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Has the Rise of Socialism in US Politics Been a Boon to Austrian Economics? Evidence from Social Media and Other Metrics

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Abstract: The rise of socialism has been one of the more dramatic movements in US politics in the modern era, with recent Gallup polling indicating that 39 percent of Americans (and 65 percent of Democrats) hold a favorable view of the political economic ideology. Upward trends in the popularity of political economic ideologies such as socialism are observed when much of what is known by the public about them is gleaned through heuristic approaches rather than through scientific investigation. However, an increase in the persistence and severity of problems resulting from the practice of a political economic ideology such as socialism will likely lead to more science-based introspection, a turn in approach that will almost certainly be a boon to political and economic theories/models offering refutations of the ideology. This study explores such a demand-side argument with regard to the recent rise of socialism in US politics by asserting, and testing, the notion that the Austrian school of economics,

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which is most closely identified with the claim that socialism is unworkable, has been a beneficiary of recent political trends. Statistical evidence from various trends in informetrics is consistent with our assertion, as Google News hits and Twitter hashtag counts have ascended over the recent period (i.e., 2016 to 2019).

INTRODUCTION

The increase in support for socialism in US politics has been one of the more dramatic movements in the modern political era. Gallup polling near the end of 2019 indicated, for example, that 47 percent of Americans believe that government should do more to solve problems, up from 36 percent in similar polling from 2010 (Jones and Saad 2019). Similarly, a "preference" for "active government" and a "positive view" of "socialism" rose by eight and three percentage points, respectively, over this same time, climbing from 34 percent to 42 percent in the former case and from 36 percent to 39 percent in the latter case (Jones and Saad 2019). Increases in the favorability of socialism among Democrats have been even more pointed, reaching a new high of 60 percent in 2016, which Jones and Saad (2019) suggest "may have reflected the influence of avowed Democratic socialist Bernie Sanders' 2016 presidential campaign." The trend continued in 2019, when 65 percent of Democrats polled reflected favorability toward socialism.

Upward trends in the popularity of political economic ideologies such as socialism are more likely to be observed when much of what is known by the public about them is gleaned through heuristic approaches rather than through scientific investigation. For many in the US, the recent experiences of Venezuela serve as the heuristic lens through which the pitfalls of socialism are understood. Since 2013, economic output has fallen dramatically, and hyperinflation has paralyzed the country's economy, with the typical Venezuelan adult losing as much as twenty-four pounds of body weight in 2017 alone (Sequera 2018).[1] To outside observers, however, Venezuela's

[1] Economic output in Venezuela fell by 16 percent in 2016, and by 14 percent in 2017, while inflation, which stood at 112 percent in 2015, rose to 2,400 percent in 2016 (Flannery, 2018). By August of 2019, Venezuelan inflation stood at 10 million percent, while the cumulative decline in its economy since 2013 reached 65 percent (Sanchez, 2019). At the same time, 4 million Venezuelans, or about 10 percent of the

economic problems may be rationalized as simply the result of the malpractice of socialism by the country's ruling elites (e.g., President Nicolás Maduro), and not the result of inherent problems with socialism as a political economic ideology. To insiders, the opposite conclusion is likely to be drawn.

To either group, any increase in the persistence and severity of the economic problems resulting from the practice of a political economic ideology such as socialism will likely lead to more science-based introspection about that ideology. Such a turn in approach will almost certainly be a boon to political and economic theories and models offering thorough refutations of the ideology. This study explores such a demand-side argument with regard to the recent rise of socialism in US politics. More specifically, it asserts, and tests, the notion that the Austrian school of economics has been a beneficiary of the recent growth in the favorability of socialism in US politics. This assertion is based on the premise that the scholarship of economists belonging to this school, particularly Ludwig von Mises (1881–1973) and Friedrich Hayek (1899–1992), represents what is arguably the most renowned rebuke of claims of socialism's superiority as a method of political and economic organization.

Statistical evidence from various trends in informetrics supports our assertion, as Google News hits and Twitter hashtag counts involving the views of prominent Austrian economists have ascended over the recent period from 2016 to 2019. The more recent era corresponds to the period of increased support for socialism in US politics as expressed through the increasing political fortunes of Bernie Sanders, Alexandria Ocasio-Cortez, and other prominent US legislators. Before turning to the statistical evidence, however, this study first provides a primer on the recent increase in support for socialism in US politics since 2016 and a brief examination of the views of two prominent Austrian economists—Mises and Hayek—on the shortcomings of socialism as a political economic ideology.

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country's population had fled the country, decimating the country's professional class (Sanchez, 2019). Lastly, the Venezuelan practice of eating two or fewer meals each day is often referred to as "the socialist diet."

INCREASING SUPPORT FOR SOCIALISM IN US POLITICS, 2016–PRESENT: A PRIMER

The recent increase in support for socialism in modern US politics has been embodied by the political ascendancy of Bernie Sanders, an independent US senator from Vermont. Sanders, who refers to himself as a "democratic socialist," announced his first presidential run on April 30, 2015.[2] During interviews just before his public campaign announcement, Sanders indicated that trade, income inequality and healthcare would be key issues in his campaign (Merica 2015). Sanders's 2016 presidential run most prominently included plans to (1) fund a single payer healthcare system by raising income tax rates, referred to as "Medicare for All," (2) increase the tax rate on capital gains and dividends, (3) raise taxes on corporations, and (4) combat climate change by imposing a tax on carbon emissions.[3] According to some analyses, Sanders's policy proposals would have added $18 trillion to the federal budget deficit over ten years, even after the collection of $15.3 trillion in new tax revenues (Mermin, Burman, and Sammartino 2015).

The 2016 Democratic Presidential Primary

The 2016 Democratic Party presidential primary season began in February of 2016, with Sanders's opponent, former US secretary of state Hillary Clinton, winning in Iowa, Nevada, and South Carolina. Still, Sanders won the New Hampshire primary, and on "Super Tuesday" (March 1, 2016), Sanders added victories in Colorado, Minnesota, Oklahoma, and Vermont. Later, on March 4, 2016, Sanders won the primaries in Kansas and Nebraska, and on the following day he won in Maine. March 2016 would also see Sanders claim primary victories in Alaska, Hawai'i, Idaho, Michigan, Utah, and Washington, while in April he would win in Rhode Island, Wisconsin,

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[2] Born in Brooklyn, New York, Sanders moved to Vermont after graduating from the University of Chicago. His first successful run for office came in 1981, when he was elected Burlington's mayor by only ten votes (Merica 2015). Later, in 1990, he was elected Vermont's at-large member of Congress, and almost twenty years later, in 2007, he was elected to the US Senate (Merica 2015).

[3] See Ballotpedia s.v. "Bernie Sanders Presidential Campaign, 2016," accessed Aug. 9, 2021, https://ballotpedia.org/Bernie_Sanders_presidential_campaign,_2016.

and Wyoming. Sanders continued winning state primaries into May 2016, taking victories in Indiana, Oregon, and West Virginia, while in June he added wins in Montana and North Dakota. Even with these individual successes, Clinton would ultimately claim a majority of the pledged delegates (2,205–1,846) in victory over Sanders.[4]

Despite his defeat in 2016, Sanders's performance against Clinton made it clear that his socialist platform was a force for prospective political foes to reckon with. This realization was only buttressed by the sense among many voters that Clinton's 2016 Democratic presidential primary victory was tainted by the participation of 712 so-called superdelegates in the Democratic National Convention vote. Clinton garnered 602 superdelegates, four hundred of whom had committed to her campaign before the first caucus or primary.[5] This sense was later supported by revelations in Brazile (2017) that the 2016 Democratic caucuses and primaries were engineered in various ways to produce a Clinton victory.

The Justice Democrats and the 2018 Midterm Elections Cycle

One backlash against these 2016 events occurred one year later, in 2017, when the progressive political action committee known as Justice Democrats was formed by Kyle Kulinski of *Secular Talk*, Cenk Uygur of *The Young Turks*, and former Sanders presidential campaign executives Saikat Chakrabarti and Zack Exley (Grigoryan and Suetzl 2019).[6] According to Grigoryan and Suetzl (2019), Justice Democrats supports and endorses working-class progressive candidates who seek political office, and its platform includes, but is not limited to, a reorganization of the entire US economy with a focus on preventing climate change (i.e., the "Green New Deal"), a federal jobs guarantee, free universal education (through college) and healthcare (both as human rights), paid maternity and vacation leave, free childcare, and raising the minimum wage.[7]

[4] Delegate totals collected from cnn.com.

[5] See cnn.com and pbs.org.

[6] *Secular Talk* is a progressive political podcast. *The Young Turks* is an alternative media (online) political news and entertainment company that supports progressivism.

[7] See also https://www.justicedemocrats.com/home.

The Justice Democrats political platform's first foray into federal elections occurred during the 2018 midterm elections cycle, when the organization endorsed seventy-three congressional candidates, twenty-four of whom won party primaries. Seven of these twenty-four ultimately won seats in the US Congress (Grigoryan and Suetzl 2019). That group included Alexandria Ocasio-Cortez (D-NY), Ilhan Omar (D-MN), and Rashida Tlaib (D-MI), and since taking office in January 2019, these three representatives have become some of the most prominent federal legislators of the current era. Key among them is Ocasio-Cortez, whose political fame rose after a thirteen-point victory over an incumbent representative in the 2018 Democratic primary.[8] Ocasio-Cortez, who won the 2018 general election by about sixty-five points, ran on a socialist political platform supporting Medicare for All, a federal jobs guarantee, housing as a human right, immigration justice, and higher education for all.[9] Since taking office in January 2019, Ocasio-Cortez's political influence has risen to the point of rivalling that of Nancy Pelosi (D-CA), the speaker of the US House of Representatives (Caygle, Ferris, and Bresnahan 2019; and Lovelace 2019).

The Run-Up to the 2020 Presidential Election

Following his meteoric rise during the 2016 Democratic presidential primaries, in February 2019 Sanders announced his candidacy in the 2020 US presidential election. In announcing his bid on Vermont Public Radio, Sanders pointed to the Democratic Party's leftward shift since 2016 as a reason for a second run (Detrow and Taylor 2019). As Sanders explained (Detrow and Taylor 2019),

> It turns out that many of the ideas that I talked about [in 2016]—that health care is a right, not a privilege, and that we've got to move toward a Medicare-for-all, single-payer system … [and] raise the minimum wage to $15 an hour…. [Then, w]hen I talked about making public colleges and universities tuition-free and lowering student debt, that was another issue that people said was too radical. Well, that's also happening around the country.

[8] Chakrabarti became Ocasio-Cortez's first chief-of-staff.

[9] See Ballotpedia s.v. "Alexandria Ocasio-Cortez," accessed Aug. 9, 2021, https://ballotpedia.org/Alexandria_Ocasio-Cortez.

Sanders's renewed push for the White House got a boost when incumbent representative Ocasio-Cortez offered her endorsement for Sanders's campaign at a rally in Queens, New York, just days after another incumbent, Omar, offered her public support for Sanders's socialist agenda (Gathright and Martin 2019). A few days later Tlaib, another incumbent representative, joined Omar and Ocasio-Cortez in stumping for Sanders's 2020 election bid (Krieg and Grayer 2019). These endorsements helped to propel Sanders's candidacy, built upon a socialist platform, into the lead among a relatively large field of Democrats vying to become the forty-sixth president of the United States.

AUSTRIAN ECONOMISTS ON SOCIALISM

As Holcombe (2014, 46) points out, many economists during the twentieth century considered the Austrian school of economics (hereafter Austrian school) the most closely identified with the claim that central planning is unworkable. Central to that claim is the idea that prices are necessary for rational economic calculation (Holcombe 2014, 46). This idea originated in a presentation by Ludwig von Mises, a titan of the Austrian school, during a 1919 meeting of the Vienna Economic Society. That presentation, which evolved into an academic paper the following year (Mises 1990), launched what became known as the socialist calculation debate.[10] Two years later Mises's paper was expanded into a book (Mises 1960), and in the decades that followed, another giant of the Austrian school joined in his efforts to explain the pitfalls of socialism, namely Friedrich Hayek.[11] For his part, Hayek (1948) concentrated on the entrepreneurial and innovative functions that lead to economic progress in a market economy, which is well suited to coordinate the decentralized knowledge that is held by market participants (Holcombe 2014, 51).[12]

Together, these two economists led the Austrian school's critique of socialism as an economic and political ideology. In fact,

[10] See Holcombe (2014, 46).

[11] See Holcombe (2014, 46).

[12] Hayek was awarded the Nobel Prize in Economic Sciences in 1974 for his work on the theory of money and economic fluctuations, and for his analysis of the interdependence of economic, social, and institutional phenomena.

Holcombe (2014, 51) argues that it was the ideas about rational calculation developed by the Austrian school in the socialist calculation debate that helped develop the unique identity of the school. Many of the more recent contributions from Austrian school economists, such as George Reisman of Pepperdine University and Sanford Ikeda of the State University of New York (Purchase College), have extended the understanding of the implications of the information problems involved in attempting to plan out the economic order (Holcombe 2014, 51).[13] This research, in turn, has been supplemented by the work of Peter Boettke and Christopher Coyne, both of George Mason University.[14] In the section that follows, a more detailed review of Mises's and Hayek's contributions vis-à-vis the pitfalls of socialism is presented.

MISES AND HAYEK ON SOCIALISM

Mises is the foremost opponent of socialism in history. He was an economist from Austria who dealt with the practical affairs of the time using the deductive theory approach of the Austrian school of economics based in Vienna. In the economic chaos following World War I, European governments began implementing socialism, with Austria's leadership seeking to adopt Russian-style bolshevism. Mises convinced the Austrian political leader, Otto Bauer, to eschew socialism altogether, saving the country from its deleterious effects (Hülsmann 2007, 331–35).

Mises then set out to prove that socialism was untenable, indeed impossible. In doing so he wanted to go beyond the standard criticisms of socialism, such as the past failures of applied socialism and the problem of incentives under socialism. In developing his argument Mises made two important assumptions. First, he assumed that a socialist economy is a closed economy where the ownership of the available means of production is centralized: the state decides what to produce, how to produce it, and how it will be distributed. Second, he assumed that the planner(s) would be altruistic, brilliant, and have access to all available technical knowledge.

[13] See Ikeda (1997); and Reisman (1998).

[14] See Boettke (1990, 1994, and 2000); and Boettke and Coyne (2004).

His calculation argument focused on capital goods, their production and allocation (Mises 1990). Capital goods (e.g., tools and machines) must be replaced as they wear out. In a static economy (i.e., one that is in a state of long-run equilibrium) this could be achieved simply by replacing worn parts or the capital goods themselves. In such a scenario all the means of production, including the available capital goods, have already been allocated to satisfy their most highly valued uses. Thus, there is no possibility of reallocating the available resources and improving the well-being of consumers. The same goods will be produced in the same quantities period after period, and there will be no need to alter the existing bundle of capital goods.

However, in a real economy most things are subject to change, and simple replacement of existing capital goods is not feasible. The real world is characterized by constant changes in technology, population, migration patterns, demographics, and the weather, and some resources will inevitably become more valuable, and others less, while some resources will inevitably become more abundant and others scarcer. This incessant change means that the available producer goods, at any given moment, are not allocated to satisfy their highest-valued uses; there is room to reshuffle and change the allocation of resources and improve overall well-being. Making these changes requires economic calculation: it requires a comparison of the marginal benefit and the opportunity costs involved in any production decision.

In the simple world of a Crusoe economy, producer goods can be allocated without reducing costs and benefits to a common denominator. If the structure of capital is relatively sparse and production processes are not very complex or lengthy, an actor can easily isolate the amount of consumer goods that are dependent on the use of a producer good in different production processes. As a result, the costs and benefits involved can be reduced to satisfaction obtained versus satisfaction foregone, and a decision can be made by weighing the two satisfactions, one against the other.

In a well-developed economy, however, the problem of resource allocation is far more complex. Producing consumer goods now involves several steps or stages, with all but the final step resulting in the production of capital goods to assist in further production. Many of these capital goods are highly nonspecific, creating an immense number of relationships of substitutability and complementarity throughout the production structure. In such a scenario, the allocation of producer goods requires the costs and benefits of a decision to be reduced to a common denominator: it requires the use of cardinal numbers in the mental process that precedes the decision to allocate a certain resource toward one particular end and not the other.

Given the inherently ordinal nature of economic value and utility, this will be impossible for the socialist planner to accomplish. In socialist societies there is one entity that owns the means of production (i.e., the state or central planner), and no exchange of producer goods takes place, which, therefore, means that no prices for these goods exist. Shorn of such prices, the planner finds it impossible to compare the anticipated marginal benefit and opportunity cost of any production decision. As a result, socialism is inherently irrational.[15]

In a market society, entrepreneurs calculate how to proceed with production based on the money prices of the factors of production and their estimate of the future prices of their products. These prices are established in the process of exchange, which presupposes two or more trader-owners. Markets and money are therefore the essential prerequisites for solving the problem of economic calculation and for making meaningful decisions regarding the allocation of the available factors of production.

When market prices serve as a common denominator for comparing the costs and benefits associated with a particular production project, production decisions can be made without a survey of all the steps that lie between the given decision and the ultimate production of consumer goods. A market economy is characterized by an "intellectual division of labor," where no entrepreneur is forced to isolate the potential satisfaction gained and lost as a result of his (or her) decisions (Mises 1990, 15). Instead, he can

[15] In order to gain a proper understanding of Mises's argument, it is worth noting that Rothbard, Mises's foremost American student, extended Mises's calculation argument by showing that the same problems associated with the socialist state would also exist in a world where one corporation owned all the means of production (Rothbard [1962, 1970] 2009, 609–16). That is, a rational economy requires multiple property owners.

focus solely on estimating the prices that he expects to receive for the particular products that he is engaged in producing, while the connection between entrepreneurial decisions and consumer preferences results from the numerous decentralized decisions made by entrepreneurs in the various stages of production.

Mises would go on to write a six hundred–page treatise on socialism in 1922, titled *Socialism: An Economic and Sociological Analysis*, in which he delves into greater detail about the socialist calculation problem and other negative effects of socialism, as well as the superiority of capitalism (Mises 1962). This book and his earlier article ignited the socialist calculation debate between pro- and antisocialist economists, as well as among pro-socialism economists such as Henry Douglas Dickinson (1899–1969), Maurice Dobb (1900–76), Oskar R. Lange (1904–65), Abba P. Lerner (1903–92), and Fred M. Taylor (1855–1932) in terms of how to best solve the problem.[16]

Another prominent participant in the socialist calculation debate was Hayek, a Viennese student of Mises's. Over the course of this debate Hayek defended and elaborated on Mises's argument regarding the impossibility of economic calculation under socialism (Hayek 1948, 57–91). Hayek focused on the difference between scientific or technical knowledge, which is objective, and the subjective knowledge that guides resource allocation in a dynamic world. The planners, he argued, could easily collect the former type of knowledge. But such knowledge will not help them make meaningful production decisions. What the planners will lack is the subjective knowledge of the "man on the spot," who is the driving force of the market economy (Hayek 1948, 83). This knowledge, which is necessarily time and place specific, is impossible for the planners to obtain, given that much of it is tacit and only revealed as the process of pricing and exchange unfolds in a market economy.[17]

[16] See Hayek (1935); Hoff (1949); Lavoie ([1985] 2015); Ekelund and Hébert (2014); and Holcombe (2014) for an overview of the socialist calculation debate. For work by the prosocialist economists, see Lange and Taylor (1938); Dobb (1937); Dickinson (1939); and Lerner (1946).

[17] The following passage from Hayek (1948, 80) illustrates the kind of time- and place-specific knowledge that is crucial for resource allocation: "To know of and put to use a machine not fully employed, or somebody's skill which could be better utilized, or to be aware of a surplus stock which can be drawn upon during an interruption of supplies, is socially quite as useful as the knowledge of better

There have since been a number of criticisms and suggested remedies for the calculation problem by socialist economists. There have even been a number of reinterpretations of the problem offered by Austrian economists. However, Mises's argument remains valid, as Salerno (1990, 66) concludes:

> Thus Mises's original thesis stands on its own against all counterarguments and without any need for qualification or emendation: without private ownership of the means of production, and catallactic competition for them, there cannot exist economic calculation and rational allocation of resources under conditions of the social division of labor. In short, socialist economy and society are impossible.

Some people felt that Mises's argument was correct when Russia quickly collapsed after adopting socialism and was forced to readopt money, prices, wages, and other features of capitalism with the New Economic Policy. Others accepted that Mises was correct when his theory remained unblemished by his critics during the socialist calculation debate. Finally, when the propped-up pseudo-communist economies in the Soviet Union, Eastern Europe, and China collapsed, most observers concurred with Mises.[18] A very successful pro-socialism economist, Robert Heilbroner (1989), confessed that "[i]t turns out, of course, that Mises was right." Heilbroner (1992) later wrote,

> Capitalism has been as unmistakable a success as socialism has been a failure. Here is the part that's hard to swallow. It has been the Friedmans, Hayeks, and von Miseses who have maintained that capitalism would flourish and that socialism would develop incurable ailments. All three have regarded capitalism as the "natural" system of free men; all

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alternative techniques. The shipper who earns his living from using otherwise empty or half filled journeys of tramp-steamers, or the estate agent whose whole knowledge is almost exclusively one of temporary opportunities, or the arbitrageur who gains from local differences of commodity prices are all performing eminently useful functions based on special knowledge of circumstances of the fleeting moment not known to others."

[18] There is now an extensive literature that focuses on the economic failure of central planning from an Austrian perspective, especially in the cases of the Soviet Union and India. For the Soviet Union, see Boettke (1990 and 2000) and Boettke and Coyne (2004). For India, see Shenoy (1958, 1963, and 1966; Shenoy (1971); and Manish (2011, 2013, and 2014). Also see the essays in Boettke (1994).

> have maintained that left to its own devices capitalism would achieve material growth more successfully than any other system.

Others had heard of Mises and his theory of socialism too. When the Nazis (i.e., national socialists) invaded Austria in 1938 they sent a special unit to Mises's apartment. Mises had already moved to Switzerland for his safety. However, the Germans took all of Mises's papers and even his furniture. Modern American Austrian economists believed that the papers had been destroyed in the war, but after the collapse of communism beginning in 1989 the papers were found in a Committee for State Security (KGB) warehouse near Moscow. Apparently, both types of socialists—fascists and communists—felt that Mises was right about socialism but that he was withholding the solution to the problem of socialist calculation for ideological reasons.

New interest in socialist ideas is disturbing because of the potential severe damage they could inflict on the economy. The only good thing that can be said about the renewed interest in socialism is that it has spurred new interest in Mises and the Austrian school of economics.

GROWING PUBLIC SUPPORT FOR SOCIALISM IN US POLITICS AS A BOON TO AUSTRIAN ECONOMICS

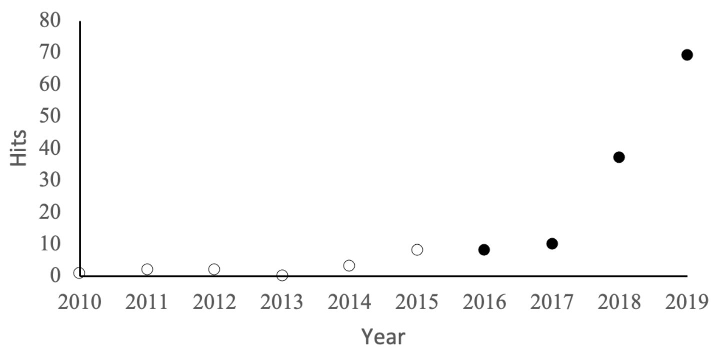
This section examines various informetrics trends, such as Google News hits and Twitter hashtags usage, that relate to prominent Austrian school economists, namely Mises and Hayek, who opposed socialism as a political and economic ideology. In each case, the ten-year trends are separated into two periods, the period during which the public's favorability toward socialism in US politics increased (2016–19) and the period preceding the rise in socialism's popularity (2010–15). Our statistical analyses of these trends span the two subsections below.

