan has morphed into the federal government taking equity stakes in banks, mortgage companies, and at least one insurance company? As Oscar B. Johannsen wrote, “A socialized banking system is the precursor of socialism in all business.” (By the time you read this, airlines and car manufacturers may be partially owned by the government.)

But the level of economic knowledge displayed in main-street print or on TV has dropped lower than the Dow Jones Industrial Average. Economist and historian Tom DiLorenzo got an earful on MSNBC’s “Morning Joe” program recently from former Republican presidential candidate Pat Buchanan, who admonished DiLorenzo: “How could you criticize Hamilton? He’s the architect of the American economy!”

DiLorenzo’s new book *Hamilton’s Curse* shows us that Buchanan and other Alexander Hamilton apologists have it all wrong. “Hamilton was an enemy of free-market capitalism and early America’s foremost proponent of mercantilism, the system of government-granted monopolies, corporate welfare, protectionist

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# News from the Institute

## Human Action Study Guide!

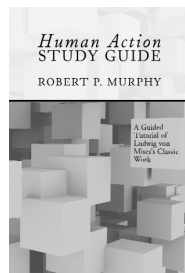
This is the first-ever *Human Action* Study Guide, and congratulations to Robert Murphy for being the only person in 60 years to complete this much-needed task that has been attempted many times before.

This Guide is spiral-bound and 380 pages, complete with summaries, notes, and study questions written by Amadeus Gabriel, a top student of the Misesian approach. Throughout, its pagination is keyed to the Scholar's Edition published by the Mises Institute.

*Human Action* is the core text of the Austrian School and the most rigorous and extended defense of the free economy ever written. And the Guide, years in preparation, opens it up as never before.

Everyone knows of the difficulty of the book, which is matched only by its centrality to a thorough understanding of economic logic and the free society. Even Mises himself hoped for a guide to be written. Many people tried but didn't make it to the end or became frustrated with the sheer difficulty of the task. Only Murphy managed it, and he does it with great authority and attention to detail, even as it makes the book newly accessible.

Part of the genius here is the structure: summary, why it matters, technical notes, and study questions. The writing is exactly what you would expect from Murphy. As with *Man, Economy, and State*, he has come to the rescue. It is crystal clear and very precise and always interesting. Students and professors will use this book constantly as a one-stop reference for the Austrian School. Here is a remarkable and singular accomplishment.



## Revolt!

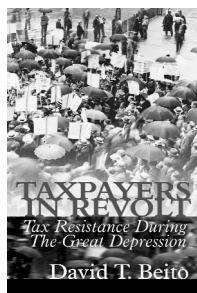
David Beito, in *Taxpayers in Revolt*, has brought to light a remarkable and previously unknown chapter of the Great Depression: its tax revolts. They were widespread and systematic, and they made such huge progress in some places that they threatened to bring local and state government to its knees.

Here we have an aggressive resistance to the New Deal, in the form of some 1,500 anti-tax movements in the United States that formed to resist FDR's looting. It's no wonder historians before Beito completely ignored this great movement.

Beito explores their driving force, the leadership, the ideological basis, their progress and their dealings with the press. He shows how they worked the system to curb tax increases and roll back the taxes in place.

Beito's book reads like a novel, complete with a tragic ending that teaches lessons for the future. Without meaning to give away the ending, the tax-revolt movement was brought down by a vast propaganda campaign, and the promise of good and better government in the future—a naive assumption that the leadership should have seen through.

This is a first-class piece of historical research and writing. ■





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tariffs and other policies that generally benefited politically connected businesses at the expense of the rest of society,” DiLorenzo explains.

As Lew Rockwell points out, the real cause of the current financial crisis can be summed up with two words: fiat money. The word fiat means created by the dictate. And since 1971, when Nixon proclaimed, “We are all Keynesians now,” and severed the last link that tied the dollar to gold, the amount of dollars created by the Fed out of nothing has grown over

10 times, as measured by M-2 (from \$685 billion in August 1971 to \$7.7 trillion in August 2008).

As if all this past monetary expansion weren’t enough, the Fed is now working overtime, in concert with the world’s other central banks, to create what investor Jim Rogers told a foreign CNBC audience will be “a monetary holocaust.”

Rogers didn’t make any friends with others on Wall Street with those comments. As Rockwell points out, “The best way to fall out of favor with the regime—or its pseudolibertarian and neocon supporters—is to question its central bankers.” ■

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The Austrian Scholars Conference is the international, interdisciplinary meeting of the Austrian School, and for professionals interested or working in this intellectual tradition, it is the event of the year. Mises Institute Members are also welcome to attend, and student scholarships are available. The director of the conference is Joseph Salerno of Pace University.

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