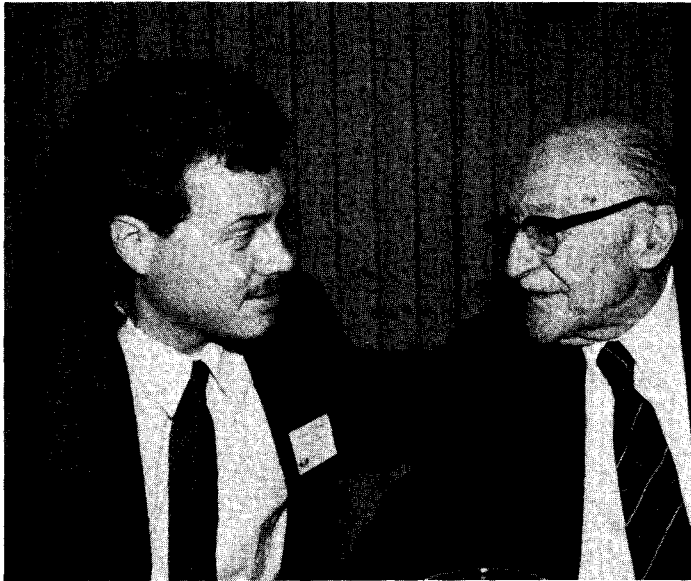


The Free Market

Special
Henry Hazlitt
Tribute

December 1987 • The Ludwig von Mises Institute



Henry Hazlitt talks to young Hazlittian, Mark Hughes, a Mises Institute graduate student at George Mason University.

“The Meaning of Mises”

The Institute’s Fifth Anniversary Conference, “The Meaning of Ludwig von Mises,” broke new ground in Misesian scholarship on October 16-17 at Pace University in New York City.

Dr. Walter Block of the Fraser Institute compared the Misesian 100% gold standard with other allegedly free-market theories.

Professor Richard Ebeling of the University of Dallas spoke on Mises’s demonstration that socialism is an irrational form of social organization, and on the economists who anticipated some of his ideas.

Professor Roger Garrison of Auburn University discussed “Mises and His Method.” Mainstream economics believes that mathematics and statistics alone can yield economic theory. But Austrian economics relies on logic and reason for its theory.

Dr. David Gordon of the Mises Institute presented and built upon Mises’s critique of false doctrines of history which rely on determinism and relativism, for example Marxism, which teaches a historical “dialectic” instead of a history built on human action.

Professor Hans-Hermann Hoppe of the University of Nevada, Las Vegas, presented a comprehensive apriori deduction. (Continued on next page)

Henry Hazlitt: Giant of Liberty

For more than seven decades, Henry Hazlitt has taught the economics of freedom. With pathbreaking theoretical work and a unique ability to communicate with the non-economist—shown forth especially in his *Economics in One Lesson*—he has both advanced Austrian economics and made it accessible to everyone.

Henry Hazlitt, a formidable scholar-journalist whom H.L. Mencken called “one of the few economists in human history who could really write,” is the author of 25 books and thousands of columns and articles. He also arranged Ludwig von Mises’s professorship at New York University and the publication of *Human Action* and three other Mises books by Yale University Press.

Like Mises, Henry Hazlitt combines courage, genius, and gentleness with an unbending adherence to principle. Today, at a very young 93, he is still at work extending the scholarship of freedom. The Mises Institute has been fortunate indeed to have this great man as a friend and supporter since its earliest days.

On October 17th in New York City, more than 150 people gathered to pay homage to this extraordinary person at the Institute’s Fifth Anniversary Dinner held in his honor. In this special Henry Hazlitt issue of the *Free Market*, we have reproduced the homages and messages delivered at the dinner, and Henry Hazlitt’s own captivating talk.

If there were justice in journalism, Henry Hazlitt would have been showered with the Pulitzer and other prizes. But he was not, which matches his treatment by the economics profession.

To help carry on his ideas, we have established the Henry Hazlitt Fund for Economic Journalism to give promising young journalists a chance to study *real* economics.

Media bias against sound money and the free market can’t be cured overnight. But the educational programs sponsored by the Hazlitt Fund will have a lasting effect for good. ■

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Meaning of Mises...from page 1

tive approach to Austrian economics, the Misesian theory of knowledge, and a laissez-faire public policy.

Professor Murray N. Rothbard of the University of Nevada, Las Vegas, talked about "Mises as Hero," a ringing tribute to the greatest mind of his time and principled activist for liberty.

