Bulls, Bears, and Beyond
IN DEPTH WITH JAMES GRANT
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Joe Biden’s inauguration was a spectacle of outright militarism and state idolatry, although his speech produced only the kind of somnambulistic platitudes someone who spent decades in the US Senate can muster. Chief among those platitudes was a call for ever-elusive unity, followed by his signing of seventeen executive orders to demonstrate how unity starts with unitary executive power!

It’s easy to become demoralized over politics. But that only grants the political class more power. We have truth, justice, and reality on our side. And what’s more, we have people like James Grant on our side, who has enormous talent and energy. Our friend Kevin Duffy, a fund manager and longtime supporter of the Mises Institute, favors us this month with his “guest” interview of Mr. Grant. The interviewee is the famous financial writer and publisher of Grant’s Interest Rate Observer, who credits Murray Rothbard with the soundest and most accurate interpretation of the 1930s Great Depression. His historical knowledge of booms and busts is perhaps unrivaled among financial journalists, so it is a very good time to consider his counsel.

We especially appreciate his warnings about fragility in the monetary system. Each new crisis brings a more “muscular” response: lower interest rates and an expanding central bank balance sheet, through asset purchases or otherwise. The latest crisis is called “covid,” but really stems from the enormously harmful and deflationary lockdowns of business enacted due to the virus. The predictable response from DC was an orgy of both monetary and fiscal “stimulus,” a word we might define as “things governments and central banks do to encourage borrowing and spending.” The notion that demand and consumption drive prosperity is neither new nor correct, but it manages to find purchase with every new generation of central bankers and economists.

How much stimulus? We can start with M1, the money supply measure which captures the most readily accessible funds for spending—actual currency in circulation outside the Fed and money in checking accounts. This “ready money” stood at less than $4 trillion in January 2020; by the end of the year it had risen to nearly $7 trillion. In fact, the US printed more money in June alone than it had in two centuries since its founding. Consider this next time you hear a financial pundit dismiss inflation.

Will it work? Not indefinitely. Yes, the Fed sets in motion credit-fueled speculation. But as Mr. Grant explains, the business cycle itself is not entirely the work of central banks. Sometimes the speculative frenzy is merely set in motion by expansionary policy but far outlasts any initial monetary stimulus. Mises and Rothbard explain very precisely how the Fed initiates the boom, but the boom itself contains the seeds of the bust. We cannot know the timing of this process, and anyone who claims to know is guessing. Reading James Grant instead of the financial press is a necessary step toward making sense of the whole mess.

Jeff Deist is president of the Mises Institute.
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IN DEPTH WITH JAMES GRANT

INTERVIEW CONDUCTED BY MISES INSTITUTE MEMBER KEVIN DUFFY

James Grant is editor of Grant’s Interest Rate Observer, which he founded in 1983. He is the author of nine books, including *Money of the Mind*, *The Trouble with Prosperity*, *John Adams: Party of One*, *The Forgotten Depression*, and more recently *Bagehot: The Life and Times of the Greatest Victorian*. In 2015 Grant received the prestigious Gerald Loeb Lifetime Achievement Award for excellence in business journalism. James Grant is an associated scholar of the Mises Institute.

Kevin Duffy is principal of Bearing Asset Management, which he cofounded in 2002. The firm manages the Bearing Core Fund, a contrarian, macro-themed hedge fund with a flexible mandate. He earned a BS in civil engineering from Missouri University of Science and Technology and has a passion for financial history, Austrian economics, and pithy quotes. He also publishes a bimonthly investment letter called the *Coffee Can Portfolio*. Duffy attended Mises University in 1990 after seeing Lew Rockwell on CNN’s *Crossfire* in 1989.
Kevin Duffy interviewed James Grant for his newsletter Coffee Can Portfolio. It is reprinted with permission.

KEVIN DUFFY: 2020 has been part dystopian fiction, part tulip mania. How do we reconcile the two?

JAMES GRANT: I’m not sure there’s much distinction. To me, the current form of dystopia is the bubble form, so I think this is the year of the dystopian bubble.

KD: There has been a worship of authorities. For the past thirty-seven years you’ve focused mainly on the Fed, but this year we’ve seen a reverence for medical authorities. Who has done more damage?

JG: The medical authorities remind me of the economic authorities. Both pretend to draw a bead on the future. Let’s compare them both to the meteorological authorities. The National Weather Service spends over a billion dollars a year and takes tens of millions, if not billions, of discrete observations of wind, weather, tide, temperature, what have you. But notice the five- and ten-day forecasts on your trusty iPhone are ever changing. This is the weather. Temperature gradients don’t have feelings, they don’t get jealous of the millionaire next door, they don’t watch CNBC, yet our forecasting ability goes out, maximum, ten days. Even so, the economists think nothing of calling next year’s GDP.

