

The Free Market

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Liberty and Property

by Ludwig von Mises

The Institute thanks Margit von Mises for her gracious permission to print excerpts from this unpublished talk. ed.

The pre-capitalistic system of production was [based on] military conquest. The victorious kings had given the land to their paladins. These aristocrats were lords in the literal sense of the word, as they did not depend on the patronage of consumers buying or abstaining from buying on the market. On the other hand, they themselves were the main customers of the processing industries which under the guild system were organized on a cooperative basis.

This scheme was opposed to innovation. It forbade deviation from the traditional methods of production. The number of people for whom there were jobs even in agriculture or in the arts and crafts was strictly limited. Under these conditions, many a man, to use the words of Malthus, had to discover that at "nature's mighty feast there is no vacant cover for him," and that "she tells him to be gone." But some of these outcasts nevertheless managed to survive, begot children, and made the number of the destitute grow hopelessly more and more.

But then came capitalism.

It is customary to see the radical innovations that capitalism brought about as substitution of the mechanical factory for the more primitive and less efficient methods of artists and shops. This is a rather superficial view. The characteristic feature of capitalism, that distinguishes it from pre-capitalistic methods of production, was its new principle of marketing.

Capitalism is not simply mass production, but mass production to satisfy the needs of the masses. The arts and crafts



Ludwig von Mises photographed by David Jarrett.

Misesian Economics Popularity Growing

by Lauren Chambliss

This article, excerpted with permission from the August 1987 issue of Financial Planning magazine, reflects the growing interest in Austrian economics (although we do not agree with every judgment in it). Special thanks to Institute Member Don Rembert, a financial planner in Falls Church, Virginia, who was responsible for the story. ed.

Austrian economics is growing in popularity and influence. And like other bellwethers—Marx's *Das Kapital* or Freud's *Civilization and Its Discontents*—everybody is freely quoting Austrian-born economist Ludwig von Mises.

A growing number of economists, dubbed "Austrians" because of their mentor's nationality, have become sworn adherents of Mises's theories. Inside and outside of academia, a growing group believes Misesian economics may hold the answer to the world's—and particularly the United States'—economic problems.

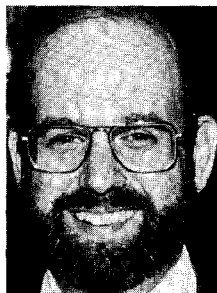
The abstruseness of Misesian theory makes its spread doubly notable. The school's economic doctrine defies easy categorization. The Austrians' belief in individualism, laissez-faire economics, and the gold standard—not an atypical smorgasbord of conservative economic beliefs, perhaps—is distinguished by the theory's extremity and consistency of vision. At the heart of the doctrine is a concept that appears pragmatic but is radical in its economic translation.

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From the President

by Llewellyn H. Rockwell, Jr.

The First Five Years

Recently a student, hearing that this month marked the Fifth Anniversary of the Institute, asked me how it all started. This is what I told him: in December 1981, shortly after the 100th anniversary of Ludwig von Mises's birth, I approached Mrs. Mises with the idea of a Ludwig von Mises Institute. Calling it "a dream come true," she gave her blessing and agreed to chair our board. Ten months later, after garnering the enthusiastic support of such giants as Ron Paul, Henry Hazlitt, Murray N. Rothbard, and Burton S. Blumert—and shepherding our applications for incorporation through the D.C. government and for 501(c)3 status through the IRS—I was able to leave Emory University and start full-time work on the Institute.

I had seen the hunger for the truth among economics students and the general public and known that there were many people in the U.S. and abroad dedicated to the free market and sound money. But the welcome the Institute received stunned me. Today—only five years later—we are at least a decade ahead of where I thought we would be.

Although the Mises Institute remains a small organization and a lean one (and I intend to see that we always are the latter!), thanks to our Members we have been able to make an enduring contribution to the spread of Ludwig von Mises's magnificent ideas and to advancing the cause of liberty, Austrian economics, and the gold standard.