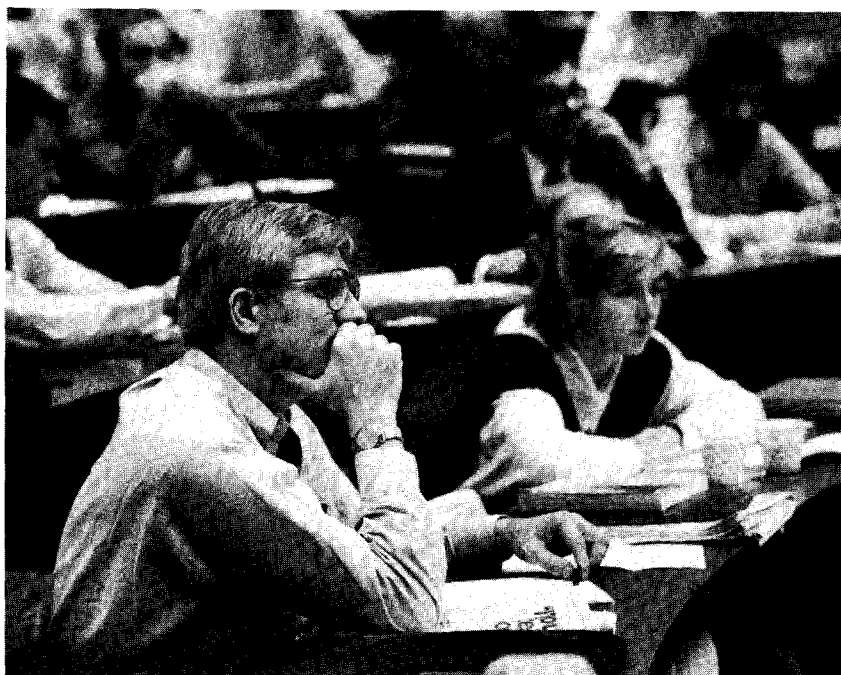
Professor Mark Skousen of Rollins College discussed those

who predicted the Great Depression, and noted that one of the few who did was Mises.

And Professor Leland Yeager of Auburn University defended Mises's and Hazlitt's theory of ethics, rights, and law.

The papers—which will also include contributions by Professors Roger Arnold of the University of Nevada, Las Vegas, Israel Kirzner of New York University, and Joseph Salerno of Pace University—will be published by Lexington Books under the title "The Meaning of Ludwig von Mises." ■

The Institute's 5th Anniversary Conference



(Left) Institute students and members. (Below) Institute staff: Norma Marchman, Pat Heckman, and Mardi Orr.



Walter Block, Hans Hoppe, Roger Garrison, and Roger Ebeling



Burt Blumert, Lew Rockwell, David Gordon, and Murray Rothbard

Messages and Talks From the Ludwig von Mises Institute's Fifth Anniversary Celebration and Tribute to Henry Hazlitt

Margit von Mises, Chairman Ludwig von Mises Institute

This evening we celebrate the fifth anniversary of the founding of the Ludwig von Mises Institute, and give thanks to a tireless champion of the free market and free society, Henry Hazlitt....

I remember very well the day I met Lew Rockwell, the Institute's president, for the first time.... Lew told me he had heard the tape of a speech of mine...in which I pleaded for the founding of an institute exclusively working for the Austrian theories of the free market. He asked for my permission to use my husband's name, since he was prepared to found such an institute. At the same time he asked for my help, which I promised to give, if he would promise never to leave the Institute, but to make it his life's work. This he promised, and so this meeting led to the founding of the Ludwig von Mises Institute.

That the Institute has its Fifth Anniversary today is solely the work of Lew Rockwell. Through his effectual administration, his indefatigable diligence, his thorough knowledge of people, and his love for liberty, the Ludwig von Mises Institute has reached its present state.

I have a special wish for the Institute which I want to tell you about. A Ludwig von Mises Institute needs a permanent location in the cultural center of the United States..., New York City. I hope that the many friends of Ludwig von Mises and the Institute will take up the idea, and will provide the Institute in the near future with a presentable house.

I myself cannot give it to the Institute, but tonight I promise that when I have to go, it shall receive the Ludwig von Mises bronze head, done so masterfully by Nellie Erickson..., which I have now in my apartment. In my thoughts I see the statue standing on a pedestal in the entrance hall of the building in New York City.

This evening is devoted to Henry Hazlitt. Therefore as the widow of Ludwig von Mises, the widow of one of Hazlitt's best friends, I send him greetings and all good wishes. ■

John V. Denson, Vice Chairman Ludwig von Mises Institute

It is a distinct privilege for me to join with all of you in honoring Mr. Henry Hazlitt tonight. Ludwig von Mises once remarked:

The intellectual leaders of the people have produced and propagated the fallacies which are on the point of

destroying liberty and western civilization. What is needed to stop the trend toward socialism and despotism is common sense and moral courage.

Henry Hazlitt, through seven decades, has demonstrated the unflinching moral courage mentioned by Mises. He has also presented the ideas of the free market and individual liberty in concise, common-sense terms, which could be understood by the general reader.

When I studied economics at Auburn University in 1955, I was taught only Keynesian ideas. My intuition told me that what I was being taught was not correct, and that it would lead to the destruction of individual freedom. However, I had no intellectual ammunition with which to reply or rebut. It was not until several years later, when I was in law school, that I discovered Henry Hazlitt's column in *Newsweek*. It was several years after this that I was introduced to the ideas of Ludwig von Mises and read both *Human Action* and *Socialism*. I have often wondered if I would ever have made the commitment to tackle those two large volumes without first having absorbed Henry Hazlitt.

