

# the **Austrian**

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## **A Corona Crisis Reader**



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# From the publisher

## Jeff Deist

*"If you don't make stuff, there's no stuff!"*

Tesla founder and rocket maker  
Elon Musk, on *The Joe Rogan Show*

Elon Musk, longtime recipient of federal green energy subsidies, has seen the light. Like millions of other Americans, including the editorial staff at mises.org way back in March, he now understands the COVID-19 crisis largely as state-created insanity. We, meaning doctors, nurses, employers, market innovators, property owners, and individuals of all stripes, could have overcome the virus. After all, it primarily affects older and immunocompromised people and to date is no more lethal than recent pandemics.

But we can't overcome anything locked up in our homes, with business shut down, with civil liberties effectively suspended, and with Congress vying with the Fed to effect the most outrageous stimulus. And we certainly can't easily overcome the deep and lasting harms that the economic shutdown will cause, from widespread unemployment and shuttered small businesses to depression and alcoholism.

In other words, government officials chose to risk a second Great Depression over what amounts (at least statistically) to a bad cold or flu season in terms of actual deaths. This was a mistake, the proportions of which are only now becoming apparent.

Will the Crash of 2020 go down in history as the greatest self-inflicted wound in human history?

Musk and millions of people across the West now sense this possibility. Government edicts in America have been heavy-handed and arbitrary, to put it mildly. Like all "nonessential" California businesses, Musk's Tesla manufacturing facility was shuttered by Gavin Newsom, the Golden State's more coiffed version of Andrew Cuomo. Up against production deadlines, and watching his bottom line deteriorate, Musk ordered his workers back to the assembly line, promising to join them and accept police arrest in their stead. He went public via his Twitter account, terming the lockdowns "fascist" and calling for politicians like Newsom to be "tarred, feathered, and run out of town."

Polls indicate that more and more Americans now agree with Mr. Musk, but will this shift in public sentiment prove too little too late?

On paper, at least—and certainly by Trump's telling—the US economy was extraordinarily strong prior to the Corona Crash. Unemployment and price inflation by standard measures were low, GDP growing, and stock markets rising. Sure, there were nagging worries about federal deficits and debt, questions about whether the Fed could ever "normalize" its balance sheet after the fall 2019 repo shocks, and signs of weakness in several retail sectors. But most economists, specializing in trees rather than forests, saw nothing but clear sailing ahead.

Enter the COVID-19 virus in February, and we quickly saw just how shaky our American prosperity really was. We also witnessed the almost comical inability of our "public health system" to respond to the virus with anything resembling competence or discernment. Suddenly, 2020 America feels anything but strong or robust. Do economically robust families and businesses lack even a few months' worth of savings? Was the US economy actually in deep financial trouble before the virus, needing only a precipitating event to expose the debt-ridden bubbles everywhere? Can a virus really justify a business shutdown which the Atlanta Fed estimates will cause a 40 percent drop in quarterly GDP?

This issue of *The Austrian* is devoted to exploring how the lockdown, and not the coronavirus itself, exposed the weakness of an economy built on debt and financial engineering rather than productivity and capital accumulation. COVID-19 will be the excuse for the economic crisis, but our job is to tell the real story and not let politicians and central bankers rewrite history. And so we have essays from Per Bylund, Philipp Bagus, Ryan McMaken, Zachary Yost, William Anderson, and Thorsten Polleit to help demystify and explain the 2020 crash. As always, the way forward starts with understanding where we are and how we got here.

As always, our book reviewer extraordinaire David Gordon is here to puncture the pretenses of a deserving author—in this case, former World Bank economist Branko Milanovic and his weak-tea defense of muddled capitalism. We also hope you'll take the time to read about happenings here at the Mises Institute, where we've been bustling throughout the crisis to serve a huge spike in interest and website traffic. And in lieu of live events, we have begun a series of Friday webinars you won't want to miss—as I have some very special guests planned.

Finally, we mourn the loss of an exceptional young man. Everyone at the Mises Institute has the Beane family in their thoughts and hearts.

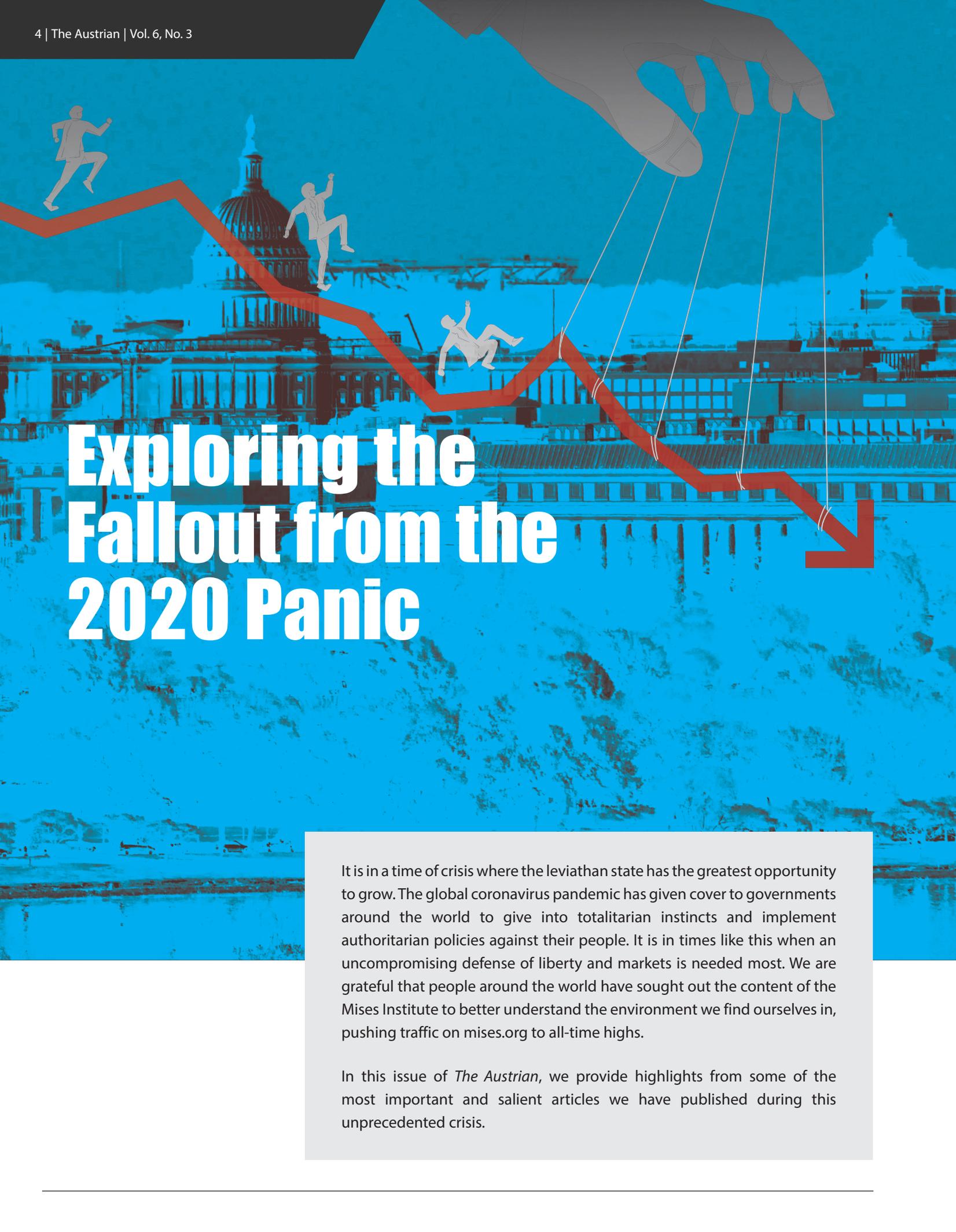
*Requiescat in pace,*

Leonidas M.G. Beane. 




