

The Free Market

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Memories of Ludwig von Mises

by William H. Peterson

I look back with special pleasure and deep respect on that giant of our age, Ludwig von Mises (1881-1973). How he shone in his students' lives and minds, gently schooling us in the meaning of human action and the free market.

Today we glory in the truth of Misesian economics, and marvel at his lonely and courageous struggle against heavy odds. As the 20th century's uncompromising defender of laissez-faire economics and human liberty, and as the leader of the Austrian school, his spirit is still very much alive—and growing more influential day by day.

I was privileged to take three courses from Lu Mises at New York University's Graduate School of Business Administration in the early 1950s: "Socialism and the Profit System," "Government Control and the Profit System," and "Seminar in Economic Theory." So eye-opening were they that I continued to participate in his seminar even after graduating and joining the faculty myself.

In these courses he developed a theory of individual action and the indispensability of freedom in the marketplace. He focused on social cooperation springing from individual action, which came from the human condition, subjective valuations, and limited means.

Man is a unique being, Mises said, because he alone has a vision of the future, possesses abstract reasoning power, integrates thought and action, and acts with particular purposes in mind. Simplistic notions like *Homo economicus* miss the richness of Misesian economics.

Mises's seminar, first held in the Wall Street area and later



Ludwig von Mises
photographed by Margit von Mises

on Washington Square, always attracted his great students like Murray N. Rothbard, Henry Hazlitt, Lawrence Fertig, Israel Kirzner, Ralph Raico, Hans Sennholz, Leonardiggio, and many others. Sometimes a graduate student would ask a less-than-intelligent question, but Mises would always respond with kindness and understanding. One such question in the 1960s followed his discussion of the inflationary implications of deficit finance, in which a student asked why President Johnson couldn't have both "guns and butter." Mises smiled and replied: "Ah, President Johnson can have both," but added with a twinkle in his eye, "if he is willing to pay for them."

Because of Mises's uncompromising stand for liberty, the rest of the business school faculty and NYU itself isolated him. They dismissed him as an ideologue and an iconoclast. But Mises was always a very tolerant and courageous man.

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Austrian Economics Conference at Stanford

The Institute's O.P. Alford III Center for Advanced Studies in Austrian Economics is sponsoring a major conference at Stanford University from June 21-27, 1987.

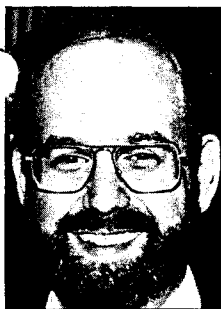
This Misesian program is designed for graduate students, economic journalists, advanced undergraduates, and Institute Members who wish to build on their basic knowledge of Austrian economics.

The faculty is Professor Charles Baird of California State University at Hayward; Dr. Walter Block of the Fraser Institute; Professor Roger W. Garrison of Auburn University; and Professors Hans Hermann Hoppe and Murray N. Rothbard of the University of Nevada, Las Vegas.

Student scholarships are available. The non-student conference fee, which covers room and board, is \$595. For more information, please write or call the Institute. ■

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From the President

by Llewellyn H. Rockwell, Jr.

Looking Beneath the Surface

I learned two lessons from my years on Capitol Hill as Congressman Ron Paul's chief aide: 1) Every act of government deliberately benefits an interest group coalition at the expense of the rest of us; and 2) The government and the interests always lie about it.

During the gasoline crisis, for example, Congress passed the "windfall profits" tax on oil. The politicians and their lapdogs in the media trumpeted this as a deserved comeuppance to Big Oil.

Seen from the inside, it was just the opposite. The large, multi-national oil companies, in cahoots with Jimmy Carter's Department of Energy, designed the tax and actively lobbied Congress for it. Why? Because it was to their comparative advantage. More money for energy programs flowed to the Establishment companies through such corporate welfare as the synfuels program, and the tax harmed only small domestic producers. The windfall profits tax is collected in Texas, not in Saudi Arabia.

