

Ideology and Theories of History

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The first in a series of six lectures on The History of Economic Thought.

Transcribed and Donated – Thomas Topp

Rothbard:

The first thing I'll start out with is the Cointreau Whig Theory of History. The Whig Theory of History really begins in the early/mid-19th century, and it's sort of taken over and it's still with us. Matter of fact, it's still dominant despite criticisms in the '30s and '40s. Basically, what the Whig Theory of History says is that history's an inevitable march upward into the light.

In other words, step by step, the world always progresses, and this progress is inevitable. Now, the Whigs themselves were kind of loveable. They were moderate classical liberals, I guess. And when they coined the theory in the 1830s, '40s and '50s, there was a certain amount of justification for it, in the sense that indeed, if they look back on the past, things seemed to be getting better and better. There was an increase in freedom, an increase in civilization and standard of living and science and knowledge and so forth and so on.

And so they came to the, they unfortunately made this impressionistic conclusion into a doctrine, and saying, "This is inevitable." If this is 1870, we're always better off in every way, in 1960, etc., etc. This implies heavily that everything that was at any stage of the game was right, it was the best possible at the time, and therefore everything that is now is right, or at least is the best possible for this epoch.

So this is essentially determinist, and inevitability, and also puts the stamp of approval on everything in the past and present, is what it amounts to, because it says things like, "Well, slavery was bad, of course, but slavery of course now is bad from our perspective, but slavery in the old days was good because it was better than whatever the pre-slavery thing was."

Now, of course they had a problem with the Dark Ages, where everybody admits things got worse, from about the Fifth to the 10th century A.D.,

after the collapse of the Roman Empire. But they sort of said, “Well, that was one glitch, non-repeatable glitch in the onward and upward march of progress.”

What we have now, now that the—looking at it from the perspective of 1986, the idea that everything’s always getting better is much shakier, obviously. The 20th century in many ways is the century of genocide. But still and all, the Whig Theory of History is flourishing, and has gotten even more hardnosed, so to speak, more locked in.

And we see this, for example, getting to economics, we see this unfortunately among what we can call the Friedmanite or Buchananite Theory of History. Everything in the past—first of all, the analysis of history is very cryptic. Economists, in dealing with history, usually, in these days, usually—well, for example, the North-Thomas book on the economic history of Europe covers, I don’t know, 600 years in about a few equations—condenses everything in a couple of equations.

This is explicitly [grade for the core]. Not only that; the idea is that everything that existed must’ve had a good function, must’ve functionally, was good to have existed, because it performed an important function. For example, in sociology, the famous Parsons, the Parsonian view of sociology, which is looking at all of society or social systems or whatever, everything’s got a function, everything fits in. Well, I suppose you can look at things as having a function. I guess the slave master had a certain function, but the point is was it a good function?

That’s never asked, you see, because it’s assumed that whatever existed should’ve existed. Ethics is not really mentioned, but it’s implicitly derived from the fact that it existed, and it existed for a certain period of time. It’s sort of like an existence theory of ethics. Because if it lasted for a while, it must’ve been okay.

The fact that murder has lasted for a long time, since the beginning of mankind, theft, slavery, etc., doesn't necessarily make it good, of course; doesn't make it even functional. Well, we can look at it this way: Functional from whose perspective? From the perspective of the robber or the robbed?

At any rate, this Whig Theory of History permeates economic history in particular. The worst example I know of—this is kind of an interesting example—Ekelund and Tollison, who distinguished public choice theory, Buchananites, have written a book called “Mercantilism as a Rent-Seeking Society.”

Now, they don't pretend—it's a short book—they don't pretend to do any historical research at all, and they admit it. I mean they're upfront about that. They take Heckscher's great book on mercantilism and simply engage in exegesis of it. Heckscher was magnificent—he wrote this book about 80 years ago—there have been some advances since then, but that's a criticism, we don't have to deal with that.

I'm interested in more of the Ekelund and Tollison method of analyzing stuff. They say that mercantilism is essentially a theory, mercantilism, and ideology is a rational for seeking monopoly privileges on the part of the merchants and the bureaucrats, etc., etc.

I agree with that, except for the fact they use the word “rent-seeking,” which I'm extremely critical of. This is something I hope to get back to later on, but it derives from the Ricardian Theory of Rent, which is still extant, is still permeating, is still unfortunately dominant, based on the idea that rent is a differential which can be easily taxed away, since it's a surplus, a non-productive surplus, so to speak, and therefore can be taxed.

That's like saying if Dustin Hoffman is making \$1 million a year and Joe Zilch, another actor, is making \$10,000 a year, the difference is differential, and Hoffman's \$999,000 or whatever can be taxed away without decreasing his productivity or our enjoyment of it. But the important thing is when they get to, here they obviously interpret, according to the Buchananites and Stiegler, I guess we can call, and [Honobolies] that, even though he's an historian of economic thought, believes that economic theory has had no influence whatsoever on events. Again, none whatsoever.

[unintelligible] interpretation, ideas have no influence on history at all; it's purely economic interest. So interpreting mercantilism works fine with this, because then Ekelund and Tollison have a question—how did mercantilism disappear? Why did free trade come in? If everybody's seeking monopoly privilege, and the usual public choice stuff about how consumers are not interested, and privilege seekers are always interested, how did they get rid of this? Why isn't it locked in forever, as Stiegler claims [unintelligible] is locked in forever now?

So searching around for an explanation, the obvious explanation, for anybody who thinks that ideas are important, is that the free trade movement came, a mass movement, consisting of merchants, lower classes, intellectuals, etc. The free trade movement, which swept [the board], a mighty ideological movement which got rid of this web of privilege.

Ekelund and Tollison can't say that because they think ideology is unimportant, so what they say is they base it all—this is, of course, the, this is the escape hatch for all Buchananites or all public choicers throughout history—transaction costs, it's like the magic talisman. Anything you have in history, transaction costs, as if the object of

everybody's life is to minimize transaction costs, so the main value in everybody's [unintelligible] heart.

I don't care about transaction costs. I mean to heck with it. At any rate, so his idea of why free trade and laissez-fair succeeded and replaced mercantilism is that it became too—now, get this: As the king was replaced by parliament, it became too costly to lobby parliament. There were all these special privileges trying to lobby parliament.

The king is just one guy—I'll lobby him, and it's easy, transaction costs are low. To lobby 500 guys in parliament becomes too expensive, and therefore they stopped lobbying and fell back on free trade as [unintelligible] so to speak. Any sillier explanation of any historical event I don't know of—this is rock bottom.