Google News

Google News is a computer-generated news site that aggregates headlines from news sources worldwide and groups similar stories together. Figure 1 presents a scatterplot of the number of

Google News hits found in a search process using derivations of the phrase "Austrian school of economics" in combination with the term "socialism."[19] The hollow plots (i.e., ○) apply to the number of Google News hits found for the 2010–15 portion of the time period under study, all years prior to 2016, when the Democratic Party primaries and caucuses were held. The solid plots (i.e., ●) apply to the number of Google News hits found for the 2016–19 period, which includes the 2016 Democratic Party primaries / caucuses and presidential election, the run-up to the 2018 midterm elections; the 2018 midterm elections; the run-up to the 2020 Democratic Party primaries, caucuses, and presidential election; and the 2020 Democratic Party primaries, caucuses, and presidential election. This period, and the events that occurred during it, are associated with the increase in support for socialism in US politics.

Figure 1. Google News hits, 2010–19: Austrian economics



As evident in figure 1, the number of annual Google News hits for the recent period (2016–19) increased over time and the figures generally exceeded those for the earlier period (2010–15).[20] In fact,

[19] These hits or counts were collected manually. The dates of each hit determined in which year the hit was credited. Included among the news and politics sources associated with the Google News hits discovered through our search are *The Atlantic*, *Barron's*, *Bloomberg*, *The Economist*, *Financial Times*, *Forbes*, *Los Angeles Times*, National Public Radio, *The New York Times*, *New York Post*, Politico, *The Wall Street Journal*, *Washington Times*, and Yahoo! News, among many others.

[20] A pre-2016 linear trend line indicates that Google News hits increased by only one hit each year for that period. This is compared to a post-2015 linear trend line,

as indicated in table 1, the mean number of annual Google News hits for the more recent period is equal to 31, compared to a mean of only 2.7 for the earlier period. These figures produce a difference of 28.3, which is consistent with the notion that the recent increase in public support for socialism in US politics has generated greater news (media) interest in the arguments against socialism made by economists in the Austrian school. When subjected to a difference-in-means test, this difference (28.3) is greater than zero at the 0.019 level of significance.[21]

Table 1 also presents information on effect size (Ellis 2010), which indicates how much one group mean differs from another. One particular measure of effect size, Hedges's g, is required in cases where the groups are represented by different sample sizes, as it relies on pooled *weighted* standard deviations (Hedges 1981; and Hedges and Holkin 1985).[22] Interpretation of Hedges's *g* is straightforward. For example, a Hedges's *g* of 0.75 indicates that the group means differ by three-fourths of one standard deviation. Cohen (1977) suggests a rule of thumb for interpreting effect size wherein a Hedges's *g* of 0.2 represents a small effect (i.e., not discernable to the naked eye), one of 0.5 represents a medium effect, and one of 0.8 represents a large effect (i.e., discernable to the naked eye). Lastly, given that Hedges's g has been shown to be biased upward in the case of smaller samples, a bias correction is typically recommended. This study employs two bias corrections—the bias correction recommended by Durlak

which indicates that Google News hits increased by twenty-one hits each year for this more recent period.

[21] The null hypothesis for this test is H_0: $(m_1 - m_2) \leq 0$, where m_1 is the mean number of Google News hits over the 2016–19 period and m_2 is the mean number of Google News hits over the 2010–15 period. The alternative hypothesis for this test is, H_1: $(m_1 - m_2) > 0$.

[22] In our case, Hedges's g is equal to $\frac{m_1 - m_2}{SD_p^*}$, where SD_p^* (i.e., the pooled weighted standard deviation) is equal to $\sqrt{\frac{(n_1 - 1)s_1^2 + (n_2 - 1)s_2^2}{(n_1 - 1) + (n_2 - 1)}}$; n_1 and s_1 represent the sample size and standard deviation for Google News hits during the 2016–19 period; and n_2 and s_2 represent sample size and standard deviation for Google News hits during the 2016–19 period (Hedges 1981; and Hedges and Holkin 1985).

(2009) and another recommended by the National Institute of Standards and Technology (NIST).[23]

Table 1. Difference-in-means tests and effect size: Google News hits

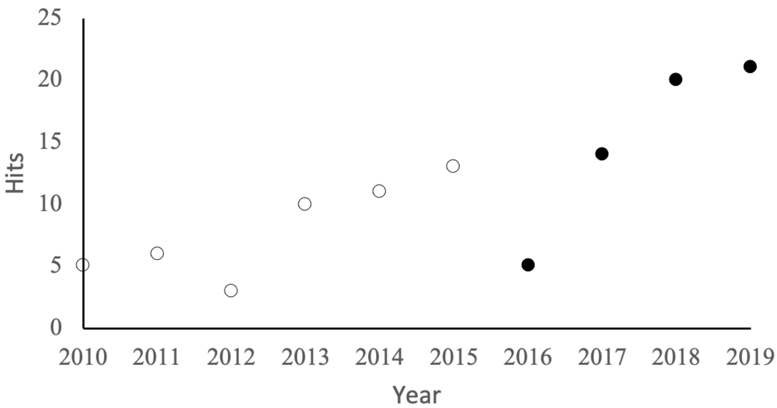
	Difference-in-means tests					*Effect size*	
Metric category	2016-2019 Mean	2010-2015 Mean	Difference-in-means	*t*-ratio	*p*-value	Hedges's *g*	Bias-corrected Hedges's *g*
Austrian economics	31.0	2.7	28.3	2.49	0.019	1.60	$1.29 \leq g_{bc} \leq 1.44$
Ludwig von Mises	15.0	8.0	7.0	1.99	0.041	1.29	$1.04 \leq g_{bc} \leq 1.16$
Friedrich Hayek	9.0	3.0	6.0	3.39	0.005	2.21	$1.79 \leq g_{bc} \leq 2.00$

Note: The smaller bias-corrected Hedges's *g* above employs the bias correction term recommended by Durlak (2009), while the larger one employs the bias correction term recommended by NIST.

As indicated in table 1, the bias-corrected Hedges's *g*, referred to as Hedges's g_{bc}, for Google News hits referencing both "socialism" and some iteration of the phrase "Austrian school of economics" lies along a range from 1.29 to 1.44, depending upon which bias correction technique is employed. This result indicates that the mean value of Google News hits during the more recent period (2016–19) is 1.29 to 1.44 standard deviations larger than that of the earlier period (2010–15). This effect size, which is clearly visible in figure 1, is considered large (Cohen 1977).

[23] Both bias corrections involve multiplication of Hedges's *g* by a bias correction term. That suggested by Durlak (2009) is equal to $\left(\frac{N-3}{N-2.25}\right)\sqrt{\frac{N-2}{N}}$, where *N* is equal to $n_1 + n_2$. That recommended by NIST is equal to $1 - \frac{3}{4N-9}$. Simulations indicate that the latter of these is more accurate.

Figure 2. Google News hits: Ludwig von Mises



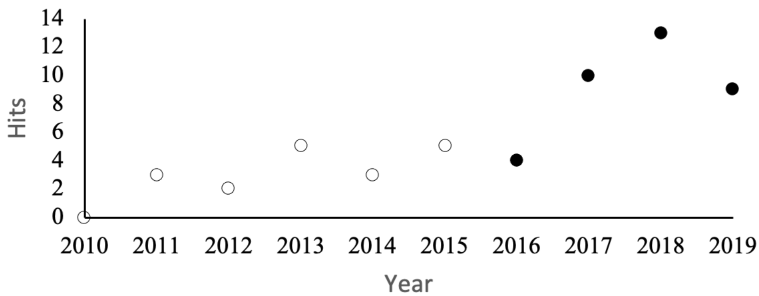
Next, figure 2 presents a scatterplot of the number of Google News hits found from a search process using the name "Ludwig von Mises" in combination with the term *socialism*. As evident there, the number of annual Google News hits using these terms for the recent period (2016–19) icreased over time and are generally larger than those found for the prior period (2010–15).[24] Table 1 provides a more formal comparison of these two series. As indicated in the table, the mean number of Google News hits for the more recent period is equal to 15, compared to a mean of 8 for the earlier period. These figures produce a difference of 7, which is consistent with the idea that the recent elevation in public support for socialism in US politics has generated greater news (media) interest in the arguments against socialism made by Ludwig von Mises. According to a difference-in-means test, this difference is greater than zero at the 0.041 level of significance. In this second experiment involving Google News, the appropriate effect measure (Hedges's g_{bc}) ranges from 1.04 to 1.16 (see table 1), indicating that the mean value of Google News hits during the more recent period (2016–19) is 1.04 to 1.16 standard deviations larger than that of the earlier period

[24] A linear trend line the for pre-2016 period indicates that Google News hits increased by only 1.8 hits each year for that period. This is compared to a post-2015 linear trend line, which indicates that Google News hits increased by 5.4 hits each year for this more recent period.

(2010–15). Following Cohen's (1977) rule of thumb, points along this range qualify as a large effect.

Lastly, figure 3 presents a scatterplot of the number of Google News hits found through a search process using the name "Friedrich Hayek" in combination with the term *socialism*. As it shows, the number of annual Google News hits for the recent period (2016–19) trended upward over time and generally exceeded those for the earlier period (2010–15).[25] The more formal analysis of these two series presented in Table 1 indicates that the mean number of Google News hits for the more recent period is equal to nine, compared to a mean of only three for the earlier period. These figures produce a difference of six, which is consistent with the notion that the recent increase in support for socialism in US politics has led to much greater news (media) interest in the arguments against socialism made by Friedrich Hayek. According to a difference-in-means test, this difference is also greater than zero at the 0.005 level of significance.

Figure 3. Google News hits: Friedrich Hayek



In this final experiment involving Google News, the appropriate effect size measure (Hedges's g_{bc}) ranges from 1.79 to 2.00 (see table 1), indicating that the mean value of Google News hits during the more recent period (2016–19) is a remarkable 1.79 to 2.00 standard

[25] A linear trend line for the pre-2016 period indicates that Google News hits increased by 0.8 each year for that period. This is compared to a linear trend line for the post-2015 period showing that Google News hits increased by 1.8 hits each year for this more recent period.

deviations larger than that of the earlier period (2010–15). This effect size, which is clearly visible upon visual inspection of the plots in figure 3, qualifies as a large effect according to the rule of thumb discussed in Cohen (1977).

Twitter

Twitter is a social media platform that operates for its users as a microblogging website. Individual posts made by users are referred to as "tweets," each of which is limited to either 140 or 280 characters, depending on the language used by the Twitter user. An individual Twitter user may insert a hashtag symbol (#) before a relevant keyword or phrase in his or her tweet in order to categorize that tweet and help it show up more easily in a Twitter search.[26] Clicking or tapping on a hash-tagged word or phrase in any post shows other tweets that include that particular hashtag.

Figure 4. Twitter hashtag frequency: Austrian economics

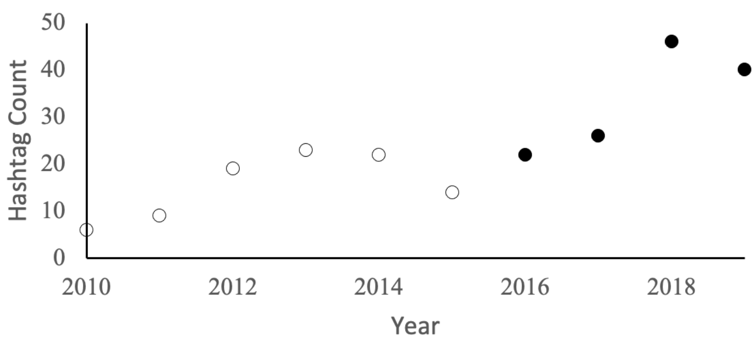


Figure 4 presents a scatterplot of annual Twitter hashtag counts found through a search process using iterations of the Twitter hashtag phrase "Austrian school of economics." As evident in figure 4, the annual Twitter hashtag counts for the recent period (2016–19) trended upward over time and generally exceeded those

[26] See Twitter.com. Twitter hashtags can be included anywhere in a tweet.

for the prior period (2010–15).[27] In fact, as indicated in table 2, the mean number of Twitter hashtag counts for the more recent period is equal to 33.5, compared to a mean of only 15.5 for the earlier period. These figures produce a difference of 18, which is consistent with the proposition that the recent increase in support for socialism in US politics has generated a much greater presence on social media of the arguments against socialism made by Austrian economists. This difference is, according to a difference-in-means test, greater than zero at the 0.007 level of significance.

Table 2. Difference-in-means tests and effect size: Twitter hashtag frequency

	Difference-in-means tests					*Effect size*	
Metric category	2016–19 mean	2010–15 mean	Difference-in-means	*t*-ratio	*p*-value	Hedges's *g*	Bias-corrected Hedges's *g*
Austrian economics	33.5	15.5	18.0	3.14	0.007	2.02	$1.63 \leq g_{bc} \leq 1.82$
Ludwig von Mises	46.3	15.5	30.8	1.75	0.059	1.13	$0.91 \leq g_{bc} \leq 1.02$
Friedrich Hayek	26.0	23.0	3.0	0.37	0.360	0.24	$0.19 \leq g_{bc} \leq 0.22$

Note: The smaller bias-corrected Hedges's *g* above employs the bias correction term recommended by Durlak (2009), while the larger one employs the bias correction term recommended by NIST.

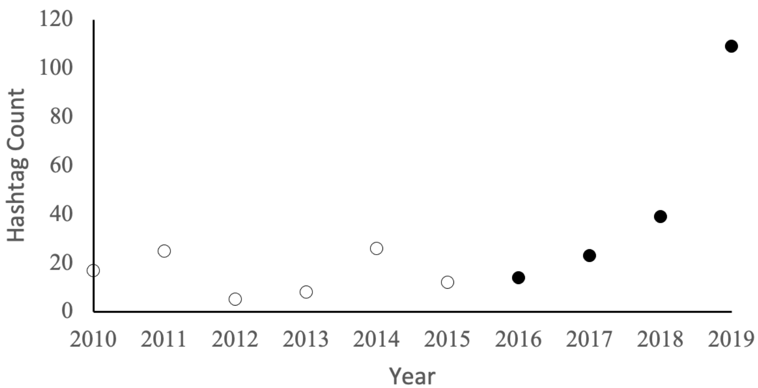
As also indicated in table 2, the Hedges's g_{bc} for counts of Twitter hashtags referencing some iteration of the term "Austrian school of economics" lies along a range from 1.63 to 1.82, indicating that the mean value of Twitter hashtag counts during the more recent period (2016–19) is 1.63 to 1.82 standard deviations larger than that of the earlier period (2010–15). This compelling effect size can be characterized as large (Cohen 1977).

Next, figure 5 presents a scatterplot of annual Twitter hashtag counts found in a search process using some iteration of the name

[27] The pre-2016 linear trend line indicates that Twitter hashtag use increased by only 2.4 hashtags each year for that period. This is compared to the post-2015 linear trend line, which indicates that Twitter hashtag use increased by 7.4 hashtags each year for this more recent period.

"Ludwig von Mises." As indicated there, the annual counts of Twitter hashtags using this name for the recent period (2016–19) are increasing over time and generally exceed those for the prior period (2010–15).[28] As before, a more formal comparison of these two series is found in table 2. As indicated in the table, the mean of the Twitter hashtag counts for the more recent period is equal to 46.3, compared to a mean of only 15.5 for the earlier period. These means produce a difference of 30.8, which is consistent with the hypothesis that the recent increase in support for socialism in US politics has generated a larger presence on social media of the arguments against socialism made by Ludwig von Mises. Moreover, at the 0.059 level of significance, this difference is, according to a difference-in-means test, greater than zero.

Figure 5. Twitter hashtag frequency: Ludwig von Mises

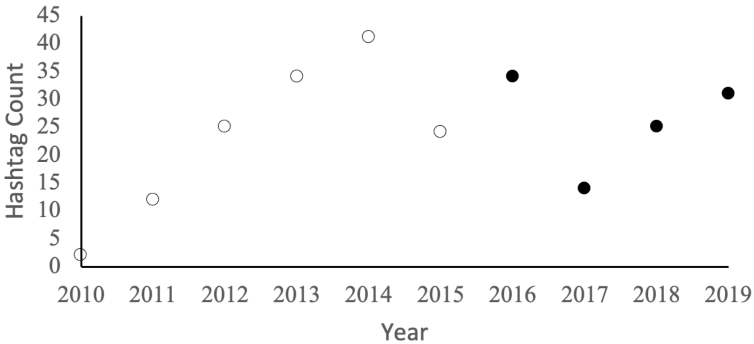


Turning again to table 2, the Hedges's g_{bc} for counts of Twitter hashtags referencing some iteration of the name "Ludwig von Mises" lies along a range from 0.91 to 1.02, indicating that the mean value of Twitter hashtag counts during the more recent period (2016–19) is about one standard deviation larger than that of the

[28] The pre-2016 linear trend line indicates that Twitter hashtag use *fell* by 0.5 hashtags each year for that period. This is compared to the post-2015 linear trend line, which indicates that Twitter hashtag use increased by 30.1 hashtags each year for this more recent period.

earlier period (2010–15). Thus, Hedges's g_{bc} points toward a large effect in this case (Cohen 1977).

Figure 6. Twitter hashtag frequency: Friedrich Hayek



Lastly, figure 6 presents a scatterplot of annual Twitter hashtag counts found using a search process employing iterations of the name "Friedrich Hayek." In this case, although the series trended upward during each separate period, there is no visible difference between annual Twitter hashtag counts for 2016–19 and those for 2010–15.[29] However, the more formal analysis of these two series found in table 2 indicates that the mean Twitter hashtag count for the more recent period is equal to 26, compared to a mean of 23 for the earlier period. These means produce a difference of 3, which is consistent with the notion that that the recent rise of socialism in US politics has generated a larger presence on social media of the arguments against socialism made by Friedrich Hayek. However, according to a difference-in-means test this difference is *not* greater than zero at the usual levels of significance. In this final experiment involving Twitter hashtag counts, Hedges's g_{bc} ranges from 0.19 to 0.22 (see table 2), indicating that the mean value of Twitter hashtag counts during the more recent period is about one-fifth of one standard deviation larger than that of the

[29] The pre-2016 linear trend line indicates that Twitter hashtag use increased by 5.9 hashtags each year for that period. This is compared to the post-2015 linear trend line, which indicates that Twitter hashtag use increased by only 0.2 hashtags each year for this more recent period.

earlier period. Thus, the effect size in this case is small according to Cohen's (1977) rule of thumb.

IS THERE A SUPPLY-SIDE EXPLANATION?

A potential shortcoming of the analyses above is that they focus solely on the demand-side argument—that the recent increase in the demand for Austrian economics is the result of the rise of socialism in US politics. There is, however, a possible supply-side explanation, with scholars simply producing more academic research in the post-2015 era focusing upon Austrian economics that subsequently attracts the attention of the general public, concerning the observed use of social media in this case. This possibility can to some extent be parsed by examination of Google Scholar trends of citations to Ludwig von Mises and Friedrich von Hayek. Google Scholar is useful for tracking citations of individual scholars (e.g., Mises, Hayek) in academic journals and books. Any structural break between 2015 and 2016, with generally larger and increasing values reported in the post-2015 era, in the two data series provided by Google Scholar for von Mises and Hayek would support a supply-side argument for the social media trends generally observed in the previous section of this study. On the other hand, the absence of a structural break would tend to support our demand-side hypothesis.

Google Scholar

Google Scholar provides a simple way to find relevant work across the world of scholarly research.[30] It allows one to explore citations of scholarly work by author and by year, two numerical measures that provide information on the impact of a researcher's scholarship.[31] Figure 7 presents a scatterplot of Google Scholar citation counts found for Ludwig von Mises.[32] In this case, although the mean of citations

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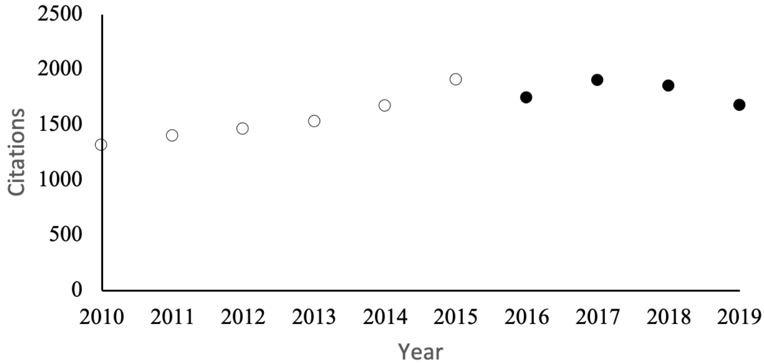
[30] Google.com.

[31] Google.com.

[32] The Google Profile function of Harzing (2016) was used for the Google Scholar searches discussed in this study.

for the post-2015 period is slightly larger than for pre-2016, the series lacks an upward trend during the more recent period. In fact, the latter portion of the series trends downward.[33] Hence, there is no clear evidence in figure 7 to support a supply-side argument for what is generally occurring in the figures presented in the previous section.

Figure 7. Google Scholar citations: Ludwig von Mises

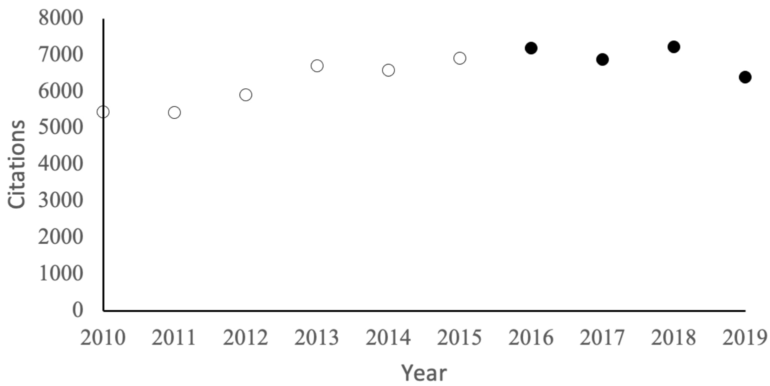


Next, figure 8 presents a scatterplot of the Google Scholar citation counts found for Friedrich Hayek. As with Mises's scholarship, although the mean of citations for the post-2015 period is slightly larger than for pre-2016, the series lacks an upward trend during the more recent period. More specifically, the latter portion of the series is quite clearly trending downward.[34] As such, the series shown in figure 8 does not support a supply-side hypothesis.

[33] A linear trend line for the post-2015 period indicates that Google Scholar citations fell by 24.4 citations per year over this period.

[34] A linear trend line for the post-2015 period indicates that Google Scholar citations fell by 205.3 citations per year over this period.

Figure 8. Google Scholar citations: Friedrich Hayek



Additional Discussion

To summarize, the trend comparisons in the previous section of this study are generally consistent with the idea that the recent increase in support for socialism in US politics has been a boon to the Austrian school, and to Austrian economists Ludwig von Mises and Friedrich Hayek in particular. The argument supported by the empirical analysis above—that the rise of socialism in US politics has led to an increase in the demand for Austrian economics—has intuitive appeal. The Austrians, by virtue of constituting less than 5 percent of all academic economists (Vedder and Gallaway 2000), tend to rely more heavily on nontechnical expositions aimed at the wider public in order to garner greater interest. Additionally, many Austrians have involved themselves in politics directly (e.g., former US representative Ron Paul) or indirectly (such as through the Mises Institute).

The type of analysis presented above regarding the rise in interest in the ideas of the Austrian school that is owed to recent increases in support for socialism in US politics has wider application. For example, the 2019 impeachment of US president Donald Trump prompted renewed interest by Americans in the writings of America's founding fathers—contained in *The Federalist Papers*—on subjects such as the limits of the executive branch's power and the downside of hyperpartisan political processes.[35] Similarly, recent growth in the economic power of US tech giants (e.g., Facebook, Amazon) combined with increasing income inequality has renewed Americans' interest in the Gilded Age (1870–early 1900s) and President Theodore Roosevelt's efforts to address these issues (Bruno 2019).[36] There are certainly many other examples.

LIMITATIONS AND POSSIBLE EXTENSIONS

As with most examples of informetrics research, this study is not without its limitations. First, the use of data provided by large technology companies such as Google is subject to the many product (algorithm) changes that they make over time. For example, Lioudus (2019) reports on a significant change by Google in 2018 that "leveled the playing field for smaller publishers" by directing searches to small and medium-sized news publishers. The company again revised its algorithm in 2019 to favor original reporting over follow-up stories (Nieto and Arroyo 2019). To the extent that small and medium-sized news outlets have a proclivity for addressing stories related to Austrian economics and/or economists, the findings in this study are affected by algorithm changes to Google News such as those discussed in Lioudus (2019) and Nieto and Arroyo (2019). In addition to these concerns, there is also the overarching issue of the Google algorithm's use of a set of ranking factors to deliver relevant content, where relevance is determined in part by how well publishers optimize their content and by a particular user's preferences.[37] All of these issues potentially impact the results of academic inquiry, including those presented in this study.