Now we have come 180 degrees at Auburn University. In 1982, two years after I became a trustee, I began to work with Lew Rockwell who had just formed the Mises Institute. We worked together to establish Auburn University as an academic base of the ideas of Ludwig von Mises. The economics department at that time already had a strong contingent of free-market economists and several Misesian scholars. Now the ideas of Mises and Hazlitt are there.

Today on the drawing board at Auburn University are the plans for a new building for the College of Business that will include the Economics Department and a prominent place

(Continued on page four)



John Denson gets an autograph from the guest of honor.

John Denson...from page 3

for the Mises Institute, which will provide it a permanent home for its academic endeavors.

Mr. Hazlitt, those who love liberty will always owe you a debt of gratitude. You have been a prime mover for over 70 years in the sometimes lonely struggle to establish correct economic principles. You have clearly demonstrated the common sense and moral courage that Ludwig von Mises stated would be necessary to change the trends that were on the point of destroying liberty and Western civilization. There are many hopeful signs that the tide is turning toward the ideas that you and Ludwig von Mises had advocated for many decades.

I am proud to join with all of those present, as well as the many thousands who could not attend, in saying thank you for your courage, for your intellect, for your integrity, and for your love of individual freedom. ■

Murray N. Rothbard, Vice President Ludwig von Mises Institute

This is a marvelous occasion, but why haven't there been 20 of these dinners?

In my own case, I was a Hazlittian years before I was a Misesian. In fact, before I had heard of von Mises I knew about Henry Hazlitt. When I was first getting interested in free-market economics, during and just after World War II, Harry was all over the place—in *Newsweek*, on radio and later television—lucid, sound, brilliant, and decisive, carrying the free market message. And he was the only one.

H.L. Mencken said that Harry Hazlitt was one of the few economists who could write, and that was certainly true. He also got me into a lot of trouble. My first teaching job was at Baruch College, City University of New York, in 1948, before I had heard of von Mises. I was teaching principles of economics—this was before the micro/macro junk came in, so it was in the good old days. We used a fairly decent pre-Keynesian textbook. As a supplement we used Henry Hazlitt's *Economics in One Lesson*, which, of course, was great. But we also had to use a monstrous little left-wing book refuting Harry's book. So on the first day I denounced the left-wing book and told my students not to bother reading it. I was immediately reported to the dean and got in hot water.

Another of my favorites of Harry's is his novel *The Great Idea*. It came out in 1951, and was later reissued as *Time Will Run Back*. This is the great economic novel. The hero falls heir to a world dominated by Soviet dictatorship and starts realizing that things are totally mucked up. Step by step he rediscovers the free market. It is a marvelous lesson in Austrian economics. For example, in what other novel is there a critique of mathematical attempts that try to claim that



Murray Rothbard: "God bless you, Harry."

socialism can calculate? I got an emotional thrill out of this novel, especially when the hero discovers through the market that money is really a gold gram.

In addition to being a writer, a radio/television performer, and a novelist, Harry is also a great scholar. One who is horribly underrated and undervalued. This evening only just begins to rectify the balance.

His great contribution to economics is the *Failure of the "New Economics,"* which came out in 1959. It was a devastating demolition, paragraph by paragraph, of Keynes' *General Theory*. He followed it up with *Critics of Keynesian Economics*.

There are many other contributions to scholarship by Harry. One of them I particularly like is his *Man vs. The Welfare State*, 1969, the only good critique of Milton Friedman's proposal to replace the welfare state with an even worse welfare proposal called the negative income tax....

This is just a slight sketch of Harry's scholarly and literary accomplishments.... He is also a magnificent person. God bless you, Harry. ■

Ron Paul, Distinguished Counsellor Ludwig von Mises Institute

I am honored to help praise Henry Hazlitt. But first I want to compliment Lew Rockwell for a great five years with the Mises Institute.

I was one of the first people that Lew came to when he decided to start the Institute and, of course, I did what I could to help. I was a bit skeptical, but Lew, you have proved yourself, and I think it is great.

I, too, Murray, was very much impressed with Henry Hazlitt's *Time Will Run Back*. We all know about 1984 and *Brave New World*. Yet Henry Hazlitt wrote a great novel on how to restore freedom. Toward the end of the book, there is a wonderful statement that I would like to quote:

If you forbid what is harmful to others, you have a big



Ron Paul: "All of us owe a great debt to Henry Hazlitt."

enough job for any government to take care of. Moreover, you have definite logical boundaries to that job. But if you begin to demand altruism, legally, there are no logical limits until everybody has been forced to give away all he has earned or all he has earned above those who have earned less, and then you are back again to the point where no one has any incentive, whatsoever, to earn or produce anything....

Any society worth living in must of course be infused with a spirit of generosity and benevolence. It can not depend solely on negative virtues, on people's merely respecting one another's liberty or their abstaining from deceit or violence. I concede all of that to be true, but it isn't the function of the government to force people into these positive virtues, it couldn't do it if it tried and the attempt would merely lead to horrible abuses. These positive virtues must come from within the society, itself, and that is merely another way of saying that they must come from within the individual.

In politics today, conservatives want to make individuals better through government, whereas liberals want to make society better by redistributing the wealth. Both approaches lead to the omnipotent state.