As over the past five years, through student fellowships, student study centers, student counselling and guidance, faculty research grants, conferences, seminars, books, monographs, journals, newsletters, public policy, and the O.P. Alford Center for Advanced Austrian Economics, the Institute will continue to fight for liberty in the Misesian tradition.

Thank you for being part of it. Most of all, thank you for allowing all of us associated with the Institute the opportunity to work for our ideas. There could be no greater privilege. ■

Tapes of Mises's Voice Available

The article on page one (left) is excerpted from Ludwig von Mises's 1958 address to the Mont Pelerin Society. If you would like a cassette tape of Professor Mises's entire talk—one of the few recordings we have of his voice—see the enclosed form.

Liberty and Property...from page 1

of the good old days had catered almost exclusively to the wants of the well-to-do. But the factories produced cheap goods for the many. All that the early factories turned out was designed to serve the masses, the same strata that worked in the factories. They served them either by supplying them directly, or indirectly by exporting, and providing for them foreign food and foreign raw materials.

This principle of marketing was the signature of early capitalism as it is of present day capitalism. These employees themselves are the customers consuming the much greater part of all goods produced. They are the sovereign customers who are always right. Their buying or abstention from buying determines what has to be produced, in what quantity, and of what quality. In buying what suits best they made some enterprises profit and expand and made other enterprises lose money and shrink. Thereby they are continually shifting control of the factors of production into the hands of those businessmen who are most successful in filling their wants.

Under capitalism, private property of the factors of production is a social function. The entrepreneurs, capitalists, and land owners are mandatories, as it were, of the consumers, and their mandate is revocable. In order to be rich it is not sufficient to have once saved and accumulated capital. It is necessary to invest it again and again in those lines in which it best fills the wants of the consumers. The market process is a daily repeated plebiscite, and it ejects inevitably from the ranks of profitable people, those who do not employ their property according to the orders given by the public.

Big business, the target of fanatical hatred on the part of all contemporary governments and self-styled intellectuals, acquires and preserves bigness only because it works for the masses. The plans that cater to the luxuries of the few never attain big size.

The shortcoming of 19th-century historians and politicians was that they failed to realize that the workers were the main consumers of the products of industry. In their view, the wage earner was a man toiling for the sole benefit of a parasitic leisure class. They labored under the delusion that the factories had impaired the lot of the manual workers. If they had paid any attention to statistics, they would have easily discovered the fallaciousness of their opinion. Infant mortality dropped. The average length of life was prolonged. The population multiplied, and the average common man enjoyed amenities of which even the well-to-do of earlier ages did not dream.

However this unprecedented enrichment of the masses was merely a by-product of the industrial revolution. Its main achievement was the transfer of economic supremacy from

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The Balanced-Budget Amendment Hoax

by Murray N. Rothbard

It is a hallmark of the triumph of image over substance in modern society that an administration which has submitted to Congress budgets with the biggest deficits in American history should propose as a cure-all a constitutional amendment mandating a balanced budget. Apart from the high irony of such a proposal from such a source, the amendment-mongers don't seem to realize that the same pressures of the democratic process that have led to permanent and growing deficits will also be at work on the courts that have acquired the exclusive power to interpret the Constitution. The federal courts are appointed by the executive and confirmed by the legislature, and are therefore part and parcel of the government structure.

Apart from these general strictures on rewriting the Constitution as a panacea for our ills, the various proposed balanced budget amendments suffer from many deep flaws in themselves. The major defect is that they only require a balance of the future *estimated* budget, and not of the actual budget at the end of a given fiscal year. As we all should know by this time, economists and politicians are expert at submitting glittering projected future budgets that have only the foggiest relation to the actual reality of the future year. It will be duck soup for Congress to estimate a future balance; not so easy, however, to actually balance it. At the very least, any amendment should require the actual balancing of the budget at the end of each particular year.