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Jeff Deist is president of the Mises Institute.

A hand from the top right corner is pulling a red line graph downwards. The graph starts with a small peak, then drops significantly, ending in a downward-pointing arrow. The background is a blue-tinted image of a city with a large domed building, possibly a capitol. Three stylized figures in suits are shown: one running up the first peak, one climbing the first drop, and one falling off the second drop.

# Exploring the Fallout from the 2020 Panic

It is in a time of crisis where the leviathan state has the greatest opportunity to grow. The global coronavirus pandemic has given cover to governments around the world to give into totalitarian instincts and implement authoritarian policies against their people. It is in times like this when an uncompromising defense of liberty and markets is needed most. We are grateful that people around the world have sought out the content of the Mises Institute to better understand the environment we find ourselves in, pushing traffic on [mises.org](https://mises.org) to all-time highs.

In this issue of *The Austrian*, we provide highlights from some of the most important and salient articles we have published during this unprecedented crisis.

# The Benefits of a Free Society during Pandemics

by Per Bylund



In this time of crisis, many exclaim how impressed they are by the “swift and decisive” actions by the Chinese regime. Instead of recognizing the abhorrent disrespect for human life, the Chinese response is put forth as an exemplar for combatting a pandemic.

These hailers conveniently forget the many weeks of silencing and censorship that preceded the brutal shutting down of the city of Wuhan and the whole Hubei Province. They also turn a blind eye to the nature of hierarchy and bureaucracy, pretending what is needed to choose proper action is simply power and that access to accurate, reliable information is of little concern.

The calls for a strongman solution are misguided at best but have been used to paint the picture of freedom as being impotent. Per the strongman delusion, libertarianism would seem to lack exactly what is needed for “swiftly and decisively” dealing with a pandemic—centralized power...

But a centralized solution also makes us more vulnerable. An example might illustrate this. Consider the difference between a structured, centralized national defense and an armed populace. Switzerland is the popular example of the latter, but this is not a unique idea. For example, Sweden’s defense comprises both a traditionally structured military and the Home Guard. While you can rather easily cripple the military by taking out a couple of their bases, the decentralized and dispersed forces of the Home Guard are almost impossible to wipe out.

What does this have to do with a virus pandemic? It illustrates the false promises of centralization, which is a costly and inadequate solution that in fact makes a society more vulnerable. The same argument applies whether it is the national defense, centralized education, or the monopoly of the CDC. A centralized command structure offers only a false sense of security.

Libertarian society has exactly the decentralized structure that our present society is lacking. Rather than a pyramid with information selected and repackaged on its way up and orders issued from the top, it would be a collaborative network of individuals and neighborhoods. A neighborhood affected by an outbreak could quickly and easily choose to contain the virus, perhaps in collaboration with adjacent neighborhoods. Others could choose to temporarily quarantine themselves to not get infected.

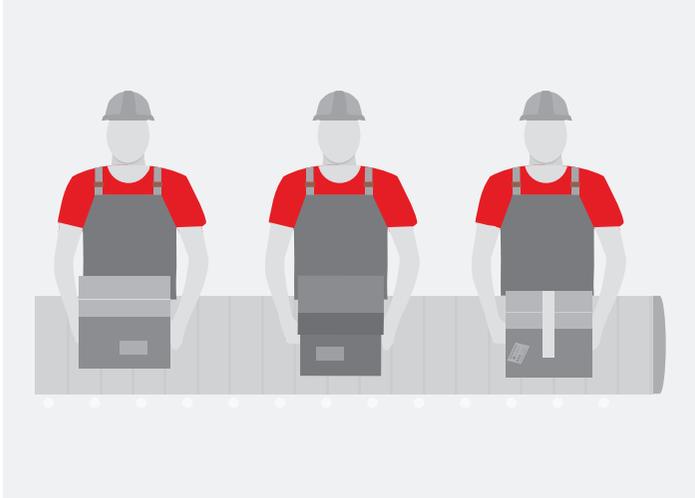
There would also be little reason for them to not share information. While the Chinese apparently believed they didn’t have to do anything, other than silencing whistleblowers, a government is typically not held responsible for its failures. It’s the other way around: a government agency that fails in its task is not punished, but instead offered larger budgets and more discretion.

In rather stark contrast, a libertarian neighborhood that chooses to suppress vital information about an outbreak could (and would) be held liable for the harm caused to others. They face the same mechanism as the private store owner, who would be liable if s/he welcomed those knowingly carrying a virus to enter the premises and infect other customers. It is thus in their interest not to hide the facts, as is the government *modus operandi*, but to share the information and get in front of the problem.

None of what is appropriate action during an outbreak or pandemic requires central command. The downsides of centralization in fact make matters worse and are what made us vulnerable to begin with. The many calls for increased centralization, and their outright dismissal of libertarianism and freedom as “impotent,” are fundamentally confused. Rather than being reasonable and rational, these outcries are emotional and contrary to fact. They are but symptoms of the strongman ideology.

# Calls for Central Planning in the COVID-19 Panic Are like the Calls for the “War Socialism” of Old

by Philipp Bagus



The similarity between the reasoning in favor of war socialism and the arguments that have been brought forward during the corona emergency is striking. Today war rhetoric abounds. Emanuel Macron explicitly stated, “We’re at war,” and sent, as in Spain, the military to the streets. US president Donald Trump similarly speaks of “Our Big War” and invokes the wartime authority of the Defense Production Act. We hear the slogan “We are in this together” all the time.

Mises discusses German war socialism during the First World War in detail. He points out that Emperor Wilhelm II basically lost all powers to the General Staff. General Ludendorff “became virtually [an] omnipotent dictator,” he explains in *Omnipotent Government*, and subordinated everything to the war effort.

Winning the war was thought to be the outstanding goal, which could only be achieved by centralizing all powers.

These powers were given to the military. After all, they were the experts in military matters.

Today, we face a similar tyranny of experts, to borrow a term from William Easterly. In the medical emergency, enormous power lies in the hands of doctors such as Anthony Fauci in the US or Christian Drosten in Germany. These experts advise governments on what to do—for instance, which size of gatherings shall be prohibited (events of 1000, 100, or 3 persons), if and for how long economies shall be locked down, and if the wearing of masks shall become mandatory. And politicians follow the advice of the doctors. After all, they are the experts...

The central medical planning focuses only on measurable variables such as the infection rate. By not taking into account other ends (and not being able to do so), this planning exerts enormous harm from the point of view of voluntarily interacting individuals. In contrast to the central planning approach, which focuses on one end, all ends in human society are taken into account in the market economy through (expected) profits. Production is adjusted swiftly and efficiently toward the changing ends of consumers.