So the imposition of this vicious tax served two interest groups: the government and the multinational oil companies, against U.S. oil producers and consumers.

Virtually every single act of government can be analyzed in this way. Since the Federal Reserve Act of 1913 cartelized the banking industry and allowed the banks to inflate together with the government, at the expense of the rest of us, we can assume—using interest-group analysis—that the industry promoted the bill. And in fact, Rockefeller and Morgan-connected commercial and investment banking interests wrote the act, lobbied for it, and staffed the resulting agency. Even today, Paul Volcker is a former vice president of Chase Manhattan Bank.

Teddy Kennedy is pushing for an increase in the minimum wage "to help the poor." In fact, the very existence of a minimum wage harms the poor, since it means that anyone whose production is worth less than that figure, plus Social Security and other business taxes, will remain unemployed. And in fact that is its purpose. It makes it harder for new, small businesses to start up, and—by outlawing low-wage competition—enables labor unions to continue to get higher-than-market wages through federal coercion. That is why labor unions love the minimum wage, and why their bought-and-paid-for Congressmen and Senators work to raise it.

The Reagan administration has spent more on foreign aid than all previous administrations from Eisenhower to Carter combined. But not to help the poor in foreign lands. Foreign aid is a massive subsidy to U.S. bankers with loans to foreign governments, and to U.S. exporters whose products are purchased with the funds. And—no surprise—it is big banks and exporters that push for foreign aid. As to the poor in foreign lands, they are made worse off as corrupt, dictatorial governments are cemented in power; the American taxpayer is impoverished by unconstitutional spending.

When looking or listening to the government, assume the reverse of what it claims, and look to see who is getting the cash. Only this way of looking beneath the surface, which Mises called "caste-conflict" analysis, helps explain government actions so clearly, or—when exposed—helps rally the people against further injustices. ■

Block Critiques Economics Profession

by Jeffrey A. Tucker

Recently the Institute hosted a seminar by economist Walter Block on what's wrong with the economics profession. Dr. Block, co-editor of the Mises Institute's *Review of Austrian Economics* and senior economist at the Fraser Institute, gave an articulate, scholarly, and lively presentation.

Discussing theory, Block argued for the richly dynamic approach taken by Austrians, over the static and mechanistic models of Keynesians and Chicagoites. Specifically, Block pointed out, their models of competition make highly unrealistic assumptions about human behavior, and then claim lowered "social welfare" because of free competition. But these interventionists forget the Austrian insights that a) you cannot compare or add up the welfare of different individuals, and thus there is no way to measure "social welfare," and b) that government intervention can never make conditions more competitive, it can only waste resources.

Because of their flawed economic analysis, mainstream economists also arrive at bad policy conclusions, among them antitrust laws. They are wrong from an economic and an ethical perspective, Block says. How, he asks, can taking a person's property by force and giving it to someone else ever be justified? Yet that's what government does when it enforces antitrust legislation. As long as people don't engage in force or fraud, shouldn't they be allowed to use their property and run their businesses as they see fit? Just as bad economics leads to government tyranny, so Austrian economics leads to free markets, liberty, and prosperity, said Block.

Jeffrey A. Tucker is a Mises Institute Fellow at George Mason University.



The Consequences of Human Action: Intended or Unintended?

by Murray N. Rothbard

Some economists are given to insisting that Austrian economics studies only the *unintended* consequences of human action, or, in the favorite phrase [from the 18th-century Scottish sociologist Adam Ferguson as filtered down to F.A. Hayek], “the consequences of human action, not human design.”

At first glance, there is some plausibility to this oft-repeated slogan. As Adam Smith pointed out, it is a good thing that we don’t rely on the benevolence of the butcher or baker for our daily bread, but rather on their self-interested drive for income and profit. They may *intend* to achieve a profit, but the efficient production for consumer wants and the advancement of the prosperity of all is the unintended consequence of their actions.