In the early 1980s, when I was in Congress fighting the IMF bill appropriations, I called Henry Hazlitt to find out what people said about the IMF when it began. Mr. Hazlitt had been alone in warning the country about the IMF. He mailed me his articles from the 1940s. Possibly I made the suggestion to him, but not too long after, I saw *From Bretton Woods to World Inflation*.

I marvel at individuals who can buck the tide. At the very time of the Bretton Woods meeting, he called it the road to world-wide inflation. Unfortunately, not enough people listened. But fortunately, with our knowledge of Austrian economics today, the spirit of benevolence he talks about in his novel, the spread of Austrian economics, and the leadership



Mark Skousen: "Henry Hazlitt's accomplishments are stunning."

of the Mises Institute, I am optimistic in the long-run.

And all of us who care about the long run owe a very great debt to Henry Hazlitt. ■

Mark Skousen Rollins College

It is really great that we are gathered here to honor Henry Hazlitt, author of the magnificent *Economics in One Lesson*, the book that every economist I know wanted to write....

Several months ago I was talking on the phone to Murray's favorite economist, Paul A. Samuelson, about the paradox of thrift. All of you who have been taught from the Samuelson book know about the paradox of thrift: that savings is bad, that it reduces consumption, and that it is bad for the economy. I said, "Henry Hazlitt refutes the paradox of thrift in *Economics in One Lesson*." Paul said, "Ah, but Henry Hazlitt is not an economist."

"Peter Drucker echoes Hazlitt in several of his books." "Well," said Paul, "Drucker is not an economist either."

"What about Irving Fisher, who said one week before the stock market crash that stocks have reached a permanent plateau?" "Oh," Paul said, "he was not a stock market expert." "Yes," I said, "he was an economist!"

Of course, that just shows what the Keynesians know. Henry Hazlitt is a very great economist. But, as the old phrase has it, a man's measure is the work he does and not the title he holds. That is especially true when it comes to Henry Hazlitt, for his accomplishments have been abundant and stunning.

Lord Acton said: "At all times, sincere friends of freedom have been rare and its triumphs have been due to minorities." Henry Hazlitt has been one of those friends, and one of that minority. However, as Josh Billings noted, "As scarce as truth is, the supply has always been in excess of the demand." ■

John Fund **Editorial Writer, *The Wall Street Journal***

When Henry Hazlitt went to work for *The Wall Street Journal* the year was 1913 and the income tax and the Federal Reserve System had not yet come into being. Ever since then, as part of a career in journalism that now spans three-quarters of a century, Henry Hazlitt has argued for the restoration of free markets and basic freedoms with a wit and force seldom found in economic journalism. My father used to save Henry Hazlitt's columns from *Newsweek* magazine, and I remember coming across a yellowing file of them when I was thirteen and Richard Nixon was imposing wage and price controls and closing the gold window. Those columns helped my young mind put political events such as those into perspective, and from the audience assembled in this room tonight it is clear I am not alone. ■

Kenneth Auchincloss **Managing Editor, *Newsweek***

Newsweek sends its warmest greetings and congratulations on this happy occasion. We have always prided ourselves on our columnists as one of the magazine's distinctions, and we take special pride in Henry Hazlitt's 20-year domicile in our pages. Henry always knew what he believed, he stated it clearly, and he never blew with the winds of fashion. What's more—and this is more than can be said for most weekly columnists—his views have stood up very well before the bar of history. He warned against the growth of government deficits. He warned against social programs that hurt the very people they are designed to help. He warned against the expansion of government regulation and intrusiveness that has been, to a great extent, the story of this century. And he was right. Today, his views seem prophetic. At the time he was writing, there were readers—and perhaps even some *Newsweek* editors—who must have considered him old-fashioned, out of touch with the times. But Henry would never have considered trimming his opinions to the patterns of the day. That made him both a very strong journalist and one who was never out of date. Henry, we miss you. ■

William F. Buckley Jr. **Editor, *National Review***

It is especially mortifying that I should be kept from this celebration by the exigencies of politics.... I remember years ago being directed by Harry Hazlitt to the sentence from Mencken to the effect that government is the enemy of all well-disposed, decent, and industrious men....

The last time I lunched with Henry Hazlitt in my home in Stamford, Connecticut, we walked to the car by the garage and he said to me: "How old is this house?" I answered, "It was built in 1907." "Ah," he said, "yes. That is the year I graduated from high school."

I was staggered by this intelligence, but then it occurred to me that Henry Hazlitt was probably about seven years old when he graduated from high school.

His intelligence and his erudition are of the order that makes one wonder if it must not have been a hundred years ago at least that he began his industrious inquiry into the way the world works, or rather should work, if we are to encourage man to be free. I met him first when he was an editor of *The Freeman*. He was flattering enough to offer me a position as an editorial assistant, and I wish I had accepted the offer instead of going with Bill Huie to the *American Mercury*. Though come to think of it, both men were well equipped to teach me how to run a magazine that year after year runs at a deficit....