Secondly, balancing the budget by increasing taxes is like curing influenza by shooting the patient; the cure is worse than the disease. Dimly recognizing this fact, most of the amendment proposals include a clause to limit federal taxation. But unfortunately, they do so by imposing a limit on revenues as a percentage of the national income or gross national product. It is absurd to include such a concept as "national income" in the fundamental law of the land; there is no such real entity, but only a statistical artifact, and an artifact that can and does wobble according to the political breeze. It is all too easy to include or exclude an enormous amount from this concept.

A third flaw highlights again the problem of treating "the budget" as a constitutional entity. As a means of making the deficit look less bleak, there has been an increasing tendency for the government to spend money on "off-budget" items that simply don't get included in official expenses, and therefore don't get added to the deficit. Any balanced-budget amendment would provide a field day for this kind of mass trickery on the American public.

We must here note a disturbing current tendency for "born again" pro-deficit economists in conservative ranks to pro-

pose that "capital" items be excluded from the federal budget altogether. This theory is based on an analogy with private firms and their "capital" versus "operating" budgets. One would think that allegedly free-market economists would not have the affrontery to apply this to government. Get this adopted, and the government could happily throw away money on any boondoggle, no matter how absurd, so long as they could call it an "investment in the future." Here is a loophole in the balanced budget amendment that would make any politician's day!

A fourth problem is that the various proposals make it all too easy for Congress to override the amendment. Suppose Congress and/or the President violate the amendment. What then? Would the Supreme Court have the power to call the federal marshals and lock up the whole crew? To ask that question is to answer it. (Of course, by making the budget balance *prospective* instead of real, this problem would not even arise, since it would be almost impossible to violate the amendment at all.)

But isn't half a loaf better than none? Isn't it better to have an imperfect amendment than none at all? Half a loaf is indeed better than none, but *even worse* than no loaf is an elaborate camouflage system that fools the public into thinking that a loaf exists where there is really none at all. Or, to mix our metaphors, that the naked Emperor is really wearing clothes.

We now see the role of the balanced budget amendment in the minds of many if not most of its supporters. The purpose is not actually to balance the budget, for that would involve massive spending cuts that the Establishment, "conservative" or liberal, is not willing to contemplate.

The purpose is to continue deficits while deluding the public into thinking that the budget is, or will soon be, balanced. In that way, the public's slipping confidence in the dollar will be shored up. Thus, the balanced budget amendment turns out to be the fiscal counterpart of the supply-siders' notorious proposal for a phony gold standard. In that scheme, the public would not be able to redeem its dollars in gold coin, the Fed would continue to manipulate and inflate, but all the while this inflationist policy would now be cloaked in the confidence-building mantle of gold.

In both plans, we would be dazzled by the shadow, the rhetoric of sound policy, while the same old program of cheap money and huge deficits would proceed unchecked. In both cases, the dominant ideology seems to be that of P.T. Barnum: "There's a sucker born every minute." ■

Dr. Murray N. Rothbard, the S.J. Hall Distinguished Professor of Economics at the University of Nevada, Las Vegas, is Vice President for Academic Affairs at the Ludwig von Mises Institute.

Human behavior cannot be quantified or understood entirely, Misesians believe, because it encompasses too many entirely unpredictable components. Possibly one can predict how people will react if the price of an item is lowered—i.e. they will buy more. But economists can never be too certain of the correlation between economic maxims. Maybe that item went out of style, or maybe people discovered they no longer needed it, even at the lower price.

Because it has ridden to prominence on the new conservatism that has blunted our love affair with Keynesian economics, the Austrian school has become an integral part of the free-market movement. The Austrian school's fundamental belief—that government cannot function as efficiently as the free market and should be severely restricted—has become about as familiar as other once-exotica like trickle-down theory.

Underneath that standard conservative anthem, however, Misesians are indeed marching to a different drummer. While most conservative economists—including monetarists and the Chicago school—believe government interference in the economy should be limited, the Austrians think that Washington's meddling in the business arena should be virtually halted. They want Washington's entire economic cabal—including the Federal Reserve—dismantled. Before writing them off, we should remember that the fringe defines the middle, and Misesians sound more mainstream today than they did two decades ago. And their views have helped shape, and will continue to exert considerable influence on, mainstream economics.