But this slogan can be shown to be faulty on further analysis. For example, how do we *know* what the intentions of the butcher, the baker, or indeed any businessman, are? We cannot look inside their heads and tell for sure. Suppose, for example, that the butcher or baker, out to maximize their profits, read free-market economics and see that maximizing profit also benefits their fellow-man and society as a whole. As they go about their business, they now *intend* the consequence of efficient satisfaction of consumer wants as well as their own monetary profit. So if, as some indicate, economic theory only studies unintended consequences of human action, does the learning of some economic theory by businessmen invalidate that theory because now these consequences are consciously intended by the participants on the market?

Furthermore, the learning of sound economic theory can actually *change* the actions of businessmen on the market. Many businessmen, influenced by anticapitalist propaganda, have been consumed by guilt, and may consciously restrict their pursuit of profit in the mistaken idea that they are helping their fellow-men. Reading and absorbing sound economic analysis may relieve them of guilt and lead them to seek the maximization of their own profit. In short, now that they are fully cognizant of economics, the *intended* consequences of their actions will lead to higher profits for themselves as well as greater prosperity for society.

† So what is so great about unintended consequences, and why may no intended consequences be studied as well? And doesn’t the accumulation of knowledge in society change consequences from unintended to intended?

Not only that: the Misesian discipline of praxeology explicitly states that individual men consciously pursue goals, and choose means to try to attain them. And if men pursue goals, surely it is only common sense to conclude that a good deal of the time they will attain them, in other words they will intend, and attain, the consequences of their actions. Mises’s emphasis on conscious choice treats men and women as rational, conscious actors in the market and the world; the other tradition often falls into the trap of treating people as if they were robots or amoebae blindly responding to stimuli.

Arcane matters of methodology often have surprising political consequences. Perhaps, then, it is not an accident that those who believe in unintended and not intended consequences, will also tend to whitewash the growth of government in the 20th century. For if actions are largely always unintended, this means that government just grew like Topsy, and that no person or group ever willed the pernicious consequences of that growth. Stressing the Ferguson-Hayek formula cloaks the self-interested actions of the power elite in seeking and obtaining special privileges from government, and thereby impelling its continuing growth.

There are two ways to advance the message of Austrian economics. One is to fearlessly hold high the banner of Misesian theory to which the wise and honest can repair—a banner which requires calling a spade a spade and pointing out the special interests all too consciously at work behind the government’s glittering facade of the “public interest” and the “general welfare.”

The other path is to seek acceptance and respectability by watering down the Misesian message beyond repair, and carefully avoiding anything remotely “controversial” in your offering. Even to the point of taking the “free” out of “free market.” Such a path only entrenches big government. ■

Dr. Murray N. Rothbard—S.J. Hall distinguished professor of economics at the University of Las Vegas, Nevada—is vice-president for academic affairs of the Ludwig von Mises Institute.

Memories...from page 1

Although attacked by other people in the department and in the profession, Mises continued to read, study, teach, and write—quite content all the while.

Sometimes Lu and Margit would invite my wife Mary and me, and sometimes our children, to dinner at their warm and lovely apartment on West End Avenue. There we enjoyed the company of the Fertigs, Hazlitts, Reads, Petros, and others. The parties were always sparkling affairs, graced with the enchanting beauty of Margit and the courtly charm of Lu.

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When the Mont Pelerin Society met, Mises's students were always among those attending, including F.A. Hayek, Gottfried Haberler, Fritz Machlup, and Wilhelm Roepke. Also attending were scholars who had read and admired Mises's writings—men like James Buchanan, W.H. Hutt, George Stigler, Gordon Tullock, Warren Nutter, and many others.

Mises's courage and integrity showed at one meeting when he expressed concern that some of Mont Pelerin members were becoming infected with the virus of interventionism, approving of State ownership of transport, government social insurance, minimum wage laws, countercyclical policy, and other interventions.