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[35] Interestingly, during the Senate impeachment trial in early 2020, the president's defense counsel cited historical evidence of US president Abraham Lincoln's use of his authority as commander in chief to support his reelection efforts in the 1864 presidential election. Lincoln's activities in this regard are the subject of public choice studies by Anderson and Tollison (1991) and Crisp and Mixon (2011).

[36] Roosevelt's response ushered in the Progressive Era in the US (Bruno 2019). Thus, that episode is related to the subject of this study.

[37] Google News personalizes results on the basis of location, language, interests, and past activity, among others.

The use of data from another large technology company, Twitter, also presents some issues that may relate to the study's findings. Twitter currently boasts 353 million users, up from only 54 million in 2010. This span approximates the time frame covered in this study. It is plausible that as Twitter became a social phenomenon over the 2010 to 2019 time period, independent-minded individuals holding favorable views of Austrian economics and/or economists adopted the channel in order to share their voices. It could also be the case that the activities of the Mises Institute, the Federal Reserve, and/or Gary Johnson's campaign for the US presidency generated substantial Twitter attention around Austrian economics and economists. Again, these issues potentially impacted the results presented above in this study. To work around some of the issues above, researchers commonly use Google Trends indices on search queries to gauge demand (e.g., see Silverstovs and Wochner 2018). A check of our results using a variety of Google Trends filters yielded less support for our hypothesis than reported in our analyses above. However, Google Trends too is subject to spurious patterns and other issues discussed above with regard to Google News (Bokelmann and Lessmann, 2019).

Future research might address some of the issues discussed above by applying "science mapping," or citation context analysis, described by Anderson and Lemkin (2020). As Gupta and Chaudhary (2021) explain, this approach assists researchers in describing how important ideas spread from source literature to subsequent research citing it.[38] Gupta and Chaudhary (2021) apply the approach to the influence of Jacobson's (1992) seminal work on the field of organizational research.[39] Science mapping may prove useful in quantifiably addressing the quality of both the Google News results and Google Scholar citation counts that are analyzed in this and other similar informetric studies. Alternatives to the approach used by Gupta and Chaudhary (2021) for future research include use of the Bokelmann and Lessmann (2019) method for sanitizing Google Trends data to reduce the adverse

[38] See also Golden-Biddle, Locke, and Reay (2006).

[39] As Gupta and Chaudhary (2021) explain, Jacobson (1992) asserts that a firm's competitive advantage emanates from its ability to discover entrepreneurial opportunities, mobilize dispersed information, and innovate.

impact of spurious patterns. Finally, perhaps a modified version of the hierarchical cluster analysis used in a recent study by Hwang et al. (2019) to classify productive management education scholars would prove helpful in further parsing the type of information provided by Google Scholar.

CONCLUSION

This study explored the possibility that the recent ascendance in the favorability of socialism in US politics has been a boon to the Austrian school of economics due to its thorough refutations of this ideology during the first half of the twentieth century. More specifically, two economists belonging to this school, Ludwig von Mises and Friedrich Hayek, devoted much of their professional careers to the study of socialism as a political economic ideology, and their scholarship on socialism represents what is arguably the most renowned rebuke of claims of socialism's superiority as a method of political and economic organization. As such, this study asserted that the Austrian school in general, and Mises and Hayek in particular, have been beneficiaries of the recent growth in the favorability of socialism in US politics. Put differently, the rise of socialism in US politics has led to an increase in the demand for Austrian economics.

Statistical tests of various informetrics trends support our assertion, as Google News hits and Twitter hashtag usage involving the views of prominent Austrian economists have generally ascended over the recent period (2016–19). The more recent era corresponds to the period of increased support for socialism in US politics as expressed through the increasing political fortunes of Democratic presidential candidate Bernie Sanders, Alexandria Ocasio-Cortez, and other prominent US legislators whose political platforms extol the virtues of socialist approaches to public policy. Lastly, the type of analysis presented in this study shows promise for wider application. For example, recent events surrounding the impeachment of the US president has renewed Americans' interest in the founders' views, as laid out in *The Federalist Papers*, on executive branch authority in the federal government, a subject of interest in both constitutional law and political science. Perhaps the events surrounding the impeachment has sparked increased interest in the constitutional philosophies of Alexander Hamilton and James Madison that might be evident across social media.

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Keynesian Supply Shocks and Hayekian Secondary Deflations

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Abstract: In response to the COVID-19 lockdown policies, Guerrieri et al. (2020) developed a new concept: the Keynesian supply shock. A Keynesian supply shock is an aggregate supply shock that leads to an even larger aggregate demand shock. This paper suggests that Keynesian supply shocks are very similar to the secondary deflations suggested by Hayek (1931), and US data from the 2007–09 financial crisis show that these concepts may help to explain employment dynamics in the midst of a crisis. This fact implies that long-standing policy advice based on Austrian business cycle theory would be useful in responding to Keynesian supply shocks.

The economic impacts of COVID-19 and the policies surrounding it have provided the grounds for extensive work in economics, especially surrounding public policy responses to the pandemic. Much of this work (for example, Eichenbaum, Rebelo, and Trabandt 2020) is based on integrating epidemiology models into standard models of macroeconomic activity. However, one exception to this trend is the introduction of a seemingly new, and possibly more generalizable, idea: "Keynesian supply shocks" (Guerrieri, et al. 2020). Keynesian supply shocks are shocks to aggregate supply that, in turn, lead to a shock to aggregate demand that is even larger than

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the original supply shock, so that the demand shock dominates the macroeconomic dynamics. Put another way, a Keynesian supply shock is a supply shock with a traditional demand-side multiplier. This new concept calls into question the separability of aggregate supply and aggregate demand.

This paper suggests that there is a significant conceptual overlap between Keynesian supply shocks and Hayek's concept of a "secondary deflation," in which an initial crisis focused on the liquidation of malinvestments leads to economy-wide consequences (Hayek 1931). If the two concepts are related, then the work on Keynesian supply shocks provides an additional approach that Austrian business cycle theorists can draw from for empirical illustrations, and Austrian business cycle theory has implications for policy prescriptions when dealing with the resulting recessions. Because Keynesian supply shocks are a new concept, there is very little literature directly connected with them yet. This paper serves as an early attempt to bring this concept into contact with the much older Hayekian "secondary deflation."

In addition to explaining the theoretical overlap between Keynesian supply shocks and Hayekian secondary depressions, this paper will show that employment data from the United States during the 2007–09 financial crisis is more consistent with the Keynesian supply shock/Hayekian secondary deflation theory than is employment data from the 2020 COVID-19 lockdowns, which inspired Guerrieri et al. (2020) to develop the Keynesian supply shock concept. This observation suggests that these two concepts have an applicability that is not bound by the rather odd case of the COVID-19 crisis.

"KEYNESIAN" SUPPLY SHOCKS

What is a "Keynesian supply shock"? In short, a Keynesian supply shock is a supply shock that causes a decrease in aggregate demand that is larger than the original supply shock (Guerrieri, et al. 2020). If we think in terms of standard aggregate supply–aggregate demand analysis, a Keynesian supply shock would create a leftward shift in both aggregate supply and aggregate demand, with the aggregate demand shift dominating. The result is a more severe recession than either shock alone would have caused, but also a decrease in the price level. As a result, if analysts casually observe price levels and real gross domestic product (GDP) levels, they will conclude that an aggregate demand shock was the primary force driving macroeconomic dynamics, when in fact the underlying cause of the demand shock is the shock to aggregate supply.

The motivation for the idea of a Keynesian supply shock was the shutdown of nonessential businesses in many places in the world during the coronavirus pandemic, especially during the early phases (for example, Michigan's Executive Order 2020-42, which closed all in-person work which was "not necessary to sustain or protect life"). Guerrieri et al. (2020) find that, under specific conditions, the partial shutdown of supply can lead to a demand shock that is more severe than the direct impact of the supply shock itself.

Guerrieri et al. (2020) model the shutdown as a temporary decrease in labor supply, and judge whether the aggregate supply or aggregate demand shock dominates by considering the effect on the natural rate of interest.[1] In their model, the discount rate is kept constant so that the natural rate of interest will vary because of changes in the marginal utility of consumption. If the marginal utility of consumption for the present period rises relative to the expected future marginal utility of consumption, then the natural interest rate rises (consistent with the argument of Böhm-Bawerk [1930]), which is interpreted as being consistent with the dominance of the aggregate supply shock, because the relatively high marginal utility of present consumption indicates that there is a significant unsatisfied demand for present consumption goods. On the other hand, if the marginal utility of consumption for the present period falls relative to the future marginal utility of consumption, then the natural interest rate falls, which is interpreted as being consistent with the dominance of the aggregate demand shock.

First, they consider a case in which there is a single sector which is partially shut down by lockdown orders.[2] Here, one can consider a

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[1] They also evaluate how labor demand would compare to labor supply if wages and prices were fixed and the rate of interest were not allowed to move to its natural level, though this layer of analysis does not change the broader analysis.

[2] They consider both "complete" markets—where there is an insurance program or lending market that evenly distributes any changes in employment opportunities—and "incomplete" markets, in which some workers face borrowing constraints. However, the qualitative results are the same for these two cases.

number of ways that the results could work out. First, the decrease in available consumption goods would tend to increase the natural rate of interest, as consumers expect an increase in consumption in future periods when the shutdown ends, leading to a relatively higher marginal utility of (relatively more scarce) current consumption when compared to the marginal utility of (relatively more abundant) future consumption. Looking at the phenomenon from another angle, the shock to labor supply would lead to an increase in equilibrium wages. In terms of total income, the increase in wages would at least partially offset the decrease in employment, so that there is not much of a decrease in aggregate demand—leading supply effects to dominate. The only exception is if laid-off workers decrease their consumption in proportion with their lost income, in which case the supply shock is matched by an equal demand shock such that the natural rate of interest is unchanged. However, this is unlikely in reality because laid-off workers tend to borrow or spend from their savings in anticipation of an improvement in labor markets when the shutdown ends, in addition to partaking of any unemployment insurance or other government relief measures that are likely to be made available (such as that provided by the 2020 Coronavirus Aid, Relief, and Economic Security [CARES] Act in the United States.[3] In brief: if the entire economy is a single sector which is partially shut down by lockdowns, supply shocks are not "Keynesian"—they do not lead to significant shocks in aggregate demand. Notably, modeling the economy based on a "representative firm"—which effectively treats the economy as a single sector—is a common practice in mainstream macroeconomics.

However, in a two-sector economy, the story changes. In this version of the model, employees completely specialize in one of two sectors, and the shutdown affects just one sector (the "nonessential"), leaving the other ("essential") sector to operate as usual. So, consumers are forced to go without the products of the nonessential sector but can continue consuming from the essential sector as normal. In this case, what happens to demand depends on two parameters: the parameter that governs consumers' willingness to substitute consumption

[3] One could also observe that consuming nothing when income drops to zero would soon result in death—a fairly powerful incentive to maintain nonzero consumption even if earned income has fallen to zero.

across time, and the parameter that governs the relationship between the goods produced by the two sectors. First, the more willing people are to substitute consumption across time, the larger the negative impact on the essential sector will be—as those workers that are laid off when the nonessential sector shuts down simply wait to consume until later periods. Second, if the goods from the essential sector and the nonessential sector are complements in consumption, then a negative impact on aggregate demand arising from the supply shock is more likely. Since the good from the nonessential business is no longer available, people have less demand for the complementary good from the essential business. In short, the loss of the nonessential good decreases the current marginal utility of the essential good, which can drive down the natural interest rate. If, on the other hand, people are not willing to substitute consumption across time and the two goods are substitutes, then consumers will tend to significantly increase their demand for the essential good to maintain current overall consumption during the lockdown, so that the supply shock does not create a "Keynesian" ripple effect on aggregate demand. Put another way, when the goods are substitutes, the loss of one good increases the marginal utility of the other—leading to a higher natural interest rate, reflecting the dominance of the aggregate supply shock.

The above applies in the model which assumes "complete markets" (that is, markets where workers have unemployment insurance or largely unconstrained credit, so that any fall in current consumption is divided equally among workers). Once the fact that markets are "incomplete"—that is, that lost income is mostly going to be experienced by those that are laid off because of the shutdown policies—is accounted for, the conditions that lead to decreased aggregate demand are widened. That is, some scenarios that would lead to "standard" supply shocks if markets were complete end up with significant Keynesian demand ripples because of the severe loss of income (and therefore decrease in consumption) for those employed in the nonessential sector, who have no choice but to decrease their consumption because of the diminished availability of unemployment insurance or lending markets in this model.

In another version of the model, the possibility of labor mobility between sectors is introduced. In this case, the demand shock is more likely to dominate than when labor mobility is limited. As workers flood the sector that is still open, the good produced by the essential sector experiences a temporary boom, which tends to push down the current marginal utility of consumption, and therefore tends to push down the natural interest rate. Put another way: the ability of workers to move between sectors offsets the severity of the supply shock, allowing the demand effects to dominate.

Guerrieri et al. also consider a case of a "demand chain" in which nonessential businesses purchase services from essential businesses. For example, restaurants (which have been severely hampered by lockdown policies [Honan and Vielkind 2020]) sometimes purchase the services of accounting firms (which may be considered "essential" simply because they can operate with minimal physical contact). In this case, the loss of nonessential clients during the shutdown can end up having additional demand-side effects for essential businesses, making large "Keynesian" ripples more likely. Notably, they do not consider a case in which essential businesses purchase services from nonessential businesses—though in that case the supply shock would be magnified through the supply channel, as those businesses that rely on inputs from the shut-down nonessential businesses would find their own supply constrained. For example, if farmers (which are considered essential) purchase work gloves from garden supply stores (which were deemed nonessential in some areas), then the productivity of farmers would decline, so that the supply shock would ripple through the structure of production but would maintain a supply shock nature. Amid the COVID-19 crisis, some jurisdictions recognized the difficulties this could cause, and so considered suppliers of any essential business to also be essential. For example, Ohio's stay-at-home order included "Businesses that sell, manufacture, or supply other Essential Businesses and Operations with support or materials necessary to operate" on the list of essential businesses.

Finally, they consider a model with a multitude (technically, a continuum) of sectors in which there may be "exit cascades." In this model, the shutdown of one sector leads to a decline in demand which can result in another sector being unable to cover its fixed costs of operation, leading at least some firms in that sector to shut down as well, leading to a further decline in demand for the remaining firms and further exits. These ripples can create significant demand-side effects.

Summarizing the findings of Guerrieri et al. (2020), if there are multiple sectors in the economy, the supply shock caused by the shutdown of one sector can create demand-side effects that are more significant than the original shutdown. These demand-side effects are magnified to the extent that (1) employees of the shut-down industry have incomplete protection against losses of wages, (2) the goods produced by the shut-down sector are complementary to the goods produced by other sectors, (3) consumers are more willing to shift consumption across time, (4) labor can reallocate itself across sectors, (5) the shut-down sectors are an important source of demand for the sectors continuing to operate, and (6) exit cascades occur. Since multiple sectors do exist, and at least some of these magnifying factors are plausible, it is reasonable to believe that supply shocks may end up turning "Keynesian" in many cases.

AUSTRIAN BUSINESS CYCLES AND SECONDARY DEFLATION AND DEPRESSION

At heart, Austrian business cycle theory is about a misallocation of resources between sectors (that is, "malinvestment"). During a period of credit expansion, entrepreneurs invest in production processes that are expected to be profitable, though they will ultimately end up being unprofitable. When the period of credit expansion ends, the errors of the entrepreneurs are revealed, resulting in a recognition that production must be restructured to eliminate the misallocation of capital.

An important element of the Austrian approach is that Austrians generally expect that misallocation will be most severe in specific sectors of the economy—that is, a multiple sector approach is an essential component of the Austrian explanation for business cycles. "Capital intensive" sectors that are early in the stages of production will be heavily affected, as these sectors are more sensitive to distortions in interest rates than others. Typically, this set of sectors would include fields such as research and development or raw material production, which are likely to result in consumer goods only after a long period of time. Housing is another example of the type of good that may be vulnerable during Austrian business cycles. Although housing may appear to be a consumer good, it provides housing services over a very long period—decades or sometimes centuries—so that a new home is at an early stage in the production of housing services.

How can one translate the Austrian-style crisis and collapse into aggregate supply and aggregate demand terms? Generally, Austrians are fast to point out that aggregation will tend to cover up the important dynamics (for example, Hayek 1935), and therefore obscure what is happening within the capital structure. This is consistent with the findings of Guerrieri et al. (2020). In their models, when sectors are aggregated into a single sector, the possibility of a Keynesian supply shock vanishes—so aggregation covers up the important dynamics in their model, even if the dynamics are more connected to employment than to capital structure. Despite the differences in the theoretical foundations of aggregate supply–aggregate demand analysis and the Austrian approach, one can think of the aggregate supply–aggregate demand approach as simply trying to divide the sources of economic fluctuations into two broad categories: disruptions to production and disruptions to spending, especially on final goods.

Keeping this division in mind, during the credit expansion, the capital structure will tend to lengthen, as there is additional investment in the very early stages of production. However, at the same time, there is a drive toward overconsumption (Salerno 2012), as low interest rates make real saving unattractive. In the words of Garrison (2001, 72),

> At some point in the process … entrepreneurs encounter resource scarcities that are more constraining than was implied by the pattern of wages, prices, and interest rates that characterized the early phase of the boom…. The bidding for increasingly scarce resources and the accompanying increased demands for credit put upward pressure on the interest rate.

In brief, the crisis in Austrian business cycle theory has traits that resemble a supply shock. First, resource scarcity leads to a disruption in production. Second, as in the Guerrieri et al. (2020) models, where supply shocks dominate, an increase in interest rates accompanies the crisis.

One additional trait of the Austrian business cycle is the potential for secondary effects that feel very much like a Keynes-style "demand shock." In his review of John Maynard Keynes's 1930 *A*

Treatise on Money, Friedrich Hayek suggested the possibility of a "secondary deflation" in response to the reallocation process that happens amid the Austrian crisis:

> [T]he very fact that processes of investment have been begun but have become unprofitable as a result of the rise in the price of the factors and must, therefore, be discontinued, is, of itself, a sufficient cause to produce a decrease of general activity and employment (in short, a depression)…. The decrease in consumption comes only as a result of unemployment in the heavy industries…. I do not deny that, during this process, a tendency towards deflation will regularly arise; this will be particularly the case when the crisis leads to frequent failures. (Hayek 1931, 42, 44)

Put in slightly different terms, the collapse of those sectors where malinvestments were concentrated leads to an unemployment wave, which creates a decrease in the demand for consumer goods, and frequent failures (which seem to resemble exit cascades) promote a more severe decline by creating deflationary pressures in credit markets. From Hayek's description, the deflationary pressures are likely caused by the failures of fractional reserve banks, which lead to a collapse in the money supply. Building on Hayek, Garrison (2001, 75) describes it so: "[S]elf-reversing changes in the capital structure give way to a self-aggravating downward spiral in both income and spending." He then explains that an increase in liquidity preference—driven by the recognition of the high levels of risk in the midst of an economic crisis—would be a likely result of the situation. There is a subtle difference between Hayek and Garrison. In Garrison's analysis, bank failures are not required for this secondary spiral to occur. Instead, an increase in the demand for money, which may keep prices from rising or lead them to fall, suffices. Salerno (2012) provides additional reasons for the perception of higher risks in the crisis, pointing out that during the bust, entrepreneurs see that the economic calculation that they believed served them well in the past has failed. This failure leads to a loss of confidence in their own forecasts and in economic calculation itself. In the words of Salerno (2012, 37), these psychological phenomena "are a rational response to the calculational chaos." Fleshing out some of the conditions that lead to these downward spirals, Huerta de Soto (2012, 453) notes that secondary depressions are most likely when "wages are inflexible, hiring conditions very rigid, union power great, and governments succumb to the temptation of protectionism."

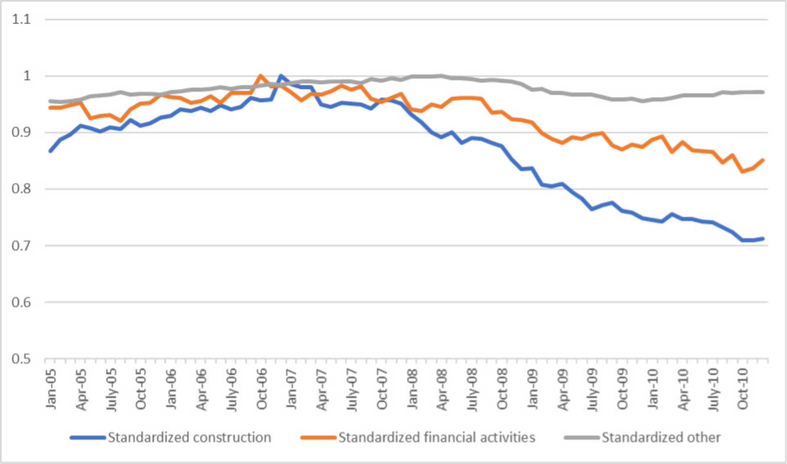
The overlap between Keynesian supply shocks and the Austrian secondary deflation or secondary depression is multifaceted. First, both phenomena involve a fundamentally supply-side restriction that began in one sector and leads to demand-side effects in other sectors, specifically through changes in spending behavior, and especially in consumption spending. Second, neither of these phenomena is a logical necessity—it is at least possible that the conditions may not be right for them to occur. Although the set of conditions that lead to a secondary depression posited by Hayek (1931), Garrison (2001), Salerno (2012), and Huerta de Soto (2012) do not exactly align with the parametric conditions described by Guerrieri et al. (2020), there is significant conceptual overlap. For example, in Guerrieri et al. (2020), rigid wages and interest rates mean that the demand shock would appear in the form of unemployment.

However, Keynesian supply shocks and Austrian secondary depressions do have somewhat different causes. The underlying malinvestment and resulting intertemporal discoordination in the capital structure is a specific phenomenon suggested by Austrian business cycle theory. Meanwhile, Guerrieri et al. (2020) are largely agnostic about what causes the initial supply shock, their motivating story being an entirely policy-driven initial shock. (Since their model omits capital, they certainly would not be able to capture the process described by Austrian business cycle theory.) The Austrian explanation, then, is more comprehensive, but Guerrieri et al. (2020) can provide a possible explanation for the link between the initial crisis and the broader effects in the secondary depression. Another difference between the two approaches is the view of time. The Austrian theory sees the events as playing out across time, while Guerrieri et al. (2020) compress time so that the initial supply shock and resulting demand shock all happen in the same period. This comes from the mathematical structure they use, which sees the economy as moving from one equilibrium state to another, with less attention paid to the transition between equilibria. Disaggregating not just across sectors but across time will be an important element in identifying the existence of ripple effects between sectors in the historical illustrations that follow.

APPLICATION TO 2006–09 FINANCIAL CRISIS

As an illustration of how a shock in one sector can create broader effects, as would be the case in a Keynesian supply shock or an Austrian secondary depression, consider the timing of employment effects during the 2007–09 financial crisis. This crisis was caused by excessively low interest rates, which led to too many resources being directed toward investment in housing construction. As interest rates rose, housing values collapsed and the financial sector experienced related difficulties. Eventually, these difficulties spread to the economy on a broader scale. To see this effect, consider the level of employment in construction and in financial activities compared to all other sectors in the United States.