KD: This sounds very much like Friedrich Hayek and the pretense of knowledge. There’s a certain hubris taking place. What might the alternative to top-down planning look like?

JG: Counselor is leading the witness! “Pretense of knowledge” is a three-dollar phrase; in Brooklyn it’s called bluffing. Of course knowledge is dispersed. Every individual knows what he or she wants. An economist would say that we know our own demand curves and supply curves. Governor Cuomo can only guess—as brilliant as the governor is—at what we want and what risks we are prepared to run with our lives.

I am seventy-four years old and every day I get out of bed I am beating the odds. The idea of suspending ordinary living pending the arrival of a vaccine is absurd. Still worse is the forced suspension of the lives of people seventy years younger than I. My grandchildren, for instance. “We can’t sacrifice our children out of our own fear,” said Dr. Scott Atlas in so many wise words.

Life is a matter of tradeoffs. And early on people would plague you if you held this view in public by saying, “You mean to tell me that you are willing to trade off profits for human lives?” Well no, I’m willing to trade off risks, and it’s what we all do, whether we realize it or not, whether we can express this or not. We are all, at least subconsciously, living according to our tolerance for risk. We look both ways or no, we don’t look both ways. We scrupulously observe fifty-five miles an hour or we are young and quick and bold and drive seventy-five miles an hour and probably not run a risk to ourselves or others. So people by and large, not exclusively and not entirely, but people by and large know these things about themselves. And what Hayek was driving at is that the Soviet Union failed for a reason.

KD: Let’s take a step back and talk about some of the early influences on you. When did Jim Grant start to become “Jim Grant”?

JG: July 26, 1946.
KD: [Laughter] When did you realize you were an independent thinker? Was there a lightbulb moment or were you just wired that way?

JG: I’ve always been a “yes, but” guy, a skeptic. At Indiana University, I took a course in the history of economic thought. It gave me a sense of the cycle of ideas—how today’s certitudes become tomorrow’s heresies.

Ideas about markets, individual enterprise, individual freedom—they wax and they wane.

Edmund Burke, in his monumental Reflections on the Revolution in France, described English financial arrangements along about 1790. He pointed out that there was no legal tender law in Britain. The only kind of money a creditor had to accept for a debt was gold or silver. Not even the Bank of England could force its notes on the public. Could anything be better, more equitable? Not for me, but notice that system is extinct.

You could say that economic freedom, broadly defined, peaked around 1914, the year following enactment of the income tax and the signing of the Federal Reserve Act.

KD: And the direct election of senators...

JG: Right. And then came World War I, following which (after the 1920s roared) was the war mobilization of the 1930s and 1940s. High taxes, heavy regulation, economic regimentation. But statism, too, has its cycles. The 1947 founding of the Mont Pèlerin Society, a group of old-style liberal thinkers led by Friedrich Hayek, might represent the bottom of the long twentieth-century bear market in economic liberty.

KD: The roots of our monetary meddling go back further, don’t they—even to the Civil War?

JG: Right. It was to fight that war that the Lincoln administration issued the first greenbacks—paper money not convertible on demand into gold or silver. Salmon P. Chase, Lincoln’s Treasury secretary, pushed the greenback plan while holding his nose. He called the legal tender clause “repugnant,” a form of monetary coercion. Later, as chief justice of the United States, he actually judged that clause to be unconstitutional. Subsequent course held otherwise, of course, and the green notes in your wallet today are “legal tender for all debts public and private.” Hardly anyone gives it a thought. Certainly the precedent for what happened in 1913 was set many decades before during the Civil War.

KD: So 1913 brought us the modern incarnation of our central bank, the Federal Reserve. Its first test, from a monetary policy standpoint, was the depression of 1921, which you wrote about in The Forgotten Depression. What was the policy response back then, and how was it different than today?

James Grant accepting the “Lifetime Achievement Award” at the 61st Annual Gerald Loeb Awards for Distinguished Business and Financial Journalism, 2018.
The policy response was old-time religion. It was monetary and fiscal orthodoxy. President Warren G. Harding inherited a rip-roaring depression in 1921. The roots of that business cycle downturn lay in the wartime inflation of 1914–18. America entered the war in 1917 and proceeded to do what belligerent countries invariably do—to spend more than they earn and to borrow the difference.

**It was to fight war that the Lincoln administration issued the first greenbacks—paper money not convertible on demand into gold or silver.**

The Harding administration balanced the budget—so no fiscal stimulus. Real interest rates were punitively high—there was no QE. Treasury secretary [Andrew W.] Mellon used his influence to reduce those rates. Meanwhile prices fell and wages fell. The stock market was sawed in half. Corporate profits collapsed. Unemployment was then unmeasured, but it soared. But the price mechanism, more or less freely functioning, did its job. Because wages did fall, businesses could regain profitability at lower levels of prices.