One member asked, "But what would you do if you were in the position of our French colleague, Jacques Rueff," who was present at the meeting and responsible for the fiscal administration of Monaco. "Suppose there were widespread unemployment and hence famine and revolutionary discontent in the principality. Would you advise the government to limit its activities to police action for the maintenance of order and protection of private property?"

Mises stood fast: "If the policies of nonintervention prevailed—free trade, freely fluctuating wage rates, no form of social insurance, etc.—there would be no acute unemployment. Private charity would suffice to prevent the absolute destitution of the very restricted hard-core of unemployables."

The academic world did not take kindly to Ludwig von Mises. Many economists felt he was too impolitic, too adamant, too pure, too uncompromising. Then, like now, the conventional wisdom was in fashion.

Because of his staunch adherence to liberty, Mises never held a regular professorship at the University of Vienna. And it was no different in America. He was a "visiting professor" at New York University for 24 years, with his modest salary paid not by the university but by foundations and friends.

His prolific writings and magnificent contributions to economics were largely ignored by the profession. Among these contributions, he pulled together monetary theory and the theory of marginal utility, proved that socialism cannot calculate rationally and therefore couldn't work, and systematically developed the science of economics as a major subset of the science of human action, praxeology.

Mises set an example for us. He held that it is the duty of everyone to read, think, and speak about the importance of freedom. The preservation of civilization depends upon it. Ludwig Mises would be happy to know that the torch he lit is burning brighter than ever. ■

Professor William H. Peterson, who helped raise funds for the Mises seminar at NYU, held the Probasco Chair of Free Enterprise at the University of Tennessee at Chattanooga. He now lives and consults in Washington, D.C. He is an Adjunct Scholar of the Mises Institute.

Mises and the Soviet Free Market

by Lawrence W. Reed

Not many Soviet citizens have ever read Ludwig von Mises's great book *Socialism*. The Soviet government doesn't want the people to know the truth about a command economy. They are supposed to be good, little citizens—pacified and rendered docile by the benevolence of the omnipotent State.

But even if the Soviet public doesn't understand exactly why the official economy doesn't work, they want as little to do with it as possible. In their own actions, they show consistent preference for free markets over government markets, even though demonstrating that preference is risky.

The reason that Soviet socialism has flopped is—as Mises proved in 1922—that all centrally "planned" economies must, by their very nature, fail.

Given the fact of nature that everybody can't have everything they want—that is, that there is economic scarcity—there must be some means of directing resources to their most efficient uses.

One way to do this is to have central planners set prices and production, telling people what to buy, how much to buy, and when to buy. But, as Mises pointed out in *Socialism*:

"In any social order, even under Socialism, it can very easily be decided which kind and what number of consumption goods should be produced. No one has ever denied that. But once this decision has been made, there still remains the problem of ascertaining how the existing means of production can be used most effectively to produce these goods in question. In order to solve this problem it is necessary that there should be economic calculation. And economic calculation can only take place by means of money prices established in the market for production goods in a society resting on private property in the means of production. That is to say, there must exist money prices of land, raw materials, semimanufactures; that is to say, there must be money wages and interest rates."

For calculation to occur, says Mises, there must be money prices. Those can only come from free markets, never governments. Socialism is thus always doomed to fail.

The problem of this argument for socialists is it doesn't rely on ethical standards or political ideologies. Neither does

it say, like so many arguments in favor of markets, that markets are better because they make people richer. (Although it is, of course, true that socialism is immoral, and that it makes people poor.) It rather says of socialism the most damning thing of all to these alleged scientists: that their "scientific socialism" makes rational economic calculation impossible.

Mises simply argues that all exchange relationships established by the government are necessarily arbitrary. In fact, any government intervention hinders economic calculation, and makes the allocation of resources an irrational process.

We take the miracle of market pricing for granted. But notice what happens when government hampers the pricing mechanism. Think of the times that the U.S. government has put price controls on goods like oil. Pandemonium ensues. The Soviet economy is under constant price controls. How do they know, for example, in clothing production what the proper ratio is between ties and socks? The only way to know is to allow people to freely buy and sell, thus expressing their own subjective valuations and personal preferences, and allow the market to establish the proper ratio.