It is entrepreneurial profit seeking that unleashes human creativity and genius and thereby satisfies human needs as

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efficiently as humanly possible. The right answer to a war, and to the corona war as well, is therefore to eliminate all barriers to entrepreneurship. Mises said:

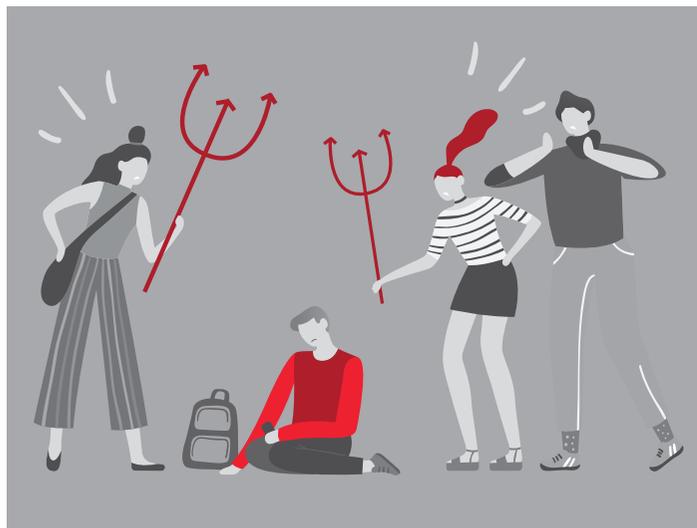
“For anyone of the opinion that the free economy is the superior form of economic activity, precisely the need created by the war had to be a new reason demanding that all obstacles standing in the way of free competition be set aside.”

In other words, in order to win the corona war, government should cut taxes and regulations vigorously. Unfortunately, governments around the world have opted for the opposite path, namely war socialism. If they do not quickly rectify their responses and end their war, the socialization of our economies will continue. Mises warns: “in the long run war and the preservation of the market economy are incompatible.”

## The COVID-19 “Lockdowns” Are What Twenty-First Century Mob Rule Looks Like

by Ryan McMaken

As of April 6, forty-one states have statewide “stay-at-home” decrees in place. These orders vary widely from place to place.



In some states, there are long lists of exempted industries including marijuana dispensaries, liquor stores, hardware stores, and of course, grocery stores. In some states with these edicts, public lands, state parks, and beaches remain open. In some states, city parks are more crowded than ever as local residents, with little else to do, attempt to recreate. In other places—such as California—one can be arrested for paddleboarding all alone in the ocean.

Yet in all of these places, the current regime of rule by decree will have—and already has had—a devastating effect

on many small and medium-sized businesses and their employees. As governments have created new arbitrary definitions of what constitutes an “essential” business, some businesses find themselves forced to close. Employees have lost these jobs. The owners of these enterprises will likely lose far more as debts mount and business investments are destroyed. As unemployment and poverty increase, the usual pathologies will arise as well: suicides, child abuse, and stress-induced death.

Yet the politicians—mostly state governors, mayors, and unelected bureaucrats—remain popular. In New York State, where the lockdown orders are among the most draconian in the nation, it is now claimed that 87 percent of those polled approve of Governor Andrew Cuomo’s handling of the situation. As Donald Trump’s administration has recommended ever harsher government limits on the freedom of Americans, his poll numbers have only improved.

Meanwhile, among critics there appears to be a misconception of these lockdowns (which are very often only partially imposed or enforced) as being imposed over the howls of the local population, which is being silenced and cowed by jackbooted local police.

If only that were true. In most places, it appears clear that a great many residents approve of the lockdowns. We see this support in the form of all the local scolds who complain on nextdoor.com about neighborhood children who don’t properly engage in “social distancing.” We see it in the people who call the police to report violators of stay-at-home orders. We see it in those who report local businesses for allowing too many people inside...

Thus, we’re not witnessing a usurper regime imposing unpopular measures on a resistant but helpless citizenry. We’re more likely witnessing widespread mob rule, the central characteristic of which is rule by the majority with no regard for the rights of dissenting minorities. The government may now be ruling by decree, but it is in many places doing so with the hearty approval of the majority. Politicians have calculated that they’re likely to remain popular so long as they cultivate an image of “decisive leadership” through strong decrees and demands for compliance in the name of safety. As Cuomo’s surging popularity suggests, this may be a safe political move.

Certainly there are those who resist. There are those for whom the rule of law, the Bill of Rights, and basic freedoms actually matter. But for others, principles such as these are quickly forgotten once fear and anxiety enter the picture. The rights of minority groups (such as business owners or old-fashioned Bill of Rights enthusiasts) mean little or nothing once the majority—conditioned by years of public schooling to demand a government solution to nearly everything—decides that such rights are an inconvenient obstacle to “doing something.”

The public demands action.  
Politicians are more than  
happy to oblige.

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## Anthony Fauci, the “Learned Ignoramus”

by Zachary Yost



As the COVID-19 shutdown across the US continues, one cannot but help see the importance of specialization and the division of labor time and time again, as many Americans deal with true shortages of goods for the first time in their lives. Specialization has allowed us to enjoy a much more prosperous life than we would were we all to do everything ourselves. However, as with everything in this

imperfect world, specialization comes with certain tradeoffs that are important to understand. As the unemployment numbers continue to rise by millions more every week, as meager savings are eliminated, and as our highly organized society slides into chaos it is important to understand the way in which an unbalanced intellectual specialization has contributed to bringing about the current crisis.

In his 1930 book *The Revolt of the Masses*, Spanish philosopher José Ortega y Gasset addresses what he considers to be a strange byproduct of the prevalence of specialization in everything, specifically the intellectual sphere.

“Previously,” he writes, “men could be divided simply into the learned and the ignorant, those more or less the one, and those more or less the other.” Now, however, a new kind of person has emerged, “an extraordinarily strange kind of man” who cannot be called “learned for he is formally ignorant of all that does not enter into his specialty,” yet at the same time cannot be considered “ignorant because he is ‘a scientist’ who ‘knows’ very well his own tiny portion of the universe.” Thus, Ortega y Gasset says that the only fitting name for such a person is a “learned ignoramus.”

There can be no doubt that numerous learned ignoramuses can be found in all parts of society, but most importantly they are very clearly involved in the response to the COVID-19 virus, as sweeping calls for months of lockdown make clear.

Dr. Anthony Fauci, director of the National Institute of Allergy and Infectious Diseases and seen by many as the face of the federal virus response, has perhaps made the most ridiculous assertion, stating at a White House briefing on April 1 that “we could ‘relax social distancing’ once there’s ‘no new cases, no deaths,’ but the real turning point won’t come until there’s a vaccine.” Similarly, Dr. Zeke Emanuel, an architect of Obamacare and current advisor to Joe Biden, declared that it will be impossible to return to “normalcy” for eighteen months and that no matter the economic cost: “The truth is we have no choice...We cannot return to normal until there’s a vaccine.”

Such ideas are frankly madness, and would take an incalculable toll on the health and wealth of all Americans. Tens of millions of Americans find themselves out of work or with reduced hours or pay. The idea that society could continue to exist in such a state betrays a lack of any understanding of the social order...

The phenomenon of the learned ignoramus can be seen in every field and at all levels of intellectual life and popular punditry. However, the current crisis reveals the damage such “experts” can wreak upon civilization itself.