The depression of 1920–21 began in inflation, ended in deflation, but it did end: eighteen months from business cycle top to business cycle bottom.

Compare the Hoover administration’s response to the 1929 stock market crash. President Herbert Hoover (he had been Harding’s secretary of commerce) called on business leaders like Henry Ford not to cut wages. And they didn’t, with the result that falling prices, not neutralized by falling wages, devastated corporate earnings, and thus corporate investment. Mass unemployment followed.

**KD:** The Fed also responded to the slump by injecting money into the financial system by buying government securities. And yet Milton Friedman and others claimed they didn’t do enough.

**JG:** Yes, that was the lesson according to Milton Friedman and Anna Schwartz. They wrote this big, thick book, always referred to as a magisterial history, *A Monetary History of the United States*. Its most famous chapter is called “The Great Contraction, 1929–33.” Friedman says the money supply declined by a third, and he thought that that was what put the “great” in “Great Depression.”

Ben Bernanke, you recall, on the occasion of Milton Friedman’s ninetieth birthday apologized to Milton and Anna, saying, “Regarding the Great Depression, you’re right, we did it. We’re very sorry. But thanks to you, we won’t do it again.”

They have not done it again. And they have done everything in their power to ignore the lessons of 1920–21, too. They are all in for interest rate suppression and other such radical nostrums—the “buttinski method.” Do you know what a buttinski is?

**KD:** No, I don’t.

**JG:** Somebody who butts in. To them, interest rates are not prices to be discovered in the market, but administered by experts like themselves.

**KD:** This cycle is perhaps unique in the sense that there is so little price discovery while there are so many price-insensitive buyers, not just the Federal Reserve, but also index fund investors and virtue-signaling millennials. How price insensitive are the banks, and how coerced are their purchases of government bonds?

**JG:** Well, they need the government securities to fulfill the regulatory requirements for so-called high-quality liquid assets. And yes, central banks are price insensitive, credit insensitive, value insensitive, and they are buyers of corporate debt as well as of government debt and, in some countries, of equities besides.

**KD:** Why has this so-called “everything bubble” gotten as big as it has? Has that surprised you at all? It certainly has me.

**JG:** Oh yes. I wake up surprised and go to bed surprised. I mean, consider the $17 trillion plus in securities priced to yield less than nothing. That’s
a surprise. It’s a singularity, nothing like it in the entire history of interest rates. Certainly, a financial journalist is privileged to live in this world in which so much is new, so much is to some sense shocking (or gratifying, depending on how you’re positioned).

KD: A friend once said, “It’s okay to forecast the end of the world, just don’t ever give a date.” When people ask you about timing, what do you tell them?

JG: Oh, I’ve become very wily. Years ago, someone asked me to forecast the ten-year yield one year hence, and I had the presence of mind to say no, thank you. I count that as my journalistic coming of age. Only rookies pick levels and dates.

KD: Is it easier to look ten years out? If you take the long view, what do you feel confident in predicting?

JG: I’m fairly confident about the arc of monetary change. Every succeeding crisis brings a more muscular monetary response—a lower funds rate, a larger Fed balance sheet. But ultralow rates encourage more credit formation, which leads to greater fragility and thus to the next crisis. The Fed is arsonist and fireman all rolled up into one.

KD: Let’s consider a scenario. Let’s say in the next year or so we get a severe global recession which starts to tip over some of these credit dominoes. How might such a scenario play out?

JG: It depends on the nature of the financial crisis. Say it’s an inflationary one. And say that instead of 2 percent inflation, it’s 4 percent or 5 percent. The indicated response would be to raise the federal funds rate, but rivets start popping when money gets tight in a leveraged economy.

The Fed is arsonist and fireman all rolled up into one.

KD: So we’re in an inflationary crisis. Let’s face it, the Fed has had a license to print money partially due to Amazon driving prices down. There’s also been a commodity bust. Everything has gone their way. Are you suggesting, in your own words, that “inflation is kryptonite to bonds” and that this is something the Fed does not anticipate?

JG: Well, as a rule, the Fed anticipates nothing. As a rule, most of us anticipate nothing, the future being complex and, for the most part, unpredictable. By the way, the phrase “foreseeable future,” is an oxymoron.

Yes, inflation has been a no-show, though maybe that’s changing. Charles Goodhart and his coauthor Manoj Pradhan, in their fine new book, The Great Demographic Reversal, point out that the past thirty years have delivered a huge positive supply shock. That is, a supply shock in labor. But they contend that, for a number of reasons,
the future will be very different, featuring rising inflation and interest rates alike. It's an impressive and persuasive argument they make.

People my age will no longer be productive, the book says. They will be needful, they will be in the hospital, they will be attended to by their loving aides who will help them either walk or remember, or both. And the dependency ratio [the ratio of those not in the labor force to those in it] is going to rise. So there will be less labor serving and greater demand. And I will add that these will be added to the perhaps inevitable central bank response, which is to be more generous in provisioning the system with money and credit.