If there is a problem at the tie-sock level, how could a socialist economy run? It has no pricing system upon which to base judgments about production. How do you make any decisions without market pricing? How are production costs figured? How do you know if you're making profits or losses? There is no way without a market. Prices in the Soviet Union are approximated from their own black market or from other countries.

A spokesman for the Soviet Foreign Ministry, in an unintended tribute to Mises, recently told some visiting Americans that his dream was to have "the entire world Communist. Except New Zealand." Why the exception? "We have to have somebody to tell us the prices."

Mises wrote his critique in 1922. It was the most telling blow socialism ever received, and socialists are still trying to answer it. Mises forced socialists to think about how socialism works in practice. After more than 65 years, he has not been answered.

Socialists of all stripes, from Marx to Galbraith, typically wax eloquent on the alleged evils of capitalism, but never spell out how their version of society would operate. If the economy is to be planned, what's the plan? This is the socialist mystery of the missing blueprints, and Mises was the first to call their bluff.

And whatever kind of economy they want, socialists inevitably claim that the Soviet economy isn't it. That's not real socialism, they say. But no matter what socialists want, when the means of production are put in the hands of the State,



Professor Gertrude Schroeder of the University of Virginia (left) recently addressed the Institute's Austrian Economics Colloquium at Auburn University on "The State of the Soviet Economy: Mises Was Right!" With her (l-r) are Ms. Judith Thommesen, the Institute's Auburn office head, and Professors Roger Garrison and Randall Holcombe. Tapes of Dr. Schroeder's talk are available for \$6.00.

the Soviet economy is what they're going to get: rich politicians, impoverished masses, and irrational use of resources. The Soviet Union is socialism in action.

I have visited the Soviet Union three times since March 1985, and I have always been impressed by the size and vitality of the underground economy, the vast and murky world of the "black" market—the free network of illegal production and trade that enables millions of dissatisfied comrades to meet their needs.

Ordinary Russians have taught themselves to dodge and weave around the State with surprising skill and daring, as Hedrick Smith notes in his bestseller, *The Russians*:

"This counter-economy has become an integral part of the Soviet system, a built-in permanent feature of Soviet society. It encompasses everything from petty bribing, black marketing, wholesale thieving from the state, and underground private manufacturing, all the way up to a full-fledged *godfather* operation which was exposed and led to the downfall of a high Communist Party figure.... It operates on an almost oriental scale and with a brazen normality that would undoubtedly incense the original Bolshevik revolutionaries."

On more than one occasion, I have been propositioned for my blue jeans or tennis shoes (once even in Red Square) by young Russians who seem to appear out of nowhere, quickly arrange a time and place to consummate the transaction, then disappear into the crowd.

A vast market in American dollars bubbles beneath the surface of official life in Russia, despite harsh penalties. A short walk down the street from one's hotel usually brings

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Puritanism Right and Left

by Bradley Miller

"The new Puritanism," wrote H.L. Mencken in his 1917 essay "Puritanism as a Literary Force,"

is not ascetic, but militant. Its aim is not to lift up saints but to knock down sinners.... Puritanism has become bellicose and tyrannical by becoming rich.... The American Puritan (after the Civil War) was not content with the rescue of his own soul; he felt an irresistible impulse to hand salvation on, to ram it down reluctant throats...there was a visible effort to erect the individual's offense against himself into an offense against society.... There was the dubious principle—the very determining principle, indeed, of Puritanism—that it is competent for the community to limit and condition the private acts of its members, and with it the inevitable corollary that there are some members of the community who have a special talent for such legislation, and that their arbitrary fiats are, and of a right ought to be, binding upon all....

The point here is to get to the root of why everyone doesn't leave everyone else alone. And why are the intruders rarely fazed by massive demonstrations of their futility and even counterproductiveness?