Figure 1. Employment in construction and finance, January 2005 to October 2010



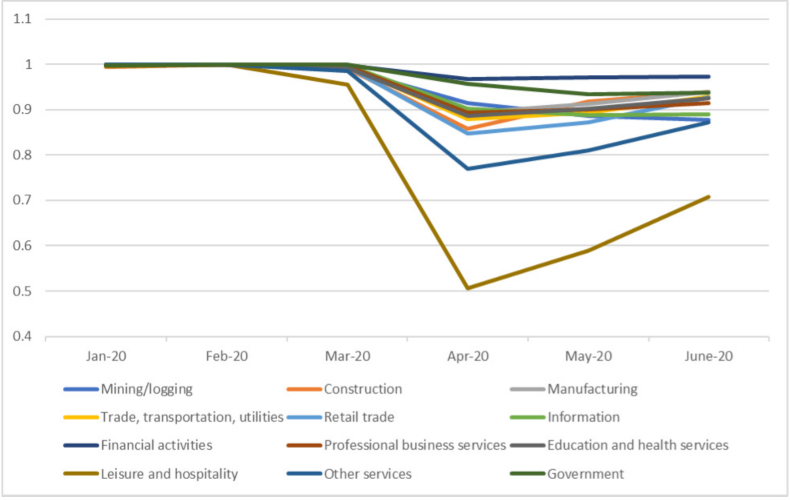
Source: Data from the US Bureau of Labor Statistics Current Employment Survey.

In figure 1, each series is normalized so that the employment level at the peak for that series in this time frame takes a value of 1. The data reveals that the peak employment for financial activities was in October 2006. Construction followed soon after, in December 2006. The other sectors as a group, however, did not peak until April 2008—about eighteen months after the peak in financial activities employment. (The National Bureau of Economic Research [NBER] recognizes December 2007 as the official beginning of this recession—at which point employment in the initiating sectors had already fallen by about 5 percent, though employment in other sectors was stable or slightly rising.) As additional evidence of the primary importance of Financial Activities and Construction, one may note that by December 2010, four full years after the employment peak, financial activities shed about 15 percent of the jobs it had at its peak, while construction shed nearly 30 percent, and these series were still declining. The Producer Price Index (PPI) for building material and supplies dealers is also consistent with the Keynesian supply shock theory over this period. From January 2006 to the peak PPI in September 2006, there was an increase of over 10 percent in this PPI—consistent with the idea that builders were bidding against one another for limited resources, as Hayek describes, and as would be expected in a sector-specific supply shock. These prices fell back as the construction sector neared its employment peak. So, it seems that production was limited on the supply side in construction and that this led, a few months later, to a decline in employment in that sector—which later created secondary demand-side effects, as seen in employment data for indirectly affected sectors.

APPLICATION TO THE 2020 COVID-19 CRISIS

Guerrieri et al. (2020) present their theory in connection with the COVID-19-related shutdowns. Interestingly, the data does a significantly poorer job of showing a "Keynesian supply shock" in this period than during the financial crisis that happened a decade earlier.

Figure 2. Employment in various sectors during the COVID-19 shutdowns, January–June 2020



Source: Data from the US Bureau of Labor Statistics Current Employment Survey.

Figure 2 shows the normalized employment from the Current Employment Survey from the US Bureau of Labor Statistics, divided by supersector. In this case, every supersector peaked in February 2020, with just one exception: trade, transportation, and utilities—which had a January employment figure 0.0007 percent higher than in February. (Meanwhile, for retail trade specifically, the peak is in February, as you find in other sectors.) Also, nearly every sector had its lowest post-peak level of employment in April, after a small decline in March. The exceptions were employment in mining/logging, information, and government, which continued to decline into at least May (mining/logging descended through August [not shown]). Every other sector bounced back. This certainly does not match what one would expect from the Keynesian supply shock theory: immediate impacts in the sectors most directly affected by the shutdowns (leisure and hospitality, which includes restaurants and hotels, for example, is a clear candidate for "first round" effects) and then secondary effects in those sectors less directly impacted (accounting—a part of professional business services sector—is specifically mentioned in Guerrieri et al. [2020] as a field that would experience these effects). Although the most severe employment effects were seen in the more directly affected sectors (leisure and hospitality as well as "other services"), there does not appear to be even a one-month lag between the employment collapse in the most impacted sectors and other industries. Those that experienced the longest delays (such as mining/logging), moreover, seem, intuitively, to be unlikely victims of a demand-side ripple effect, as it seems implausible that layoffs in leisure and hospitality led them to decrease their demand for ores and lumber. Because the data shows no clear demand-side ripples, the COVID-19 shutdowns are more consistent with a traditional supply shock.

Before dismissing the Keynesian supply shock concept as unimportant in the COVID-19 shutdowns, three observations are worth making. First, as previously noted, Guerrieri et al. (2020) compress time. Naturally, this is not realistic if a single day is considered a period. However, since employment data has a monthly frequency, the question is whether the fundamental supply-side shock could have demand-side employment effects within a month, so that the available data would appear to be affected simultaneously. The answer here is not obvious, but the possibility cannot be entirely ruled out. Second, the full effects of this crisis are not yet known. In the previous financial crisis, there was an eighteen-month delay between the peak in the initiating sectors and peak in other sectors. It may be that enough time to observe the secondary depression simply has not passed. However, the data at this point does not seem consistent with the Keynesian supply shock theory. Third, policymakers have been attacking the COVID-19 crisis with aggressive stimulus measures, both fiscal and monetary. This stimulus may have managed to cover up much of the secondary depression. In short, while the data does not show a clear Keynesian supply shock, this shock could be occurring but simply not have appeared in the available data.

POLICY IMPLICATIONS

Throughout their paper, Guerrieri et al. (2020) suggest the importance of expansionary monetary policy to ameliorate the employment problems created by lockdown policies. Exactly how expansionary monetary policy would have to be depends on the specific version of their model. In many cases, all that is required to achieve the first-best outcome—that is, as mild a recession as possible, given that the direct effect of the lockdowns cannot be avoided—is to allow real interest rates to fall to the natural rate (defined on the basis of time preference and the marginal utility of consumption across time periods). However, there are some cases when a strongly expansionary monetary policy that pushes the real interest rate below the natural rate is recommended—for example, when the loss of an employer-employee "match" would create a loss in productivity after the shutdown ends. In addition, Guerrieri et al. (2020) emphasize the importance of social insurance—redistributing lost income from those who do not experience job losses to those who do experience job losses—as ameliorating some of the broader losses in well-being from shutdowns by moving markets closer to being "complete."

The policy front is where the similarity between Keynesian supply shocks and Austrian secondary depressions has its greatest practical value. Based on the original framework that inspired the idea of the Keynesian supply shock—a framework in which capital goods are entirely absent and social insurance is assumed not to create moral hazards—expansionary monetary policy and social insurance appear to be clearly beneficial. However, considering Austrian insights, the misguided nature of these policy prescriptions—particularly advocating expansionary monetary policy—becomes clear. In the words of Hayek (1931, 44), "Any attempt to combat the crisis by credit expansion will, therefore, not only be merely the treatment of symptoms as causes, but may also prolong the depression by delaying the inevitable real adjustment." This would especially be the case in the more typical business cycles that experience "Keynesian supply shock" effects (such as the financial crisis). Plus, as argued by Suntum (forthcoming), money that is created through credit markets tends to push interest rates below the natural rate, which would ensure the Hayekian effects described above.

If we confine the idea of Keynesian supply shocks to the COVID-19 lockdowns, then the expansionary monetary policy and social insurance programs suggested by Guerrieri et al. (2020) are less objectionable. In this case, the bust was induced by the shutdown of those sectors deemed nonessential rather than by a recognition of a misallocation of resources. As a result, expansionary monetary policy will not prolong a necessary reallocation, and its ability to create a new Austrian-style boom is limited by continuing lockdown policies. However, if expansionary policy continues after the lockdowns are lifted, then the normal Austrian analysis regarding credit expansion would become relevant. With social insurance programs, a significant concern is that such programs disincentivize work. However, given COVID-19-related public health concerns, reducing contact between employees and coworkers may have benefits that normally would not exist. Although this does not imply that the benefits of these policies outweigh the costs, it is worth recognizing that there are potential benefits that would not apply in normal circumstances. In short, the policies that Guerrieri et al. (2020) suggest for offsetting the secondary demand shock have more benefits and fewer costs than normal in the presence of COVID-19-related health concerns and lockdowns. However, the employment data examined does not clearly point to any significant secondary demand-side effects so far. In the absence of secondary demand-side effects, policies to offset them are clearly unnecessary. In short, the COVID-19 crisis seems to be primarily a traditional supply shock, but policy induced. If this is the case, as long as the damage done is not irreversible, the economy will recover when supply is freed of its policy-induced constraints—and this has already been observed in the very fast bounce back in both employment and GDP as restrictions in most states were partially loosened shortly after the initial lockdown.

However, there is good evidence of "Keynesian supply shock" effects during the previous financial crisis. Disruptions in the financial and construction sectors were clearly followed by ripples (albeit limited) in the rest of the economy. But in this kind of situation, it is socially beneficial to allow employer-employee matches in the bloated sectors to be broken, so that workers can allocate their skills elsewhere. Interventions aimed at keeping these matches in place—such as a paycheck protection program or expansionary monetary policy—will have the effect that Hayek emphasized: simply delaying the necessary adjustments. Similarly, resource use will improve if, along with labor, capital is reallocated out of bloated sectors and into sectors that were not stimulated by the previous credit expansion. And, certainly, during a typical economic downturn, there are no significant public health concerns that might lead to changes in the optimal approach by making minimizing unnecessary contact a desirable goal.

In the end, the policy prescriptions suggested by Guerrieri et al. (2020) are least objectionable in the COVID-19 crisis—where the evidence that the underlying theory applies is relatively weak. On the other hand, in the 2007–09 financial crisis, there is much stronger evidence that the underlying theory applies, but the policy prescriptions suggested were implemented (at least in part), and likely created negative consequences by prolonging the misallocations that led to the crisis in the first place.

CONCLUSIONS AND AREAS FOR FURTHER RESEARCH

This paper takes the new concept of Keynesian supply shocks presented by Guerrieri et al. (2020)—inspired by the containment policies used to combat COVID-19—and connects it with the old concept of secondary deflation presented by Hayek (1931). The connection between these two concepts provides a bridge between Austrian business cycle theory and more mainstream approaches to macroeconomic fluctuations, and the data surrounding the 2007–09 financial crisis, which has proven to be a great demonstration of Austrian business cycle theory, is consistent with elements of the Keynesian supply shock/secondary deflation progression (much more so than the data from the 2020 COVID-19 crisis). The similarity between these phenomena allows for Austrian business cycle theorists to provide insights into the policy prescriptions that are suggested by those advocating the idea of Keynesian supply shocks—ideas such as expansionary monetary policy to preserve job matches, which is particularly undesirable given the necessity of reallocating malinvested capital.

One question that this paper raises is how well this perspective could help explain other business cycles across time. Both the Keynesian supply shock and Austrian secondary deflation approaches suggest that the standard Keynesian interpretation of a demand-driven business cycle may simply be describing a secondary effect, while the primary effect is fundamentally a supply-side disruption. The Keynesian supply shock framework also confirms the benefit of disaggregating data—and specifically employment data—by sector or industry to help uncover the true story of any crisis.

The data presented here also raises questions about how to interpret the economic fluctuations of 2020. Do they have a particularly "Austrian" nature? For example, how can an Austrian approach to capital structure help aid understanding of the impacts of the shutdown? Are policies that would create problems in a typical business cycle—such as those designed to preserve employer-employee matches—potentially beneficial in the presence of other policies creating their own set of problems—such as the forced temporary shutdowns of "nonessential" businesses? Are the COVID-19 shutdowns a case where the middle-of-the-road policy would lead toward socialism, or is there a logical stopping point, so that this slope is not as slippery as it might seem? Although the current economic situation does not seem to justify such policies, in an age where interventionism is the dominant view among policymakers, it would be best to have answers ready when their time comes.

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The Colonization Cost Theory of Anarchic Emergence

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Abstract: The paper describes the colonization cost theory of anarchic emergence. The theory states that when the state incurs high costs of directly colonizing land, it may be beneficial for it to allow anarchy to emerge and settle distant frontiers. Once enough land is settled by the anarchic community, the state can then use one of the two following strategies: 1) appropriate this land cheaply by a coercive takeover; 2) wait for the anarchic communities to assimilate into the state, given the state's low time preference. The theory is empirically supported through two cases of Russian religious sects. The first case describes the Old Believers sect that was forced to escape state persecution to the Altai mountains in the 1740s. In 1791 these Old Believers were re-integrated into the Russian state after a series of violent military clashes. The second case describes the Doukhobors sect. This sect was incentivized to immigrate to Canada for the purpose of settling the distant prairies in Saskatchewan. The Canadian government expected the Doukhobors to assimilate after a few years of living under anarchy, but after seeing this approach fail, resorted to a coercive strategy and appropriated the colonized land.

Since its inception, the Austrian school of economics stressed the importance of spontaneous order, which originates in human

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action. This emphasis eventually led to the intertwining of the Austrian research framework and the study of anarchy.[1] Through the logic of human action as outlined in the works of Carl Menger, Ludwig von Mises, and F. A. Hayek, many prominent Austrian scholars attempted to explain how stateless societies can privately supply law, security, and a plethora of other public goods (see, for instance, Hoppe 1998–99; and Rothbard 2006). Today, the Austrian analysis of anarchy continues and is increasingly empirical, focusing on mechanisms which promote and enforce cooperation (Leeson 2007, 2013; Powell, Ford, and Nowrasteh 2008; and Stringham 2015). This synthesis of the Austrian school approach and the study of anarchy is classified (Boettke 2011) as a "progressive research paradigm" in economic sciences.

Despite the immense progress in the study of anarchy, the question of how to get there receives little attention. The answers given by the scholarship seemingly have not evolved beyond a handful of basic explanations. However, as the Austrian school has constantly stressed the need to examine institutions and their dynamic nature, the lack of progress in such an important field of inquiry as emergence cannot be ignored. In other words, how can a phenomenon be fully understood if the various ways in which it originated are ignored?

This article claims that under particular economic constraints, anarchy can emerge as a result of deliberate effort by the state—a dynamic that has been completely ignored in contemporary studies. This insight might also result in a rather paradoxical situation where spontaneous orders may not exist as a result of deliberate human design but their emergence might very well be fostered deliberately.

When is it beneficial for a state to cause statelessness to emerge? The *colonization cost theory* presented in this article answers this

[1] In this paper, I define anarchy as "the absence of government," and not necessarily as a community that employs private defense agencies for its functioning (it may, in fact turn to other means of securing peace, as mentioned by Long (2007, 154–60). In turn, I borrow from Leeson (2014) the definition of government as a "monopoly governing agency that compels persons to abide by the social rules it creates, but which all those persons haven't explicitly consented to be governed by." As such, the matter of *explicit* consent and the ability to exit a governance arrangement is key for distinguishing anarchy from the state in this framework. Both these definitions come with a set of inherent problems, but they are adequate for the purposes of this article.

question. This theory holds that when the costs of directly colonizing new land are high, a state can incentivize the creation of anarchic communities in unsettled stateless regions. Then, once a sufficient amount of territory has been developed by the anarchic colonizers, the state will either subjugate the stateless territories or wait for the colonizers to assimilate into it, receiving new lands at a significantly lower cost as compared to direct expansion.

The research tackling anarchic emergence (see, for instance, Ellickson 1986; Tannehill and Tannehill 1993; Anderson and Hill 2004; Rothbard 2006; Leeson 2007, 2013; Powell, Ford, and Nowrasteh 2008; Scott 2009; Stringham and Miles 2012; Chartier 2013; and Friedman 2014) forms the theoretical foundation of this paper. This study finds empirical support for the colonization cost theory in two examples from Russian history that deal with oppressed religious sects. One such sect, the Old Believers, was forced by the government to flee to Siberia, and after developing a sufficient amount of land in the region, they were reintegrated into the state (see, for instance, Zenkovsky 1957; Michels 1999; and Maltsev 2019). Another example is the anarchic sect of Doukhobors, who fled to Canada motivated by its federal land grants, which were meant to incentivize the colonization of the prairies. The Canadian government expected the Doukhobors to assimilate, but eventually expropriated the sect's developed lands (Bulgakov 1994; Somin 2004; Androsoff 2011; and Makarova 2013).

The article is structured as follows. First, the literature on anarchic emergence is reviewed. Then, the colonization cost theory of anarchic emergence is presented and empirical support for it is presented. Section five concludes and offers suggestions for new potential areas of my theory's application.

LITERATURE REVIEW

The views on anarchic emergence have varied among scholars but can usually be condensed to the following theories. Rothbard (2006) and Chartier (2013), for instance, stress the importance of education or ideological conversion in the emergence of anarchy. Rothbard (2006, 373) stresses that this may occur through "the persuasion and conversion of large numbers of people to the cause." Chartier

(2013, 321) notes the importance of actively practicing political and cultural anarchism to speed up the emergence of anarchy in general.

Another understanding of anarchic emergence can be classified as "state failure," where states are unwilling or unable to adequately provide governance or public goods, due to their corruption, overall incompetence, or simple costliness. For David Friedman (2014, 156) the efficiency that private institutions exhibit over state ones is at the core of the path toward anarchy. The development of these alternatives constructs the "skeleton of anarcho-capitalism," from which anarchy then emerges. Morris and Linda Tannehill (1993, 151–52) present similar views, claiming that anarchy can emerge after the collapse of the state due to its disastrous economic policies. Stringham (2015, 233) further argues that if individuals can recognize the "unreliability of politicians and the inefficacy of the laws they impose," they will not "so willingly support rules and regulations, and that can aid in replacing government rules and regulations with private ones." The state inefficiencies can also create what Ellickson (1986) and Leeson (2013) call "pockets" of anarchy within states.

A different explanation for anarchic emergence comes from the "power vacuum" theories. Works on anarchy in Somalia by Peter T. Leeson (2007) and Benjamin Powell, Ryan Ford, and Alex Nowrasteh (2008) show that anarchy can emerge as the population of a country disposes of a predatory state without actively attempting to establish a new one. Moreover, conflicts between states themselves can leave behind unoccupied swathes of land devoid of political rule (Maltsev 2019). Anarchy can take hold in such power vacuums.

Finally, the research of Terry L. Anderson and Peter J. Hill (2004) on the Wild West and James C. Scott (2009) on Zomia shows that anarchy emerges when individuals leave the states that they inhabit, lured by the chance to attain profits outside of the state's sphere of influence or to simply flee its tyranny.

Murphy (2010, 29) urges us to be cautious however, stating that a path to anarchy will depend on the particular historical conditions in a given society. While one society may transition to anarchy via a "violent overthrow of unjust regimes," the others may enjoy a "gradual and orderly erosion of the state."

Since these scholarly efforts, almost no attempts have been made to offer new explanations as to how anarchy can emerge, and in no way did the reviewed literature consider a situation where the state purposefully fosters anarchy. By considering such a possibility, this paper offers a new explanation that ameliorates the stagnancy in the field of anarchic emergence studies.

THE COLONIZATION COST THEORY OF ANARCHIC EMERGENCE

The idea that individuals flee the state's territory and colonize uninhabited lands outside its sphere of influence is not novel by itself. Such processes are well described in the literature on the Wild West (Anderson and Hill 2004; Stringham 2015, 113–33), which describes how individuals moved out of the reach of United States law to the western frontier of North America, lured by the prospects of finding gold. Another case of individuals leaving the state's sphere of influence is presented in Scott (2009), which showed how people in Southeast Asia fled the despotic regimes into the mountains of a stateless region known these days as Zomia. In both of these cases, the migration of individuals outside the state's sphere of influence was spontaneous. For the Wild West, the state did not need to provide individuals with incentives to move. For Zomia, the state did not deliberately engineer such movement for its own gain, as the region remains stateless to this day.

However, the idea that the state can purposefully incentivize the migration of individuals out of its sphere of influence to create anarchic communities has not yet been explored. Imagine that an abstract state X wishes to extend its geographical power and increase its revenues. Assume that X wants to achieve that by colonizing a certain amount of land and that it expects to receive a certain amount of income per unit of land that it colonizes. This income can come in the form of taxes, extraction of natural resources from the new land, the increased political prestige from bolstering its territory, and other factors that would be beneficial to the state and its bureaucrats.

However, X will want to colonize new lands only if the revenues from this process exceed the costs. The costs of colonization could be significant. They may consist of exploration, movement of settlers to the new land, establishment of infrastructure, and defense of the region. Edward P. Stringham and Caleb J. Miles (2012, 13) claim that "conditions favorable to state-making include an accessible, concentrated population producing easily appropriable goods that can feasibly be returned to the state centers" and that if "the cost of physically traveling to the taxable population and returning collected taxes to the state center is significantly higher than what it costs the taxable population to move out of the way, the state is cost-prohibitive." Furthermore, consider that the state can also face significant opportunity costs. For example, the armies and manpower that it diverts to colonization could be instead used to defend itself against a foreign aggressor or initiate aggression against other countries.

In this case, it is easy to imagine that if the costs of direct colonization exceed its benefits, then the state will not engage in the effort. However, this does not mean that X will abandon its ambition altogether. Instead, X may turn to less costly alternatives of colonizing the land. The first of such means is the use of violence. The state may modify the incentives of economic agents, driving them out of its territory and forcing them to migrate to unclaimed lands and create anarchic communities there. This could happen through, for instance, an increase of targeted violence against specific groups within the state.

As a result, individuals flee to the unoccupied regions and bear all the corresponding costs of searching for new land, settling it, and protecting it privately. Until enough land is accumulated, these communities will develop independently of the state, living under conditions of self-governance, and employing relevant mechanisms to secure and enforce peaceful cooperation, be it through private law systems, high social homogeneity, or more exotic means such as traditions or superstitions (see, for instance, Leeson 2013). Once enough land is settled, however, the state can engage in a violent conflict with the anarchic region, appropriate the colonized land, and extract revenues from it. As long as the state carefully monitors the situation and does not allow the anarchic region to grow in power disproportionately, so that the costs of confrontation become excessive, the state can obtain the land at a much lower cost.

A nonviolent approach is also possible. In this case, X does not utilize violence against a self-governing society to claim the land it covets. It may simply allow individuals to colonize the stateless frontiers and govern their communities privately for a time. Yet the state will push for an eventual assimilation of these self-governing communities. The reason for choosing an assimilation approach is that peaceful integration may have lower costs than a violent takeover. To incentivize assimilation, X can, for example, offer generous economic concessions upon integration. However, the decision to assimilate may take some time and the state may need to wait before it can extract incomes from the colonized territories. Then such a strategy will only work if the state does not discount its future payoffs too steeply.

We must also not forget a key Austrian insight, which is that economic systems are dynamic and prone to constant processes of disequilibrium and adjustment. As such, if the state's time preference changes or the assimilation costs become too high, the state may shift its strategy toward the violent takeover of anarchic regions. A reverse situation, where the conflict between the state and anarchic regions may become prolonged and state may opt for a softer approach, is possible as well. Now this theory will be applied to two historical examples of Russian religious sects.

EMPIRICAL CASES OF STATE-PROMOTED ANARCHIC COLONIZATION

Violent Colonization Strategy: The Old Believers in Eastern Russia

The first example of state-incentivized anarchic colonization is the case of the Russian religious sect of Old Believers. Tensions in the Russian religious life accumulated after the Russian Orthodox Church's Patriarch Nikon initiated sweeping reforms in the 1650–60s. The reform was an attempt to consolidate the authority of the church and further centralize its political power (Zenkovsky 1957, 42–51), essentially depriving regional religious communities of their autonomy. Those who did not accept the reforms and preferred to practice religion in its prereformed state were branded as heretics and mocked as "Old Believers." Thousands of Old Believers were executed, and many were imprisoned. The situation improved only marginally in the eighteenth century, when Peter the First replaced outright executions of Old Believers with steep taxes, which included fines for their distinct clothing and beards. Later, Russian autocrats such as Elizaveta (r. 1741–62) also subjected the Old Believers to forced labor in mining camps and factories (Beloborodov and Borovik 2017, 47–49).

Facing such repressions, many Old Believers were forced to flee the state, proclaiming it the kingdom of Satan (Zenkovsky 1957, 51). Their groups moved to the eastern and southeastern territories beyond the Ural Mountains, and outside of the Russian state's jurisdiction. These lands included the Siberian region; areas such as Altai and Tuva; and locations near the Yenisei River (Storozhenko 2015, 23–30). In the Urals, the Old Believers established numerous anarchic settlements in either hilly or dense forest terrain in the 1730s and 1740s.