So all of this is going to add up to years of inflation, which will shock the bond markets, especially that portion of the bond market, the $17 trillion portion, which is now priced for the certainty—not the risk, mind you, but seemingly the certainty—of either stable prices or gently dwindling prices. What the world is not set up for is an inflation, to be sure.

KD: Just to clarify, you’re talking about labor from China, particularly, and from India...

JG: India, Eastern Europe.

KD: So we’ve gotten the benefits, up front, but these people, as they prosper, will demand more energy, more protein, etc. Are the authors saying the demand side is coming with a lag and that, in turn, adds to inflationary pressures?

JG: Yes. I’m going to read you a paragraph from this book.

It’s China’s “globalisation and the reincorporation of Eastern Europe into the world trading system, together with the demographic forces, the arrival of baby boomers into the labour force and the improvement in the dependency ratio, together with greater women’s employment [that] produced the largest ever, massive positive labour supply shock. The effective labor supply force for the world’s advanced economy trading system more than doubled over those 27 years, from 1991 to 2018.”

But that’s in the bank. It’s behind us. What lies ahead is a deteriorating dependency ratio. More needy people, fewer productive ones, fewer working ones, perhaps
more monetary stimulus, and rising prices at the checkout counter rather than falling ones.

**KD:** In North America, the oil rig count is down 61 percent year-to-date and the natural gas rig count is down 18 percent. So on top of all of this, we’re now getting a commodity supply shock. Is this another tailwind for commodities?

**JG:** Yes, and you don’t need a big inflation to generate returns. Years of subpar investment in productive capacity in the things that the world needs more of is the essence of the bull case. The key is the supply side.

**KD:** Socially responsible investing, a.k.a. ESG [environmental, social, and governance], has led to fossil fuel divestment as well. How does ESG enter into the equation for investors?

**JG:** ESG is a bull-market luxury. In a bear market, people, I think, are much more concerned about survival than they are about making a political statement.

Will Thomson, founder and managing partner of Massif Capital LLC, has a really smart approach to choosing effective ESG-themed investments. Don’t go buying the exchange-traded funds labeled ESG, he says. They own Apple and Microsoft and Facebook and Alphabet. Instead, buy the kind of dirty industrial business that’s cleaning itself up. It makes sense to me.

**KD:** That’s an interesting arbitrage. Is there a similar opportunity in more accurate accounting? I’m thinking about a company like Tesla, where everyone is focused on the lack of emissions, but they’re overlooking where this electricity is coming from, not to mention the costs of recycling batteries.

**JG:** I am all for better accounting. And now Tesla’s entering the S&P 500 on the strength of its virtue and flash and momentum and of the tax credits by which alone it achieves profitability. So there’s a singularity of the year 2020 along with $17 trillion in negative-yielding bonds.

**KD:** You talked about the cyclical nature of markets. Right now youth is elevated. Has the digital
revolution made this a young man’s game or is there still room for elder wisdom?

JG: Based upon my experience, there’s no room for elder wisdom.

KD: [Laughter]

JG: Raging bull markets are always young people’s thing. Old guys always say, “I wouldn’t be so quick to pay 170 times revenues for that particular stock. I seem to recall something like this in 1968, or was it 1868?” This is what old people always sound like. Do you remember the author George Goodman? I think his pen name was Adam Smith; he wrote a book called *The Money Game*.

KD: Oh sure. The go-go ’60s.

JG: If you’re starting a hedge fund, you want young people buying the stocks that are going to go up. Because they don’t know enough not to buy them. People who know enough not to buy them are going to underperform. So in a way it was ever thus. Youth will be served, and youth especially will be served in great raging liquidity-driven bull markets.

Witness bitcoin and the charm and the demonstrated excellence of the FAANG [Facebook, Amazon, Apple, Netflix, Google] stocks. The young people don’t imagine that they have great business models. What they do imagine is that the possibilities for expansion are infinite, whereas the expansion may be limited in the case of Facebook, for example, by such mundane things as the size of the world’s advertising market.

But those objections, the wisdom of the ages, play very badly on the upswing. Again, I think this is nothing new.

KD: Regarding youthful exuberance, I remember the late ’90s tech bubble. On February 15, 2000, *60 Minutes* aired a story by Bob Simon called “Dot-Com Kids” where Simon interviewed several young founders of web-based startups that were housed in old buildings in downtown Manhattan, dubbed Silicon Alley. One even told him, essentially, “We’re coming after your job. You’re going to be roadkill.” I guess it didn’t quite turn out that way, did it?