In the first place, there's no evidence that there's cheaper transaction costs. He seems to assume there's one king, and it's very simple to lobby. There's a whole court, [unintelligible] absolute king. He's got lots of dukes and earls and mistresses and everybody else vying for power. It's probably just as expensive, just as high transaction costs to lobby the king as it was in parliament.

He certainly presents no evidence that it was cheaper, and [unintelligible] misses the fact, the real point is ideological, the thing that sweeps aside special privilege in history is ideology, despite the fact that these public choice people claim that ideology is irrational because you're not devoted to it 24 hours a day, it's only ideology.

And yet some people are devoted to ideology, as we know full well right now with Ayatollah Khomeini, etc. Obviously, the Khomeini movement was not founded out of cost-benefit analysis and [unintelligible]. It was founded out of deeply felt, passionate ideology, which swept aside all vested interests.

Not that I'm in favor of the result of the Khomeini movement; I'm simply saying that ideology is extremely important in history. And thereby, where I think Hayek of course is far superior in his famous—I think one of the best things Hayek ever wrote was “Intellectuals and Socialism,” which I recommend to everybody here.

How ideas influence history—they start out with theoreticians, and they permeate down to what he calls secondhand dealers in ideas, which I think is a very good term—journalists and activists—then they start permeating through the general public. Therefore, if you put it into value cost-benefit terms, you can say that ideology then becomes a deeply held value on the part of people, superseding even transaction costs, something which you're devoted to, you devote your life to.

Can you imagine anybody devoting their life to minimizing transaction costs? At any rate, by the way, I should also say the Marxists are also, oddly enough, Whig theorists, although in a special conflict version. So even though the Marxists don't believe in a step by step linear approach upward, it's a dialectic approach upward, it's a sort of zig-zag approach. Then the Marxists too, they fall back on this historicist viewpoint. Slavery, in their days, Marxists are very anti-slavery now, some forms of slavery, not their own, but slavery in the old days was good because it was better than whatever the other thing was—serfdom was better than slavery.

So they too have this Whig theory, historicist theory, and the revolution becomes inevitable. By the way, this is why Marxists and marxisan, the English call it, Marxoids or semi-Marxists, by the old [unintelligible] progressive and reactionary. I don't know if any of you have ever thought about the use of the term.

To Marxists, the highest moral or the only moral truth is when you're in favor of the inevitable revolution, and would be in tune with the inevitable laws of events. So these guys, the progressives, the progressives are people who are in tune with the next phase of the inevitable historical development, like the revolution, [unintelligible] revolution.

Reactionaries are those who are opposed to it. In other words, the whole term "progressive" and "reactionary" is a term which is used on an implicitly ethical basis, is really a question of who's in tune with the coming event and who isn't. Who's in touch with the zeitgeist or the coming zeitgeist, and who's not in touch with it? That's the only standard.

By the way, Schumpeter pointed out in one of his, "Capitalism, Socialism and Democracy," I think in his introduction to the second edition, he said, Schumpeter that socialism was inevitable, but for very different reasons than Marxists. He claimed basically it was inevitable for one reason—because capitalism breeds intellectuals who subvert it.

Anyway, he said that, "People say that because I think that socialism is inevitable means I'm in favor of it. Quite the contrary." Why can't you say, [unintelligible] your boat, we're in a canoe and the canoe is leaking, and you think sinking is inevitable. It doesn't mean you're in favor of it. You can try to fight against it and postpone it as long as possible. At any rate, [unintelligible] Marxists, the inevitable means it's good.

To conclude about the Whig Theory of History, the I think major, deeper underlying problem is that if people have free will and have freedom to make choices, history is not really determinist, [unintelligible] determinist laws of history, and therefore the Whig theory ignores the great—ignores free choice, it ignores the great moral problems, since free choice involves moral choices. And [unintelligible] the history of the great moral

drama, a drama of advance, of conflicts, of retrogression, of good versus evil, etc.

And to wind up my own doctrine about history, following Albert Jay Nock, history is essentially a race or a conflict between state power and social power, Nock put it. In other words, social power is a network of voluntary interactions, the economy of civilization, whatever, everything is voluntarily interacting, and he calls it social power.

And state power, of course, is the state. It's always trying to repress it, cripple it, tax it, loot it, etc. So history becomes a race between these two forces. We get down to a subset of this or an application of this, the Whig Theory of a History of Science, I'm coming to economics a minute.

Whig Theory of a History of Science, which is very similar, of course, to the Whig Theory of History, period. The Whig Theory of History of Science was dominant, probably still is dominant in high school textbooks, was dominant until the '60s.

It essentially said that science, the growth of knowledge is an onward and upward, step by step approach, from the year zero to now. What are the implications of that? One implication is that you don't have to read a history of science unless you're an antiquarian. In other words, if you're a physicist in 1986, there's no point in reading some physicist in 1930, unless you're interested in the special conditions of what happened to him—you don't learn anything from it.

In other words, you never lose any knowledge. The theory is that every step of the way science patiently tests its assumption, its premises, and discards those which turn out to be unacceptable, false, and adds those which are acceptable. So everybody's always patiently testing their axioms or whatever, [unintelligible] advancing. Therefore, there's no loss of knowledge.

The current textbook then incorporates all the best of everything from the year zero to the present. This is the theory, at any rate. Here, the famous Kuhn Doctrine I think comes in very neatly, famous paradigm theory of Thomas Kuhn called the Structure of Scientific Revolution, which I think came out in the late '60s. Earlier? Early '60s. He effected a revolution in the history of science. Kuhn has had a lot of flak on his philosophy of science, which he claims he doesn't really have.

In other words, I think he's not interesting as a philosopher—he is interesting as a historian and a sociologist of science—in other words, how did science actually develop? And essentially what he says is that instead of this linear, step by step stuff—first of all, nobody ever tests their basic axioms, ever, and of course obviously true.

Once an axiom or a paradigm, as he put it, a set of basic beliefs is followed, adopted, and people just apply that to various peripheral matters and puzzles, he calls it, [come up], and anybody who challenges the basic paradigm is considered not a scientist. Nobody's refuted, I think, just out of the dialogue, he's had it.