Ludwig von Mises, born in Austria at the turn of the century, died 14 years ago. He was hardly a guru then; rather, he perished a little-acknowledged academic whose body of work was all but lost in the enormous shadows of Marx and Keynes. His theories, though, have been given new life by a small but continuously expanding group of devotees. A 1974 Nobel Prize for one of Mises's former students, Professor F.A. Hayek, provided a jolt of recognition—and the emergence of mainstream free-market economics has created the proper receptive climate.

To understand how far this obscure Austrian view has come, one has to remember that, only a decade ago, suggesting that the government might not be able to solve all of the nation's economic ills was heresy. The common wisdom was that an economy like the United States' could never run completely smoothly. It would always have problem areas—such as unemployment, concentrated wealth and poverty—that needed the corrective attention of Washington. Nowadays, the idea of government as grand fixer seems as woefully

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Fiat Paper Money: Tyranny's Credit Card

by J. Tucker Alford

In the 20th century, the American dollar has a grim history. It has only about 9% of its 1913 value, because Federal Reserve inflation has caused consumer prices to increase more than eleven-fold.

During the same time, the power of the central bank has increased enormously, as has the presence of the federal government in the economy. Compared to the previous 113 years, the difference is startling. Then, prices generally fell, and prosperity was always on the rise.

The crucial difference between then and now is the quality of the dollar. Today's dollar is created out of thin air by the U.S. government, and there is virtually no restraint on the Federal Reserve's power. But when there is no Fed and money is a real commodity like gold, as during the 19th century, money is more likely to maintain its quality and purchasing power.

Money has not always been in the claws of the government. In fact, as Carl Menger theorized, money very likely came about through the process of the market. Ludwig von Mises went even further and proved that the free market was the only place money could develop. Government coercion never has and never will be able to impose a new institution of money on the economy.

Even so, money has been the victim of brutal attacks by the government. In the Middle Ages, monarchs found that raising taxes was a risky way to raise revenue. It often provoked violent revolution, and kings didn't relish the risk of meeting the executioner's ax. Instead, they found a discreet and underhanded way to extract wealth from the public: debasement of coinage. The king would call in coins for reissue, melt them down, and redistribute them with slightly less gold content, but with the same face value. The "excess" gold would pay off the king's debts, and while the value of the circulating coins would drop, the public outcry was limited.

Paper money first came into use to save the cost of physically transporting bullion. People felt uncomfortable carrying around large quantities of gold. They placed their gold with a goldsmith, and he issued a paper receipt for the deposit, guaranteeing the bearer payment of the gold on demand. The depositor could then use his receipt for the purchase of goods and services. Goldsmiths, soon called banks, began redeeming one another's gold receipts, and paper receipts became accepted as substitutes for money.

The goldsmiths, however, quickly recognized an opportunity to make more profits. They began printing up phony gold receipts and spending them for their own use. They could even lend them out and charge interest, knowing all



J. Tucker Alford tapes a Mises Institute summer conference.

depositors wouldn't call for redemption at once. This counterfeiting is today hailed as the basis of our banking system: fractional reserve banking.

Always hanging over the head of the banker-goldsmith, however, was the threat that too many of his depositors would redeem their notes for gold on the same day. His bank, like all modern banks, was inherently broke, but its bankruptcy became apparent only in the event of a bank run. If he couldn't meet his depositor's demands, he would likely be hanged.

Governments, of course, found paper money to their liking. In the New World, paper money was first used in Massachusetts in 1690. After several failed pillaging expeditions into Canada, the colonial government issued irredeemable paper to pay the troops. Back then, no one would accept a simple piece of paper in exchange for real goods, so the government had to promise to redeem in specie at a certain date in the future. It also promised that there would be only one such issue. But the government's promise was as thin as its paper, and many more such issues followed when the government found itself short on money.