JG: No, but in fairness there’s something to this. There’s something to the displacement of human beings by human ingenuity. It is certainly a fact that technology has improved lives, reduced costs, increased comfort, amused countless millions, and cost some jobs while creating others. That’s the nature of capitalist progress. Capitalist progress is not always to everyone’s aesthetic taste, but it is the ultimate democratic expression of how resources ought to be allocated. The sovereignty of the consumer, whatever the consumer’s taste might be, that’s what will be served.

So young people, whether they can express it just that way or not, do live it. They buy what they themselves like, and what they like often mystifies their elders.

Capitalist progress is not always to everyone’s aesthetic taste, but it is the ultimate democratic expression of how resources ought to be allocated. The sovereignty of the consumer, whatever the consumer’s taste might be, that’s what will be served.
KD: Elders often worry about the next generation. Look at some of the toxic ideology young people have imbibed. How concerned are you? Is there hope?

JG: Oh, of course. I am the father of four and the grandfather of five, and those nine people are fabulous!

KD: That’s the hope! That’s the future.

JG: Right, but everybody else is very questionable.

KD: [Laughter]

JG: Go back to the ’30s and Marxism, without any of the gloss of democratic liberalism, Marxism itself—hammer and claw—was culturally and politically prevalent. And if it wasn’t Marxism, it was the vogue in fascism. We forget that the top tax rate in the Eisenhower years was in the upper ’80s, in fact, into the ’90s. Very few people actually paid that, but that was a legacy of the ideas that reigned, not quite uncontested, but dominated in the ’30s and into the ’40s. That gradually gave way, but don’t forget what happened in the ’60s. There was a Marxist resurgence and then, lo and behold, come the inflationary ’70s, and people find they’ve had enough of that, and then comes Ronald Reagan.

So there’s a cyclicality, there’s an episodic quality to our politics. I don’t think these are end times politically. I think it’s worrying that freedom of speech seems to be back on its heels as much as it has ever been. Freedom of speech, in America, was not quite so endangered even in the ’30s as it is now. That is genuinely frightening. I’m frightened by it.

KD: Rollo May, an American psychiatrist, once said, “The opposite of courage in our society is not cowardice, it is conformity.” It seems like we’re at a point in time when it takes courage to distance oneself from the crowd and from some of these really toxic ideas.

JG: It takes steadfastness, though just how much depends. If you are in a position to lose your job and instead of holding on to that job in the face of ideas and the insistence on ideas you think are wrong, instead of that, you stand up and you object at the risk of losing your livelihood in the case of this master of Eton College in England [he was fired for refusing to withdraw his posted lecture on the virtues of manliness] (and he has five kids)—if you do that, that is courageous.
If you have your own soapbox and you are not really at risk of losing your livelihood, it takes a modicum of bloody mindedness to stand up in front of a mass of opinion. It takes a certain amount of moxie to risk social ostracism. That’s part and parcel of it sometimes, but it doesn’t require a Medal of Honor in that setting. So that’s the distinction I wanted to draw: it depends on how you’re situated in life.

**KD:** CNBC certainly isn’t the worst of the cancel culture, but nonconformists like Peter Schiff, Marc Faber, and Michael Pento have all been excommunicated. Jim Grant is still there. How have you been able to pull that off?

**JG:** I’m not sure that the premise of the question is quite correct. I’m on the squawk box every so often, but not very frequently. Take another kind of financial personage. Ed Yardeni is a successful economist. He’s made his living by serving his clients, by trying to make money for them without passing judgment on public policy. Whether the Fed is doing the right thing or the wrong thing is not his remit, he says. His remit, in fact, is not fighting the Fed, but adapting to monetary policy (whatever it is) to make money.

So people like you, like me, like others you mentioned, have chosen a different job description. Grant’s takes a stand on the integrity of the currency. It takes a stand on the nature of markets. It takes a stand on price discovery as opposed to price administration. And we say those things in public and print. We say them on air when given the chance. But they have not lately helped people make money.

CNBC’s viewers—I think most of them—want to know where the markets are going, and if you are not on the right side of that question, you wear out your welcome as a public voice. So I don’t begrudge the producers at CNBC for choosing people with a hot hand.

I am happy, retrospectively, to have been in the wilderness in the early 2000s. Let’s not forget how long they lasted: 2001, ’02, ’03, ’04, ’05, ’06, ’07, yes?

**KD:** I remember.

**JG:** If you had had a correct, informed, bearish view on house prices and mortgage-backed securities, you were more than a half decade of wrong before being gloriously right. You have to stick with your guns and have to believe in what you believe and accept that the world can get tired of hearing your foreboding (or, as the case may be, annoyingly bullish) voice.
KD: At a time when other skeptics are routinely dismissed as “the bear crying wolf,” you have somehow managed to stay relevant. The bottom line is you are delivering value. You’re doing a lot more than just bashing the Fed. Grant’s has made some great bullish calls over the years. For example, you saw the economy recovering in 2009 and were bullish on Google fairly early in the bull market, when it was considered a value stock. I would posit that the reason you have this platform is that you’re not just a broken record.