So this [unintelligible] on for a while until various anomalies pop up—in other words, until the theory begins obviously fails in explaining a lot of stuff, and then there's a crisis situation, as he calls it, where confusion and competing paradigms come up. If some new paradigm can solve these puzzles better, then it begins to take over and establishes a new paradigm, and they forget all the rest of the stuff.

Now, [unintelligible] no paradigm's any better than the other. I don't think that's true. But at any rate, the interesting thing, what happens here is that you lose knowledge. Even if this paradigm's better than that, often stuff gets lost along the way. One example is, of course, [weak fire]. We didn't know until very recently what weak fire is—we now know it's like

flamethrowers, but we only found that out when we invented flamethrowers.

In 1900 nobody knew what weak fire had been in Ancient Greece. Another example of course was the Stradivarius shellac or whatever it is, which nobody can duplicate, because you can't test everything, can't figure out the composition—secret formulas, in other words, which get lost.

These are obvious, blatant examples. A friend of mine in the history of science says there are certain laws of 18th century optics which we've forgotten. We know less about certain areas of optics than they did in the 18th century. At any rate, when we get to the social science, the philosophy is much more true.

By the way, another thing I should say is that the old guys never change, they don't shift to the new paradigms, usually. In other words, the old guys will stick to it until they die. The people who adopt the new paradigms are the younger people—graduate students, college students who are not locked into the, intellectually locked into the old paradigm.

A famous example of that is Joseph Priestley, the late 18th century libertarian and physicist, who invented oxygen, and refused to believe it was really oxygen. He said, "No, no," he was so locked into the Phlogiston Theory, so it's only de-phlogisticated air. He refused to acknowledge the implication of his own invention, his own discovery. Incredible. At any rate, so this is very typical.

This is why, by the way, strategically, if you're an Austrian, you shouldn't spend time trying to convert Paul Samuelson or Milton Friedman. These guys are not going to be converted, they're locked into their paradigm. You convert people who are just coming up, new people, people who are on the fence. Graduate students, these are the people you can convert.

Don't waste your time trying to convert Samuelson or Friedman or whoever the other paradigm people are.

So the wars for the souls of the people coming up, so to speak. Obviously, it's pretty clear that in social sciences, economics, philosophy, etc., that even more of this, because there's less testable stuff, obviously. If this is true in science, physical science, which I think it is, it's all the more true in social science, economics and stuff. So you can really lose knowledge very rapidly, because you can replace a good paradigm by a lousy one.

In other words, [unintelligible] physics, if they do it or not, but certainly very easy to do in philosophy and economics and political thought. Very easy for a new paradigm to get established for one reason or another that has nothing to do with its truth value. Could be fashion, it could be politics, could be [unintelligible], could be selling all the [unintelligible] [Lubionca], and whatever.

There are all sorts of reasons why—so in other words, reading history of economic thought, of philosophic thought even more so, it's not just interest for historians to see how a theory developed. It interests [unintelligible] find out the truth, because someone in 1850 might be better than somebody writing now. Matter of fact, usually is. In economics, philosophy and whatever.

So the whole history of thought then becomes, in the social sciences and philosophy, a much more exciting enterprise, it seems to me, than in physics. Again, the guiding philosophy in the history of thought and history of economics now, to get into that, the guiding doctrine has been Whig again, even though it seems to be obviously untrue.

In almost every textbook, a hallmark would be this: Any group, whoever they're talking about, any group has something positive to contribute to

the building of economics. Whatever, even if they're totally contradictory—one group is obviously nutty—doesn't make a difference, they're not nutty, they're part of a great dialogue.

So any group then takes their place. So whoever you're talking about—French, the scholastic, the British classicists, the Austrians, the Keynesians, institutionalists, they're all great guys, they're all somehow contributing to a great edifice. As a result of this, of course the historian of economic thought who does this is “non-controversial,” nice guy, because he likes everybody, tolerant.

The fact that he's got it wrong doesn't seem to make much difference. Undogmatic, and all the other odious things which these people are. It seems to me these things are almost worthless, because it's true, a good historian, even a Whig approach can sum up what each group says, what each person says, that's not really enough. It seems to me the historian should be critical, should find out, “Is this guy wrong?” or, “To what extent is he wrong? Is he right? What's going on here?” Especially in economics or philosophy, where it's not just the cut and dried thing, where we now have the laser beam, and before we only had rubbing two sticks together.

By the way, probably the worst example of this sort of thing, the Leo Straussian Doctrine in the history of liberal thought, Leo Strauss was a German refugee, came to the University of Chicago and set up what can only be called a cult group of Straussians, and all very self-consciously Straussian. “Follow the master in all things,” etc.

Straussians take a few what they call “great thinkers,” I'm going to criticize that too, the concept of taking only great thinkers, they take a few great thinkers, more or less arbitrarily selected—how do they know

they're great thinkers? Well, everybody says they're great. Machiavelli, Aristotle, Dewey, whatever. Hobbes.

Then they say, "Since this guy is a great figure, he must've been consistent. Why does he have to be consistent? Well, he's a great thinker? Who am I, a schnook professor, to challenge the greatness of this guy?" The assumption is this guy's a great figure. He's consistent. Most of these guys are very inconsistent, they contradict themselves on every page. Keynes did this all the time.

It looks as if he contradicted himself, but he couldn't because he's a great thinker, and therefore consistent. So we have to look for the deep inner consistency. The deep inner consistency amounts almost to astrology. It's numerology. Strauss will say if you take the fifth book of Machiavelli's Prince and compare it with the fifth book of the laws, it's this number magic, you see, the five, you look for the deep things, really explain... It's really bizarre.

[unintelligible] going hog wild. And he desperately [unintelligible] everybody's great, and consistent as well as contributing to the edifice of thought. So we have to realize, it seems to me, that it's just the opposite—that many thinkers are great, other thinkers are lousy, some of them [unintelligible], other [unintelligible] error, and therefore analyzing historians, economists, separating who these guys are, to what extent were they correct? To what extent were they bad? To what extent did they push economics in a wrong detour? Etc.

It's true that there was a so-called vica presentism, where you attack everybody for not having read "Human Action," and you attack Aquinas for not having read "Human Action." [laughter] Called presentism. Very few people do that. I think it's a straw man. I don't know of anybody that really does that.

[unintelligible] vice's the other way around. [unintelligible] think everybody's great and everybody's true in some sense. To paraphrase one of my favorite quotes from Oscar Wilde, Miss Prism, in "The Importance of Being Earnest," was asked whether her novel—she'd written a three-volume novel—whether it had a happy ending or not. She drew herself up and she said, "The good end happily, the bad unhappily, that is what fiction means."