Ortega y Gasset fully recognized the important role that specialization has in making modern life possible; however,

Two such balanced intellectuals are without a doubt Ludwig von Mises and F.A. Hayek; although economists, they could be more accurately called social thinkers whose work encompassed far more than that of the typical economist today.

he calls for a balanced intellectual specialization, in contrast to the unbalanced *status quo* that he fears threatens the advancement of scientific discovery itself. Two such balanced intellectuals are without a doubt Ludwig von Mises and F.A. Hayek; although economists, they could be more accurately called social thinkers whose work encompassed far more than that of the typical economist today.

Rather than insular, unbalanced specialization, Mises argued that “He who wants to achieve anything in praxeology must be conversant with mathematics, physics, biology, history, and jurisprudence.” Hayek similarly

warned that “Unless you really know your economics or whatever your special field is, you will be simply a fraud. But if you know only economics and nothing else, you will be a bane to mankind, good, perhaps, for writing articles for other economists to read, but for nothing else.”

Undoubtedly, the entire situation would look entirely different from the chaotic disruptive mess it is now if our public health officials and social scientists were trained in the mold of Mises and Hayek. Whereas both men stressed the complex and ultimately fragile nature of the social order, and therefore the need for broad understanding of this complexity, the learned ignoramus, in the words of Ortega y Gasset, “believes that civilization is there in just the same way as the earth’s crust and the forest primeval.”

Every time the “experts” demand that life be halted into the indeterminate future, they vindicate Ortega y Gasset’s observation that the learned ignoramuses are ignorant of the very nature of the social order itself and are therefore a menace to its preservation. This crisis demonstrates how prescient

Ortega y Gasset’s warning was. Hopefully it is not too late to prevent a true societal catastrophe.

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# Airline Bailouts Destabilize the Economy and Inflate Asset Prices

by *William L. Anderson*



In the end, after all of the political posturing and all of the speeches and exhortations for Congress to “do something,” a \$2 trillion “coronavirus stimulus” bill landed on the president’s desk for The Donald to sign. And sign he did, uttering all of the platitudes and everything else that comes with “historic” spending legislation that never should have seen the light of day. Although COVID-19 has helped expose vast weaknesses in public health systems in the USA, it also has shown that with much of corporate America, the emperor has no clothes.

Although tracking where the money goes is not an easy thing, we do know that the airlines will receive about \$50 billion in cash and loans, while Boeing will receive a share of \$17 billion earmarked for industries favored by Congress. Another \$500 billion will go to cruise lines, hotels, and other firms that have lost business because of travel restrictions and the economic shutdowns.

Politicians of both parties heaped praise upon themselves for their “bipartisan” efforts, which in real life only can mean that Congress cleaned out what was left of the IOUs in the till. Rep. Thomas Massie, a Republican from Kentucky, drew attacks from all sides as he tried to force a roll call vote (as opposed to the voice vote that the members wanted) and announced his opposition to the bailout. President Trump called for his expulsion from the Republican Party while Democrats declared him to be an unsavory ideologue.

There is not much to do but to wait for the results, and they will unfold over time. However, much of this bill’s harm is invisible, the way that termites quietly but surely destroy a house when homeowners fail to detect them. The politicians and the pundits, along with corporate executives, are hailing this infusion of public funds to business as a lifeline to the economic system itself, when, in reality, it will weaken these firms in the long run.

This commentary deals mostly with the airlines, but what we say here applies to any firm receiving rescue funds and loan guarantees. While some of these essentially bankrupt firms gain some relief as taxpayers and consumers pony up to pay the companies’ bills, the temporary cash infusion allows them to kick the financial can down the road and not deal with the underlying problems that they are facing, at least for now...

There is not much to do but to wait for the results, and they will unfold over time. However, much of this bill's harm is invisible, the way that termites quietly but surely destroy a house when homeowners fail to detect them.

Although most politicians and airline executives want us to believe that airlines are an “essential” industry that is the equivalent of the “thin blue line” between prosperity and a

depressed economy, the markets see things differently. First, and most important, with the current situation there is no way that airlines can meet their loan payments, issue stock dividends, or even pay all of their employees at current rates (including their executives). Faced with that situation, the healthier companies would most likely come to terms with their creditors and restructure their finances.

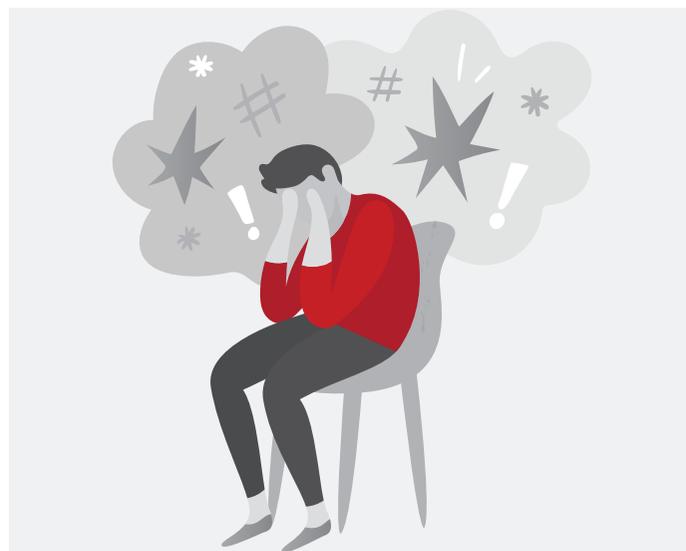
The unlucky firms, however, would go into Chapter 7 bankruptcy, with all assets sold to pay off their creditors. That means massive layoffs, fewer flights—and realistic valuation of their assets. If the economic need for airlines really were as great as airline executives and political pundits claim, then whoever has purchased those assets at bargain prices would be able to put them to use in no time. The industry will have had its necessary cold-water bath, and asset values, along with prices of airline tickets, would settle at true market values, not the bloated numbers that pollute current airline balance sheets.

Because the “bad effects” of allowing airlines to go under would result at first in massive layoffs, bankruptcies, and fewer passengers in the air, the media and political classes would be condemning those who voted down the federal largess. “Bad effects,” not surprisingly, are quite visible and the plight of the newly unemployed and of stranded travelers plays well on the news.

The “good effects,” however, are less visible. By the time airline assets were sold at bankruptcy auctions and new companies hit the airport runways with market-priced capital and market-paid employees, the media would be on another crusade and the resurrection of airlines would not receive the coverage it deserved.

By shoveling out cash to the airlines and more promises to the banks whose unsteady solvency always lurks in the background, Congress and Trump have perpetrated a financial fraud greater than much of the mess we saw on Wall Street more than a decade ago. Yes, they will receive praise in the media and votes from those grateful to have taxpayers pay their wages and salaries, but they have solved no problems and have created a generation of new ones. Almost surely we will be covering the next crisis in these pages.

## How to Think about the Fed Now *by Jeff Deist*



The Great Crash of 2020 was not caused by a virus. It was *precipitated* by the virus, and made worse by the crazed decisions of governments around the world to shut down business and travel. But it was *caused* by economic fragility. The supposed greatest economy in US history actually was a walking sick man, made comfortable with painkillers, and looking far better than he felt—yet ultimately fragile and infirm. The coronavirus pandemic simply exposed the underlying sickness of the US economy. If anything, the crash was overdue.