We all owe him a great deal. I learned from him early on that no matter how highminded a man's purpose in life, his capacity to laugh is indispensable to the atmosphere he creates. Harry Hazlitt is one of the best laughing companions I have ever known. He and Frances have been a noble couple, interested, interesting, learners and teachers. I am proud to be his friend, I salute him on his enduring accomplishments, and vow to be present five years hence at the next celebration of great gifts. ■

F.A. Hayek, Nobel Laureate **University of Freiburg**

Delighted to learn that Henry Hazlitt is deservedly being celebrated for his long period of beneficial instruction of the public and particularly for having established in the United States the reputation of Ludwig von Mises when totalitarianism drove him out of Europe. ■

Ronald Reagan **President of the United States**

Henry, I am pleased and proud to add my congratulations to those of your many colleagues and friends as the Ludwig von Mises Institute honors you at its Fifth Anniversary.

You're being honored for many reasons—your more than seven decades as a scholar and journalist; your many and distinguished contributions to economics; your persistent efforts in behalf of Ludwig von Mises and other scholars; and the wide influence you've had among intellectuals, opinion-makers, and government leaders, including this one.

But, as everyone paying you this truly well-deserved tribute would agree, you're being honored above all for the clarity, the eloquence, the rigorous consistency, and the utterly unflinching courage with which you've studied, explained, and defended economic freedom and individual liberty. In helping those within and without academia to understand the free market and the futility of socialism, you've done all mankind a tremendous and lasting service. I am happy to commend you, and to wish you well always.

Again, congratulations and God bless you. ■

Llewellyn H. Rockwell, Jr. Founder and President, Ludwig von Mises Institute

Thank you all for coming to our 5th birthday party, and for helping us to honor a very special and a very great gentleman.

We've heard wonderful talks tonight about Henry Hazlitt's accomplishments in economics, philosophy, and journalism. But, since this is the Mises Institute, I would like to talk for a moment about what he meant to Ludwig von Mises.

When Mises came to this country virtually penniless, Henry Hazlitt took charge. At a time when every second-rate leftist in exile from Western Europe was getting a cushy job at an elite university, Mises was shut out. For he came here with very unfashionable views.

Henry set to work to find him an academic post. Together with Lawrence Fertig, he arranged a post at New York University. Consistent with the rest of Mises's life, this was an unpaid professorship. Mises never once had a regular faculty appointment, and the money for his NYU professorship came from free-market individuals, businesses, and foundations. But the entrepreneur of the whole arrangement was Henry Hazlitt.

Henry Hazlitt also arranged the publication by Yale University Press of *Bureaucracy, Omnipotent Government, Theory and History*, and *Human Action*.

So, on behalf of the Ludwig von Mises Institute, and all of us here tonight, I would like to present you, Harry, with this illuminated scroll, which reads:

*The Ludwig von Mises Institute
proudly presents to Henry Hazlitt,
innovative economist, path-breaking philosopher,
and outstanding journalist for liberty,
the Ludwig von Mises Award,
in grateful recognition
of his life-time of achievement
for the free market
in the tradition
of his friend and colleague,
Ludwig von Mises.
Presented in New York City
on the 17th day of October,
in the year 1987.*

The scroll is signed by Margit von Mises, Chairman; Burton S. Blumert, Chairman of the Executive Committee; Congressman Ron Paul, Distinguished Counsellor; Professor Murray N. Rothbard, Vice President for Academic Affairs; and myself as President. I should add that this beautiful parchment was donated by an admirer of Henry Hazlitt's, calligrapher Alf Ebsen of Willowdale, Ontario.

Ladies and gentlemen, Mr. Henry Hazlitt. ■



Speech by Henry Hazlitt

If I believed half of this, there would be no living with me. I hope that my wife doesn't notice any deep change when I get back.

My friends, I can't begin to tell you how honored I am by this tribute to me. Such an event in one's life cannot come too late—if the beneficiary is still there.

As I look back on my life it seems on net balance a happy one, though the beginning did not promise well. I was born in Philadelphia. (That is not the bad promise.) My father had diabetes, and died at the age of 28, when I was only two years old. This meant instant poverty for my mother and myself. My father left no life insurance; I do not know whether young men took it out then at such an early age.

My mother had to get a job. She took one at my maternal grandfather's children's hat factory. Children's hats were a big business then. He employed, I believe, over a hundred operators, and my mother became one like his other employees, with no special privileges. This was in spite of the fact that I had been named Henry after him, because he asked for that and promised my parents, if I were so named, that he would give me \$10,000 on my twenty-first birthday. But he failed long before then, and I never got the \$10,000.

When my mother worked at her job, she parked me at one of my aunts—Tante Mimi, Tante Emmy, or Tante Nellie—(we were originally a German-speaking family from Alsace-Lorraine, and retained these German titles). At her first opportunity, when I was six years old, my mother entered me in Girard College, a home that the Philadelphia philanthropist, Stephen Girard, had set up (and I quote) "for fatherless white boys." (The college was not so long ago compelled by court order to take in fatherless black boys also.) I remained there till the age of nine, when my mother was married again, this time to a man named Frederick Piebes, then her employer, also a manufacturer of children's hats. He took me out of Girard College and adopted me. (I took my original name back at the age of sixteen or so, after my stepfather had died.)