Or as Ludwig von Mises put it in *Human Action*:

...once the principle is admitted that it is the duty of government to protect the individual against his own

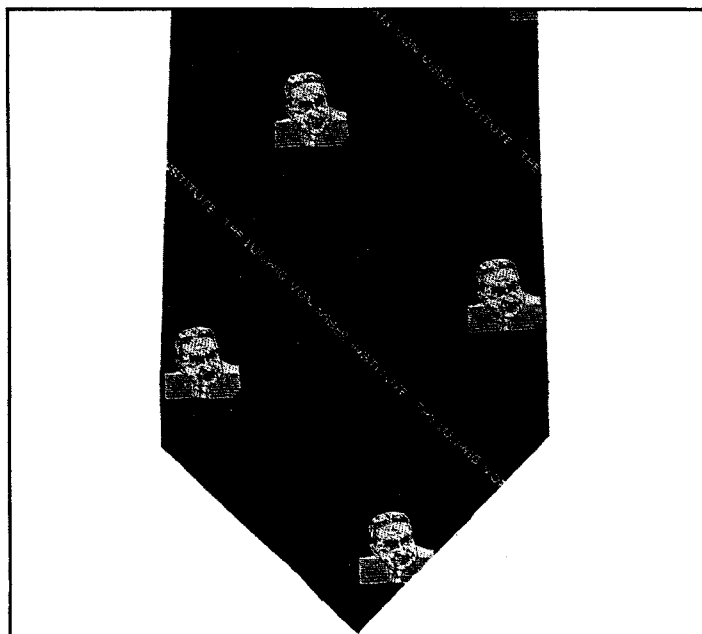
foolishness, no serious objections can be advanced against further encroachments.... Why not prevent him from reading bad books and seeing bad plays, from looking at bad paintings and statues, and from hearing bad music? The mischief done by bad ideologies, surely, is much more pernicious, both for the individual and for the whole society, than that done by narcotic drugs.

Such remains the guiding philosophy for the vast portion of the world. Only a small fraction of the world is democratic, and that fraction is increasingly suffocated by government regulation and bureaucracy. As for the nondemocratic world, even to call the above passages its "guiding philosophy" is to candy-coat a bit. A more plausible characterization is Orwell's 1984: today's totalitarians, their rhetoric notwithstanding, pursue power and its brutal exercise as ends in themselves, no more believing their rhetoric about uplifting the masses than an actor believes his lines. It is an open question, indeed, whether Lenin himself believed his rhetoric, for he labeled "useful idiots" those in the West, such as today's "liberation" theologians, who did.

My thesis is that this pervasive hostility to freedom, regardless of whether it comes from the Left or Right, is rooted in the Puritanism described above, and that this Puritanism is rooted in envy and cowardice, and that this envy and cowardice is rooted in consciousness of inescapable inferiority.

Left-wing Puritanism envies wealth above all; Right-wing Puritanism envies joy in general. But the distinction is more apparent than real. Puritans Right and Left live in what Mencken called "the haunting fear that someone, somewhere, may be happy," and both are fevered by what he called "the impulse to punish the man with a superior capacity for happiness—to bring him down to the miserable level of 'good' men, i.e., of stupid, cowardly and chronically unhappy men."

In some ways life in America has improved enormously since 1917. Plenty today, to be sure, still want to "knock down" sinners more than they want to save their own souls. Witness, for example, the present "war on drugs," which is likely to be about as successful as the prohibitionists' war on booze; and the persisting prohibitions against gambling and sundry other acts that, essentially, hurt only oneself. All this comes at a time when government can't control those who hurt others. Today's Right-wing Puritans, for all of their ragings, pale next to the Puritans of the Left, ironically called liberals. Left-wing Puritans, unlike those of the Right, don't presume to be inspired by God, but by a superior sense of justice. Right-wing Puritans assault pleasure directly; Left-wing Puritans pursue the same quarry indirectly by assaulting profit. Envy and cowardice fuel both.