**The coronavirus pandemic simply exposed the underlying sickness of the US economy. If anything, the crash was overdue.**

Too much debt, too much malinvestment, and too little honest pricing of assets and interest rates made America uniquely vulnerable to economic contagion. Most of this vulnerability can be laid at the feet of central bankers at the Federal Reserve, and we will pay a terrible price for it in the coming years. This is an uncomfortable truth, one that central bankers desperately hope to obscure while the media and public remain fixated on the virus.

But we should not let them get away with it, because (at least when it comes to legacy media) the Fed's gross malfeasance is perhaps the biggest untold story of our lifetimes.

Symptoms of problems were readily apparent just last September during the commercial bank repo crisis. After more than a decade of quantitative easing, relentless interest rate cutting, and huge growth in "excess" reserves (more than \$1.5 trillion) parked at the Fed, banks still did not have enough overnight liquidity? The repo market exposed how banks were capital constrained, not reserve constrained. So what exactly was the point of taking the Fed's balance sheet from less than \$1 trillion to over \$4 trillion, anyway? Banks still needed money, after a decade of QE?...

So monetary "policy" as we know it is dead as a doornail. What central banks and Fed officials do no longer falls within the realm of economics or policy; in fact the Fed no longer operates as what we think of as a central bank. It is not a backstop or "banker's bank," as originally designed (in theory), nor is it a steward of economic stability pursuing its congressionally authorized dual mandate. It does not follow its own charter in the Federal Reserve Act (e.g., impermissibly buying corporate bonds). It does not operate based on economic theory or empirical data. It no longer pursues any identifiable public policy other than sheer

## The Fed is, in effect, a lawless economic government unto itself.

political expediency. Fed governors do not follow "rules" or targets or models. They answer to no legislature or executive, except when cravenly collaborating with both to offload consequences onto future generations.

The Fed is, in effect, a lawless economic government unto itself. It serves as a bizarro-world *ad hoc* credit facility to the US financial sector, completely open ended, with no credit checks, no credit limits, no collateral requirements, no interest payments, and in some cases no repayments at all. It is the lender of first resort, a kind of reverse pawnshop

which pays top dollar for rapidly declining assets. The Fed is now the Infinite Bank. It is run by televangelists, not bankers, and operates on faith.

## The Destructive Effects of the Coronavirus Relief Package

by Thorsten Polleit



Governments and their central banks have put together mega-bailout packages. In the US, President Donald J. Trump has signed off on a \$2 trillion "virus relief package" amounting to around 10 percent of the US gross domestic product. It is meant to provide massive financial support—in the form of loans, tax breaks, and direct payments—to large and small businesses as well as individuals whose revenue and income have been destroyed by the politically dictated "lockdown."

What is more, the US Federal Reserve (the Fed) has provided a colossal "backstop" to financial markets. It injects ever higher amounts of central bank money into the financial system by buying up all sorts of credit instruments—not only government bonds, but also mortgage debt, corporate bonds, commercial papers, etc. The Fed thereby props up financial asset prices, keeping the cost of credit artificially low and, most importantly, avoids payment defaults on a grand scale.

In fact, the Fed is at the heart of all these rescue measures, for the US administration does not have the money to finance all its promises. The US Treasury will issue new bonds that will be bought by the Fed, which thereby creates new US dollar deposits in the hands of the US government. These are then transferred to the bank accounts of entrepreneurs, consumers, and most of all to government beneficiaries (its employees, service providers, and contractors). As a result, the newly created money shows up in people's bank accounts, increasing the stock of money in the economy.

Beyond that, the Fed purchases credit instruments—bonds and bills (and perhaps even other assets at some stage). As it does business with banks, the Fed ramps up the central bank money supply to the interbank market: banks hand credit papers over to the Fed in exchange for newly created central bank money deposits. As a result, the “excess reserves” of banks increase and credit risk is taken off their balance sheets. Equity capital is freed up and can be used to increase lending to corporates, consumers, and, of course, government entities. This also contributes to the increase in the outstanding money stock.

If and when the Fed purchases credit products from, say, hedge funds, mutual funds, and insurance companies, the quantity of money will also be increased: these market players will hand unwanted credit products over to the Fed in exchange for deposits held with commercial banks. These new money balances can, and most likely will, be used to purchase other assets (e.g., stocks, land, commodities, etc.).

It becomes obvious that the mega-bailout package will effectively result in an increase in the quantity of money in the economy. Sound economics tells us what the consequences are: the increase in the quantity of money will result in higher goods prices, thereby lowering the purchasing power of money. In other words: the mega-bailout package boils down to “money printing”—to an inflationary policy. Again, sound economics tells us that inflation is a policy redistributing income and wealth among people: it does not create a win-win situation; it creates winners and losers...

**Sound economics tells us that inflation is a policy redistributing income and wealth among people: it does not create a win-win situation; it creates winners and losers.**

Today, the policy of printing new money to hold up an economic and financial system that cannot last is being pursued again—as it has been in the past, on many occasions. The question is not whether money will lose its purchasing power. It is just a question of how much and how quickly. The best-case scenario is that the economic slump will be overcome quickly and, as a result, central banks will not have to monetize too much debt and issue too much newly created money.

But even then the underlying problem will not be solved; it will merely be postponed, because the government-controlled unbacked paper money system will predictably lead to ever greater amounts of debt on the part of entrepreneurs, consumers, and, most importantly, governments. At some point, debtors will no longer be in a position to service their debt. This is the point at which the unbacked paper money system collapses altogether through payment defaults, or when governments begin to issue ever greater amounts of money in a last-ditch effort to fend off the inevitable. That said, economies that have become addicted to unbacked money will, at some point, be confronted with a “recession-depression” à la 1929 or a German hyperinflation à la 1923.

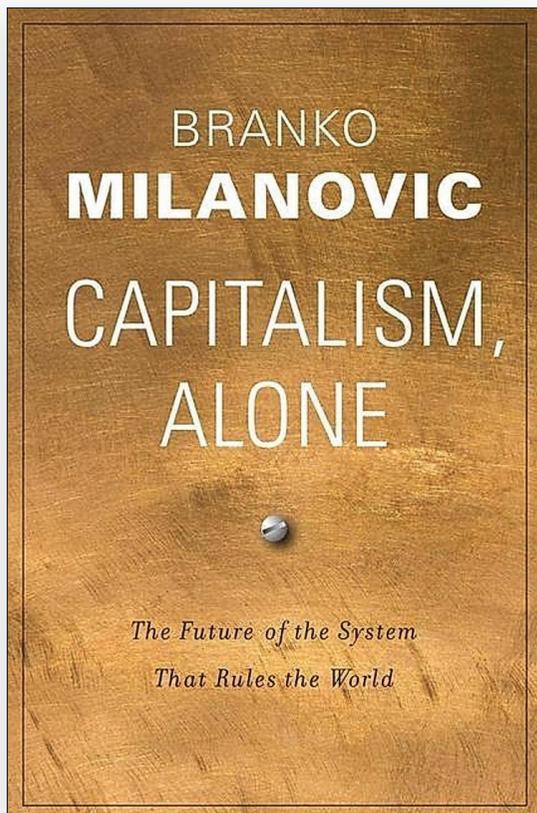
Meanwhile, however, governments and central banks' mega-bailout programs may very well succeed in keeping the artificial boom going—that is, in transposing the approaching economic and financial bust into yet another boom, thereby preventing the system from collapsing. One

thing, however, is certain: the official currencies—be it the greenback, the euro, Chinese renminbi, or the Japanese yen—will most likely lose their purchasing power. The truth is that they have never been a reliable means to store wealth—and never will be. ■■■