I continued my education at Brooklyn where we lived, at public school, at Boy's High School, then at the College of the City of New York for about one year in the daytime and another year at night. But this college after work eventually proved too much, and I had to give it up.

Meanwhile I had found a job on *The Wall Street Journal*, as secretary to the managing editor, Lockwood Barr, a very kindly man. (I had barely heard of the *Journal* before I took this job, and was merely answering its advertisement in *The New York Times*. I had not the slightest interest in or knowledge of finance; my head was full of what I thought of as Philosophy. I was taken on because I had given my previous salary as one dollar less a week than the other applicants, and Barr decided I was the "most honest" of the applicants. (The



A hushed crowd listens to Henry Hazlitt.

It has been my privilege to know, and to be the friend of, a great man, the late Ludwig von Mises.

figure I had given was in fact my previous salary.) I was hired at that rate.

I remained on the *Journal* for three years, first as the secretary of the Managing Editor and later as that of the Editor, W.P. Hamilton, an irascible but brilliant Scotsman. Then I received an offer from *The New York Evening Post* at a higher salary. It came through Palmer Harman, my previous colleague on the *Journal*.

But I had not intended to make this talk an autobiography, or a history of successively better jobs. Rather I should like to use it chiefly to compare some conditions in my early life with those at later times and at the present. The changes in my lifetime—which means in all our lifetimes here—have been enormous, greater than in any previous period. There has been a growth in invention and in accumulated knowledge. The telephone was invented by Alexander Graham Bell in 1876, and began to be installed in significant numbers in homes in 1895. The automobile had no single day of invention, but began to exist in large numbers in the 1890s. Together these two inventions took an outstanding lead in transforming the face of civilization. But did the knowledge and culture of the man in the street make any corresponding advance? Except in knowledge of the inventions themselves, apparently very little.

If I try to make a comparison of public education in the two periods, I am limited by a good deal of forgetfulness

about the past and little knowledge of what is going on at present. But I do remember that in languages, for example in public high school, we had native Germans teaching German and native Frenchmen teaching French. If there is anything similar going on today, I do not know about it.

But enough of trivialities.

It has been my privilege to know, and to be the friend of, a

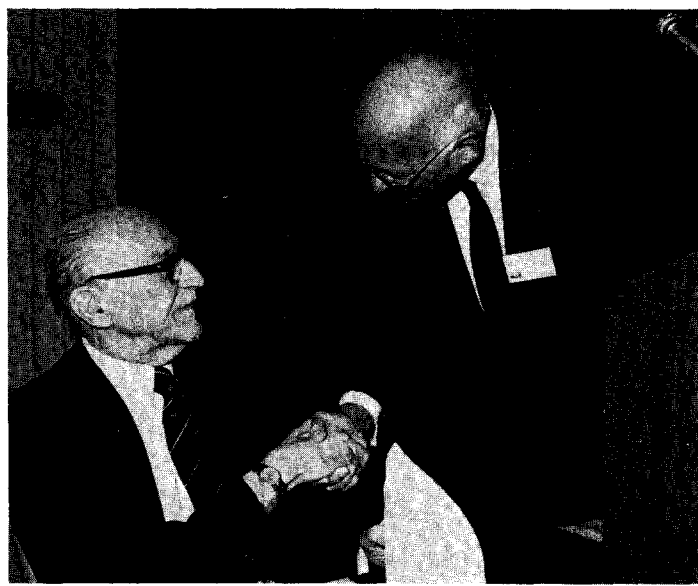
great man, the late Ludwig von Mises. He was an economist, the greatest of the present age, fit to rank with Adam Smith and Ricardo. The title of his masterpiece, *Human Action*, enlarged the conception of the realm of economics. I am happy to pay tribute to him here.

Well, when it comes to speeches, old people have the reputation of having no terminal facilities. I want to disprove that. Right now. ■

A Tribute to Henry Hazlitt



Henry Hazlitt and Judith Blumert enjoy William F. Buckley's message.



Henry Hazlitt and Robert Bleiberg, editorial director of Barron's.



(Above) Lew Rockwell shows David Jarrett the Institute's Five Year Report highlighting his photos of Mises. (Right) "The next generation."



Back to Fixed Exchange Rates: Another "New Economic Order"

by Murray N. Rothbard

Hold on to your hats: the world has now embarked on yet another "new economic order"—which means another disaster in the making. Ever since the abandonment of the "classical" gold coin standard in World War I [by the United States in 1933], world authorities have been searching for a way to replace the peaceful world rule of gold by the coordinated, coercive rule of the world's governments.

They have searched for a way to replace the sound money of gold by an internationally coordinated inflation which would provide cheap money, abundant increases in the money supply, increasing government expenditures, and prices that do not rise too wildly or too far out of control, and with no embarrassing monetary crises or excessive declines in any one country's currency. In short, governments have tried to square the circle, or, to have their pleasant inflationary cake without "eating" it by suffering decidedly unpleasant consequences.