Of course, I would say [unintelligible] historians, the [unintelligible] amounts to bad, that's the meaning of history. Anyway, [Atkins] says the muse of the historian is not Cleo, but [Radamenfis]—Cleo the official Greek muse of myth. He said, "The muse is really Radamenfis, the avenger of innocent blood."

And he went on to say, "The historian must be a judge, and a hanging judge at that, to right the wrongs of history." [unintelligible] talk about history of, a basic methodological or philosophical approach is Skinnerism. I don't mean the evil B.F. Skinner, the behaviorist. I mean Quentin Skinner. Quentin Skinner was a Cambridge political theorist who wrote a magnificent book which I recommend everybody.

It's not libertarian, it's not free market, but it's a marvelous book on political thought called "The Foundation of Modern Political Thought." The Renaissance and the Reformation. The first volume is on Renaissance thinkers, the humanists, and the second is on Reformation, Luther, Calvin, etc., and it's just magnificent, because what he does is, not only does he analyze each of these guys and asks the sort of questions I think are important—political theory, religious theory, etc.—he also doesn't deal—

In the history of political thought," in the history of economic thought too, the standard thing, you have three guys or five guys, right? A typical

book of history of political thought, it'll be three French thinkers—bing, bing, bing—or five great political theorists—Aristotle, Machiavelli—it's sort of like Strauss, except not necessarily assuming they're all great or consistent.

Yeah, five great thinkers, history of economic thought—the Heilbrunner approach, for example. Smith, Ricardo, Marx, Marshall, Keynes—five guys, five economists. I think this is a rotten way of approaching the history of thought. In the first place, all of these political thinkers and economic thinkers were involved in movements, almost all of them. When they say anything, they have certain intentions. They use the words in a certain way, have a certain author's intention.

In order to understand their intention, you have to understand who they're talking to, who their friends are, who their enemies are, who they're reacting against. In other words, the historical context of what they're saying. Skinner goes into detailed critiques of each of these [people], and he doesn't slight that, but he also talks about the so-called lesser people, and also who they're reacting against and how their influence spread from one university after the other, to one country after the other.

You really get a whole sense of the [sweep history]. So the political texts of political thought are not just isolated texts sitting up there to be worked on, but part of the whole sweep of modern history and history of thought. Also, you can't really understand these guys without figuring out who the other people are and who they're reacting against.

And secondly, a lot of the so-called lesser people are just as good as, just as important as the big-shots. In fact, some are even better, because usually pure—often very—they take the master's doctrine and

build in a consistent framework. At a political level, for example, in American history, Jefferson, you always hear about Jefferson.

Jefferson is a great guy, but the Jeffersonians are much better than he was. They're more consistent. Jefferson [was selling out] when he was in power. But the Jeffersonians usually didn't. They're usually attacking him for selling out. Leading Jeffersonians—Macon and Windoff and Taylor, etc—you get a much harder core doctrine than you do if you're only dealing with the leadership.

I'm favoring the whole Skinner approach. There's a very good book on Locke, I'm just mentioning somebody here, by Richard Ashcraft, just came out, called "Revolutionary Politics and the Two Treatises of Government." What Ashcraft does—and he's Marxist, but it doesn't really affect this method—what he does is he talks about Locke, not only what his thought was—in the context of revolutionary libertarian struggle which they're engaged in.

Everybody from the Levellers on, shows how he's related, descended directed from the Levellers, a libertarian dissident group. It also explains why Locke—you know, Locke is famous for being a real scaredy-cat. In other words, he wrote everything not only anonymously; he kept everything in a locked drawer and so forth and so on. He was considered pathological. Why was the guy scared, why was he a scared rabbit? He was an exile for ten years of his life. His friends were all being arrested and shot. He had good reason to be scared.

Anyway, that's just one aspect of it. My mentor in history, Joseph Dorfman, was something like this in American history of American economic thought. Instead of dealing with three people, five people, he dealt with everybody. Everything in there in this five-volume compilation.

He was a much better historian than he was an economist, because his economic theory wasn't that sound.

On the other hand, he really got everything in there. He's got the whole facts before you. So he was really doing the same sort of thing in American thought. I admit, of course, that [unintelligible] a lot of work, it's much easier to take three texts, three guys and just talk about them. It's much more difficult to find out who the other people are. That's the way life is. As Mises once used to say, he used to claim a European historian should know about eight languages, and [unintelligible] blanching there in the seminar. "Well, nobody's forcing you to be an historian, if you don't want to learn eight languages."

Anyway, so I think this is very important to get the so-called lesser people involved in this thing, as well as the three or four or five top guys. Getting to the historiography of economic thought, I trust you already read the counter-articles and my article on scholastic economics, and we don't have to repeat it, just sort of condense it a little bit.

The key thing—the orthodox historiography of economic thought starts with [unintelligible]. I'm sure you're all familiar with this. There were a bunch of mercantilists running around, talking about specific things like sugar. Should the government keep [unintelligible] in the realm, or should we have tariffs? Etc.

And then in 1776, emerging like Athena out of [unintelligible] Zeus or whatever, is Adam Smith, who, out of his head, creates all modern economics. Free market economics, the whole business, and that's it. Then you have Ricardo and you have Marx and whatever, so somehow deriving from it. Then you have Marshall, Austrians, Marshall, Keynes, and that's about it.

Anyway, Smith becomes the originator, to the extent that some of your beloved people here in Washington wear Adam Smith ties as a tribute to the founder of economics, laissez-faire, whatever. This is pure baloney from start to finish, isn't it? This is one of the things—[Kauter] is one of the first people to mention it, in his two articles.

Schumpeter wrote a year or two after Kauter in the famous book which really sort of sets this thing forth. "The History of Economic Analysis." Unfortunately, Schumpeter did not live to complete it, so it's badly written and even more badly organized. In many ways, almost incomprehensible.

He's definitely a revisionist in this sense. In other words, he believes that life existed before Adam Smith, economics existed before Adam Smith, and better, not only existed, but better. In other words, the Kauter paradigm I think is the correct one. So what you have is many hundreds, even 1,000 years of sound economic analysis engaged in scholastics in the Middle Ages down through the late, the Spanish scholastic 16th century. Aquinas, even before that, down to the late Spanish scholastics.