The new Ludwig von Mises Institute tie is now available in two 100% silk colors: Independence Maroon trimmed in Morgan-Dollar silver and Constitutional Blue trimmed in Double-Eagle gold. If you'd like one, just check the appropriate box on the enclosed form and enclose your check for \$30.00.

Lenin made explicit that his goal was to make class envy flame into revolutionary hatred. What cowardice prevents individuals from expressing on their own, "class solidarity" emboldens them to express. In barking with the pack, the fearful find both safety and ferocity.

Democratic socialists and welfare statisticians seek to drum up only enough soak-the-rich envy for political success, knowing that the time-honored way to build political machines is to bloat government and make increasing portions of the populace dependent on government dispensations. According to the Census Bureau, nearly a third of Americans get direct benefits in public funds. Add all those getting indirect benefits and all the government administrators, and any politicians advocating limited government must hope that half the voters will bite the hand that feeds them.

Are Left-wing Puritans truly animated by compassion and desire for social justice? The evidence is now conclusive that what Mises pointed out long ago is correct: not only do government interventions in the economy not work; they backfire. At this stage, ignorance of the stunning correlations between expansion of state power and diminution of freedom and prosperity can be explained only as moronicism or as the kind of willful blindness politicians cultivate to get elected.

Vote-buying can't account for the popularity of Left-wing Puritanism among intellectuals, but it's easy to see envy and cowardice at work here too. Intellectuals', and especially academicians', search for safety in numbers through the herd instinct may be more pervasive than among any other group, even though intellectuals don't benefit directly from such manifest preposterousities as progressive taxation, reverse-discrimination quotas, protectionism, the ideas of state-dictated wages, and the whole caboodle of counterproductive welfare-state programs "compassionate" politicians have bequeathed us. In this case the popularity of this so-called liberalism, and often enough of socialism, stems from Puritan envy of wealth coupled with ignorance of how wealth is produced. Here the delusion still reigns that A is poor because B is rich, and social science departments still sprout with schemes for redistributing B's wealth.

Tenured positions make it unnecessary to bother learning the demeaning mundanities of how wealth is produced and businesses run. Thus liberated from a competitive environment and ensconced in a world where their brainstorming needn't have consequences, intellectuals inflate their self-images by denigrating "money-grubbers," whose status and displays of wealth they resent. They call them vulgar, uncultured, greed-crazed. Their wealth comes from "exploitation." The unstated assumption is that if there were any

justice, scholars and intellectuals would have a far bigger share of wealth and prestige than those vulgar oilmen.

From there it's a small step to proclaiming a moral obligation to redistribute wealth. That redistribution schemes makes both rich and poor poorer is not the point. The point is that they provide outlets for envy.

Before all the evidence was in about how redistribution brainstorms make things worse, one could assume the Puritans of the Left actually were fevered with the desire to uplift the downtrodden. Now one turns to William F. Buckley, Jr.'s definition of a socialist as one who lives in the haunting fear that someone, somewhere, is making a profit.

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Soviet Free Market...from page 5

one or two currency traders to your side, whispering "rubles for dollars" at three and four times the legal rate.

One young man in Leningrad told me he earns about 400 rubles a month, but less than a quarter of it is legal. The rest he earns by marketing contraband books and other items smuggled in from the West. Last year he bought a car—rarely a private possession in the workers' paradise—for about 8,000 rubles. He registered it in his father's name, so the State wouldn't question where he got the money.

Russian dentists, he told me, do not use novocaine, even when pulling teeth, thanks to State misallocation. But he pays his dentist a little extra under the table. Many dentists have their own illegal private practices—complete with painkillers—during off-hours, and that's when the quality of care goes up.

American movies are popular in the Soviet underground. People duplicate copies and sell dozens all over Leningrad. If you're caught, you get years in the slammer.