# THE LEFT GETS CAPITALISM WRONG. YET AGAIN.

## DAVID GORDON REVIEWS

Capitalism Alone: The Future of the System That Rules the World  
By Branko Milanovic  
Harvard University Press, 2019  
287 pages

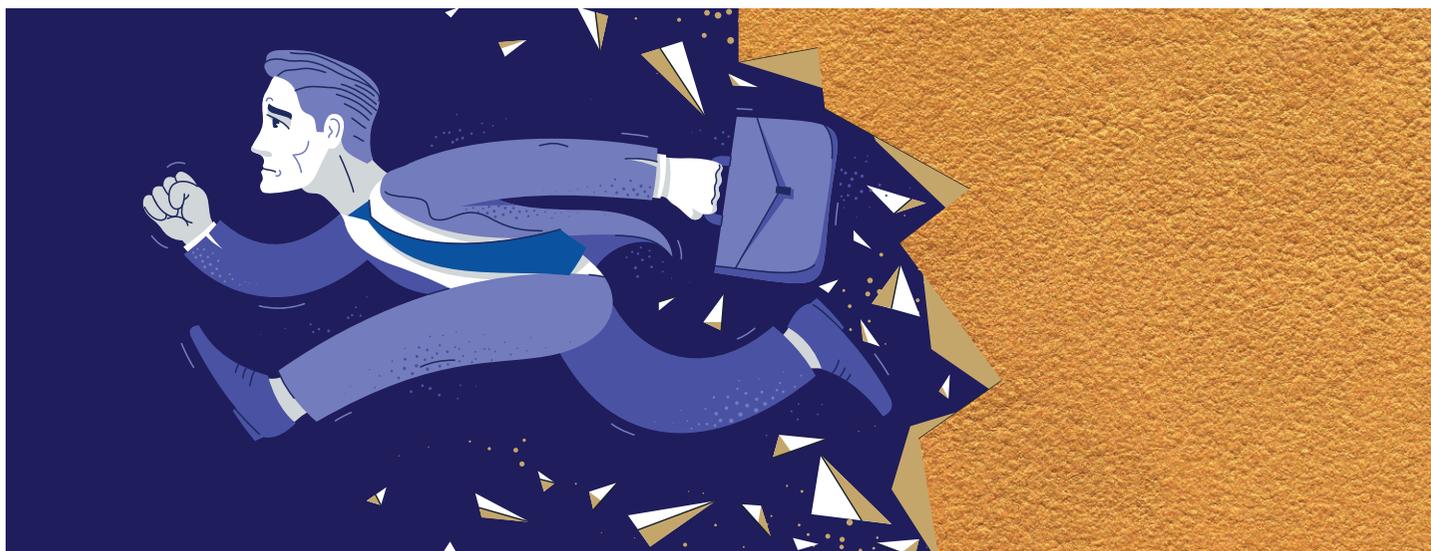


At first, one might be tempted to toss this book aside. Milanovic, who used to be lead economist at the World Bank’s research department, is a specialist in global inequality. He esteems the work of Thomas Piketty. He spends a great deal of time on proposals to make “liberal meritocratic capitalism,” his name for the economic system we live in, more egalitarian. If you care more about doing well than about whether people are “equal,” why bother with *Capitalism, Alone*?

In answer, the book has some good insights, along with bad but instructive arguments. The book’s main thesis can be summarized quickly. The choice the world faces is between two varieties of capitalism, liberal meritocratic and political. America is the foremost example of the first of these, and China of the second. The Chinese system features much more government control.

Why does he think this is the choice the world faces? Why not socialism? His answer is that capitalism is immensely more productive, and that the system pushes people to support the values that sustain it.

The fact that the entire globe now operates according to the same economic principles—production organized for profit using legally free wage labor and mostly privately owned capital, with decentralized coordination—is without historical precedent....None but capitalism remains today, except in very marginal areas with no influence on global development....The uncontested dominion of the capitalist mode of production has its counterpart in the similarly uncontested ideological view that money-making not only is respectable but is the most important objective in people’s lives, an incentive understood by people from all parts of the world and all classes....We live in a world



where everybody follows the same rules and understands the same language of profit-making.

Here Milanovic falls for an old fallacy. People wouldn't try to make more money unless the capitalism pushes them into it:

When money becomes established as the sole criterion by which success is judged (as is the case in hypercommercialized societies) other hierarchical markers vanish (which in general is a good thing), but the society also sends a message that "being rich is glorious," and that the means used to achieve glory are largely immaterial—as long as one is not caught doing something illegal.

This pressure to make more money cannot be easily escaped:

We thus reach the conclusion again that the only way to defy the commercialized world is by withdrawing from it altogether, either through personal exile in a secluded community, or, in the case of larger groups like nations, by embracing autarky.

Of course this is nonsense. People want a wide variety of goods and services, and making money enables you to obtain those that can be bought. Most people don't have an irrational craving for money, but they do value prosperity. What is wrong with that? Oddly enough, Milanovic recognizes this himself. In the course of an excellent criticism of the view that robots will cause mass unemployment, he says:

Hence the second "lump" fallacy: human needs are limited... we tend to assume that human needs are limited to what we

know exists today and what people aspire to today, and we cannot see what new needs will arise with new technologies.

Milanovic launches another criticism of capitalism. If the free market is the best conceivable social system, how do you explain World War I?

Why did fascism and communism become powerful if humanity—and certainly the advanced liberal capitalist countries—was on the right path in 1914? We encounter here a fundamental problem that the liberal capitalist view of history faces: explaining the outbreak of the most destructive war in history (up to that point) within a system that, from a liberal point of view was fully consonant with the highest, most developed and peaceful way of organizing human society.

This argument rests on a misunderstanding. Promoting international trade and peaceful relations was indeed in the interest of the great majority of people in 1914. But it does not follow from this that people judge their interests correctly. The governments of the major European powers in 1914 were dominated by militaristic ideas inimical to peace and prosperity. Given this fact, the outbreak of war is not at all hard to understand. Readers who want further details might with profit consult the classic work of Sidney Bradshaw Fay, *The Origins of the World War*. Milanovic wrongly takes support for the free market to entail a theory of history that makes the triumph of the market unstoppable once it has arrived.



Milanovic has an answer to this, but it leads him to another fallacy, this one especially instructive. He thinks that imperialist rivalries led inevitably to world war.

World War I did not just come out of the blue: its seeds were contained in conditions prevailing before the war....Lots of income in the hands of the rich...caused a disproportion between the (high) amount of savings and the availability of profitable domestic investments....Several major states all sought to expand their reach in this way at the same time, and imperialist competition ensued. The situation, when translated into European politics, produced the war.