It's several hundred years. And then a French tradition in the 18th century continued in France and Italy, and in the 18th century, leading to a fantastic flowering of economic thought, modern economic thought—[Camelon and Torgal] in particular. And you have everything there.

You have laissez-faire much more pure and much more sound than Adam Smith. In fact, Torgal, if any of you read my old pamphlet on it, is really pre-Austrian in every sense. He's got [unintelligible] in there, he's got the [unintelligible] theory of capital, the whole business, fantastic. [unintelligible] got the whole schmear.

You have this big flowering of economic thought and laissez-faire thought going hand-in-hand. And then [Bado] and the collapse with Smith. Schumpeter's properly assiduous about Smith. You read between the lines [unintelligible] Smith, Schumpeter had obviously total contempt for Smith, and for good reason.

And he hates Ricardo, another great thing. His hatred of Ricardo shines through the book, it's almost a major feature of the book. It pops up every 50, 100 pages. Oddly, but Schumpeter, first of all, it's kind of bizarre—he likes John Stuart Mill for some obscure reason which I can't figure out, because Mill's only bringing back Ricardo.

So at any rate, you can't look for much consistency in Schumpeter. But the fundamental paradigm is consistent. It was a big blow, and it came out—orthodox economists and historians of thought were shattered by the Schumpeter book. If we go back and read [unintelligible], for example, review of it, couldn't understand, "Why is [unintelligible] Catholic?"

And of course, Knight, if you know about Knight, was an hysterical anti-Christian. Really went ape on the Christians question—Protestant and Catholic; particularly Catholic. So he's not exactly equipped to be very objective about this when it came out. What Knight used to do, when he taught his course in graduate economics, if there were any nuns or priests in the class, he'd just insult the Catholic Church until they left, then he'd say, "Now we can begin." A weird duck.

So I commend [Caterik], a marvelous statement on Caterik, what he says about Smith and making waste and rubbish of 2,000 years of economic thought. I'll get into that. Anyway, the counter-thesis [unintelligible] economics basically is that the scholastics emphasize utility and scarcity as the key determinants of value in production or whatever.

By the way, the neoclassical smear against the Austrians is they're only interested in utility or demand and not supply, which of course is rubbish. The whole point is, as you know, if you put, in the familiar two-dimensional diagram, if you have quantity of a good on the X axis, and then you have utility or whatever on the Y axis in some way—it's ordinal, not cardinal—some way, being very broad about it, simply what we're saying is the diminishing utility of a good, and the intersection of the demand curve with the supply will bring you the economic value of the price of the product.

So it's not that supply is unimportant. What they're really saying is you have subjective demand, which then impresses itself on the economic system and values everything which is there, all the stuff which is there is being evaluated by people. So you have people doing the evaluating of things out there, which are being evaluated, the things that are supplied.

So it's important to have supply as a vertical curve, not to confuse the situation. The Austrians, of course, and the scholastics deny the rule of so-called cost in determining price. That was the point. Cost only affects price by [unintelligible] company that determines scarcity. That gets back to the supply of a product.

And as Kauter points out and as Schumpeter points out, and later on, [De Roover and Rice], a whole bunch of other revisionists on the scholastic front, the entire view that economists had of scholastics for a couple hundred years is totally all wet. And the basic view, as I'm sure you've read, is that scholastics believe that just price was the cost of production plus a guarantee profit, and/or keeping your station in life, whatever your station is.

If your station is humble, then you keep being humble. This is totally all wet, as all these guys have shown, De Roover and all these people,

shown in detail, very few scholastics have this doctrine—two or three—and these are minor fringe people.

The mainstream of scholastic thought was utility, scarcity and free market. In other words, the just price was a market price. It's true they weren't total libertarians, I'm not going to say that. They didn't like the idea of individual bargaining. They thought the market had to be a market. So if you and I agree on some price and it's not the market price, they would say it's unjust.

Second of all, they were not against price control. They thought a price control could also be just. That's very far from saying that something else is to replace the market. In other words, they were market people, and very keen market analysts. The only thing I want to say about scholastic personally is one of the best them, a magnificent character, Pierre de Jean-Olivie, who wrote about 1400, who was not only a great market analyst and the inventor of sophisticated utility theory, even [unintelligible] margin utility theory.

He was also an extreme spiritual Franciscan, a rigorous Franciscan, in other words, an extreme pro-poverty person. The Franciscan movement started out as pro-poverty, and with a pledge of poverty. Then as the Franciscan church began to accumulate money from donations or whatever, they began to have second thoughts, and began to be more realistic about the whole thing.

The rigorous wing of Franciscans were [unintelligible], "You guys are selling out the Franciscan doctrine, Franciscan heritage," and Olivie was the leader of the Provençal group of extreme pro-poverty people. He was emaciated. Obviously, he's a Franciscan—even real Franciscans didn't eat much, [unintelligible] the rigorous Franciscans.

Very poverty-stricken, sort of like a movie character—very skinny, wandering around. And he was a great, sophisticated market analyst. It's amazing. It's one of the great anomalies in the history of thought. The only thing that scholastics were weak on was what's called usury, the usury question—the thing that really discredited them eventually.

They had a real problem with, they couldn't understand time preference. Nobody until Tourgal really understood it. You can't blame them too much. They couldn't understand why you should charge interest on a risk loss loan. They understood about profit, they understood about opportunity cost. They got the whole thing down. Just time preference was their major weakness.

Even with that, however, the scholastics managed to sophisticate the whole thing [unintelligible] the whole business of the brilliant maneuvering that allowed usury anyway, but the brilliant maneuvering, of course, was evasive, and therefore was open to attack.

The other Kauter thesis is that the—and it's not an accident—when I first read this, it was very interesting to speculate, and I now think there's a lot to it, getting deeper into it, that it seems to be no accident that the only labor theory of value people—in other words, in the history of thought you have 1,000 years of scholastics, or several hundred years of consumption theorists and utility theorists.

All of a sudden, the labor theory pops up. According to Kauter, it's not accident, it was the Calvinists, it's only the Calvinists that labor theory of value flourished. Calvinists believe in a divine obligation for labor. In other words, almost that labor is an end in itself. Catholic thinkers tend to be in favor of consumption, moderate enjoyment, and labor as a means to an end, which is more of the economic way of looking at it, so to speak.