Having been chased off the territories of the state, the Old Believers were unable to rely on formal systems of governance and had to devise their own rules privately. Due to the small size of their settlements and their religious homogeneity, the Old Believers did not need to devise extensive systems of self-governance. They mostly relied on the general meeting of villagers to resolve crucial disputes, where the "best men" would pass their verdicts (Mamsik 1989, 90–91). While petty criminals could be flogged for their misdeeds, murderers and robbers were exiled from the communities via "rafting," where the perpetrator was chained to a wooden raft, which was then set to float down a mountain river (Maltsev 2019, 10–11).[2] As such, technically, the criminal could survive this punishment, but he would then have to either find a new community of Old Believers to join, or return to living under the state, which would probably mean his swift capture and imprisonment for fleeing in the first place.

Historical sources do not mention any for-profit policing firms in these anarchic communities; instead, they resorted to what Long (2007, 156–57) calls "defense via labor economy through an armed populace," relying on local militias armed with rifles. In the

[2] Of course, entering such a community meant expressing agreement with the rules ex ante, which allows us to classify these settlements as anarchic, based on their voluntary character.

mountainous areas of Bukhtarma, with its narrow bridle paths, even a handful of individuals with firearms could stall a military unit.

These anarchic communities also thrived economically, mainly due to three reasons. Firstly, without the crippling oppression of the state, wealth was much easier to accumulate. Not subjected to executions or excessive taxes, the Old Believers could retain all the proceeds from their economic activities, greatly increase their capital, and continue to develop (Maltsev 2019, 10).

Secondly, the Old Believers rationally reviewed the fundamental tenets of their faith to encourage capital accumulation. Through reinterpreting the Book of Job, the Old Believers arrived at the following conclusion: as long as wealth was obtained through honest labor and trade was performed with honest weights, accumulating riches could not be considered a sin. This position contrasted greatly with the mainstream views of the Orthodox Church, which demonized the accumulation of wealth and promoted altruism and selflessness. Furthermore, similarly to the Protestant faith, Old Believers put great emphasis on honest labor, which not only was akin to a "blessing of God" to them, but also singled the Old Believers out from the mass of heretics and helped to elevate the sense of superiority of their communities (Mogilevskaja and Razumova 2012).

Thirdly, the Old Believer communities greatly depended upon mutual aid. For instance, the *kamenschik* (stonemason) communities near the river Bukhtarma in the Altai Mountains provided newcomers with shelter, employment, and interest-free loans to promote their starting their own enterprises.

Consequently, the incomes of some Old Believer communities increased by a factor of seventeen in just a few decades. Many of these communities, such as the *kamenschiks*, existed under anarchy for as long as fifty years. But a logical question arises here: Why did the Russian state allow such anarchic arrangements to exist for such an extended period? The colonization cost theory of anarchic emergence explains this outcome.

While the Old Believers built up their communities in the east, they took upon themselves all the related costs of finding and working the land. At the same time, the Russian state could not devote too many resources to colonizing the eastern frontier. The opportunity costs were high due to the harsh climate, the large distances to cover, and the country's involvement in numerous wars against Poland, Sweden, and the Ottoman Empire throughout the seventeenth and eighteenth centuries the country. All of these factors contributed to a high cost of direct colonization for the Russian state. Because of this high cost, the Russian state was willing to tolerate the presence of the Old Believers in the east as long as they appropriated and developed enough land.

Accordingly, Victor I. Dyatlov (2010, 7) writes that Old Believer migration played a decisive role in the political and economic formation of Russian territories in the east. Large sections of the Urals, Siberia, and the Far East were settled by the escapees. Nikolai N. Pokrovskiy and Natalya D. Zolnikova (2011, 170) make a key observation that the "old faith [became] one of the most important factors of secret colonization of Siberia." Further credibility to the intentionality of the state in its colonization efforts is provided by Sapozhnikov (1891, 62–63), who notes that the Russian army was often reluctant to apprehend the fleeing Old Believers and frequently abandoned any efforts at pursuing the adherents of the old faith.

But the state was only willing to tolerate this colonization until it became necessary to bring the anarchic communities into the fold. One of the better-researched cases of such an event concerns the Bukhtarman *kamenschik* communities to the southeast of the Altai Mountains. The kamenschiks established a chain of anarchic Old Believer settlements that lasted from 1740 up until 1791 (Maltsev 2019). However, the state started to threaten the villages with military advances. After a few clashes, in 1791 the Old Believers petitioned Catherine II for inclusion in the Russian state, along with the territory they had colonized. The integration of the kamenschiks occurred on quite favorable terms for the latter. They joined the state as an allogenous population, and thus, according to the laws of the Russian Empire, could continue practicing their religion without being subjected to high taxes and other discriminatory laws that were usually levied against the Old Believers. The tax that they paid, called *yasak*, was also very low and could be paid in animal furs and other goods instead of money. The kamenschiks also retained their autonomy and were allowed to keep their weaponry. The only duty that the state demanded of them was to protect the borders of their region (Dolzhikov 2019).

It is evident that the Russian state incurred few costs in the process of annexing the Old Believers of Bukhtarma.

Nevertheless, the reintegration into the state did not always go smoothly for Old Believer communities. Pokrovskiy and Zolnikova (2011, 170) note some anarchic "isles" of colonization were met with accidental or outright targeted hostility and instead "died under the blows of state repression."

The persecution of Old Believers by the tsarist government lasted into the early twentieth century, as shown in historical records of the Tuva region, where Old Believers continued to arrive up until 1915, settling in its most distant regions to escape state oppression.

Assimilation Strategy: The Doukhobors in Canada

The second example touches upon a radical sect called the Doukhobors (Bonch-Bruevich 1918). The sect originated in the beginning of the late eighteenth century and its name is best translated as "spirit wrestlers." Initially the name was a derogatory term, to label them as fighting *against* the holy spirit of God; however, the Doukhobors adopted it with a different meaning, namely that they were wrestling *alongside* the Holy Spirit, to uncover and preserve the voice of God in each of them (Androsoff 2011, 33). The key ideas of the Doukhobor faith were "freedom from superficial rites and from church, adherence to nonviolence, vegetarianism, abstention from alcohol and tobacco, and the rejection of governmental institutions" (Makarova 2013, 132). The Doukhobors rejected the Bible as an archaic document and instead preferred a "living" oral recitation of the main tenets of their faith.

Similarly to the Old Believers, the Doukhobors could not resort to formal governance to resolve disputes or secure peace. They also governed their communities privately, through councils of elders (Androsoff 2011, 47–48). In this way, the sect resembled a private club, which individuals join with their explicit consent to obey its established rules. If any Doukhobors were dissatisfied with the work of the elders, they could exit the sect or form a competing alternative, as evidenced by the later creation of a radical branch called the Sons of Freedom. Since the Doukhobors were pacifists, they did not arm themselves or utilize private protection firms for the purposes of defense, in hopes that their social homogeneity would make their peaceful existence self-enforcing. As a result, the Doukhobors formed “pockets” of anarchy in the territory of the Russian state.[3]

During the more liberal reign of Alexander I, the Doukhobors enjoyed a fairly stable existence in Crimea, and their faith began to spread throughout the country. However, when Nikolai I came to power, the sect encountered heavy oppression from the state. They had their assets and landholdings confiscated and were forcibly conscripted into military service or exiled to the periphery of the Russian state unless they publicly denounced their faith and returned to Orthodox Christianity (Brokgauz and Evfron 2004, 251).

In 1895, under the growing influence of the ideas of the prolific writer Leo Tolstoy, the Doukhobors have become even more radical in their preaching of pacifism and rejection of the state. This culminated in Doukhobors holding numerous demonstrations across various Russian towns where they demonstrably burnt weapons and conscripted Doukhobors left military service. The state’s wrath followed immediately—some of the Doukhobors were assaulted by state troops at these demonstrations and died, while some women were raped. Ultimately, the state subjected the Doukhobors to another exile, with full confiscation of their property. The situation was becoming dire and Leo Tolstoy had to amass funds for the Doukhobors to escape to another country. Through the efforts of a famous anarchist scholar, Peter Kropotkin, and his connections, Canada was selected as an escape destination. Soon, some eight thousand Doukhobors began their relocation to the West, and by 1899 their journey was complete (Somin 2004).

The Canadian government at that time had ambitions of becoming a more influential player on the world stage, which required more economic and territorial prestige. Furthermore, it needed to secure its northwestern territories from a potential American encroachment (Androsoff 2011, 62–63). However, the costs of colonizing these territories directly were quite high, due to the harsh climate and

[3] A counterargument here would be that these communities existed only by virtue of being in the “shadow” of the state. However, the Russian state did not enable their governance in any way, as attempts at resolving Doukhobor conflicts in Russian courts was frequently ignored (Androsoff 2011, 43).

the lack of an agriculturally skilled populace to cultivate the land in the prairies. As such, the Canadian government decided to attract skillful immigrants to colonize the country's furthest reaches. The Doukhobors were ultimately selected due to Tolstoy and Kropotkin's lobbying and due to the fact that the sect had proven itself competent by managing to survive in harsh conditions and under constant oppression from the Russian state. We can see that the anarchic state of the international arena managed to lessen the potential for violence against the Doukhobors by the Russian state as the Canadian government "competed" for them. The problems of Doukhobors however, did not end there.

The Canadians decided to allow the Doukhobors to live under the conditions of anarchy in Saskatchewan, unsupervised by the state. Some four hundred thousand acres of land was allotted to the sect. The government was hoping that the Doukhobors would assimilate into the state in the span of one or two generations. But, the government severely miscalculated the probability of the Doukhobors assimilating. The Doukhobors wanted to continue to live in anarchy as Doukhobors, not as Canadians. Naturally, they continued to resist military conscription, registering their property, paying taxes, sending their children to public schools, and participating in state census. At the same time, their economic well-being was increasing rapidly, despite their communal economic model. Androsoff (2011, 85) writes that by the end of their first year in Canada, the Doukhobors worked 1,114 acres using "336 horses, 205 cows, 180 oxen, 129 ploughs, and 150 wagons." Such success could be attributed to high social homogeneity of the Doukhobors, which to a degree alleviated envy and the pressures of sharing. Furthermore, the physical strength and endurance of the group allowed them to work hard and thus receive greater marginal returns on their labor. Finally, the Doukhobors were guided by their revered leader Petr Verigin, whose management and oratory skills allowed the sect to retain its cohesion, although some radical factions such as the Sons of Freedom splintered away from the Doukhobor mainstream, discontent with Verigin's policies.

Realizing the error of their estimates, the Canadian government changed its colonization strategy from assimilation to violence, confiscating around 60 percent of the land and property cultivated by the Doukhobor sect in 1907. The remaining property was to be used by the sect at the government's "pleasure" (Tugan-Baranovskiy 1919, 26). Instead of accepting that resolution, Verigin decided to use the sect's savings to purchase land in the British Columbia province and start anew. However, some Doukhobors were no longer willing to follow their leader and preferred to obtain Canadian citizenship. Even though by 1924 the sect held about sixty-seven thousand acres of land in British Columbia and about $6 million in property, it began to slowly fall apart. The final blow was dealt when Verigin was blown apart by a bomb planted on a train that he was riding. The loss of the efficient manager and cultic figure who had held the whole sect together disorientated the Doukhobors and led them to make a series of economic errors. Eventually the sect defaulted on a government loan, leading to their bankruptcy in 1938 and further confiscation of their property by the Canadian government (Somin 2004). This historical example shows that states can dynamically shift from one strategy of anarchic colonization to another. Ultimately for the Doukhobors, this resulted in repeated subjection to the oppression of the state.

CONCLUSION

Overall, the colonization cost theory posits that in situations where the cost of colonization is high, states allow or even encourage their subjects to establish self-governed regions. Afterwards the states will absorb these regions, reap the corresponding benefits, and avoid the costs of colonization. This analysis leads to two important conclusions. Firstly, the state may perpetuate its violence against certain social groups to keep them continuously colonizing new lands. Although other states can check this violence by harboring these oppressed communities, these states can also resort to violence in cases where the anarchic community does not want to assimilate.

Secondly, despite the fact that almost all the land in the world is now claimed by states, apart from a few regions such as Zomia (Scott 2009), states could still incentivize the emergence of anarchy in relation to at least two colonization efforts: seasteading and space colonization. There is potential for anarchic arrangements in each of these fields, as shown by Quirk and Friedman (2017) and Salter and Leeson (2014). If individuals want to keep these anarchic arrangements stable in the long run, the state to miss the critical moment in their development or the benefits of appropriating their colonized dwellings will have to decrease significantly. With the novelty of seasteading and space exploration, the state's capacity to seize the gains of anarchic communities in these arenas remains to be seen.

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The Long Rehabilitation of Frank Fetter

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Abstract: Economics has a long history of "rehabilitations," including W.H. Hutt's rehabilitation of Say's law, and Alfred Marshall's attempt to rehabilitate David Ricardo. The rehabilitation of Frank A. Fetter should be as important as either of these, especially for economists working in the contemporary Austrian tradition. The historical records reveal that for the last century there has been underway a nearly unbroken series of efforts, especially by Austrian economists, to rehabilitate Fetter's contributions and use them to revitalize economic theory. This paper relates this history, which chronicles the rise, decline, and rise again of one of the great American economic theorists. Yet crucially, this is not a story about Fetter alone, but also of the fortunes of the Austrian school and its rise, decline, and renaissance.

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> "Among all men of the economics profession that I have known, none has so fully realized my ideal of scholarship without pedantry, intellectuality without pretense, humor without unkindness, and integrity without self-righteousness."
>
> —Neil Carothers to Frank A. Fetter, 1933

When asked to list Murray Rothbard's most important contributions to economics, few people think to name his 1977 volume *Capital, Interest, and Rent: Essays in the Theory of Distribution*. This is understandable, as the book is not an original work of Rothbard's but an edited collection of papers by a different author. Yet although seldom discussed—and never listed among his major works—this innocuous volume represents a key moment in the history of the Austrian economic tradition and the culmination of a half century of effort by Rothbard and many others to resurrect the ideas of a great unsung economist: Frank A. Fetter.

The life and work of Frank Albert Fetter (1863–1949) should be important to anyone interested in economics, but especially Austrian economics. For fifty years or more, he was the leader of the American branch of the tradition of Carl Menger, Eugen von Böhm-Bawerk, and Friedrich von Wieser, and he played a major role in spreading Mengerian ideas in the United States. He also systematized and extended the work of the older Viennese economists, and in doing so had a profound impact on several generations of their younger students. He was, for example, personally and professionally connected to every major Austrian economist active in the first half of the twentieth century, and often took an active role in promoting their works and careers, and they his (McCaffrey 2019). Moreover, Fetter's importance was not restricted to the Austrian tradition: he also obtained virtually every professional accolade available to the economists of his day (Howard and Kemmerer 1943).

Despite his importance during his life, however, Fetter is today largely unknown, and receives only a fraction of the attention given to contemporaries like Irving Fisher or John R. Commons. Nevertheless, among a small but growing number of scholars, Fetter's ideas are playing a more prominent role. It is therefore worth investigating why his reputation declined so precipitously in his later years, and why, so many decades after his death, his work is at last beginning to receive the attention it so richly deserves.

The theme of this paper is *rehabilitation*, in the sense of repairing a reputation and restoring it to a rightful place of prominence. Economics has a long history of rehabilitations, including W. H. Hutt's rehabilitation of Say's law (Hutt 1973), and—significantly for this paper—Alfred Marshall's attempt to rehabilitate David Ricardo (Ashley 1891). The rehabilitation of Frank Fetter is a far more obscure effort than either of these, but it is my purpose to show that it is every bit as important, especially for economists working in the contemporary Austrian tradition. The historical records reveal that for the last century there has been underway a nearly unbroken series of efforts, especially by Austrian economists, to rehabilitate Fetter's contributions and use them to revitalize economic theory. It is my aim to relate this history, which chronicles the rise, decline, and rise again of one of the great American economic theorists. Yet crucially, this is not a story about Fetter alone, but also of the fortunes of the Austrian school and its rise, decline, and renaissance.

FRANK ALBERT FETTER (1863–1949)

Frank Fetter was one of many American economists in the late nineteenth century who were trained in German universities by members of the German historical school and whose politics were heavily influenced by early American progressivism (McCaffrey 2019; Leonard 2016).[1] Yet he differed from many of his contemporaries in two ways: first, he held many promarket political convictions alongside his more progressive views, and second, he developed a love of economic theory and a strong devotion to the subjectivist economics pioneered by Carl Menger, Eugen von Böhm-Bawerk,

[1] Fetter's early research around social problems was influenced by the progressive ideology of the day, and likely contributed to his early career success among professional economists. Another factor was his work in support of academic freedom, which began with his resignation from Stanford University in protest of the dismissal from the faculty of the ultraprogressive E. A. Ross. Samuels (1985) shows that Fetter's defense of Ross was driven by a principled support of academic freedom rather than progressive politics. Nevertheless, Fetter was close friends with Ross and other leading progressive economists such as Richard T. Ely, E. R. A. Seligman, and John R. Commons, the first two being founders of the American Economic Association (AEA). It seems reasonable to suggest that their support played a part in Fetter's rise through the AEA and may even have influenced his choice of topics for his (quite progressive) presidential address, "Population or Prosperity?"

and Friedrich von Wieser. Fetter called this approach "psychological," emphasizing the personal, subjective aspect of value as well as a newer volitional approach to choice, in sharp contrast to the utilitarianism or hedonism of Jeremy Bentham (Coughlan 1965, 80–97).[2] In fact, Fetter attributed the first use of the term "psychological" to Wieser (FAF, "The Dead Hand in Economic Theory: Some Uncompleted Reforms and Some Unsolved Problems," 1940). Among the Americans, his main influence was John Bates Clark, who Fetter believed should have been listed alongside Menger and William Stanley Jevons as the third discoverer of the subjective theory of value (Fetter 1923, 593–94). Fetter and several other economists, especially Herbert Davenport and Irving Fisher, came to be known as the "American psychological school," by which was meant very nearly the American Austrian school (Dorfman 1949, 360–65), with Clark as honorary founder.

In fact, nowhere outside Austria were the ideas of Menger, Böhm-Bawerk, and Wieser developed further than they were in the United States. F. A. Hayek even recalls that when he was a young student, "the work of the American theorists John Bates Clark, Thomas Nixon Carver, Irving Fisher, Frank Fetter, and Herbert Joseph Davenport was more familiar to us in Vienna than that of any foreign economists except perhaps the Swedes" (Hayek 1992, 32). And among the Americans, none was more consistent or—to use a word often applied to Ludwig von Mises—as intransigent as Fetter.

By any standard, he was one of the most successful economists of his day. His teaching career, which lasted well into his seventies, was spent mainly at Princeton, Cornell, Stanford, and Indiana University, and also included positions at Harvard, Columbia,

[2] Fetter sometimes described himself as a "welfare economist" as opposed to a "price economist." Price economics, exemplified by the British classicals, investigated only the superficial, pecuniary aspects of economics, and was limited to studying "prices, exchanges, commercial statistics, and financial operations" (Fetter 1920, 737). Welfare economics, however, sprang from psychological theory, and was a more humane endeavor aiming ultimately at social progress through the study of "the relation of men to their environment, social and physical, consisting of the objects of their choice, as affecting their sustenance, their happiness, and their welfare" (Fetter 1920, 737). Welfare in this sense reflected a deep and abiding type of well-being (see Herbener 1999, 136–39). Price economics was essentially a step toward realizing welfare economics.

Johns Hopkins, and the University of Illinois.[3] In 1912, he was elected to the presidency of the American Economic Association. As a researcher, he spent the bulk of his career refining and developing the theories of value, price, and distribution along Austrian lines, both in textbooks and in a series of articles published in the leading economics journals. He is especially known for developing original theories of capital, interest, and rent, each of which influenced the Austrians. In the last three decades of his life, Fetter focused mainly on the study of monopoly, especially price discrimination through the basing-point method (e.g., Fetter [1931] 1971, 1948). As a result of his criticism of different forms of monopoly and of the price control and cartelization policies of the New Deal, he eventually took on greater prominence as a public intellectual as well, but he never lost his passion for economic theory, which he continued to explore until his death in 1949. He was in particular a ruthlessly consistent subjective value theorist and an enemy of eclecticism in economics, traits that put him at odds with nearly every important economist of his time, including his friends. Nevertheless, by the time Mises and his students immigrated to the United States, the influence of Fetter and the American psychological school had all but disappeared, replaced in varying degrees by the ideas of economists like Alfred Marshall, Léon Walras, Edward Chamberlin, John Maynard Keynes, and others.

The question, then, is this: If Fetter was indeed such a successful and influential economist, what happened to his work, and why does he need rehabilitation? The answer is that although he was a major force in economics, Fetter's contributions, just like those of the early Austrians, were never fully incorporated into economic theory and teaching. Again and again his theoretical investigations led him down paths deemed too extreme by his fellow economists, even though his work usually consisted of little more than consistently extending Mengerian value theory. Yet his ideas were continually passed over in favor of more eclectic theories, particularly those that combined elements of classical price theory with insights from the newer subjective-psychological theory.

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[3] See, for example, the achievements and accolades listed in Howard and Kemmerer (1943), whose account is based on information provided by Fetter.

THE MARGINALIST REVOLUTION

To understand why Fetter failed to exert the influence he deserved, it is necessary to revisit the "marginalist revolution" that began to transform economics beginning in 1871. The more superficial accounts of this era overstate its revolutionary character, and imply that the simultaneous discovery of the new value theory by Menger, Jevons, and Walras triggered the immediate overthrow of classical economics and of cost-of-production theories of value, ushering in the neoclassical era. Yet historians of economic thought have known for many years that this neat and optimistic view is mistaken. The truth is that the marginalist revolution was slow, inconsistent, and incomplete. As Mark Blaug put it, "it was not a marginal *utility* revolution; it was not an abrupt change, but only a gradual transformation in which the old ideas were never definitively rejected; and it did not happen in the 1870's" (Blaug 1972, 277; emphasis in original).[4]

To take one example, Davis Dewey, the managing editor of the *American Economic Review*, explained to Fetter in a July 26, 1916, letter that he had trouble finding appropriate reviewers for books by the American psychological economists because their views were contrary to prevailing opinion: "I have found some difficulty in getting reviewers for yourself, Davenport, and Fisher. Apparently, the economic fraternity does not like to tackle this trio, due, I suppose, to the fact that its thought seems to run in such different channels that criticism in [*sic*] aroused" (FAF). Furthermore, as late as the 1920s the subjective theory of value was still met with resistance in the economics journals, and was suffering attacks from Ricardian holdouts as well as new incursions from the rising tide of institutional economics (see, e.g., Fetter 1921, 1923; FAF, "Present State of Economic Theory in the United States of America," 1926).

Fetter pointed out in many of his works that consistent subjectivism had failed to take hold, and emphasized repeatedly that the

[4] Numerous accounts question the idea that the marginalist revolution was a quick and decisive transition, or that the marginalists themselves were in agreement about the nature and significance of their contributions. See Jaffé (1976), as well as the papers in symposium on the foundations of neoclassical economics in the July 1990 issue of the *American Journal of Economics and Sociology* and the papers in symposium on the marginalist revolution in the fall 1972 issue of *History of Political Economy*.

promise of the marginalist revolution remained unfulfilled. In fact, for him, "marginalist revolution" was a misnomer: the real revolution was in subjectivism, not marginalism, which was merely one implication of the subjective theory of value:

> [T]he term "marginal" is inapt in its suggestion that marginality or finality is the most essential mark of this theory as contrasted with the cost-of-production theory. "Subjective" or "psychological" would much better stress the contrast with that which it displaced…. This feature [marginal analysis] is merely a mechanical, or at best, logical device, far less significant than the broader psychological aspects of the theory. (Fetter 1923, 590n1)

Marginalist methods of analysis existed in economics long before 1871, most famously in David Ricardo's theory of land rent. They had also been pioneered in England by Alfred Marshall, the great eclectic whose work attempted to bridge classical and neoclassical theory, and in America by Frank Taussig, whom Joseph Schumpeter described as the American Marshall (Schumpeter, Cole, and Mason 1941). It was these kinds of works, still infused with cost-of-production theories of value, which dominated economics teaching and theory after the turn of the century.