The first new economic order of the 20th century was the New Era dominated by Great Britain, in which the world's countries were induced to ground their currencies on a phony gold standard, actually based on the British pound sterling, which was in turn loosely based on the dollar and gold. When this recipe for internationally coordinated inflation collapsed and helped create the Great Depression of the 1930s, a new and very similar international order was constructed at Bretton Woods in 1944. In this case, another phony gold standard was created, this time with all currencies based on the U.S. dollar, in turn supposedly redeemable, *not* in gold coin to the public, but in gold bullion to foreign central banks and governments at \$35 an ounce.

In the late 1920s, governments of the various nations could inflate their currencies by pyramiding on top of an inflating pound; similarly in the Bretton Woods system, the U.S. exported its own inflation by encouraging other countries to inflate on top of their expanding accumulation of dollar reserves. As world currencies, and especially the dollar, kept inflating, it became evident that gold was undervalued and dollars overvalued at the old \$35 par, so that Western European countries, reluctant to continue inflationary policies, began to demand gold for their accumulated dollars [in short, Gresham's Law, that money overvalued by the government will drive undervalued money out of circulation, came into effect]. Since the U.S. was not able to redeem its gold obligations, President Nixon went off the Bretton Woods standard, which had come to its inevitable demise in 1971.

Since that date, or rather since 1933, the world has had a fluctuating fiat standard, that is, exchange rates of currencies have fluctuated in accordance with supply and demand on

the market. There are grave problems with fluctuating exchange rates, largely because of the abandonment of one world money [i.e. gold] and the shift to international barter. Because there is no world money, every nation is free to inflate its own currency at will—and hence to suffer a decline in its exchange rates. And because there is no longer a world money, fluctuating uncertain exchange rates create a double uncertainty on top of the usual price system—creating, in effect, multi-price systems in the world.

The inflation and volatility under the fluctuating exchange rate regime has caused politicians and economists to try to resurrect a system of fixed exchange rates—but this time, without even the element of the gold standard that marked the Bretton Woods era. But without a world gold money, this means that nations are fixing exchange rates arbitrarily, without reference to supply and demand, and on the alleged superior wisdom of economists and politicians as to what exchange rates should be.

*This new
coordinated
attempt
to fix exchange
rates began
two years ago
in a hysterical
reaction against
the high dollar.*

Politicians are pressured by conflicting import and export interests, and economists have made the grave error of mistaking a long-run tendency (of exchange rates on a fluctuating market to rest at the proportion of purchasing-powers of the various currencies) for a criterion by which economists can correct the market. This attempt to place economists above the market overlooks the fact that the market properly sets exchange rates on the basis,

not only of purchasing power proportions, but also expectations of the future, differences in interest rates, differences in tax policy, fears of future inflation or confiscation, etc. Once again, the market proves wiser than economists.

This new coordinated attempt to fix exchange rates began two years ago in a hysterical reaction against the high dollar. The Group of Seven nations [the U.S., Britain, France, Italy, West Germany, Japan, and Canada] helped drive down the value of the dollar, and then, in their wisdom, in February 1987, decided that the dollar was now somehow at a perfect rate, and coordinated their efforts to keep the dollar from falling further.

In reality, the dollar was high until early 1986 because foreigners had been unusually willing to invest in dollars—government bonds as well as other assets. While this happy situation continued, they were willing to finance American in buying cheap imports. After early 1987, this unusual willingness disappeared, and the dollar began to fall in order

(Continued on back page)

Why the Stock Market Crashed

by Graeme B. Littler

"The fundamental business of the country...is on a sound and prosperous basis."—Herbert Hoover, October 1929

"[All] the economic indicators are solid...There is nothing wrong with the economy."—Ronald Reagan, October 1987

The president and other "sound-economy" soothsayers whistled past the graveyard left by Black Monday, but the stock market is, for the most part, a reliable barometer of future economic conditions. It ought to be what Ludwig von Mises called "the focal point of the market economy, the ultimate device to make the anticipated demand of the consumers supreme in the conduct of business." In today's economy, however, it is gyrated by Federal Reserve monetary manipulations, just as is the economy itself.

In the stock market, investors buy and sell shares of corporations listed on the exchange. The prices of these stocks fluctuate constantly, reflecting new information, changing perceptions, and consumer preferences. Government

policy too can dramatically affect share prices, as when the feds change the tax laws, impose tariffs, or alter monetary policy. Traders on the market subjectively interpret the new information, and act on the effects they believe it will have.

Ludwig Lachmann correctly says that "the equilibrium price of the stock market is determined, not by an 'objective' body of information, but by the respective expectations of buyers and sellers." And, Mises adds, if a trader "is able to anticipate the future state of the market more correctly than other people, he can succeed in choosing investments whose price will rise and in avoiding investments whose price will drop."

In a free market, prices of stocks, like the prices of goods and services, rise and fall according to actual changes in information, perceptions, or preferences. When prices for goods and services—as measured by some price index like the CPI—rise like an ocean tide, we know the Fed's been inflating the money supply. The same is true with stock prices. We should be suspicious of stock market runups like we've experienced over the last five years. Was it the result of increased savings and higher corporate profits, or of Federal Reserve monetary inflation? Although every rising market has elements of both, the Federal Reserve was the culprit.