JG: Well, thank you. I am happy to agree with that, and I would credit the fine analysts we have had here over the years. Now, of course, Evan Lorenz is a terrific securities analyst, and, way back when, Dan Gertner—this in 2006 and 2007—did a lot of very early and important securities analysis on complex mortgage structures.

So, yes, thank you. We have indeed earned a voice. I think sometimes, when I get discouraged, that we have earned our reputation a little bit too well of being critics of contemporary monetary arrangements, but I wouldn’t change that. I think that these institutions and these policies are wrongheaded. I think they are dangerous. I think they are possibly even bad for the planet!

It comes down to, Where do you want to make a stand? What matters to you? What matters to me—and to my journalistic lemonade stand—is not saying the correct things to insinuate myself into the good graces of the financial establishment. It’s speaking up against bubbles and the monetary manipulations that inflate them. It’s speaking up for the incredibly outré institutions of the gold standard and for the great institution of corporate solvency (you’d be surprised how controversial it can become at the end of a boom).

That’s the way we’ve run things for a long time. We’ve been in business for thirty-seven years, and that’s the way we intend to keep doing it.

KD: You recently published the “Grant’s Manifesto,” in which you actually tooted your own horn (very unusual), specifically your track record of identifying excesses. Looking at this everything bubble, where do you see the areas of greatest fragility?

JG: To me, the most excessive of all the excesses is these $17 trillion plus of nominal negatively yielding bonds. Nothing like it in four thousand years of interest rate history. They seem to be priced for one outcome alone, the noninflationary one.

Cocksure people baffle me. You run across them all the time on Wall Street, somebody who simply declares, “this is going to happen,” or “that’s going to happen.”

We have indeed earned a voice. I think sometimes, when I get discouraged, that we have earned our reputation a little bit too well of being critics of contemporary monetary arrangements, but I wouldn’t change that.
How do you know that? This is a probabilistic world; it’s not a world of certainty.

The great nineteenth-century historian Thomas Babington Macaulay was one of the type. “I wish I was as certain of anything as Tom Macaulay is of everything,” someone said of him. I feel that way with a lot of the Wall Street pundits I read and listen to.

The people who are holding on to these guaranteed-loss securities seem certain of the benevolent path of stable or falling prices. I think by the time Mr. Market puts them through the slicing and dicing machine, there won’t be much left of them.

KD: Will the next banking crisis have sovereign debt at the center of it?

JG: It could. It’s one candidate. Corporate credit is another. With every downward lurch in the stock market, central banks barge in to help. But in helping—with their credit infusions and interest rate slashing—they invite still more lending and borrowing, therefore greater leverage, therefore greater fragility, therefore a greater likelihood that the next financial disturbance will elicit an even greater monetary response, thereby bringing still more leverage, more fragility, etc., and on and on.

KD: Until something breaks.

JG: And maybe that something is going to be the people’s confidence in the central banks.

The central bankers have gotten everyone flummoxed. How would you like to own the stock of a company like the Fed, that did not, shall we say, distinguish itself in 2005, ’06, ’07, ’08, ’09, yet comes out of it with greater power, more prestige...? Now that’s a franchise. My hope is that the next crisis will become also a crisis of belief in central banks and in the judgment of the people who staff them.

One of the big trends of the past century is the socialization of financial risk. Increasingly, individuals bear less of it, governments more, and I wonder if the sheer inequity of this trend has poisoned our politics. Not many people know that up until the 1935 Banking Act, it was the stockholders who got a capital call if the institution in which they held a fractional interest became impaired or insolvent. Mind you, the stockholders, not the taxpayers. Compare and contrast 2008, when, in effect, the government issued a capital call to the taxpayers. That’s all wrong.

KD: This is collectivism, is it not?

JG: It’s financial collectivism. It’s the nationalization of loss and the privatization of gain. Remind me to fix it when I become president.
Raghuram Rajan has written a surprising book. Now teaching finance at the University of Chicago, he is an international bureaucrat in good standing, and not a minor one at that; he was chief economist of the International Monetary Fund. Yet far from calling for an increase in “global governance,” as one might expect from someone with his background, he wants to strengthen the local, “proximate,” community.

“If more powers are delegated from the state to the local community level,” he tells us, “a community can shape its own future better, and will have more control over it. Some communities will have a specific ethnic concentration, and community culture will gravitate toward that ethnic group’s culture….A strong local community could satisfy people’s need to live in a cohesive social structure with others of the same culture or religion….None of this implies exclusion [but]—having monocultures that satisfy the tastes of those who want monocultures is as important as having multicultures.”