As a result, the distinctiveness of the subjective value theory pioneered by Menger was lost. It became the conventional wisdom that the insights of the marginalist revolution had been fully integrated into economics, and that there was no need to distinguish between schools of marginalism (Viner 2013, 57–60). The foundations of economics were generally agreed upon, even if there were slight differences of emphasis between economists in different nations. Even Ludwig von Mises endorsed a version of this view (Mises 2007, 19). Fetter did not accept the naïve interpretation, though, and throughout the 1920s and '30s stressed the distinctiveness and importance of Mengerian value theory as compared to the versions espoused in the textbooks of Marshall and Taussig. As he put it in an unpublished manuscript from the 1920s,

> To make the hallmark of the psychological school the marginal utility method, or to group that school with nearly all recent theory … under the title of "the marginal utility school" as is not infrequently done … reveals a gross misunderstanding or no understanding at all of the major issues in value theory since 1870. (FAF, "Overhead Costs,")

THE DECLINE OF THE AMERICAN MENGERIAN TRADITION

Despite their energy and erudition, the best efforts of Fetter and the American psychological school failed to exercise a lasting impact. There were both personal and professional reasons for this. Personally, controversies among the Americans prevented them from collaborating and presenting a more unified front against competitors. For example, Fetter instigated a rancorous exchange with Herbert Davenport over several issues in economic theory that seems to have destroyed their friendship (Fetter 1914, 1916; Davenport 1916).[5] Fetter also debated Irving Fisher on capital, interest, and income, a dispute that began in the early 1900s and continued privately for nearly thirty years, ceasing only when Fisher died (Fetter 1907, 1908; Fisher 1907; FAF, Fisher to Fetter, July 22, 1930, Fisher to Fetter, Aug. 12, 1930). Fisher's early writings had been more in tune with Austrian work, but drifted into a kind of eclecticism. While this shift likely made his work more palatable to a wider range of economists, it also made it less consistent. Although they remained on friendly terms, Fetter never forgave Fisher for abandoning the pure time preference theory of interest in favor of a partial productivity theory (Fetter 1928b).

Although many of these arguments were based on valid disputes over theory, the damage they caused can also be attributed to a personal failing on Fetter's part: he could be a savage critic, even to the point of being uncharitable, and once he had latched on to a particular line of criticism, he often found it hard to let go, even in victory. No matter their exact causes, though, these personal and academic conflicts—as well as retirements, deaths, and shifts of research interests—among the American psychological economists effectively decimated the school by the 1920s.[6]

Yet the problems ran deeper than the personalities of economists. The underlying challenge was that the best and most consistent

[5] Fetter and Davenport exchanged many letters of friendly debate in the early 1900s, but after the publication of their later reviews and criticisms, the correspondence ends abruptly.

[6] See also Salerno (1999) for more on the decline of the Mengerian tradition in the US and around the world. Like the Austrians themselves, the American Mengerians neglected to build scholarly networks and institutions for the purpose of maintaining and advancing subjectivist economics (Salerno 2002).

insights of the Mengerian tradition had never fully taken root in the US, despite the support they received from leading figures such as John Bates Clark. Under the influence of an old guard of economists including Arthur Hadley, Lawrence Laughlin, and Frank Taussig, economic theory in the US remained an eclectic combination of German historicism; the classical economics of Ricardo, Mill, and Marshall; and marginal utility theory (Salerno 2001, 18–20). As a result of this opposition, when the energy of the psychological economists began to dissipate, Fetter was left virtually alone in the battle for economic theory in the United States.

The failure of American audiences to appreciate the uniqueness of the Mengerian tradition was driven home to Fetter repeatedly in the 1920s and 1930s. In 1936, for example, he contributed four chapters on value and price theory to a collaborative textbook on economic principles edited by Walter Spahr. These chapters were Fetter's last systematic writings on price theory, and represented a state-of-the-art account of the topic at the time. They were explicitly written using the subjective-psychological approach in contrast to the cost-focused Marshallian theory (FAF, Fetter to Vernon Mund, July 5, 1938). Unsurprisingly, they also closely mirrored Böhm-Bawerk's exposition of the same topics, which Fetter recommended as further reading. Fetter was subsequently invited to revise his chapters in preparation for a new edition of the textbook; however, after he had begun, Spahr unexpectedly rescinded the invitation and entirely removed Fetter's chapters. As Spahr explained to him in a letter dated July 6, 1939:

> A survey of the users of our text by the publisher has revealed that a very large proportion of those who have used our text have not appreciated or perhaps understood your approach to the question of Value and Price. A very considerable number of those who have been using the work have stated that they were discontinuing its use because they preferred the approach to Value and Price which they could find in other works. The publisher is convinced that our work can never be restored in the face of what seems to be a rather prevailing opinion regarding your chapters … [T]he work probably will die unless we boldly face this issue. (FAF)

This kind of example—which here is even supported by some quantitative evidence from Spahr's surveys—goes a long way toward undermining the claim that by the 1930s all of the major insights of the Mengerians had been absorbed by economic theory and teaching, and that it was only in subsequent debates that the Austrians were clearly distinguished from other neoclassical traditions.[7] It also shows how even a psychological economist as professionally successful as Fetter was increasingly unable to find a sympathetic audience for his views. In his old age, his fellow economists accorded him the utmost respect even as they disregarded his most profound contributions to the science. Surprisingly, though, several decades of controversy and (in his view, at least) misunderstanding of his work did not blunt Fetter's enthusiasm for economic theory. Despite his disappointment at failing to convince more economists of the virtues of the American psychological school, he doggedly persisted in efforts to refine its contributions and to give them new life (FAF, "The Dead Hand in Economic Theory: Some Uncompleted Reforms and Some Unsolved Problems," 1940).

EARLY EFFORTS AT REHABILITATION

Having said something about the rise and decline of Fetter's influence, the next step is to chronicle the long history of attempts to rehabilitate it. These efforts were led independently by several generations' worth of Austrian economists at a series of crucial moments in the history of their tradition, particularly when it too was under attack and in decline. Moreover, their ultimate success runs parallel to the resurgence of the Austrian tradition that gained steam in the 1960s.

Neither Fetter nor his students and colleagues were oblivious to the problems of challenging the dominant strands of economic theory. And as the debates of the early twentieth century on topics such as capital, interest, and rent died down and the Marshall-Taussig model of economic theory became clearly established as the dominant force in US economics, it became increasingly obvious that sustaining the Mengerian, psychological tradition would require a renewed effort.

[7] Fetter's correspondence similarly reveals that in the 1930s and '40s, if not earlier, it was common for him and his colleagues and students to use the term "Austrian economist" to identify members of an intellectual tradition that was not defined by national borders and included scholars of other nationalities (FAF, E. Zingler to Fetter Apr. 7, 1943).

In practice, this meant republishing classic works in economic theory and writing new ones, and this is exactly what Fetter and many of his friends and admirers attempted, beginning especially in the 1920s.

Throughout his career, Fetter received countless requests to republish his works as well as produce new treatments of the theory and history of economics. In particular, a persistent theme in his correspondence from the 1920s onward is the scarcity of his published writings, particularly his journal articles on value, price, and distribution theory (see, for example, FAF, Taussig to Fetter, Nov. 23, 1927; O. Weinberger to Fetter, May 27, 1931; Percy Ford to the editor, *Quarterly Journal of Economics*, June 7, 1932; G. Haberler to Fetter, Feb. 12, 1932; Joseph Dorfman to Fetter, Dec. 12, 1940; H. S. Piquet to Fetter, Feb. 17, 1943; J. J. Spengler to Fetter, Jan. 30, 1946). An especially common request was for a collection of Fetter's key papers that would help to resuscitate the subjectivist cause in economic research and teaching, especially in response to the triumph of Marshallian price theory and the monopolistic competition revolution. For example, on March 27, 1928, Royal Meeker wrote Fetter that colleagues recommended that he challenge Irving Fisher's dominance in interest theory by resuming their debate through a reprint of their early articles (FAF). Fetter agreed that the idea was a worthy one, but the project stalled due to his many other professional obligations and the onset of the Great Depression, which made publishing far more difficult (FAF).[8] Fetter was continually on the lookout for help to bring his work back into the public eye, and by 1935, it seemed as if he had found it.

NOEL HALL AND THE LSE ECONOMISTS

A significant effort to republish Fetter's work was undertaken in the mid-1930s by the group of Austrian economists based in

[8] A similar fate met a later attempt by Fetter's former student, Vernon Mund, to produce a collection (FAF, Mund to Fetter, Mar. 27, 1943). Over the years many other people close to Fetter expressed general wishes for a collection of his writings, while still others encouraged him to write a systematic account of economic terminology (FAF J. P. Norton to Fetter, Dec. 12, 1912; J. E. Hamm to Fetter, Aug. 17, 1934) or a history of economic thought (G. A. Steiner to Fetter, July 8, 1937). The sources cited here provide only a small sampling of the requests Fetter received through correspondence, and do not include, for instance, similar requests made to him in person by his friends, colleagues, and students.

London, mainly at the London School of Economics. This group was led by Lionel Robbins and F. A. Hayek at the LSE, along with colleagues from University College London such as Paul Rosenstein-Rodan. The plan was mainly negotiated by another UCL economist, Noel Hall.

Noel Hall, later Sir Noel, was a master's student of Fetter's at Princeton in the late 1920s before returning to England, where he earned his PhD and became an influential member of the Robbins-Hayek circle in London. In 1935, Hall traveled to the US to present Fetter with an offer from Robbins and Hayek, "who owe a good deal to your work," to publish a large collection of his writings relevant to Austrian economics (FAF, Hall to Fetter, April 1935). Fetter quickly agreed, and together they began to draw up a table of contents. The main topics were to be value, rent, interest, and population (FAF, Fetter to Hall, June 4, 1935). This initial project was deemed too long, though, so a somewhat shorter version was agreed upon (FAF, Hall to Fetter, May 9, 1935; Hall to Fetter, June 10, 1935c; Fetter to Hall, June 4, 1935). Hall returned to England with the proposal, yet despite his early enthusiasm, nothing came of the planned volume.

A year later, on September 23, 1936, Fetter wrote to Hall to ask about his progress (FAF), and Hall assured him that despite delays, and even though he was in a "stupid, pathological state" about it, all was well in hand (FAF, Hall to Fetter, Oct. 16, 1936). At this point, however, the project seems to have been dropped. It is not clear exactly why, but personal conflict is the most likely explanation. In late 1935—between contacts with Fetter—Hall quarreled with Robbins over the latter's plans to found a national institute of economic research in England. Robbins believed Hall had undermined his efforts to fund the institute, and Robbins was furious. Hall had until then considered Robbins a close friend and personal ally, and their dispute deeply disturbed him (Howson 2011, 284–87). They eventually settled their differences, but the damage was done, and "Robbins never trusted Hall again" (Howson 2011, 287). Their working relationship mainly ended, and along with it, the planned Fetter book. Hall attempted to pass it to Paul Rosenstein-Rodan for publication through Allen & Unwin, but it never appeared (FAF, Hall to Fetter, Oct. 16, 1936).

FETTER'S LATER WORK IN SUPPORT OF SUBJECTIVISM

Parallel to this and various other failed efforts, Fetter gradually began to realize that if such a project were ever to come to fruition, he would have to handle it himself. From the early 1920s to the late 1940s, ultimately right up to his death in 1949, he attempted to do just this. The controversy mentioned above over his textbook chapters is one example, but he also undertook a series of other original projects intended to clarify and extend his early work, and to place it in historical context.

For example, in spring 1923 Fetter began writing a book on the history of the marginality doctrine. In the summer of the same year, he also wrote the bulk of a textbook for high school students that he set aside but revised again more than twenty years later, again without finishing. And some years later, in 1931, he revised his own university textbook, but likely due to the onset of the Great Depression, the publisher believed it was not a good time to bring out a new edition, and so this project too was halted. Unfortunately, all three of these incomplete manuscripts were destroyed after his death (FAF, "Frank Albert Fetter Listings/Archives Prepared by FWF," 1951). As a teacher, Fetter always encouraged his students to learn languages besides English, and he encouraged them to pursue their reading in the original wherever possible. In fact, so great was his enthusiasm that over the course of several decades he wrote a three-volume English-German dictionary with a special emphasis on word roots that he hoped would aid his students in navigating terminology. This work too was destroyed (FAF, F. W. Fetter to Livy, Mar. 30, 1949).

In all these projects, Fetter's choice of topics was driven by developments in economic theory in the 1920s and '30s. Two trends in particular captured his attention: the development of the doctrine of overhead costs pioneered by John Maurice Clark, and the monopolistic competition revolution inspired by Edward Chamberlin and Joan Robinson (FAF, "Overhead Costs," n.d.; "Duopoly Theory versus Antitrust Policy," 1941). Both had their roots in the work of Alfred Marshall, who in turn had been influenced strongly by the classical economics of David Ricardo. As a result, as Fetter criticized the newer theories, he found it necessary to return to their foundations, and thus to also criticize Marshall and the Ricardian tradition. This turned his attention naturally to the history of economic thought.

From his earliest days as a teacher, Fetter had lectured on the history of distribution theory, and toward the end of his career, he began to think about a more ambitious treatment of the subject. In 1937, he started seriously to consider writing a book on economic terminology, a favorite subject of his (FAF, Fetter to Robert T. Crane, Jan. 23, 1937). It was not until 1941, though, that he was able to draft a detailed book proposal and outline of the work, tentatively titled "The Language of Economics, with Special Regard to Ambiguities and Resulting Fallacies." The aim of the volume was a historical survey of major economic terms and of the errors in reasoning and policy that resulted from their ambiguity, inconsistency, and abuse. However, he offered the proposal to publishers without success. The Rockefeller Foundation, which had been a major source of funding for economic research in the interwar period, declined on the grounds that it simply did not have the money. Fetter was discouraged and announced his intention to work on other projects (FAF, Fetter to Joseph Willits, 1941).

He then shifted his attention to a different idea, a book on the development of economic thought after 1850, and especially the controversies over value, price, and distribution theory, in which he had taken a leading role. The initial volume he suggested was to be a collection of his most influential and rare papers on economic theory, along with several new contributions to give the project an overall unity (FAF, "The Revision of Economic Theory," Mar. 23, 1943). This time Fetter was more successful with his proposal, and in early 1943 he arranged to publish the manuscript, which he had titled "The Revision of Economic Theory," with Princeton University Press (FAF, D. C. Smith to Fetter, Apr. 6, 1943).

Fetter started to put the collection together, but as he worked, he began to alter his vision for the project (FAF, Smith to Fetter, Aug. 18, 1943; see also FAF, B. M. Anderson to Fetter, Mar. 12, 1945). The new manuscript was to include a greater amount of historical material relating to the development of economic theory in the classical period, beginning with Adam Smith. The plan was to use this brief survey as a foundation for discussing the subjectivist neoclassical period, which was to be the main focus. Fetter wanted especially to emphasize the valuable contributions of American economists in the eighteenth and nineteenth centuries, which he thought had been unfairly neglected in the history of economic thought. The more he worked, the more he felt he needed to write about the classical period. He continued to work on this project until his death in March 1949, by which time his ideas, and those of the other psychological economists, had all but disappeared from economics.[9]

MISES'S PRESERVATION OF FETTER'S WORK

The year 1949 is a crucial one in the history of Austrian economics. In September of that year, a few months after Fetter's death, Ludwig von Mises published *Human Action*, which preserved and extended Mengerian economic theory and thereby laid the groundwork for the revival of Austrian economics in the following decades. It was through Mises that Fetter's reputation survived.

Their published works give no indication that they knew each other, but the archival records reveal that Mises and Fetter had been personally acquainted since at least the 1920s.[10] For example, Mises visited Fetter at his home in Princeton in 1926 while on a visit to the United States to survey its economic conditions. Mises was at this time fascinated by business cycle research (Hülsmann 2007, 573–77), and it is not a coincidence that a few months later Fetter published his last extensive study of the problem of interest rates, a paper that later scholars such as Gerry O'Driscoll argue is very Austrian in its approach to interest and business cycles (Fetter 1927; O'Driscoll 1980).

Some years later, Mises, then in Geneva, wrote to Fetter to express his admiration for his work. Mises was at the time drafting *Nationalökonomie*, the German-language predecessor to *Human Action*, and he explained that "[i]n these last months I have reread your contributions on the theory of interest. It is my firm opinion that they

[9] Fetter's later projects involving the history of economic thought are discussed in detail in McCaffrey (forthcoming).

[10] They may have met even earlier during one of Fetter's visits to Vienna before the First World War.

are more important than any other contribution on the subject since Böhm-Bawerk" (FAF, Mises to Fetter, Feb. 5, 1938). Mises adopted Fetter's pure time preference theory of interest in his treatises (Mises 1998). Nor was this the only way in which Mises relied on Fetter's work: he cites him on problems relating to capital, rent, and the democracy of the market (Mises 1998, 262, 631, 271, respectively). Fetter is also remembered fondly in several of Mises's public writings and speeches as an outstanding teacher without serious peers in the rising generation of economists (Mises 2011; 24; 1974, 172).

In addition to academics, Fetter's work was also respected by liberal public intellectuals of the 1930s and '40s, who saw in him a fellow supporter of free enterprise. He was on good terms, for instance, with John T. Flynn, Garet Garrett, F. A. Harper, and Henry Hazlitt (e.g., FAF, Flynn to Fetter, Aug. 29, 1934; Garrett to Fetter, Mar. 30, 1935; Harper to Fetter, July 17, 1945; Hazlitt to Fetter Aug. 26, 1946).[11] Hazlitt listed Fetter's textbooks among the classics of economics, and in his popular writings questioned why economists like Fetter were sidelined from public discussion (Hazlitt 1956, 70; 2011, 772).[12]

ROTHBARD'S TWENTY-YEAR FIGHT FOR FETTER

It was in the references to Mises's *Human Action* that Fetter's name was discovered by Murray Rothbard, who took an immediate interest and drew extensively on his work in *Man, Economy, and State*. In fact, Rothbard regarded his own work as filling a fifty-year gap since the publication of the early systematic treatises by Fetter and the other psychological economists (Rothbard 2009, li–liii). His price and distribution theory in particular was thoroughly Fetterian. In addition to carrying forward the pure time preference theory of interest as Mises had done, Rothbard also thoroughly integrated

[11] At this point, Fetter's work as a public intellectual mainly concerned his opposition to monopoly and special privilege, including New Deal policies, and contained little of his earlier progressive views. These later policy crusades (for such they were in his eyes) likely played a role in diminishing Fetter's importance among economists. However, this is not to imply that Fetter's pro–market stance was solely to blame: his refusal to compromise at all on monopoly policy, especially on the issue of price discrimination, was a notable factor also.

[12] Fetter may have been the person who introduced Hazlitt's writing to Mises (McCaffrey 2019, 479).

Fetter's theory of rent into a general analysis of production and distribution (Rothbard 2009, 367–452, 453–508).

It is not an exaggeration to say that Rothbard recognized Fetter's importance more than any other economist besides Mises, and it was for this reason that he undertook to rehabilitate Fetter by making his work more widely available in its original form.[13] Integrating Fetter's ideas was not enough; Rothbard believed they deserved renewed attention in their own right, even though, in some cases, he disagreed with them. The most effective way to accomplish this goal was to gather Fetter's papers on distribution theory into one convenient collection that would represent a kind of treatise in its own right. As Rothbard explained to his friend and supporter Richard C. Cornuelle,

> [Fetter's] contributions … to interest theory were enormous, he being the first all-out time-preference economist, and he also contributed a great deal to rent theory. His rent theory I believe to be superior to Mises, who is still under classical influence in this respect, and Fetter's rent theory permeates my book. Fetter died several years ago, and needs to be resurrected; his journal articles attacking all forms of productivity theory of interest are brilliant. *To resurrect Fetter would be a particularly effective part of the neo-Austrian revival under way*. (Rothbard 1955a; emphasis added)

What Rothbard did not know was that this exact idea, right down to the table of contents, had already been proposed many times in the past, including by other Austrians. His remarks also help undermine another misconception about the history of the Austrian tradition: that its revival dates to 1974, to the conference held in South Royalton, Vermont, and the awarding of the Nobel Memorial Prize to F. A. Hayek later in the same year. As Rothbard points out, thanks to Mises, the Austrian revival was already getting underway in the 1950s. It would continue to grow throughout the 1960s, culminating in South Royalton rather than beginning with it (see also Salerno 2002).[14]

[13] According to Walter Grinder, Rothbard considered Fetter the second most important economist in the Austrian tradition after Mises (W. E. Grinder, personal communication, Jan. 31, 2018).

[14] In another letter, Rothbard similarly remarked that, "I think a resurrection of the now practically–forgotten Fetter would give a great spur to the Austrian Renaissance now under way" (Rothbard 1955b).

In any case, the final book was not an insignificant side project for Rothbard, but the fruit of more than twenty years of effort. His correspondence reveals that he had the idea for the book, and nearly the same title, in 1955—only a few years after Fetter's death—while he was in the midst of writing *Man, Economy, and State*. He first proposed the idea to Cornuelle, who was then helping to support Rothbard financially through Cornuelle's work at the Volker Fund (MNR, Rothbard to Cornuelle, Aug. 31, 1955), though nothing came of the project during this early period (MNR, Rothbard to Cornuelle, Jan. 8, 1956). While he waited for his own project to materialize, Rothbard recommended including Fetter's work in similar books such as Stephen Littlechild's reader, *Austrian Economics* (MNR, Rothbard to Louis Spadaro, Feb. 6, 1977; Littlechild 1990).

Rothbard shopped his book proposal around for many years with a variety of potential publishers. Augustus M. Kelley considered it, for example, probably because the house had also republished Fetter's book on basing-point monopoly (Fetter [1931] 1971), but Rothbard withdrew the proposal, apparently before a decision had been reached, to publish it elsewhere (MNR, Rothbard to Augustus M. Kelley, July 2, 1975). Eventually the book appeared through the support of the Institute for Humane Studies as a part of the Studies in Economic Theory series edited by Lawrence S. Moss (Fetter 1977). The official publisher of the book, Sheed Andrews and McMeel, was a Catholic publisher, and was far more at home printing the works of Ronald Knox and G. K. Chesterton than the economic theories of an American Quaker.[15]

The final title was *Capital, Interest, and Rent: Essays in the Theory of Distribution*. As this indicates, the contents revolve around the central theme of distribution, with special emphasis on capital, interest, and rent. In the preface, Rothbard praised Fetter's "challenging and original" theories and the "brilliance and consistency of his integrated theory of distribution," while lamenting "the neglect of Fetter in current histories of economic thought, even by those that are Austrian oriented." Rothbard also included a lengthy introduction in which he explored the individual papers in detail, pointing out their particular achievements as well as mentioning places where he believed Fetter's arguments went astray (Rothbard 1977).

[15] I am grateful to Walter Grinder for pointing out to me the publisher's Catholic roots.

Rothbard also strongly emphasized Fetter's consistency and refusal to compromise:

> It may be that the hallmark of Frank A. Fetter's approach to economic theory was his "radicalism"—his willingness to discard the entire baggage of lingering Ricardianism. In distribution theory his most important contributions are still too radical to be accepted into the *corpus* of economic analysis. These are: (1) his eradication of all productivity elements from the theory of interest and his development of a pure time-preference, or capitalization, theory and (2) his eradication of everything pertaining to land, whether it be scarcity or some sort of margin over cost, in the theory of rent, in favor of rent as the "renting out" of a durable good to earn an income per unit time. Guided by Alfred Marshall and by eventual retreats toward the older view by Böhm-Bawerk and Fisher, microeconomic theory has chosen a more conservative route. (Rothbard 1977, 23; emphasis in original)

He concluded that, "microeconomic analysis has a considerable way to go to catch up to the insight that we find in Fetter's writings in the first decade and a half of this century" (Rothbard 1977, 1).

Israel Kirzner expressed much the same opinion in a glowing review of the collection:

> Fetter carried forward the radical reformulation of economic theory which had begun with the marginal utility revolution of the 1870's, but which, at the turn of the century, was still far from being complete. Along with the new insights learned from the marginal utility theorists there remained pervasive and incongruous traces of earlier misunderstandings. These were particularly troublesome in the area of distribution theory, in the treatment of rent theory, interest theory, the concept of capital. Fetter attacked these problems with keenness of insight, with profound clarity of understanding, and with a delightfully lucid literary style…. Not only can the modern reader learn a great deal of the history of modern economics from this volume; these papers also demonstrate how economic theorizing can be engaged in by a master. It is a rare pleasure, these days, to encounter economic reasoning so elegantly presented, so powerfully yet lucidly argued. (Kirzner 1980, 8)[16]

[16] Kirzner also generously remarks that "[t]he *Introduction* is a gem in its own right, giving us Murray N. Rothbard, the economist, at his very best. Careful and wide scholarship, perceptive interpretation and keen criticism of Fetter's contributions, characterize this brilliant introductory essay" (Kirzner 1980, 8).