The people of colonial America learned to distrust paper money. During the Revolutionary War, Congress issued paper notes called Continentals, which were not backed in gold. They were issued in great quantities, and thus depreciated until they were worth next to nothing. People knew the true cause of the depreciation of the Continental. It wasn't aliens, speculators, slackers, hoarders, or jobbers. It was the government defrauding the people with its printing presses. That's why they wrote gold and silver into the Constitution.

*The first step
must be to
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Today, however, the banking and central banking system is so complex that few know why the dollar continues to lose value. The Fed doesn't help much with its confusing array of money stock and liquid asset definitions (Ms). Much better is Professor Murray N. Rothbard's True Money Supply (TMS). It combines selected components of the different Ms according to Austrian theory, and provides a more accurate accounting of the total outstanding medium of exchange at any given time.

The first step in the establishment of a 100% gold standard money must be to define the U.S. dollar as a weight of gold, with 100% redeemability insured. The dollar was once $\frac{1}{20}$ an ounce of gold. It was then devalued to $\frac{1}{35}$ an ounce of gold. What would it be now if the dollar were again tied to gold? To approximate the answer we only need to know the government's gold stock, the current money supply, and some simple mathematics.

Using the Federal Reserve's M1 as money (cash, checking accounts, and travelers checks), the dollar would be defined as $\frac{1}{2837}$ of an ounce gold. This would value the government's gold stock at \$749.3 billion and enable all of M1 to be backed by gold at 100%.

Using Rothbard's broader definition of money, TMS, the most recent figures show the dollar would be defined as $\frac{1}{7340}$ an ounce of gold. (Just think what the Fed has done: the pre-1934 dollar was $\frac{1}{20}$ ounce!) This would allow the government's gold to cover all of TMS. The Federal Reserve's assets could then be sold, and the whole ugly system dismantled.

Though there are few dedicated individuals who remain champions of hard, honest money, the mainstream lambastes the gold-standard advocates as archaic, reactionary, anachronistic, loony, and Neanderthal.

The record speaks for itself. Even under an imperfect gold standard, from the end of the American Civil War to World War I, the world experienced unprecedented prosperity and improvement in living standards. Since the "Progressives" destroyed the dollar in 1913, there has been worldwide inflation, the impoverishment of the developing world, the decline of Western prosperity, and a rise of totalitarianism, both right and left. It is anti-gold statists who are pointing us toward the despotism and barbarism of a new Neanderthal era.

Hard money is free money, and it goes hand in hand with liberty and democracy. Fiat paper money is tyranny's credit card. One can only hope that circumstances need not get worse before they get better. Perhaps someday our nine-cent paper ticket will give way to a genuine, honest gold dollar. ■

Tucker Alford, a third-year economics major at Washington and Lee University, was a 1987 Summer Intern at the Institute.

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the owners of land to the totality of the population. The common man was no longer a drudge, who had to be satisfied with the crumbs that fell from the tables of the rich. The three pariah castes which were characteristic of the pre-capitalistic ages—the slaves, the serfs, and those people whom patristic and scholastic orders, as well as British legislation from the 16th through the 19th century, referred to as the poor—disappeared. Their scions became, in this new setting of business, not only free workers, but also customers. This radical change was reflected in the emphasis laid by business on markets. What business needs first of all, they repeated again and again, is markets and again markets. This was the watchword of capitalistic enterprise.

Markets mean patrons, buyers, consumers. There is under capitalism one way to wealth: to serve the consumers better and cheaper than other people do. But in the shop and factory, the owner—or in the corporations, the representative of the shareholders, the president—is the boss. The mastership is merely apparent and conditional. He is subject to the supremacy of the consumer. The consumer is king, the real boss, and the manufacturer is done for if he does not outstrip his competitors in best serving the consumers. It was this great economic transformation that changed the face of the world....

What vitiates entirely the socialist economic critique of capitalism is its failure to grasp the sovereignty of the consumers in the market economy. They see only hierarchical organization of various enterprises and plans, and are at a loss to realize that the profit system forces business to serve the consumers.