The problem with “populist nationalism,” then, is not that its advocates prefer national sovereignty to control by internationally minded elites. They are right to do so, given human nature as it is, and the leaders of the European Union neglected this truth to their cost. “The problem was that no one asked their people how much more Europe they wanted, and how much sovereignty they were willing to give up….The process of integration was, therefore, profoundly undemocratic….Ultimately, though, integration succeeds only when there is deep social empathy between people.”
But if national sovereignty is better than rule by technocrats, still better is the local community.

Rajan’s defense of the local community is part of the ambitious theory of history suggested by his book’s subtitle. As he sees it, there must be a balance among the market, the state, and the local community. Each is dangerous if unchecked by the other two. In fact, though, the alleged dangers of the market stem largely, if not entirely, from “crony capitalism,” the partnership of the state and business interests to exploit consumers. Why not drastically limit the power of the state to block this unholy alliance rather than trust a strong state to limit the market?

The author’s failure to support the free market fully stems from an assumption that emerges in his history of capitalism in Europe and America. That account is well worth studying, and Rajan’s discussions of the end of feudalism and the rise of the gentry are especially good, though our confidence is a bit shaken by his calling Henri Pirenne, the greatest of all Belgian historians, French.

But matters take a turn for the worse when he reaches the rise of capitalism itself, and here, I regret to say, he has taken on board a controversial Marxist dogma. He rejects Marxist economics, which he calls “mostly wrong,” but he calls Marx “one of the greatest social thinkers of modern times.” It is a particular dogma that he has taken over from Marx and also, in his telling, from Adam Smith, that leads him to advocate a state strong enough to rein in the market. “The inexorable political tendency of a free, unfettered, unregulated market was for the producers, after experiencing the rigors of competition, to attempt cartelization.” He cites as an example John D. Rockefeller’s control of oil refining in the United States through his Standard Oil Company and deems justified the suit against the company under the Sherman Anti-Trust Act.
but he omits any discussion of the revisionist scholarship that indicates Rockefeller often got the worst of battles with competing refineries and that the lawsuit was not a measure to promote competition but rather an attempt to advance the interests of J.P. Morgan and his associates against their rivals. Of this, interested readers will find a full account in Murray Rothbard’s *The Progressive Era*. It would seem the better part of wisdom not to rely on the state to fight alleged monopolies on grounds of efficiency but instead to curtail the power of the state so that “crony capitalism” cannot gain a foothold.

Despite his wrong path on this issue, though, the book on the whole is excellent and Rajan makes many useful points. We hear much today about the danger that automation will drive massive numbers of people out of work. Rajan is appropriately skeptical. Automation, like past innovations, can bring some jobs to an end, but this frees up labor to go elsewhere. “Routine jobs have been automated out of existence for decades now, regardless of whether the jobs required skills or not. Banks had hundreds of thousands of cashiers taking in and paying out cash, as well as counting it at the end of the day….Automated teller machines (ATMs) and cash-counting machines displaced them….Yet, if anything, employment in banking has gone up as more, cheaper, bank branches are opened, and tellers morph into relationship managers advising retail customers on their loan options and their investment portfolios.”

Some of those most fearful of automation, and others as well, have proposed a universal basic income that would free people of the need to work by grants of sufficient money to live a life of leisure. Rajan raises against this proposal a devastating objection: “UBI is an all-or-nothing scheme, and as such, suffers from the traditional difficulties associated with such a scheme. UBI essentially assumes that most people will not have a job, and there will be no point in them searching for one or attempting to retrain themselves since no new jobs will be possible. It is a counsel of despair not just for job seekers but also for job creators, because
Rajan, who is not without egalitarian sympathies, for the most part takes this to be a genuine problem that he is at pains to mitigate. But in one place, he challenges directly one of the key myths of our time. University education is vastly overrated, and many children would do better with less compulsory schooling.

Another important discussion in the book returns us to the local community. Some have objected on egalitarian grounds to programs that stress community control. Given the commanding importance for one’s future income and social status of going to the “right” university, with the Ivy League schools at the top, won’t people who are fairly well off but who cannot afford the top private schools move to neighborhoods with “good” public schools? By doing so, it is claimed, they give their children an unfair advantage over children from poor families, because these families cannot afford housing in the expensive neighborhoods.

Rajan, who is not without egalitarian sympathies, for the most part takes this to be a genuine problem that he is at pains to mitigate. But in one place, he challenges directly one of the key myths of our time. University education is vastly overrated, and many children would do better with less compulsory schooling: “Companies seem to be rating jobs as requiring higher credentials simply because schools are not teaching basic skills well....International assessments seem to verify the low average quality of US schooling....The harm done is worse than simply too much time spent by students who do not need degrees acquiring them at great expense, firms over-paying for qualifications they do not need, and a higher-education system that consumes enormous resources. It causes professions to inflate their own minimum credential requirements as they try to gain in prestige...”

Rajan does not pursue the full implications of this challenge, but that he mentions the issue at all is a testament to the wisdom of his book.