Given that the collection focuses on fundamental questions of economic theory, and that it does so from an essentially Austrian perspective, it should be considered just as important as the other key collections and research handbooks published in the mid-1970s (several of them in the same book series) that helped give expression to then emerging strands of Austrian research. In fact, the Fetter collection filled some important gaps left by those other collections, which focused on methodological and philosophical issues and on applied topics without exploring much of the core of economic theory: value, price, and distribution (e.g., Dolan 1976; Spadaro 1978).

However, due to its specialized nature, the book sold in limited numbers, and was mainly appreciated by the younger generation of academic economists who had discovered the Austrian tradition in the 1960s and 1970s. One way or another, though, the job was done, and Fetter's work was once more in a position to influence new generations of economists. And that is exactly what it has done, slowly but surely, for nearly fifty years.

THE FETTERIAN REVIVAL

Rehabilitating Fetter depends crucially on the availability of primary and secondary reference material for scholars to use in evaluating his ideas. Fortunately, there are now several studies of Fetter's life and work, though only some are readily available. The most concise is Rothbard's entry on Fetter in the *New Palgrave Dictionary of Economics* (Rothbard 1987a).[17] Jeffrey Herbener surveys Fetter's contributions in a larger and more detailed account that includes discussions of lesser-known topics in his work such as his views on money and on welfare economics (Herbener 1999). The most comprehensive source is a PhD dissertation by John A. Coughlan on "The Contributions of Frank Albert Fetter (1863–1949) to the Development of Economic Theory" (1965). It is an invaluable source of information about his ideas and professional activities, and devotes considerable space to Fetter's work on monopolistic combinations. It also includes a bibliography of his published writings compiled with the assistance

[17] Fetter is also featured in Rothbard's *New Palgrave* entry for "Time Preference" (Rothbard 1987b).

of his son, Frank Whitson Fetter.[18] Although expansive, the dissertation is remarkable for being entirely descriptive: Fetter's theories and debates are discussed in detail, yet Coughlan makes no attempt to evaluate them independently. In addition to these specialized sources, Fetter's work is also treated in broader studies of the history of economic thought in America by Wesley Claire Mitchell (1969) and Joseph Dorfman (1949).

Understandably, today Fetter's work is most prominent in economic research in and around the modern Austrian tradition (McCaffrey 2019). Here, he plays a large role in debates about familiar topics such as capital, interest, and rent (Lewin 1997, 2008; Lynch 2010; Herbener 2011, 2013; Topan and Păun 2013). However, this scholarship is being complemented by studies on entrepreneurship (Salerno 2008; Foss and Klein 2012, 48–50; McCaffrey 2016), the theory of the firm (Lewin and Phelan 1999, 2002), business cycles (O'Driscoll 1980), and monopoly (Salerno 2003, 2004).[19]

Outside the Austrian tradition, Fetter's work on capital is receiving renewed attention (Hodgson 2008), as well as his concept of consumer sovereignty (Desmarais-Tremblay 2020). Other scholars are investigating Fetter's progressive liberalism and his involvement with important figures of the Progressive Era (McCaffrey 2019; Leonard 2016, 164–65; Samuels 1985), factors which set him apart from many past and present Austrians.[20] There are also dedicated discussions of Fetter's interactions with different schools of economic thought (Hodgson 2008; McCaffrey 2019). The

[18] Rothbard later included this bibliography in his collection. Though a tremendous achievement, the bibliography overlooks a variety of Fetter's minor publications, and does not include his unpublished work or the various reprints and collections that have appeared since his death.

[19] Another more bizarre source on monopoly is the awkwardly titled *Three American Economics Professors Battle against Monopoly and Pricing Practices: Ripley, Fetter and Commons: "Three for the People"* (Schneider 1998). Although a good-natured attempt to discuss the role of American economists in the monopoly cases of the 1920s and '30s, the book is unfortunately an incoherent mess, and is, in truth, a vanity press publication.

[20] Fetter's work on population has been recognized as ahead of its time despite, or perhaps because of, its progressive, pessimistic, semi-Malthusian character. See his presidential address to the American Economic Association, which has also been reprinted in the *Population and Development Review* (Fetter 1999).

Fetter archives at Indiana University make new work in these and many other fields possible, as will the continued publication of his works by the Ludwig von Mises Institute. Lastly, the author is currently preparing a variety of Fetter's obscure, lost, or unpublished writings for publication.

Fetter would no doubt be enthusiastic about this renewed appreciation of his life's work. Nevertheless, he was wary about the pitfalls of an uncritical approach to economics and to the history of economic thought. He was especially concerned that his own views had been misrepresented or pigeonholed as derivative of older thinkers:

> [A]lthough all my years of systematic economic study were spent entirely under teachers of the German historical school, I was early tagged as an adherent of its foremost antagonist, "the Austrian school," because of my recognition of the substantial contributions of that school. For the same reason, I was frequently classified as a faithful disciple of John Bates Clark, and that, also, neatly disposed of the matter. Meanwhile, I was vigorously dissenting from some of the views of both friends in theory. Later, the Austrian label was again more frequently applied to me, alternating with "neo-classical," after that term had taken on a more confused meaning. I have even been called an "institutionalist"—a richly suggestive title which I would gladly accept if allowed to define it as I would like to. I have never been consciously a partisan adherent of any school or sect of economic theory, and have earnestly striven to prevent either pride of personal opinion or a mistaken sense of loyalty to the ideas of any writer or school from dimming my eyes to new ways to truth. I have continued to believe that sharp differences of opinion among economists on intellectual issues is consistent with mutual respect and lasting friendship, and that in such matters the one loyalty is to the search for truth, not to some theoretical hero, living or dead, or to some cult, past or present. (FAF, "The Development of Economic Theory from Adam Smith to John Stuart Mill, n.d.)

Given his own stance on labels and schools of thought, it seems likely that Fetter would approve of the way his works have been treated by contemporary Austrian economists, namely, as sources of great insight, but also as a basis for debate and criticism rather than objects of blind devotion. In that sense, the Austrian rehabilitation of Fetter has given him the fair treatment that he sought in vain throughout his career.

Development of Economic Theory from Adam Smith to John Stuart Mill

Fetter should have the last word on his own rehabilitation. I have already mentioned his last major project, a book on the history of economic thought. At the time of his death, Fetter had completed only about half of this study, namely, the part dealing with classical economics. Nevertheless, it is an impressive work in its own right, a full-length volume titled "Development of Economic Theory from Adam Smith to John Stuart Mill." It was Fetter's swan song: one last broadside against the Ricardian tradition and in favor of Mengerian subjectivism. In fact, at the time it was written, it was really the only effort by an economist working in the Austrian tradition to systematically study the history of economic thought from that perspective. And although incomplete, it is full of Fetter's characteristic wit and insight. It will soon be published for the first time, and will, hopefully, provide the basis for renewed attention to Fetter as an economist.

One point of particular interest is that the book at last gives us an idea of Fetter's broader view of the history of economic thought. In the first chapter, he explains the history of economics as a series of reactions and revolutions among competing theories of political economy. Each generation proposes a new political economy, which eventually becomes the old political economy before being overturned by some even newer doctrine. Yet Fetter did not subscribe to the Whig theory of history in economics. He recognized that these revolutions can be and often are disastrous for the progress of knowledge, and sadly, the later decades of his life gave him ample firsthand experience of how fleeting and incomplete was the revolution inspired by Menger, Jevons, and Clark. Most economists, indeed, missed this at the time, but Fetter's dogged support of the subjective theory of value allowed him to see what others overlooked. In this sense, this paper hopes not only to rehabilitate Fetter, but also his view of economics as one of constant struggle and competition.

CONCLUSION

In a sense, the history of economics is a history of rehabilitations. It is tragic that Fetter and others were unable in his lifetime, despite their best efforts, to preserve the progress that had been made in economic theory. Yet the careful scholarship and energy of Mises, Rothbard, and their students means that, however delayed, Fetter's rehabilitation is being brought to fruition, and his work is becoming foundational for a new generation of scholars. This revival, slow and halting as it has been, runs parallel to, and is a crucial part of, the renaissance of the Austrian tradition.

In the 1920s, Wesley Clair Mitchell confidently remarked that Fetter's ideas had up to that point provided a basis for "critical evaluation which has been going on for two decades, and which will doubtless continue for years to come" (Fisher et al. 1927). If there is any justice in the history of economics, Mitchell's optimism will be justified in the twenty-first century in ways that it was not in the twentieth.

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On Professor Ludwig Mises's 70th Birthday

Hans Mayer

Translated by Pedro Almeida Jorge, Francisco Litvay, and Ohad Osterreicher*

A distinguished personality from the scholarly circles belonging to the "Austrian School of Economics." Prof. Ludwig Mises, celebrates his 70th birthday today, far from but not alienated from his homeland. Educated at the "Academic Gymnasium" in Vienna, where so many men of significant importance for the cultural and political life of Austria originated, Prof. Mises turned to economic investigations already during his legal and political studies at the University of Vienna, initially under the direction of Prof Grünberg's research on economic history (the liberation of peasants in Austria), but very soon turning to the field of exact theory under the paramount influence of the teachings of Carl Menger, Böhm-Bawerk, and Friedrich Wieser, revolutionizing economic theory at the time. In this area, some difficult problems were still waiting to be solved

* Author note: This text contains the complete version of an article, honouring Professor Mises's scientific significance, that was requested from me by the Viennese daily newspaper *Die Presse* (see No. 896 of September 30, 1951), but that was printed only in very abridged form.

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and logically integrated into the new system based on the theory of subjective value. Above all, a theory of money was missing. This became one of the problems around which the scientific life work of Prof. Mises revolved. A second focus of his continued scientific interest laid in an organizational and sociological area: the analysis of the viability and performance of the different economic (structural) systems or organizational forms (the free market economy, the socialist planned economy, etc.). In both areas, Mises has strongly intervened in the scientific discussion of the most current issues through numerous publications. His habilitation thesis *Theorie des Geldes und der Umlaufsmittel* (1912, 2nd edition 1924) was undoubtedly a significant accomplishment for the period in which Knapp's *State Theory of Money* caused confusion (not only amongst the "practitioners"), but it was also—especially in its historical and critical remarks—an excellent introduction to the theory of money. The pursued end goal of deducing the value of money in its ultimate origins from subjective evaluations, however, was just as little achieved by Mises as in later investigation by Wieser, Zwiedineck, and Aftalion in their *Income Theories of Money*. Still, it must be noted that Mises already ascribed a very significant influence to the amount of cash-balances held by the various economic agents when it comes to the formation of the "objective" value of money (i.e., the purchasing power of money), thereby long anticipating Keynes's analogous remarks that were presented in a grandiose style. This is to be acknowledged, but it must not be overlooked that the respective size of cash-balances cannot be considered as an independent determining factor—by influencing the circulating quantity of money—for the causal explanation of the absolute value of money, for that reason alone that the size of the cash-balances is itself determined by the purchasing power of the monetary unit.

After a striking criticism of the classic "Banking Theory" (the theory of the automatic adjustment of the circulation of money substitutes to the demand for money) and with the severest rejection of any of the "controlled" inflations so often recommended and practiced in recent decades, Mises represents, with respect to monetary policy, and more specifically in what concerns central bank policy, the position—actually already stated in the most stringent form in the Statute of the former "Austro-Hungarian Bank"—that the central bank should confine itself to "cautious restraint in the issuance of means of circulation, in order to mitigate the disadvantages arising from changes in the purchasing power of money," while dispensing with all tasks which do not serve to preserve the value of money (in particular those of a cyclical and socio-political nature). This procedure would be more beneficial to the economy than the "striving for the realization of an impossible ideal," in the form of the complete stability of the value of money or, as it was recently represented in the literature (F. A. Hayek), of a "neutral money." In this sense, Mises has also been practically successful as an (unofficial) adviser to several Austrian central bank presidents. In addition to the already mentioned habilitation thesis, Mises dealt with the problems of monetary theory and policy in other publications, in particular in the treatise "Die Stellung das Geldes im Kreise der wirtschaftlichen Güter" (in the series *Die Wirtschaftstheorie der Gegenwart*, vol. II, 1932) and *The Theory of Money and Credit*, 1934, but also in considerable parts of his *Grundprobleme der Nationalökonomie*, 1933, and *Nationalökonomie*, 1940.

In the second of the main topics dealt with by Mises, the investigation of the various forms of socio-economic orders, covered in his publications *Die Gemeinwirtschaft. Untersuchungen über den Sozialismus*, 1st ed. 1922, 2nd ed. 1932; *Liberalismus*, 1927; *Kritik des Interventionismus, Untersuchungen zur Wirtschaftspolitik und Wirtschaftsideologie der Gegenwart*, 1929; *Socialism: An Economic and Sociological Analysis*, 1936; *Omnipotent Government*, 1944, and *Planned Chaos*, 1947, the focus lies also in his critical analysis. *Die Gemeinwirtschaft*, written in the period of the political struggle for "socialization" after the First World War, contains an arsenal of arguments against "socialization" in any form—especially that of a totalitarian planned economy—that has yet to be surpassed in its completeness, but whose degree of effectiveness cannot be discussed here. Whatever is said against the rationality of a socialist economy in the extensive literature today, especially by his former inner circle of students, can already be found in a scientifically more precise form in Mises's work.

In a positive sense, Mises advocates an individualistic, competitive economy, completely free from any interference or regulation by the state (which he calls "Interventionism"), as the ideal form of a national economy, i.e. "Liberalism" in the most extreme sense. And here his teaching starts to become unrealistic, and to the same extent to distance itself from the foundations of the "Austrian School" in its cognitive goal and method. It is understandable that the approval and opposition which his doctrine has found was determined less by scientific criteria than by membership to various political factions and economic interest groups. And equally understandable is the fatal misunderstanding in the judgment of wide circles, who are not accustomed to distinguish between scientific knowledge and confessions based on ideologies that, because this glorification of extreme liberalism, supposedly in the name of science, is espoused by a national economist who emerged from the "Austrian School," the "Austrian School of Economics" is the "School of Liberalism"! But nothing could be further from the truth. For the theory of the Austrian School, like any exact science, is based on the recognition of factual connections and is therefore not bound to any ideological world-view and certainly not to any party-political axioms and postulates resulting from them.[1] In its doctrine of economic value, it has found new insights into the basic connections of all economies, which can be used as instruments for explaining the economic processes in every economic order. One of these economic orders is the free market economy, and it is to aspects of this order that the theory of the Austrian School first applied the newly found discoveries: to the derivation of the laws of the formation of the competitive price and of the monopoly price, to the analysis of supply and demand, the theory of production, the determinants of the distribution of national income, etc. (The gradual development of the theory from this basis to the changes arising in the course of economic activity in case of a restriction of individual economic freedom is in full swing). But this does not in the least imply that the "Austrian School" demands a free competitive economy as the ideal economic order. Nor does it mean that it limits its object of study—as Mises demands—solely to "catallactics" (the processes of the exchange of goods in the market economy). And if we are to speak of postulates, it must be pointed out that, in today's discussion of economic policy, the alternative "extreme liberalism vs. totalitarian planned economy" is considered

[1] If one wants to make a postulate that is generally valid for the man of culture, then I consider the formulation that I myself have always advocated—and that is recently often quoted—as the most scientifically and ethically justifiable: "As much freedom as possible—as much commitment as necessary," subject to the specific circumstances (e.g. war economy).

to be unrealistic and obsolete, and the problem is now seen—and rightly so—as a question of the appropriateness and reasons for determining the respective extent of freedom and obligation.

It was necessary to make these observations in order to dispel misunderstandings (unfortunately already widespread) about the nature of the theory referred to as the "Austrian School." What Mises brings forward in the teachings recently outlined is outside the cognitive framework of the Austrian School, which deliberately leaves ideological questions to social philosophy. But this is not intended to detract from the evaluation of this highly personal achievement by Mises, which he presents with verve and consistency.

And with that, I have arrived at the personality of Mises as scholar and human being. It seems to me that this is the main feature of his character: absolute consistency in the pursuit of his scientific goals, unyielding rejection of all compromises (which sometimes almost led to intolerance towards foreign ideas), courage in the defense of his scientific convictions, which he was able to defend against numerous opponents (both in the problems pertaining to monetary theory and policy as well as in his sociological research) with the polemical sharpness and elegance acquired in the classes of Böhm-Bawerk. And—what has to be credited to him in particular: as one of the few among the not inconsiderable number of Austrian economists who, under the pressure of political circumstances (or voluntarily as the case may be), emigrated to the USA—where he has been a visiting professor at the University of New York since 1945—he has not been content to adapt passively to the new scientific milieu, but rather has always actively and successfully endeavored, in accordance with his convictions, to disseminate knowledge of the still far from exhausted theoretical edifice of the Austrian School and to work on its further development and utilization for the solution of current economic problems. That he will be able to do this for many years to come is the wish of his colleagues back in his homeland and at the same time of the University of Vienna, where he was a prominent teacher for so many years, on his 70th birthday.

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Book Review

Anatomy of Liberty in *Don Quijote de la Mancha*: Religion, Feminism, Slavery, Politics, and Economics in the First Modern Novel

Eric Clifford Graf
Lanham, Maryland: Lexington Books, 2021, 290 pp.

Allen Mendenhall*

"A major thesis of this book," Eric Clifford Graf says of *Anatomy of Liberty in Don Quijote de la Mancha*, "is that [Miguel de] Cervantes's great novel offers a realist bourgeois solution to the confusing labyrinth of tyranny, bondage, and corruption" that characterize early modern Europe (p. 3). Widely recognized as the first early modern novel, *Don Quijote* advances "positive themes like freedom, harmony, and progress" that commerce and exchange make possible (p. 3).[1] It falls, arguably, within the liberal tradition, advancing a distinctly humanist vision of liberty and, at times, a sardonic critique of undue coercion, containing "a significant set of

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[1] Following Graf, this review uses the spelling *Quijote* rather than *Quixote*.

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sophisticated casuistic lessons about liberty as an economic science of unusual complexity" (p. 180).

Don Quijote is a picaresque[2] featuring the ridiculous nobleman Alonso Quixano, or Don Quijote, and his simple sidekick Sancho Panza. Their carnivalesque, absurd adventures—comical spoofs on medieval, romantic, knight-errand legends of gallantry and chivalry—result in irony, hilarity, and, alas, tragedy. Criticism in the manner of wit rather than militant provocation or brute force is less likely to invite violent reaction, and Cervantes deftly and prudently employed the satirical mode to popular effect.

That *Don Quijote* is the first modern novel is no trivial fact. Compared to the high ecclesiastic treatises of the Roman Catholic Church or the urgent tracts and polemics of the Protestant Reformers, the novel itself was, in the seventeenth century, a proto-liberal medium of expression that represented bourgeois values: commerce, commercialism, trade, exchange, interaction, entertainment, and work. The internal form of novels, in fact, resembled (and resembles) the everyday hustle-bustle of their presumed audience. "The wide-ranging and all[-]embracing character of the novel at its best may be purchased at the prices of a certain disunity and inconsistency by the standards of strict poetic form," Paul Cantor (2009, 49) alleges, "but this is a price we are prepared to pay in return for the novel's greater ability to capture the texture of lived experience." Graf points out, as well, that "respect for women on a cosmic scale" was integral to "the novel form" (p. 55).

The point of a review such as this is to summarize and assess the subject author's leading, seminal arguments. Elements of Cervantes's plot, which Graf analyzes with depth and breadth, will not appear here. Graf, not Cervantes, is my focus. He sets out to clarify Cervantes's probable intents and decisions for *Don Quijote* by providing historical context to interpret details from the text, compare scenes in which Cervantes renders economics broadly conceived, and link *Don Quijote* to other works and thinkers who influenced, or may have influenced, Cervantes. To accomplish this objective, Graf arranges his case topically by themes that define the liberal tradition, namely "religious tolerance," "respect for women," "abolition of

[2] "A picaresque," Graf avers, "is an episodic and satirical type of narrative fiction" (p. 13).

slavery," "resistance to tyranny," and "economic freedom" (p. 5). Each chapter of this book tracks one of these themes.

It is probably too much to call Cervantes a classical liberal, so Graf, at the outset, cautiously posits that Cervantes *anticipated* and *influenced* classical liberals such as Hobbes, Locke, Montesquieu, Hume, Mill, and certain American Founders—to say nothing of the numerous Hispanic liberals who valued economic freedom and individual rights to varying degrees. By the end of his book, however, Graf changes his tune. His conclusion is surprising in its boldness: "So, am I saying Cervantes was a capitalist? An Austrian? A free-market Randian? A libertarian? An English classical liberal? In a general sense, yes, and probably to a greater degree than most readers recognize" (p. 189). Strong words, even if they are qualified by the adjective "general."

Graf dubs his book an "anatomy," the term Murray Rothbard employed for his *Anatomy of the State*. Both texts "dissect" their subjects, so to speak, as the scientist might probe the human body in all its intricate particulars. Graf joins Darío Fernández-Morera (2009, 101) in treating Cervantes "as a writer whose works present situations, statements, and ideas that illuminate sympathetically important aspects of the market economy, while providing material for a critique of collectivism, statism, and redistributionism."

The School of Salamanca is among the influences that Graf identifies as central to Cervantes's humanist style of religious tolerance. That is also the school, of course, from which Rothbard traced the origins of Austrian Economics. Graf sees in Cervantes Erasmus-like and quasi-Protestant sympathies, which, in his telling, seem more political (i.e., anti-monarchical) than theological or doctrinal. Protestantism thus understood placed a primacy on the individual, resisted state surveillance and persecution, advocated mass literacy and learning, and rejected ecclesiastic power and orthodoxy. "Cervantes was himself excommunicated," Graf adduces in support of his view (p. 32). Cervantes's "Protestantism," if that is the correct label, was historically and geographically contextual and in contradistinction to the systematic coercion institutionalized by the Spanish Inquisition.[3]

[3] "Cervantes criticizes the Inquisition as an immortal, brutal, random, superstitious, and hypocritical institution that suffers from considerable ideological inconsistency." Graf, p. 29.

Graf connects religious freedom with freedom of thought because they both concern “the limits of the state’s ability to control the inner lives of its citizens” (p. 17). A negative example of religious coercion against which Cervantes wrote was the Expulsion of the Moriscos under Phillip III. Here, a monarch exercised state compulsion to enforce religious conformity and oppress heretical individuals or groups. Graf notes that this religious and ethnic conflict occurred between the publication of the first and second parts of *Don Quijote*. The fact that state-religious censors cut irreverent passages from *Don Quijote* before its second edition appeared suggests the extent to which freedom of thought and religion are bound together. Cervantes’s strategic irreverence was “part of a dramatically down-to-earth discourse aimed at subverting orthodoxy” (p. 23). One explanation for why *Don Quijote* continues to appeal is that light humor is more enjoyable than violent sanctimony. Comedy, done well, has staying power.

Don Quijote “should be of great interest to feminists” (p. 55), according to Graf, for several reasons: (1) Because it “defends women characters against the kinds of brutality often practiced and permitted by the Islamic, Protestant, and Catholic men of his day” (p. 55); it “mocks the extremes of male sexuality” (p. 56); it depicts “comical, prosaic, and pathetic renditions of male fantasy” (p. 58); it portrays women “as no different from men when it comes to their moral status” (p. 59); and it “recognizes that since women get pregnant, their experience of sex is more consequential, both in terms of social stigma and material cost” (p. 59). Only a lengthy exposition beyond the scope of this review could adequately address Graf’s account of the multifaceted “feminism” (an anachronistic designation for Cervantes) communicated by *Don Quijote*.