Readers acquainted with Austrian capital theory as found in the works of Mises, Hayek, and Rothbard need no instruction from me on the Keynesian errors in the “oversavings” argument just given. I wish instead to call attention to another fallacy. This is the assumption that a “structural” or “systemic” explanation of a historical event is automatically better than one that stresses individual human decisions. Milanovic takes for granted that this is so but gives no reason for it. He mocks the view, “least convincing of all,” that the outbreak of war stemmed from “the idiosyncrasies of individual actors, mistakes, and accidents (A.J. P. Taylor).” You will find the same undefended position that a

“structural” explanation is better than an individualist one in the work of the great contemporary Marxist panjandrum Perry Anderson. It’s a pet peeve of mine.

As I mentioned before, not everything in this book is bad. I’ve already quoted Milanovic’s excellent comment about robots and new technology, and he makes other insightful comments. He mentions

The fallacy of the lump of labor doctrine, which holds that the total number of jobs is fixed and that as the new machines take over jobs they will cause many workers permanent unemployment....We know that similar fears have always existed and have never been realized. New technologies ended up creating enough new jobs, and actually more and better jobs than those that were lost.

He strikes a decisive blow at a key mistake of the “sustainable growth” movement.

The third “lump” fallacy is the “lump of raw materials and energy” fallacy, the idea of the so-called carrying capacity of the earth. There are of course ultimate geological limits to the supply of raw materials, simply because the earth is finite. (Note however that the cosmos, at least from our small, human perspective is indeed unlimited.) But experience teaches us that the terrestrial limits are much wider than we generally think at any one time because our knowledge of what the earth contains, and how it can be used for our needs, is itself limited by our current level of technology. The better our technology, the more reserves of everything we discover, and the more efficient we are in using them.

These days a universal basic income (UBI) is popular on the left and the right, but Milanovic has no use for it. He finds in it a basic problem:

Society might become very polarized, with, say, some 20 percent of the working-age population choosing not to work at all...while the middle class would. Would such a society, where work is not treated as something intrinsically good and desirable...be considered a good society?

Thus, there are some valuable points in *Capitalism, Alone*. But they are few and far between. You wouldn’t miss that much if you did toss the book aside. ■■■

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David Gordon is a Senior Fellow at the Mises Institute, and editor of the *Mises Review*.

# WE'VE BEEN BUSIER THAN EVER!

These are challenging times for opponents of state power and central bank malfeasance. First principles have never been more important. The Fed can't save us, and neither can Congress. Stimulus, bailouts, and more cheap credit won't make us richer or healthier, but they will delay the inevitable. Our fight against the state and its banking cartel has never been more important, and if traffic to mises.org is any indication, the public is looking for answers.

## HIGHLIGHTS FROM MISES.ORG: January 1 – April 30, 2020

In the first quarter of 2020, mises.org had over 6,005,789 unique pageviews, an increase of 48.72 percent versus the same period in 2019. April 2020 was our biggest month ever, with 1,953,481 unique pageviews, up 93.70 percent from April 2019.

With many of our readers having more time on their hands, in April we offered **Quarantine Chronicles: A Shelter-at-Home Series**, a series of essays, articles, and clips focusing on deeper understanding of basic principles. The three topics offered were praxeology, political decentralization, and the history of the Austrian school. Read online at [mises.org/series](https://mises.org/series).

**4,483**  
downloads of  
"Anatomy" during April

We published **Anatomy of the Crash**, an online collection of articles highlighting the work of contemporary Austrian economists on the state of the modern financial system. Austrians have long been warning that mainstream rhetoric, MMT, and Keynesian policies would set the world up for another financial crisis. Read online at [mises.org/anatomyofthecrash](https://mises.org/anatomyofthecrash).



**6,196**  
downloads of the  
"Quarantine Chronicles"  
during April

The **MISES WIRE (MISES.ORG/WIRE)** offers articles with contemporary news and opinions through the lens of Austrian economics and libertarian political economy. *The Wire* had 2,723,917 unique page views. **THE TOP THREE:**

1. "In March, US Deaths from COVID-19 Totaled Less than 2 Percent of All Deaths" by Ryan McMaken
2. "End the Shut Down" by Jeff Deist
3. "When Governments Switched Their Story from 'Flatten the Curve' to 'Lockdown until Vaccine'" by Ryan McMaken

**POWER & MARKET (MISES.ORG/PM)** offers a contrarian take on world events. We favor individual freedom, honest history, and international peace, in the tradition of Ludwig von Mises and Murray N. Rothbard. There were 526,783 unique page views to the P&M blog, **THE TOP THREE:**

1. "Police Have No Duty to Protect You, Federal Court Affirms Yet Again" by Ryan McMaken
2. "Swedish Ex-Prime Minister Rebukes Bernie: Socialism Only Destroys" by Alice Salles
3. "Mayor 'Kane' Questions Lockdown after 'Utterly Shocking' Suicide Spike" by Nick Hankoff

Mises.org isn't just about articles and books. We produce informative **PODCASTS (MISES.ORG/MEDIA)** as well. Give a listen to one of our primary podcast series: *Human Action*; *Accad & Koka Report*; *Historical Controversies*; *The Bob Murphy Show*; and *Economics for Entrepreneurs*. This quarter we had 336,683 individual downloads, **THE TOP THREE:**

1. *Understanding Money Mechanics* with Bob Murphy
2. *Human Action Part One* with David Gordon
3. *Why You Should Read Human Action in 2020* with Shawn Ritenour

In March we began offering **AUDIO MISES WIRE (MISES.ORG/AMW)**, narrated versions of our popular *Mises Wire* articles, contemporary news and opinions through the lens of Austrian economics and libertarian political economy. It was enthusiastically received. **THE TOP THREE:**

1. "Anthony Fauci: When Politics Trumps Science" by Bill Anderson
2. "This Bust Wasn't Caused by a Virus" by Mark Thornton
3. "This Crisis Will Not Bring Americans Together and Maybe That Is a Good Thing" by Zachary Yost

Mises.org makes available **FREE PDF DOWNLOADS (MISES.ORG/BOOKS)** of hundreds of books and articles. We had 1,130,728 downloads. Amazingly, *Human Action* had 37,622 downloads this quarter. **THE THREE MOST POPULAR DOWNLOADED BOOKS:**

1. *Human Action*
2. *Introduction to Economics* by John V. Van Sickle
3. *International Trade* by Gottfried Haberler

Along with the PDF editions of our books, we also offer ePUB downloadable editions. There were 106,239 downloads this quarter.

We have a wide and diverse **YOUTUBE (MISES.ORG/LIVE)** channel with nearly 100,000 subscribers. During this period 441,646 people viewed one or more sessions.