David Gordon is Senior Fellow at the Mises Institute, and editor of the Mises Review.
Last year saw online interest in the Mises Institute’s flagship scholarly journal, the Quarterly Journal of Austrian Economics, spike to record highs with the special double issue on entrepreneurship. Guest edited by Professor Per Bylund, this issue suggested directions for future research and collaboration within Austrian economics and in the scholarship of entrepreneurship. The contributions offered a multitude of perspectives on a broad set of entrepreneurship-related issues. Quoting from Bylund’s introduction, “The articles...address directions for further expansion beyond the present boundaries of Austrian economics and entrepreneurship theory. This...issue includes articles that open new lines of thinking for Austrian economists with an interest in entrepreneurship as well as for entrepreneurship scholars with an interest in Austrian economics.”

Some of the topics discussed:

- Richard Cantillon’s impact on our understanding of the term “entrepreneur”
- Extending Austrian economic theory into the realm of the individual “economy”
- The role of original ideas and inspiration in the entrepreneurial process
- Carl Menger’s observation that value is subjective, a missing piece of the puzzle in entrepreneurship theory
- The development of a typology to assist organizational scholars in applying core Austrian insights
- The importance of the Austrian emphasis on time in entrepreneurship
- A praxeological definition of the Misesian entrepreneur-promoter
- Extending the subjectivist approach to team entrepreneurship
- The central role of institutions in both new institutional economics and Austrian economics

This special issue set records in QJAE metrics on the Scholastica journal publishing site, with a daily article download record nearly twice as high as the next most popular issue, and a record daily number of unique site visitors as well.

You can read or download the special double issue, and other past issues of the QJAE, at: mises.org/QJAEarchives

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INSTITUTE HAPPENINGS

Just Released: Fourth Edition of Money, Bank Credit, and Economic Cycles

The new edition of Jesús Huerta de Soto’s masterful treatise is now available. The new edition has been thoroughly revised and includes, among other minor modifications and additions, references to the most relevant literature published since the previous edition appeared in 2012. De Soto says in his introduction, “The success of this book is due to the undeniable fact that the noble Austrian approach has managed to answer the theoretical, historical, and ethical conundrums we face today.”

The book is available at the Mises Bookstore and as a free download from mises.org (mises.org/money-bank-credit-and-economic-cycles).

Jeff Deist Speaks about Asset Forfeiture in East Tennessee

Jeff Deist spoke at a fundraiser dinner to benefit the end of civil asset forfeiture in Knoxville, Tennessee, on January 7. The event was coordinated by Nathan Keeble, a former Mises University student, and featured Glenn Jacobs (formerly WWE star Kane), the mayor of Knox County, Tennessee, and a staunch libertarian. Jeff spoke on the necessity of secessionist movements given the stark differences between the views of citizens from one region of the US to another, urban vs. rural, and praised the Swiss model, where control is at the local level and the national government has very little power to do anything.

Congratulations Demelza Hays!

Demelza Hays, a 2015 Mises Research Fellow says, “I defended my doctoral thesis today, January 11, 2021, titled, The Role of Cryptocurrency in Asset Management. After a successful defense, the University of Liechtenstein conferred the title Doctor of Business Economics to me. I started my doctoral studies the semester after I was a Mises Institute Fellow. The foundation in economics that I gained while being a Fellow was integral to my dissertation work and continues to be the main source of inspiration for my research.”
Newman in the House

Patrick visited the Institute in January to put finishing touches on his forthcoming book, *Cronyism*. This time around, Patrick looks into the evolution of “favor seeking” in early American history, from the colonial era to the Mexican-American War. He argues that cronyism emerged from the perennial clash between the forces of liberty and power.

This important work shows the ugly side of American history and how politicians routinely dipped their hands in the public trough to benefit themselves and their supporters. Newman leaves no corrupt dealing unexposed, tracing the path of who lobbied for what legislation and how they profited at the public expense.

*Cronyism* will be available in the fall of 2021. To support this project, go to Mises.org/newestbook

Mises Graduate Program Welcomes Its Second Cohort

The Mises Institute’s new graduate program welcomes its second cohort of graduate students, while the initial cohort continues into their third course.

The master’s program requires completion of eight three-semester-hour courses and a thesis suitable for publication in a peer-reviewed journal.

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UPCOMING 2021 EVENTS

Student scholarships are available for all events! Details at mises.org/events.

MARCH 19-20 Austrian Economics Research Conference, Auburn, AL
APRIL 10 Mises Meetup, Birmingham, AL
JUNE 6-11 Rothbard Graduate Seminar, Auburn, AL
JUNE 17 Medical Freedom Summit, Windham, NH
JULY 18-24 Mises University, Auburn, AL
OCTOBER 21-23 Supporters Summit, St. Petersburg, FL

More events coming in Reno, Colorado Springs, Houston, and Orlando.

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