The same might be said of Graf’s account of slavery, which, he says, is “essential to any serious understanding of *Don Quijote*” (p. 85) in light of Cervantes’s treble objections to human bondage: that “slavery itself is wrong, the new racial justification of it is absurd, and any material advantage it offers over a free labor market is likely an allusion” (p. 85). Equating slavery and skin color grew increasingly common during the seventeenth century, when Spanish investment in the slave trade increased and Cervantes himself encountered human bondage in Algiers. That experience, combined with his imprisonment for embezzlement, among other things, turned him against slavery. Graf credits the School of Salamanca and principles of natural law for

Cervantes's gradual opposition to slavery and claims that *Don Quijote* was part of a larger "Spanish innovation in early modern fiction" (e.g., *Lazarillo de Tormes* and *El coloquio de los perros*) that folded "the themes of race and slavery into a picaresque satire against slavery" (p. 87).

Of the five chapters of Graf's book, the fifth, regarding economics, is the most exciting, going great lengths to demonstrate the relevance and usefulness of Austrian economics to literary theory and criticism. Those familiar with the Austrian School, however, may flip past sections of this chapter that are addressed to an audience lacking economics training. For instance, Graf spends six pages describing subjective theory of value as articulated from Carl Menger to Rothbard. The wide range of economic concepts that Graf finds in *Don Quijote*—price theory, money, markets, usury, interest, debt, credit, inflation, counterfeiting, and more—testifies to Cervantes's sustained interest in that subject, which appealed to future classical liberals. "[T]he essential attraction of Cervantes's great novel for the likes of Locke, Hume, Jefferson, and Bastiat, all of whom emphasized individualism, private property, stable money, and free markets in lieu of market intervention and control," was, Graf submits, Cervantes's apparent proto-liberalism (p. 227).

Globalization, the "influx of gold and silver from the New World" (p. 175), economic treatises that Christianized business and trade, fresh financial practices and active commerce in and around Spain—these and other factors explain the economics that figures in *Don Quijote*. "Over the course of his life," Graf asserts, Cervantes "acquired tangible micro- and macro-economic knowledge about things like tax laws, the quality of different coins, and the gain, loss, and risk of a range of debt and credit arrangements" (p. 179). Graf maintains that Cervantes was economically sophisticated, comprehending "abstract concepts like Gresham's Law and the subjective theory of value, and that he grasped the folly and immorality of authoritarian decrees like price controls, penalties for usury, and compulsory exchange rates" (p. 180).

Because of the time and place in which Cervantes wrote, Graf's presentation of liberalism, which centers on Cervantes, seems to imply an incompatibility with, or opposition to, religious establishments and institutions. Yet there is an appreciable difference between religious establishments and institutions—especially those endowed with government or state power—and the movements and teachings of historical Christianity and those religious texts around which it developed. Larry Seidentop's *Inventing the Individual* supplies a cogent case for Christianity as an impetus for individualism and liberalism in the West. Graf's treatment of Christianity may have looked different had his subject matter been different.

Graf is a self-proclaimed independent scholar; he maintains no formal affiliation with a university, research institute, think tank, or other scholarly organization. That Lexington Books would publish an author without such establishment ties suggests that it is committed, chiefly, to intellectual merit and not, say, credentialism. Too many university presses would pass on this book because its author does not grace the Ivory Tower. That is a mistake because the quality and rigor of Graf's arguments far exceed that of many tenured professors in the hallowed halls of higher education.

Readers already familiar with Cervantes and *Don Quijote* are the target audience for this book, which might come in handy as a curricular supplement in a course on Cervantes or *Don Quijote*, the emergence of the novel as a literary form, Spanish literature, and so forth. The benefit of teaching Graf's perspective in a college classroom involves his counteraction of Marxist or quasi-Marxist—or at least anti-capitalist—exegeses and discourses that abound in humanities disciplines.[4] It has been over a decade since Cantor and Stephen Cox's *Literature and the Economics of Liberty* reached print, and optimism regarding a sudden flowering of libertarian literary criticism has, no doubt, diminished. But Graf's effort is one small deposit in a slowly growing stock of research that reconsiders literary texts with an eye towards liberty as a guiding good. There is, indeed, hope and promise for a more humane economics in literary theory and criticism. If we are patient, it will come.

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[4] "The vast majority of authors, critics, and professors of literature attend an anti-capitalist perspective regarding economic literary criticism." (Spivey 2020, 4).

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Book Review

The Price of Peace: Money, Democracy, and the Life of John Maynard Keynes

Zachary D. Carter
New York: Random House, 2020, 656 pp.

Jason Morgan*

On June 28 of 1944, John Maynard Keynes wrote Friedrich Hayek a letter. Keynes had read Hayek's *The Road to Serfdom* and was generally impressed with the book. But Keynes took exception to Hayek's failure, in Keynes' view, to point out exactly where to "draw the line" between government control of an economy and entrusting economic activity to free actors in a free market.

"You admit here and there [in *The Road to Serfdom*] that it is a question of where to draw the line," Keynes wrote Hayek.

> You agree that the line has to be drawn somewhere, and that the logical extreme is not possible. But you give us no guidance whatever as to where to draw it. […] But as soon as you admit that the extreme is

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> not possible, and that a line has to be drawn, you are, on your own argument, done for, since you are trying to persuade us that so soon as one moves an inch in the planned direction [i.e., in the direction of a planned economy] you are necessarily launched on the slippery path which will lead you in due course over the precipice.

The letter from Keynes to Hayek is quoted on page 347 of senior *HuffPost* reporter Zachary D. Carter's new intellectual biography of John Maynard Keynes, *The Price of Peace*. It is no coincidence that this letter, about where to "draw the line," should come at the heart of a biography of Keynes, because drawing the line between the government and the economy—trying, then failing, then trying again at a higher economic dimension, then failing again, and so on—was the very essence of Keynes's public life. Trying to find the "price of peace," to draw the line between government and money once the gold standard had been abandoned in the face of financial ruin after the Great War, was what made Keynes who he was.

Confronted with the intractable problem of how to get profligate governments, drunk on war, to stick to budgets and refrain from defacing the currency, Keynes proposed a series of solutions which, taken together, would later come to be called "Keynesianism." Keynesianism, in a nutshell, is the politicization of money. Keynes spent his life trying to find some alternative line to the gold standard which had prevailed into the early days of Keynes's public life, some way to let governments say what money is. He never found that line. The story of Keynes's life is therefore the story of the government takeover of currency, making John Maynard Keynes arguably the most important person of the twentieth century. Zachary D. Carter's study of Keynes's life in ideas is a must-read for anyone who wants to understand how Keynes, often reluctantly and inadvertently, made government the most powerful force on the planet, the consequences of which we are still dealing with today.

To say that Carter's study of Keynes is a must-read is not to say that it is perfect. What makes Carter's book so worth reading, in fact, is, in part, the author's blind spots. Carter does try to understand the arguments of Hayek, and of Ludwig von Mises and other Austrians, about money and why it is essential not to let governments tamper with it. (See page 193, for example, pp. 342–50 for Hayek as a punctiliously charitable Keynesian might see him, and pp. 467–68 for a good explication of Hayek's tiff with Milton Friedman over what Carter neatly calls "monetary therapy.") Carter is obviously partial to Keynes, but not a partisan. But Carter's prejudices sometimes also get the better of him, so that readers are occasionally left with stale rehearsals of statist platitudes and condemnations of "neo-liberalism" as the bugbear of the political economy. Carter's characterization of McCarthyism as "a political movement that fused conspiracy theorists with the American corporate elite and neoliberal intellectuals," for instance, takes him, and us, on a very interesting turn through the back pages of history, past National Economic Council founder Merwin K. Hart and Rose Wilder Lane, daughter of *Little House on the Prairie* author Laura Ingalls Wilder. (373–78) It is interesting, and useful, to see how a garden-variety liberal looks at these forgotten corners of economic history, so in that sense *The Price of Peace* is also recommended reading.

But these sidetracks are not the main line. Carter's book opens, as one would expect, with the Great War. The calamity unleashed by scheming politicians and double-dealing diplomats in 1914 wreaked absolute havoc with global trade, precipitating the currency problem that Keynes would be called into government service from a quiet life studying economics at Cambridge. "Free markets," Carter intones, revealing more than he probably intends, "were a luxury that a nation at war could not afford." (37) Keynes's job thus became to figure out how to retool the British Empire to survive the Great War, and the ensuing, harrowing, bankrupt peace, without the "luxury" of free markets and free trade.

During the war, Britain, like all wartime states, was trying to have things both ways. On the one hand, Britain wanted easy credit to keep the war machine running—the easiest method of credit for a state being simply to grant credit to itself and print more money. On the other hand, Britain needed to keep its currency on the level because the British pound was the trading floor of global commerce. "The British could inflate themselves into bankruptcy," Carter rightly laments. (39) "A sustained trade deficit would deplete Great Britain's gold reserves. Once those were gone, the government would be unable to purchase the food, munitions, and raw materials from abroad that it required to prosecute the war." (39) Carter also notes that Britain's blockade of its adversary, Germany, would go on to "claim hundreds of thousands of lives." (39) Britain wanted both free trade and wartime inflation and blockading—obviously contradictory desires. In short, then, because a line had been drawn between governments and a war prosecuted based on that line, governments had been forced to fudge, and later erase, the line between the state and the money. Once the old certainties of the British pound, free trade guaranteed by the British navy, and the world order provided by the British Empire began to vanish, however, the world fell into uncertainty.

Keynes's life was a miniature of this change from certainty to doubt. Keynes had been born into the splendor of the late British Empire, and, as he later recalled, that world had seemed a given. But with riches comes decadence, and Keynes's central involvement with a group of convention-flouting young radicals known collectively as Bloomsbury (earlier, "the Apostles") presaged the dissolution of a world that had been grounded in values which the rising Left viewed with disdain. Carter gives us a vibrant intellectual portrait of Bloomsburians such as Lytton Strachey, Virginia Woolf, E.M. Forster, and other free-spirits, showing how, to paraphrase Bertrand Russell, the Victorian staidness of imperial fixity had given way to Edwardian aloofness from politics. (27) But then came the guns of August. The Great War toppled a civilization which had theretofore seemed permanent, a fixture of the universe more than the latest iteration of a dynastic cycle. The world after August of 1914 was riddled with dizzying uncertainty. People grew willing to surrender freedom to strong central governments where once nations had met one another in business and peace.

The new dispensation of political upheaval meant that a new breed of man would thrive. Keynes was just that sort, who knew how to cut corners and turn a blind eye in order to keep his bank account in the black and growing. To put it bluntly, Keynes made a healthy side profit on the new stochastics of statism. While controlling more and more of the British economy during the war, Keynes was able to turn that control to his own private advantage. Not cricket for a Victorian, but for Edwardians anything went. In a way Carter rightly deems "ethically dubious for a man with access to the most sensitive economic secrets of the British government," Keynes "continued bidding on stocks and commodities throughout the war—a flagrant conflict of interest given the nature of his Treasury work, which required him to make personal decisions affecting the total price and supply of all kinds of commodities." (117) Carter partially absolves Keynes by noting that he did not always turn a profit from decisions he influenced at the government level, but this is hardly proof that Keynes was playing above board. Keynes grew fabulously rich during the war, and remained for most of his life thereafter a very rich man. (117) It is thus odd, or not, depending on how one views Keynes's bona fides, to find Keynes in 1929 co-writing an election pamphlet titled *Can Lloyd George Do It?* What Keynes and many others on the Left wanted George Lloyd to "do" was tame postwar unemployment by borrowing, printing, and spending money. Carter notes that in this tract, Keynes "fundamentally redefined what it meant to be a Liberal. The party of free trade and the gold standard had become the party of massive government investment programs and deficit spending." (171) Keynes wanted politicians to get a grip on government finance, but in the slipstream between governments and economies Keynes had managed to convert uncertainty to cash.

And yet, it would be unfair to portray Keynes as merely a grubber after money. He did, I think, have a highly attuned sense of how the world was changing, and he seemed to understand that much of the change was not for the better. Carter emphasizes Keynes's optimism,[1] but in reality Keynes was also fretful about what his ideas would bring about. Distress over what he may have unleashed by placing money under the purview of government seems to have driven Keynes to near distraction for a time. During the 1920s, in the wake of the Great War, Keynes "was periodically gripped by an obsession with ancient currencies." (187) "The old currency has become an uncontrollable madness," Keynes wrote in November of 1925, after spending several days and nights engrossed in the study of Babylonian money. (187)

Eventually Keynes arrived at a theory which prescinded from the Adam Smith orthodoxy of high liberalism, namely that markets predate governments. In his two-volume *A Treatise on Money* (1930), Keynes argues that money is basically "a political tool." (189) Keynes's studies of ancient coinage had led him to the conclusion

[1] "In the long run, we are all dead," Keynes's famous aphorism, is in fact an expression of Keynes' rather happy-go-lucky style, and not a morose statement of morbid nihilism. "Might as well live for the moment," Keynes seemed to be saying.

that states are the authors of currencies. Gold as the basis of free trade was not a natural fact, but a political decision. As Carter sums up Keynes's findings, "the true source of monetary stability was the public legitimacy of the political authority that happened to *choose* gold as its preferred medium of exchange. Money had no meaning absent political authority." (189) (emphasis in original) Indeed, gold coins themselves were "just a piece of bold vanity," in Keynes's view—what really mattered was that governments kept accounts in ledger books and tax records, essentially converting political authority into money as "unit of account." (188) It seems that Keynes's relief at finding that Babylonians had had a tight hold on currency was at least as much a matter of his own conscience as objective scholarly interest.

But while Keynes's investigations into the nature of early currencies were undoubtedly based in historical fact, what seems inescapable on reflection on Keynes's conclusion is that he has substituted gold currency as a natural fact with government as a natural fact. This is a step too far, the fatal step in the Keynesian worldview. Political scientist James C. Scott's most recent book, *Against the Grain: A Deep History of the Earliest States* (2017), makes the provocative argument that ancient states and empires did not really "rise" and "collapse," as though the states themselves were civilization. Closer to the historical truth, Scott argues, is that the people dominated by those polities were brought under and then freed from the yoke of government taxation as states "rose" and "fell." Which is to say, Keynes was wrong. Currency may very well be entangled with government accounting. I agree with Carter when he agrees with Keynes that "economic history" can be seen "as a fundamentally political story—the tale of riches conquered and surrendered by political powers as empires rose and fell." (189) But what came first, before there were states, were human communities with apparently no notion of—even an abhorrence of—taxation. Just because Babylonians had a monopoly on accounting does not mean that money *must* be political. The genius of Adam Smith and later economists of his stripe was to use currency, government's own creation (let us say, for the sake of argument), to limit the power of government. This was a recognition of an ancient and long-forgotten reality: Even if governments issue fiat currencies, it is not the same as saying the governments can convert fiats into reality.

Keynes did not make this distinction. The rest of the world turned turtle as a result. Keynesianism did not just put currency under the sway of politics, it made central governments (first national, then world) the arbiters of much of human activity. Keynes rebuked Hayek for not drawing a line. Keynes did not draw one, either.

Keynes should have known better than anyone that what governments basically do with taxes is use that stolen money to plunder further, shore up power, and wage war against other governments. Keynes admits as much. As Carter writes, quoting liberally from Keynes:

> The development of the modern economy […] was inextricably linked with the rise of European colonialism. When the Spanish conquistadors began shipping silver from the Americas back to Europe, they had sparked a rapid price inflation, causing prices to quintuple over the following eight decades. "In these golden years," [Keynes] wrote, "modern capitalism was born." […] Though Keynes cheerfully breezed past the implications of his analysis, he had presented a history in which the intricacies of the modern economy were the by-products of intercontinental pillage. […] The idea that modern financial systems were developed to meet the demands of warring states is widely accepted even among economic historians hostile to Keynes. "In the beginning was war," Niall Ferguson concluded in 2001. The Treatise, then, was an all-out assault on the intellectual foundations of laissez-faire. There was no such thing as a free market devoid of government interference. The very idea of capitalism *required* active state economic management—the regulation of money and debt. (189–90) (emphasis in original)

Given these conclusions, it is a wonder that Keynes could not see that the use of the gold standard to restrain marauding governments was the only way to prevent the thing which had repeated itself throughout history, from the earliest states: namely, the organized theft of resources by so-called "exchequers" and their equivalents, Babylonia to the Baroque Age. Instead of drawing the line at the amount of available gold, the only line proven to hold back a government itching to loot free people, Keynes moved in the opposite direction, toward world government, a government supposed to keep all other governments at bay. This is a most remarkable conclusion to draw from the evidence.

Thus we find Keynes at the negotiating table during the deliberate buyout of the battered British Empire by Wall Street. Keynes did not like the monied Americans buying up the remnants of Albion, but he was forced to admit that the logic was perfectly sound, however unsavory. And because Carter appears to follow Keynes in the *non sequitur* conclusion that because government is greedy, therefore government must control "capitalism" (this term is never defined, leading to bucking category shifts and jolting errors along the way), *The Price of Peace* is particularly weak on the Great Depression, which Carter sees as salvation of the American economy by Franklin Delano Roosevelt. (See Chapter Eight, "Phoenix".) However, what really saved the post-WWI economy from state-driven speculation and state-enabled market boom and bust was, of course, WWII. Once the American economy had been hooked on the war drug and the currency brought under government control, it was only more war that could provide the craved-for fix. FDR did not save capitalism, war saved FDR's re-election bid. But even though Carter hints in places that he understands that Washington's war to save state intervention in the economy was at least partially a product of the Keynesianism that made Washington's intervention in the economy politically possible in the first place, he still seems not to grasp fully that World War II was simply World War I multiplied by Keynes. Even so, however, the sections on the Roosevelt years are particularly interesting, as they provide glimpses into Keynes's interactions with the Americans that help round out the standard histories of the era.

The real triumph of Keynes's career came with Bretton Woods, the real reason that WWII was fought to the end. The Atlantic Charter, signed by FDR and British prime minister Winston Churchill in August of 1941, is often lauded as a high-minded statement of principles. What it amounts to, however, is a subtle transfer of title, the Americans declaring that the world will belong to them when the war is over, and England, in a face-saving maneuver, agreeing that as long as the Americans uphold certain principles (principles which the British Empire never upheld anywhere ever, even at home) the Empire could be theirs. Bretton Woods was the ingenious arrangement whereby the British Empire was bought out, wholesale, for the low, low price of quite literally a dollar. When Washington used Keynes's playbook to set up a globalist empire of dollars, Keynes was the one who laid out the theoretical floorplan for the world's new masters.

Here, too, Carter's book is most revealing. Carter skates past names such as Lauchlin Currie and Col. Edward M. House, scantly acknowledging their connection to world socialism until page 389, when he provides a somewhat lacking overview (no mention of Whittaker Chambers?) of the communist betrayal by so many Rooseveltians. I do not put Carter in this camp, but it has always struck me how blasé historians are when discussing Bretton Woods—the proceedings were crawling with communists and Stalinist agents, but reading most standard histories one would think all that was inconsequential, even a conspiracy theory. Carter's contextualization of Bretton Woods has helped me see, however, that there is no need to make a fuss over communists at the Bretton Woods table. Communism was just a less ambitious variety of the takeover attempt of the old British Empire, the takeover which the Americans pulled off with aplomb in the end. The British Empire was on the block—some vulgar communists bid a hammer and sickle, but the smoother breed of world socialists, many of them American, bid a worldwide currency instead, a paper scheme to bind all of mankind into one political arrangement. Currency as a political invention, indeed. Keynes built better (if that is the word) than he knew. The ancient Babylonians would have swooned with admiration.

Here we see that the difference between Muscovite and Washingtonian communists was that the former were thinking entirely too small. The Russians, to put it plainly, did not have the benefit of John Maynard Keynes. Bolsheviks wanted to control only the earth. New Dealers dispensed with the political quackery and simply gathered the entire universe together under the same balance sheet. What Cecil Rhodes had only dreamed of in mad hyperbole—"I would annex the planets if I could," Rhodes declared—Keynes helped make real. No later Washingtonian "moon shot" would have been possible had bureaucrats had to reckon with the realities of scarcity. Washington really did annex heavenly bodies. The Eagle landing was but one small step for a man, but one giant leap for the resting spirit of John Maynard Keynes. Once currency was decoupled from gold, then there was no restraint on imperialism other than the printing press.

The Price of Peace does not put things this way at all, of course, and because it relies on rather tired interpretations of Rooseveltianism and European fascism it asks the reader to suspend disbelief during the long stretch of wars and the tyrant-riddled interwar years.

However, the pace picks up again in the postwar, and Carter's book is especially strong the closer it gets to the present. Like the book, like the subject—Keynesianism in the postwar was hitting its stride. "For Keynesian economists," Carter writes:

> the late 1940s and 1950s weren't just an opportunity to flex their credentials [as Keynesian economists entered the ranks of the universities, think tanks, and government agencies, going mainstream]; the era seemed to vindicate their entire school of thought, as the federal government deployed the ideas of *The General Theory of Employment, Interest and Money* to manage the booms and busts of the business cycle. (371)

Carter here seems to betray an innocence of Mises's and other Austrians' carefully worked-out explanations of business cycles—the nutshell version is that governments do not manage them, governments cause them. Nevertheless, Carter takes us through a very tight history, rich in detail, of John Kenneth Galbraith, Richard Nixon, Gerald Ford, Alan Greenspan, Ronald Reagan, Bill Clinton, and the American trudge into a decidedly Keynesian new world order. Here one is reminded of Amity Shlaes's splendid book, *Great Society*, which has as a sub-plot the standoff between various American presidents and their Federal Reserve chairmen: Lyndon Baines Johnson glowering at William McChesney Martin, Richard Nixon plying Arthur Burns. One cannot understand why politicians should be menacing currency managers without understanding what powers Keynesianism put in the hands of central governments.

Carter's book ends with an appropriately somber note. As the failure of Lehman Brothers and a host of other rotten-apple firms—long propped up by government and the "exorbitant privilege" (to borrow a phrase from a slightly different context) of getting dollars hot off the government printing presses in a pinch—fell one by one, Carter notes that the Federal Reserve stepped in with massive outlays of cash to keep the "faltering international banking system" from collapsing. (521) "With the gold standard long gone," Carter writes, "there was no need to worry about reserves running dry." (521) "THIS IS THE PROBLEM," I wrote futilely in the margin beside this paragraph. Alas. What Keynes wrought was the endless intervention of the government into the economy. Keynesianism has become a kind of depressing episteme in its own right, the justification for the "remedies" of endless stimulus for devastation which stimulus caused in the first place. Keynes's various ideas got boiled down into an ideology, and that ideology now drives the American, and world, economy over fiscal cliff after fiscal cliff. Not cheerful.

I am not the only one who sees a strange disconnect between Keynes the man and Keynesianism. Keynes's disciple Joan Robinson, a minor but important character in *The Price of Peace*, also soured on Keynesianism, or at least on those who came after Keynes and claimed, falsely as she saw it, to speak in his borrowed timbre. Carter explains that Robinson "understood Keynesian thinking as a *doctrine*—a way of thinking about the world and its problems that could compete with other great philosophies in human history, a system of thought akin to Buddhism or Marxism." (414–15) Robinson watched in "horror," Carter writes, as those who called themselves Keynesians got "the dogma [of Keynesianism as a system] all wrong." (415) By the late twentieth century, Carter argues, politics had again surrendered to markets, with the World Trade Organization, the World Bank, and other supranational organizations taking over from nation-states. (497–501) Joan Robinson wrote in the *Journal of Post-Keynesian Economics* in 1979 that "the international economy is not a self-balancing system," and that the United States and Great Britain were "exceptionally vulnerable" to unregulated trade. (502)

It is along this argumentative track that Carter can assert that "the market was powerless to determine whether [Lehman Brothers] was solvent" during the crisis of 2008. (518–19) But, just as with Keynes nearly a century before, it was surrendering the market to politics in the first place that produced the catastrophe of lending houses entangled with one another in regulations and Washingtonian grift. Keynesianism had been vindicated, in a backhand way. People still have no idea where to draw the line between the government and the economy, once that first fateful line is crossed and a currency is made into an instrument of the state.

The Price of Peace may not get the "dogma" of Keynesianism right, at least not in an Austrian key. But despite this, or perhaps because of it, *The Price of Peace* is an essential read. This is how the world looks to Keynesians, and Carter, with admirable even-handedness (if also the occasional ham-fistedness in economic analysis), has presented the Keynesian world to readers, warts and all. He has also tracked the contours and vicissitudes of Keynes's public and private life, “drawing a line” between thinker and reputation and providing an excellent portrait—again, warts and all—of a centrally important man.