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Here's how the process works. When the Fed creates new money and credit, financial institutions feel the effects far faster than the economy as a whole. The new money frees up funds for investment and speculation, including investments in stocks. Interest rates are lowered, making stocks a more attractive investment relative to bonds. The new money also increases the present value of perceived future earnings. The rush for stocks bids up their prices, and leads to a generally rising stock market.

Since 1982, the U.S. economy has been awash in cash—thanks to massive increases in the money supply—and this generated rapidly rising equity prices.

In January, however, the Fed began to tighten money and credit, probably to lessen the inflationary pressures that it set in motion, and interest rates have risen. The Fed, in other words, fooled investors into thinking that equity prices were rising for sounder reasons than they were. The result: investors made a "cluster of errors." These are the forces that help explain why the stock market collapsed.

There is a much more pressing question: what does this have to do with the economy as a whole? Looking at the ten most recent business cycles, we see that stock prices usually turn down about six months before a recession. Why? The same artificial money and credit that caused low interest rates and rocketing equity prices also interferes with sound business planning. Fed-created money and credit sets off an economic boom, creating an illusion of economic prosperity, while it is actually generating malinvestments and sowing the seeds of a downturn.

Now the Fed has to make a choice. It can tighten credit to fight a general rise in prices, but that threatens a recession or worse. Or it can inflate more, which means more malinvestments and the threat of spiraling consumer prices. Historically it has opted for a recession, but this time the banks and the Fed have much more at stake, and Fed Chairman Alan Greenspan has already promised to provide all the "liquidity" the banking system needs.

They won't take my advice. But if we want to get on the road to real prosperity, here's the best course: 1) the Fed should stop all inflation immediately (or better still, close shop permanently); 2) the capital gains tax, which distorts investment patterns, should be abolished; and 3) the dollar should be tied to a specific weight of gold (and be redeemable for it), thus eliminating future inflation and inflationary distortions.

If the August 25th top in the Dow (2,722) was in fact a cyclical peak, get ready for the rocky economic ride ahead. And it's all courtesy of Paul Volcker, Alan Greenspan, and the Federal Reserve System. ■

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Fixed Exchange Rates...from page 10

to equilibrate the U.S. balance of payments. Artificially propping up the dollar in 1987 has led the other countries of the Group of Seven to purchase billions of dollars with their own currencies—a short-sighted effort which cannot last forever, especially because West Germany and Japan have fortunately not been willing to inflate their own currencies and lower their interest rates further, to divert capital from themselves toward the U.S.

Instead of realizing that this coordination game is headed toward inevitable crisis and collapse, Secretary of Treasury James Baker, the creator of the new system, proposes to press ahead to a more formal New Order. In his September speech to the IMF and World Bank, Secretary Baker proposed a formal, coordinated regime of fixed exchange rates, in which—as a sop to public sentiment for gold—gold is to have an extremely shadowy, almost absurd, role. In the course of fine tuning the world economy, the central banks and treasuries of the world, in addition to looking at various “indicators” on their control panels—price levels, interest rates, GNP, unemployment rates, etc.—will also be consulting a new commodity price index of their own making which, by secret formula, would also include gold.

Such a ludicrous substitute for genuine gold money will certainly fool no one, and is an almost laughable example of the love of central bankers and treasury officials for secrecy and mystification for its own sake, so as to bewilder and bamboozle the public. I do not often agree with J.K. Galbraith, but he is certainly on the mark when he calls this new secret index a “marvelous exercise in fantasy and obfuscation.”

Politically, the secret index embodies a new ruling alliance within the Reagan Administration between such conservative Keynesians as Secretary Baker and such supply-siders as Professor Robert Mundell and Congressman Jack Kemp (who have both hailed the scheme as a glorious step in the right direction). The supply-siders have long desired the restoration of a Bretton Woods-type system that would allow coordinated world cheap money and inflation, *coupled* with a phony gold standard as camouflage, so as to build unjustified confidence in the new scheme among the pro-gold public.

The conservative Keynesians have long desired a new Bretton Woods, based eventually on a new world paper unit issued by a World Central Bank. Hence the new alliance. The alliance was made politically possible by the disappearance from the Reagan Administration of the Friedmanite monetarists, such as former Undersecretary of

Treasury for Monetary Policy Beryl W. Sprinkel and Jerry Jordan, spokesmen for fluctuating exchange rates. With monetarism discredited by the repeated failures of their monetary predictions over the last several years, the route was cleared for a new international fixed rates system.

Unfortunately, the only thing worse than fluctuating exchange rates is fixed exchange rates based on fiat money and international coordination. Before rates were allowed to fluctuate, and after the end of Bretton Woods, the U.S. government tried such an order, in the international Smithsonian Agreement of December 1971. President Nixon hailed this agreement as “the greatest monetary agreement in the history of the world.” This exercise in international coordination lasted no more than a year and a half, foundering on monetary crises brought about by Gresham’s Law and overvaluation of the dollar.

How long will it take this new, New Order, along with its puerile secret index, to collapse as well? ■

Dr. Murray N. Rothbard—the S.J. Hall Distinguished Professor of Economics at the University of Nevada, Las Vegas, and Vice President for Academic Affairs of the Ludwig von Mises Institute—wrote this article before Black Monday.

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