In their dealings with their employers, the unions proceed as if malice and greed prevent what they call management from paying higher wage rates. Their shortsightedness does not see anything beyond the doors of the factory. They and their henchmen talk about the concentration of economic power, and do not realize that economic power is ultimately vested in the hands of the buying public, of which the employees themselves form the immense majority. Their inability to comprehend things as they are, is reflected in such inappropriate metaphors as industrial kingdoms and dukedoms. They are too dull to see the difference between a sovereign king or duke who could be dispossessed only by a more powerful conqueror, and the chocolate king who forfeits his kingdom as soon as the customers prefer to patronize another supplier.

This distortion is at the bottom of all socialist plans. If any of the socialist chiefs had tried to earn his living by selling hot dogs, he would have learned something about the sovereignty of the consumers....

Socialism substitutes the sovereignty of the dictator, or

committee of dictators, for the sovereignty of the consumers.... Freedom is indivisible. He who has not the faculty to choose among various brands of canned food or soap, is also deprived of the power to choose between various political parties and programs and to elect the office-holders. He is no longer a man; he becomes a form in the hands of the supreme social engineer....

The socialists have engineered a semantic revolution in converting the meaning of terms into their opposite.... Freedom implies the right to choose between assent and dissent. But in Newspeak it means the duty to assent unconditionally, and the strict interdiction of dissent. This reversal of the traditional connotation of all words of the political terminology, is not merely a peculiarity of the language of the Russian communists, and their fascist and Nazi disciples. The social order that in abolishing private property deprives the consumers of their autonomy and independence, and thereby subjects every man to the arbitrary discretion of the central planning board, could not win the support of the masses if it were not to camouflage its main character.

The socialists would have never duped the voters if they had openly told them that their ultimate end is to cast them into bondage. For exoteric use, they were forced to pay lip-service to the traditional appreciation of liberty. It was different in the esoteric discussions among the inner circles of the great conspiracy. There the initiated did not dissemble their intentions concerning liberty....

Freedom is to be found only in the sphere in which government does not interfere. Liberty is always freedom from the government.... In a free country nobody is prevented from acquiring riches by serving the consumers better than they are served already. What he needs is only brains and hard work.... Economic power, in the market economy, is in the hands of the consumers.... But the politicians and other would-be reformers see only the structure of industry as it exists today. They think that they are clever enough to snatch from business control of the plans as they are today and to manage them by sticking to already established routine. But the ambitious newcomer, who will be the tycoon of tomorrow, is already preparing plans for things unheard of before. All they have in mind is to conduct affairs along tracks already beaten.

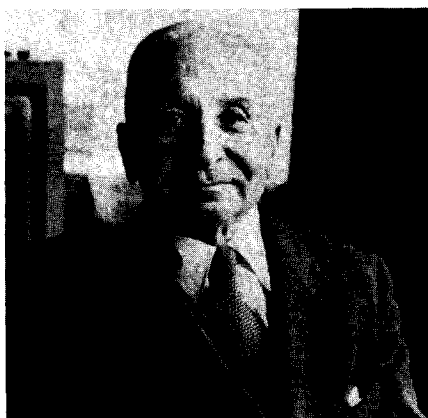
There's no record of an industrial innovation contrived and put into practice by bureaucrats. If one does not want to plunge into stagnation, a free hand must be left to those, the unknown men, who have the ingenuity to lead mankind forward on the way to more and more satisfactory conditions.... Private property of the material factors of production is not a restriction of the freedom of all other people to choose what suits them best. It is, on the contrary, the means that assigns to the common man, in his capacity as a buyer, supremacy in all economic affairs. It is the means to stimulate a nation's most enterprising men to exert themselves to

the best of their abilities in the service of all of the people....

It is a gratuitous pastime to belittle the material achievements of capitalism by observing that there are things that are more essential for mankind than bigger and speedier motorcars, and homes equipped with central heating, air conditioning, refrigerators, washing machines, and television sets.... It is not the fault of capitalism that the masses prefer a boxing match to a performance of Sophocles' *Antigone*, jazz music to Beethoven's symphonies, and comics to poetry. But it is certain that by precapitalistic conditions, as they still prevail in the much greater part of the world, these goods are accessible only to a small minority of people. Capitalism gives to the many a favorable chance of striving after them....