Whereas the Calvinists tend to be anti-enjoyment, and want to keep consumption limited to a minimum, [unintelligible] the fury of continuing labor. I'm not saying every Calvinist is like this, or every Catholic, but as a broad summary, I think it's pretty accurate. If you look, for example, in Scotland we have Catholics and Calvinists living side-to-side. The Catholics are always attacking the Calvinists of being dour, standoffish, unfriendly, etc., and the Calvinists are attacking Catholics as being lazy, shiftless, drink a lot.

They're probably both right. But the thing is that's the sort of difference you get, and this seems to hold through throughout. Catholics tend to be much more relaxed [unintelligible]. As we'll see, the first real labor theory of value person was really Smith. Was not, I deny that it was John Locke. I think Locke had a labor theory of property, which is very very different from a labor theory of value.

It simply means, how do you get unowned resources into private ownership? [unintelligible] way to do it. He was, of course, a homestead theorist. Mixing your labor with the soil, it then becomes your private property. I don't think that's the labor theory of value at all. I think it's a total misconception.

Historians of course get the whole thing mixed up. Of course, we know about natural law and Catholicism versus absolutism. I'll go into that a bit. The natural law tradition, Aristotelian, Stoic tradition, which was then picked up by Aquinas and the scholastics, especially after Aristotle was rediscovered, means that mean, by use of reason, can discover natural law, laws of reality, which includes laws of ethics, and which also put a firm limit on the state.

In other words, the state may not invade a sphere or rights or sphere of each individual. I think in addition to that, that's one sense in which

Catholicism had a firm check on state power throughout the Middle Ages and later. And the other, I think, important thing is the Catholic Church was a transnational check on state law.

I don't want to go out on a limb, but I think it's the only case in history where the church and state were not the same. In other words, in most civilizations, church and state were fused together. They had a mighty alliance of [unintelligible] as the conservatives like to put it. In other words, you have a king, and the king is taxing people, etc., then you have the church, and the church is telling people to obey the king, and of course getting part of the loot, a good chunk of the loot.

You have state and church oppressing the public, taxing and controlling, etc. And most intellectuals throughout history have been churchmen. The idea of a lay intellectual comes only in the last couple hundred years. When you have a fusion of state and church, you have a very powerful instrument for despotism and state power.

I think this is the only case in history where the state and church were separate. In other words, where the Catholic Church was transnational, and therefore kept a severe limit on the power of each king. As a matter of fact, particularly—and I'll here, by the way, recommend a marvelous little book by Jean Beckler, a French economic historian, called "The Origins of Capitalism."

Why did capitalism arise only in Western Europe? Obviously, there's been trade in every civilization, but real capitalism, market phenomena, etc., really comes in only in Western Europe, and what is it that made it so? He pinpoints the fact that power was decentralized. It was feudalists, of course, instead of being central empire, central despotism, but each power was limited, had independent principalities, you had

villages which had autonomous power in many senses, and feudal landlords had autonomous power.

And you had a transnational church to check individual states. You have very little state power either externally or internally, as a result of these checks, which allowed the market to flourish. As a matter of fact, there's a marvelous phrase here. Beckler says, "The expansion of capitalism owes its origin and its *raison d'être* to political anarchy."

And particularly, it's no coincidence, according to Beckler, that the real expansion of capitalism comes in the 11th century, the so-called Renaissance of the 11th century, which coincides with Gregory VII's magnificent smashing of the power of the state [unintelligible] power of the king.

Kings of course are always trying to grab religious power. So then with the Protestant Reformation, all this more or less comes to an end. In other words, first place, many of the Protestant churches become state churches. The Anglican Church of course being a total state church. Calvinism. Usually what happens is religious groups tend to be in favor of tyranny when they're a majority, in favor of religious freedom when they're a minority.

With the Calvinists, it was the same thing. When they took over in Geneva or Massachusetts, they were pretty rigorous, smashing sin. Whereas when they were a minority, they became quite libertarian. They evolved libertarian inclinations. And the thing is, so in the Catholic countries, even they had a slippage, the church itself lost a lot of influence, and France in particular, in the growth of absolutism, tremendous growth of absolutism, of course reaching a peak with Louis XIV in the late 17th century and continuing on until the French Revolution. What happened in France was the Calvinists were very much against the

establishment and state tyranny, and the Catholic leaders, the extreme Catholics were also against it.

And what happened, they had a series of rebellions and battles, with both the extreme Catholics and the Calvinists coming up with great libertarian political theory in the course of it. What happened was the centrists take over, usually, what happens, it's called *politiques*, who historians call moderate—they're only moderate in the sense they weren't in favor of religions killing each other, because they didn't care that much about religion, is essentially why.

But they were not moderate in the sense that they wanted total state power, total power of the king and forget about religion. Religion becomes an instrument of the king. So with the politics winning over, and then you have, in France the Catholic Church comes under the influence of a crypto-Calvinist group called the Jansenists, who were really sort of Calvinists in sheep's clothing, and they take over the French church.

They're very pro-absolutist. "Yes, yes, the king is right in all things," etc. That was one of the reasons why the Catholic Church would not limit the growth of French absolutism. And also they had another complication—in Protestant countries you had scholastics. Hugo [Grotius] was sort of free market, a Dutch Calvinist—not really—a Dutch Protestant, I should say, scholastic.

And in Scotland, influenced Scotland and the Scottish Enlightenment, which of course leads to Adam Smith, is also scholastic, Protestant scholastic or neo-Calvinist scholastic. It becomes complex, but that's basically it. Grotius was in the [Arminian] camp, [unintelligible] camp in Holland.

While we're doing this—by the way, one of the things about natural law, I should say, in addition to limiting, setting up a sphere of individual rights and limiting the government, it also set limits—if you really believe in natural law, you believe there are natural limits to man's omnipotence or individuals' omnipotence. They don't believe in natural law and anything goes, you can do anything, you can conquer the world or whatever without any ill consequence. That's another reason why natural law is important.

I just want to mention absolute [unintelligible] in Anglican England, Tudor and Stewart in the 16th and 17th century, Anglican England. Of course, the Anglican Church was a state church. They worked out a so-called correspondent's theory, one of the more bizarre theories, in my experience, for absolutism.

Robert [Filmo] [unintelligible] [by Locke] was a beautiful example of this. It's called analogy by—the argument by correspondence. Namely, there's a hierarchy of power throughout the world. God, the angels, men, and critters. I say critters—animals, things like that. Animals, vegetables, whatever. This is the power. God has top power, and the others are subordinated, each one subordinated to the other.