Practically everybody in the Soviet Union is trading and exchanging on the free market. Still, empty official slogans are plastered on buildings or mounted on rooftops all over the place proclaiming "The Plan of the 27th Party Congress Will Be Fulfilled" or, even more laughable, "The Party and the People Are One!"

The Soviet State has been successful so far in keeping articles and books by Ludwig von Mises and other free-market thinkers extremely rare. Still people grumble about the State, then go about their private and profitable affairs. But I'd like to change that. If the insights of *Socialism* became widely known, Gorbachev would be staring a real revolution in the face. ■

Professor Reed, an Adjunct Scholar of the Mises Institute, is director of the Center for the Study of Market Alternatives in Caldwell, Idaho.

A Review of Carl Menger's *Principles of Economics*

by John Hurley

Modern economics texts usually frustrate and discourage students. Up to 1,000-pages long, they are filled with confusing graphs, misleading statistics, nonsensical terminology, and discussions that complicate rather than clarify.

If there is a general tendency toward progress in knowledge and scholarship, economics must be the exception. Carl Menger's *Principles of Economics* was written in 1871 and it's still among the best texts on economic principles—far better than its modern counterparts.

Menger, the father of Austrian economics, was born in Galicia, Austria, in 1840, and studied economics and law at the Universities of Vienna, Prague, and Cracow, joined the imperial civil service, and in 1871 published *Principles*. He was appointed Extraordinary Professor at Vienna and later served as tutor to Crown Prince Rudolph.

The first step in the learning process, Menger said, is to “reduce the complex phenomena of human economic activity to the simplest elements that can still be subjected to accurate observation.”

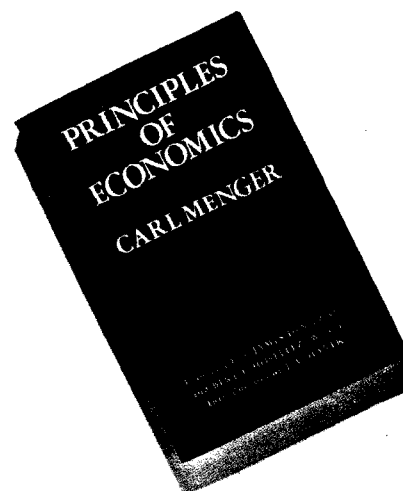
Economics shouldn't define rules of social activity, Menger said. Rather it should discover and define the conditions under which man undertakes particular actions to satisfy his subjective needs. *Principles* is an analysis of how one undertakes action within his environment, and with other people, to attain his multitude of personal ends.

The methodology of Austrian economic analysis, what Mises called praxeology, consists of stating basic and self-evident axioms, and with the aid of logical deduction, developing a progressively deeper understanding of how man will act in relation to the perceived incentives and costs of various courses of action. This is Menger's own method of analysis, and he uses it well.

Menger was the first to apply consistent economic principles to explain the origin of money and its use, and he sought to apply his insights to policy as an activist for the gold standard. He called gold “the money of advanced nations in the modern age.”

Menger's discussion of money is the most interesting chapter in this marvelous book. It laid the foundation for Mises's regression theorem.

As those who are familiar with Austrian economics will



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attest, the ability to write in a clear, succinct, and organized manner is a trademark of the school's economists. This tradition began with Menger's *Principles*, and was inherited by other great Austrians like Mises and Rothbard. Anyone interested in economics in general, or in Austrian economics in particular, would be served well by reading this book. :

John Hurley, a marketing consultant, recently received his MA in economics from George Mason University.

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That the rich are sometimes asses hardly means that hating and raiding them reflect compassion for the poor or passion for justice, any more than the Puritan Right's hatred and pursuit of sinners reflect love of virtue. Neither group of Puritans is to be condemned for envy, which everyone feels. Both are to be condemned for using the power of the state to gratify their envy, and for seeking political advantage by encouraging envy in others. They are shameless in using the freedoms of a free society to diminish others' freedom. They can be stopped only if the true friends of freedom, who tend to be too individualistic to organize, organize to stop them. ■

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