We are inaugurating tonight the ninth meeting of the Mont Pelerin Society. It is fitting to remember on this occasion that meetings of this kind in which opinions opposed to those of the majority of our contemporaries and to those of their governments are advanced, are possible only in the climate of liberty and freedom that is the most precious mark of Western civilization. Let us hope that this right to dissent will never disappear. ■

Throughout six decades, this man challenged and changed the way economists think.



Ludwig von Mises (1881-1973)

In sixty years of teaching and writing, Professor Ludwig von Mises rebuilt the science of economics—as well as the defense of the free market and honest money—on a foundation of individual human action.

Professor Mises, the greatest economist and champion of liberty of our time, was the author of hundreds of articles and books including *Human Action*, *Socialism*, and *The Theory of Money and Credit*.

The Ludwig von Mises Institute is a unique educational organization supported by contributions and dedicated to the work of Ludwig von Mises and the advancement of Austrian economics, the free market, and the gold standard.

Ludwig von Mises dedicated his life to scholarship and freedom. The Mises Institute pursues the same goals through a program of:

- Publications—including *The Review of Austrian Economics* edited by Murray N. Rothbard; *The Free Market*; *The Austrian Economics Newsletter*; books; monographs; and *Issues in Economic Policy*.
- Scholarships for Misesian graduate students.
- Student study centers on or near the campuses of Auburn University, George Mason University, Stanford University, and the University of Nevada, Las Vegas.
- Instructional seminars in introductory and advanced Austrian economics.

- National conferences on the gold standard, the Federal Reserve, the income tax, sound banking, and the work of Ludwig von Mises and Murray N. Rothbard.
- The O.P. Alford, III, Center for Advanced Studies in Austrian Economics.
- Public policy work in Washington, D.C., on the free market and gold standard.

For more information on the Institute's work, and free samples of its publications, please write our academic headquarters:

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Auburn, Alabama 36849

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naive as the bucolic familial existence of Beaver Cleaver's clan.

The Austrians' numbers are hardly overwhelming, but they have gained a clout in both academic and conservative political circles that makes them a credible force—and Misesian economic language a useful one to know.

The first principle to grasp about the Misesians is their belief that the source of economic instability and the primary cause of business cycles—the much-lamented boom-bust phenomenon—are both government intervention. Central to their perspective is the belief that government cannot make economic decisions that work. Government is disabled, they say, because it is removed from the only mechanism that lets a businessman—or any entity—know if he or she has made the right decision. That mechanism is the free market. In the Misesian view, it is only profit-loss statements at the end of the day that provide businesspeople with answers. One can increase production to make more product—or divert money into aid programs for the homeless—but in the end it is only the loss or profit generated that spells success. Because human behavior is unpredictable, the government cannot draw a clear-cut inference that if it spends money on the homeless, there will be fewer homeless.

The Austrian theory seems particularly viable when one looks at its explanation for business cycles. Indeed, it was for work on economic dislocation that the now-retired Professor Hayek won his Nobel Prize. Most economists believe that periods of acceleration and recession are normal in an economy: the boom-bust phenomenon is simply an integral part of a capitalist market. Not so, say the Austrians, who maintain that business cycles are caused directly by government intervention in the economy.

Whether through tax incentives or spending (fiscal policy) or artificial creation of money (monetary policy), the government generally tries to stimulate the economy by encouraging production. When the economy is in a slump, the U.S. Federal Reserve follows lower interest rate policies (as it is doing now), and the subsequent drop in rates generally encourages companies to expand and, hence, boosts production. The rule is that if money is cheap, businesses are more likely to use it.

The Austrians maintain that fiscal and monetary stimulus eventually backfires and causes a recession. This paradoxical Austrian belief is understandable only by examining the situation on a long-term basis. Yes, the initial result of stimulative policies will be a boom, with two or three years of heady growth in the economy. But the result, Misesians think, will inevitably be economic dislocation.