#### THE TOP THREE:

1. "Michael Malice on North Korea's 'Economy'"
2. "Money, Banking, and the Federal Reserve"
3. "John Chisholm: The Tools and Techniques for Success in the Entrepreneurial Process"

We have been providing **SPANISH TRANSLATIONS (MISES.ORG/ES)** of our *Mises Wire* articles and *Power & Market* posts for a little more than a year now, and interest continues to grow. There were 339,313 unique pageviews this quarter, an increase of 441.83 percent from this period in 2019. **THE TOP THREE:**

1. "¿Cuál es la diferencia entre liberalismo y 'neoliberalismo'?" por Ryan McMaken
2. "La tragedia de la entrada de Estados Unidos en la Primera Guerra Mundial" por John L. Chapman
3. "4 razones por qué el Socialismo falla" por Antony P. Mueller

**MISES.ORG/ES** is more than translations of articles; you can find Spanish translations of books, monographs, talks, lectures, essays, and more. It has grown into one of the highest-trafficked Spanish-language sites offering a nonmainstream perspective, with 600,296 unique pageviews. **THE TOP THREE:**

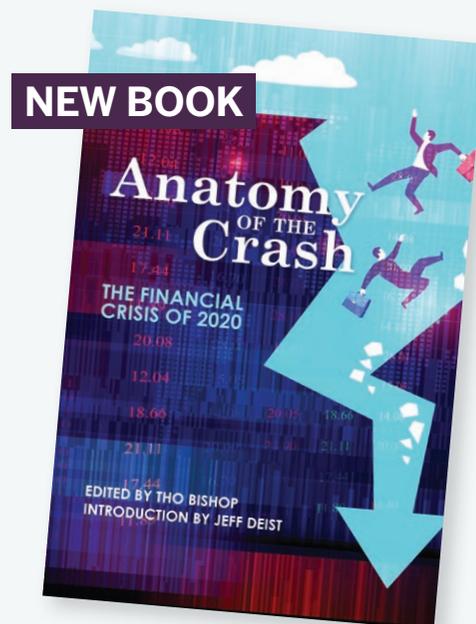
1. "El filósofo-teólogo: Santo Tomás de Aquino" por Murray Rothbard
2. "Por qué el nazismo era socialismo y por qué el socialismo es totalitario" por George Reisman
3. "¿Qué es el liberalismo clásico?" por Ralph Raico

Opponents of state power and central bank malfeasance live in all **COUNTRIES ACROSS THE GLOBE**, as do proponents of individual liberty and civil justice. We thought it might be interesting to see where our readership resides. During the first quarter we had 3,283,411 individual users. **THE TOP FIFTEEN LOCATIONS:**

United States <b>1,973,338</b>	5. Canada <b>98,520</b>	11. Germany <b>29,092</b>
Mexico <b>112,156</b>	6. Argentina <b>69,333</b>	12. Philippines <b>27,280</b>
Spain <b>102,025</b>	7. Colombia <b>54,849</b>	13. Chile <b>26,115</b>
United Kingdom <b>100,595</b>	8. India <b>53,288</b>	14. China <b>23,304</b>
	9. Brazil <b>44,951</b>	15. Peru <b>21,728</b>
	10. Australia <b>43,713</b>	

As you can see we are busy at the Mises Institute—and especially grateful for your continued support during this "pandemic" and financial crisis.

You can find a long list of all the other good work we did this quarter at [mises.org/impact](https://mises.org/impact). Your support made it possible. Check it out! ■■■



In April, in the midst of the lockdown and people sheltering in their homes, wondering what is really happening, we published *Anatomy of the Crash*.

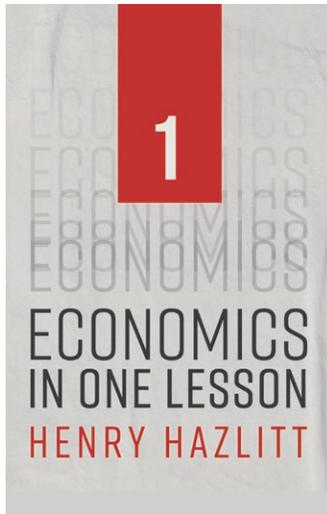
The purpose of this collection is to highlight the important work of contemporary Austrian economists on the modern financial system. Although the mainstream financial press has been crediting American, European, and Chinese policymakers with upholding the global economy in the aftermath of 2008, Austrians have long been warning that these very same actions have only set the world up for a larger disaster. Promises in 2008 of the ease of normalizing monetary policy—such as reducing balance sheets and phasing out market intervention—have been proven to be lies, just as Austrians warned.

It is the irresponsible actions of central bankers, governments, and globalist institutions that will make the pain so much more intense. Worse still, the response will be led by individuals who are only versed in the same failed ideologies that brought us to where we are now.

You can download the book for free at [mises.org/anatomyofthecrash](https://mises.org/anatomyofthecrash)

A printed edition will be available soon from the Mises Bookstore and an audio edition as well. ■■■

## WE MUST FIGHT BACK



**“I strongly recommend that every American acquire some basic knowledge of economics, monetary policy, and the intersection of politics with the economy. No formal classroom is required; a desire to read and learn will suffice.**

**There are countless important books to consider, but *Economics in One Lesson* is an excellent starting point.” —RON PAUL**

As Henry Hazlitt notes in *Economics in One Lesson*, “Economics is haunted by more fallacies than any other study known to man.” Tragically, this is truer now than when the book was first published in 1946. We have seen the corruption of “economics” to the point where socialists like Congresswoman Alexandria Ocasio-Cortez can boast of receiving a college degree in the subject. **This is why we must fight back.**

Thanks to the incredible Mises Institute donors, we will make Henry Hazlitt’s *Economics in One Lesson* available for free for students all across the world. This scathing critique of government intervention is written with timeless clarity that makes it a perfect introduction to both economics and the philosophy of liberty.

If you would like to receive free copies of *Economics in One Lesson* for home-school groups, civic organizations, community groups, libraries, conferences and seminars, private schools, businesses, book clubs and discussion groups, etc., etc., send us your name and address. We want everyone to read this book.

To sign up go to [mises.org/onelesson](https://mises.org/onelesson). ■■■

## Garschina Prizes Awarded

The competition for the best paper submitted by a graduate student at AERC 2020 was made possible through the generosity of Mises Institute Rothbard Society member Kenneth Garschina.

1ST PLACE:  
\$1,500 Cash Award  
Engraved Plaque

**Kristoffer Hansen**,  
University of Angers,  
“Are Free-Market  
Fiduciary Media Possible?”



2ND PLACE:  
\$500 Cash Award  
Engraved Plaque

**Bernardo Ferrero**, King Juan Carlos University, “The Myth of the Developmental State: An Austrian Perspective”



3RD PLACE:  
Engraved Plaque

**Atanacio Hernandez**, University of Illinois at Chicago, “Authority and the Natural Right to Punish”



4TH PLACE:  
Engraved Plaque

**Trieu Nguyen**, Hillsdale College, “The Giffen Paradox Revisited”

Read more: [mises.org/library/mises-institute-awards](https://mises.org/library/mises-institute-awards) ■■■

## The COVID Crash: A Webinar with Daniel Lacalle



Jeff Deist and economist Daniel Lacalle (from Madrid) talked about the COVID-19 crisis and what it means for the economic future of everyone personally and for the global scene.

It was a lively and often passionate repartee that addressed crucial questions: If the world is headed for another Great Depression, will we have a V-shaped recovery as the virus fades and economies reopen? Are governments and central banks making the situation better or worse? Is the new normal a less prosperous normal, or will markets and human ingenuity overcome the economic tailwinds?

If you missed the live event, you can watch it on our YouTube channel or at [mises.org/covid](https://mises.org/covid).

We plan to host more webinars in the near future, so check on [mises.org](https://mises.org) for dates. ■■■

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