In the same way—get this little axiom there—each individual has a head, which runs things, and a heart and limbs and all that. And the head is ruling the others. The idea of man rebelling against God of course is evil and sinful and impossible, etc., in the same way that limbs or heart rebelling against the head is equally sinful and impossible.

Then you have in the family, inside a family, same thing, you have a father, of course, a godlike, head-like figure, a mother or wife, then the kids, who are subordinate. It has social and political implications and all

that. Then of course there's the state. King, powerful nobles, middle-class, serfs, etc., foreigners, whatever. [laughter]

So this is the big argument for [unintelligible] absolutists, it's not an argument most of us find convincing or compelling. The right wing [unintelligible] two circle—in other words, the guys are on the two circle [unintelligible] consent, everybody that consents, everybody has a natural right to consent and so on and so on, absolute rights, except some shadowy time in history, they surrendered all these rights to the king in perpetuity and can't get it back.

That is the two circles argument for absolutism. [unintelligible] said, "No, that's a sellout. Once you start with rights of consent, you're on a slippery slope that'll lead directly to anarchism, and [unintelligible] was right.

Hobbes was a moderate compared to two circle. Hobbes was a liberal deviationist from the two circle. He believed that yes, everybody surrendered all their rights to the king in order to keep the peace, etc., but if the king is really coming at you with a gun and just about to shoot you, you have the right to run away. That's one concession of rights.

The two circles said you had no right [to violation]. [unintelligible] Bodkin [unintelligible] salt. Then of course there's the libertarians the classical liberals, Locke, etc., who are essentially either Calvinists or [unintelligible] independents.

We've talked a lot about religion so far, but so far it's been fairly familiar—the labor theory of value, scarcity and natural law. Now I'm coming to another part which is not as familiar. Another aspect of religion and theology which was also extremely important. I want to mention a thing in Newsweek last week.

[unintelligible] “Short Shrift For Religion.” They talk about high school texts or grade school texts in history, world history, American history, religion is dropped out. For example, this one world culture text for sixth graders manages to discuss Joan of Arc without mentioning God, religion or her canonization.

Another has 20 pages on Tanzania, but none on the Protestant Reformation. By the way, a friend of mine is writing a college text of readings on Medieval, Ancient History and Modern History. They can't put anything about religion in it. It's not a question of being for or against it. Anything about it is considered controversial, and therefore has to be killed.

[unintelligible] it's absolutely bizarre, because religion has influenced all of thought and all of action, at least until the 19th century, and probably the 20th. So when you talk about the history of anything, especially the history of thought, to leave religion out is to leave most of the stuff out—leave the values and the ideas that motivated them.

It's really crazy. You don't have to be pro-religion or pro-Christianity to realize that it's been extremely important, and not to talk about it is absurd. I'm not a theologian, I don't want to get into theology per se, but I must say I find theology fascinating because it's sort of a deductive system, something like praxiology, except of course the axioms are different.

But once you have the axioms, you can spin almost the whole thing out. And you can talk about coherent deductive systems versus incoherent, I think. Anyway, the two things I want to talk about, which are very obscure, seemingly not important, but I think very vital to the history of thought and economic thought, are two things which get left out, even by people who know about natural law and absolutism and all that.

One is creatology, or using science as a wisdom, not a physical measurement. Science as the creation of the universe. Why did God create the universe, in other words. Seemingly, for some of us, it's a trivial question, actually pregnant with fantastic political implications. In other words, one slight difference in axioms—another thing about theology as a deductive system—one seemingly unimportant difference in the axioms can cause tremendous differences in political conclusions or social conclusions.

Why did God create the universe? And both of these areas, by the way, and creatology in the other one, our conclusion is, purely as a layman, that the orthodox Christian position is the safest, let's put it that way. Creatology, eschatology—namely, a science of the last days. How will the world come to an end and when?

And creatology, the science of the first days. This might seem to some people, some secularists, irrelevant. It's not irrelevant at all; it's extremely important. But before I get to that, I just want to say, actually it's related to creatology and, particularly creatology—one of the key things which Christianity brought to the world, I believe more than any other religion, is individualism—the supreme importance of the individual.

I think that's, the individual stamp of the image of God, and his or her salvation becomes of extreme importance, and moral choice and all the rest of it. The Greeks, even though I revere the Greeks—they're great rationalists and all that—the Greeks are polis-oriented. What they care about is not the individual, but the polis, the city-state.

So when Plato and Aristotle are talking about virtue and what the virtuous life is, they're talking about life through a city-state, not for each individual, they don't care about the individual. It's the city-state that counts. It's a collectivist doctrine to the city-state.

Some of my friends, like Doug [Rathesen] [unintelligible] trying to claim that they really meant the community and not the state, but I doubt this, and I think [unintelligible] really think is the city-state. Also, not unrelated to the fact that most of these guys were slave-owners, and slavery was of course guaranteed by the city-state.

In other words, if you're a part of a small slave-owning caste, you had plenty of time to discuss philosophy, because the slaves are doing all the work. Only the slave-owners voted and so forth and so on. You tended to identify yourself with the polis, because the polis is you and 500 other guys or 1,000 other guys.

It becomes understandable why they slipped into this collectivist mode. And then other parts of creatology, as we'll see, is species-oriented, it's even more collectivist. Man as a species or collective species, rather than as an individual. I think Christianity is unique in bringing the individual into focus as a key element of concern and of moral choice and salvation and all the rest of it. I think magnificent in its—it cannot be over-stressed.

Creatology, seemingly obscure or unimportant. The orthodox Christian position is that God created the universe out of pure love. God is perfect, almost by definition, created a universe out of pure love, and that's it. The safest approach—whether it's correct or not I leave to theologians. Certainly the safest approach.

The other approach—I don't know what to call it, I don't have a name for it, I just call it the mystical approach—versus the orthodox Christian approach. The mystical approach is that God created the universe out of felt need, out of what Mises would've called felt uneasiness—God was lonesome.

In other words, God was imperfect and needed creation of the universe. So what are the implications of this? The implications are that the way this works in the picture is that at the beginning God and man were united. It's very difficult for me to make sense out of this. I'll try my best.

God and man were united in the sense that they were fused together. There was no man—obviously, man hadn't been created yet, but in some sense they were united. They had unity. But God was imperfect. Then God creates man. This is important, it's progressive, because God then can develop his perfection, and man can develop his perfection.