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Why? The Austrians answer that the pendulum swings from boom to bust because the productive side was originally driven by the government rather than by that essential free-market component, consumer demand. As a result, a company that undertook a major expansion during a boom cycle often finds its products have no market once they hit the final sales stage. Production then slows. Meanwhile, the Fed and the government—noticing that inflation has crept up because of rapid money-growth policies—start a clampdown on their stimulative policies. A recession begins.

“The government encourages a capital goods overexpansion that eventually catches up,” says Mark Skousen, a Florida-based Misesian investment analyst. “The Fed increases bank reserves and lends at lower interest rates, and that encourages the expansion of capital goods when the consumption demand may not be there. Even a gradual expansion of the money supply would cause an increase in capital goods that is not relevant to final demand.”

The Austrians, then, view the Federal Reserve as an unnecessary evil. Monetarists believe the central bank's power to fiddle with interest rates and money supply should be curtailed. They appear flaming liberals compared with the Misesians, however, who think the whole world would be better off without any central banks at all. Misesians are now especially worried, because in the past four years the Fed has followed an extremely liberal monetary course, and the money has expanded rapidly.

“The worst effect of money supply expansion isn't rising prices but the boom and busts that go hand in hand with runaway money growth,” says Ludwig von Mises Institute President Llewellyn Rockwell. “Looking at things from an Austrian standpoint, it's probably more dangerous that we aren't seeing the impact of fast money growth now in the form of higher prices. Instead, the new money is going into investments that are profitable and productive today but that in a crunch will be revealed to be full of errors. That's when bankruptcy rates will go up, unemployment and inflation will rise and all the associated problems will crop up.”

Still, if the Austrians would like to see the Federal Reserve eliminated, what do they want to take its place? The answer, Misesians believe, is the gold standard. “If you're trying to search for the ideal monetary standard, there is no other,” says Rollins College professor Mark Skousen. “A full-scale gold standard would stabilize prices, it would stop the infla-

tion booms and deflation busts, and businesses could make decisions based on demand for their products, not on some artificial foundation set by the government.” Sometimes Austrians are criticized as being unrealistic because of their views on the gold standard. This assertion may not be entirely true: there is still a great deal of support for the gold standard in many conservative quarters. President Reagan included the idea of a partial return to the gold standard in his 1980 electoral platform. However, once the Reagan team made it to the White House, the idea was dropped like a hot potato. Nevertheless, the Austrians have not given up hope that one day the rest of the world will see the advantages of backing currency with a substantive precious metal rather than creating it by fiat.

“We'd like to see a 100% gold standard established,” says Rockwell. “But that's a long-term goal, and we don't expect to realize it in the near future. For now, we'd just like to see the Federal Reserve limited in whatever way possible, plus less government spending and regulation. Those are the goals we work on continuously.”

It is a measure of the up-and-coming nature of the Austrian school that its research centers are sprouting up like spring flowers. First, there is the Ludwig von Mises Institute—founded just five years ago by Rockwell, a young ideologue who has spent his life involved in conservative-libertarian causes. The Mises Institute has two main offices, one at Auburn University in Alabama and the other on Capitol Hill. (It also has student study centers near George Mason University, Stanford University, and the University of Nevada, Las Vegas.) The Washington office cranks out strident newsletters that alert its 17,000-odd institute members to whatever the current depredations of Washington are. The office also provides materials and ghostwriting services to congressmen sympathetic to the Austrian cause. Meanwhile, in the academic world, the Austrians are prospering. Virginia's George Mason University recently joined the ranks of Misesian hot spots, and the University of Nevada at Las Vegas has a den of Austrians. And the word is spreading.

Of course, right now the Austrians are in the same position as many Third World countries: any growth is a lot. Their beliefs and methodologies are far from the economic-political mainstream that guides Washington. And by the time Austrians finally gain institutional acceptance, they may find the pendulum has already swung to the next wave of liberal economic thought. Whether or not the Misesians can outlast the changing climate will in large part depend on their young recruits' ability to disseminate Austrian theories to the public at large. ■