In other words, God and man are both imperfect. So, man imperfect. Notice that man was a species, because each individual [unintelligible]. We're talking about a collectivist man as species, collectivist. Man is imperfect, God is imperfect, and history, human history is a process by which God and man develop, become more and more perfect. So this is good, but there's also a bad side to this.

The bad side is man is now separated from God for the first time. Alienated. And this, my friends, is a [unintelligible] famous word, alienation, which I am sick of if you aren't. This is what alienation is. Alienation does not mean feeling unhappy, does not mean you don't like the state, you don't like your parents.

Alienation means the fundamental separation from God, with whom we had previously been united. We in a collectivist sense. I wasn't united with God 20 million years ago or whenever it was. Fundamental alienation is a bad part, and the good part is development.

Then, finally—we start off with this unity, and then we have a separation, alienation, and then we have a final culmination of history—here we get of course an eschatology—will be a reunion of man and God, and of one

big mighty, climactic reunion, which will be a perfection of man and perfection of God also—a union of man as a species.

The individual is nothing—individual people are just atoms in this whole thing. So man and God will be united in some cataclysmic species unity. Each individual will also be united with every other individual in one blob. One species blob, which also will be united with God, one might species blob, and this will be the end of history.

History will come to an end, which is also eschatology too, obviously. So this is collectivist, and it means that God is working through history. History becomes an important process by which these things are happening. Also, you start here, you then have a German for “aufhebung,” another word I’m sick of already. Aufhebung means transformation or the negation, a Hegelian Marxoid word—Aufhebung—one stage somehow magically is transformed into another one, and this alienation, you finally have a culmination—it’s always three, by the way, three is a key, three stages.

There’s always three stages. The first stage will be a mighty, fantastic one—everybody, the blobs are united to each other. There’s a great phrase—I’ll refrain from reading this—one of my favorite writers of all time is GK Chesterton, and he’s talking about the social theory, [Ane Bezant], who was a [Fabian] theosophist for the orthodox Catholic position of this mystical theosophist viewpoint, where all individuals are blobbed into each other, and you have the final blob.

This is the alienation, this is a dialectic. This is the famous dialectic where one stage of history is transformed, magically transformed into its opposite, into something very different, and finally transformed to a final climactic...

One of the things about this is, of course the problem of evil is solved. The problem of evil, of course, as we all know, is if God is good and omnipotent, how come you have evil in the world? This is a famous theological problem. My favorite solution to this is an unorthodox one by H.L. Mencken, who's also my favorite writer. Mencken says, "God was created by a committee of gods, each of whom are omnipotent and benevolent, but it being a committee, they screwed up." [laughter] An extremely charming doctrine.

One thing it does is that several different solutions for the problem of evil. In other words, the orthodox Christian solution is that man is created, individuals are created with free will, who are free to choose good or evil. But this solution says, the mystical solution, there is no evil. All seeming evil is really part of a good process, a process of the dialectic, which ends up in a mighty fusion of the blobs.

There's no evil in the world, but it's all taken care of—anything that happens is probably an inevitable [unintelligible] sort of like a Whig theory in some crazy way. And it winds up with the final fusion, and all processes are inevitable leading to that. Some of the big shots in here—[Totinus] was probably the first one, a third century Roman Platonist, a sort of [unintelligible] Platonist. And then Christians take this up, a Christian Platonist, a Christian follower of Totinus.

Another big name in this is John Scotus [Origina]. By the way, if you want to get more on this, there's a marvelous book, of course, by [unintelligible] [Kolokovsky] called "Main Currents of Marxism," which is a first volume which deals with the philosophic roots of Marxism. A Polish émigré in England.

John Scotus Origina was a Scotch-Irish late ninth century philosopher living in Paris, and a famous Christian mystic of the 13th century, Meister

Eckhardt, Meister Johannes Eckhardt. These are some of the big names on the development of mystical thought of this sort. And then Hegel, who I'm not going to—First of all, I haven't finished my study of Hegel for my book, and second, one thing I'm not going to go into is Hegel at any great length. Hegelianism really develops this, with Hegel himself becoming God. In other words, God integrates with Hegel at the end of history.

The end of the dialectic is God and Hegel fusing. Obviously, I just think he's a nut, let's face it. At any rate, there have been of course a lot of Hegelians in the world, and still are. Just one quote from Hegel which I think is enlightening: He loved Napoleon. He saw Napoleon riding down the street after Napoleon's victories in Prussia.

He writes a friend of his, he says, "I saw Napoleon, the soul of the world, riding through town. It is indeed a wonderful sight to see, concentrated in a point, sitting on a horse, an individual who overruns the world and masters it." What Hegel called world historical figures, who of course move history.

And Hegel felt that the dialectic of history was ending his own, because he was the big shot philosopher for the new Prussian state, professor of philosophy at the University of Berlin, the newly created state university, and therefore that's it, he's sort of at the end of history.

[unintelligible] the science of the final days. Orthodox Christian viewpoint developed by St. Augustine and followed by Catholics, Lutherans, etc. Obviously, Christianity is messianic—Jesus will return in the second advent and put an end to history. That's accepted by everybody. And the question is in what sense or what form? It talks a lot about the millennium, that's mentioned in the bible.

In other words, what about 1,000 years of a kingdom of God on earth? Where did that fit in? When Jesus comes, it's a day of judgment, and history is over. The millennialists, the orthodox Christian position from St. Augustine on, is that millennia are simply a metaphor for the Christian Church, and that's it. There was no real kingdom of God on earth in any more concrete sense, and Jesus will return in the second advent at some time, his own time, and put an end to history and that's it. Forget about the millennium, in other words.

The millennium sort of drops out of a political concern. The millennium is out of politics, and individual salvation becomes the important thing. So history does not become a process where the millennium is organized, so to speak. In other words, millennium is outside of history. There are two other wings—of course there are many sub variants within each wing—two other wings which disagree with this. One is the so-called pre-millennialist—namely, that Jesus will return and establish the kingdom of God on earth for 1,000 years and then put an end to history.

[unintelligible] in the sense, this is Jesus before the millennium. So history then is a process by which the 1,000-year kingdom will be established in some way. The books of the bible which are particularly interesting on this are the Book of Daniel and the Book of Revelation, are particularly focuses for these people.

The pre-millennialists usually look for signs of the advent. Excuse me, of the Armageddon and the millennium. When Jesus returns, the millennium [unintelligible] lots of problems, seven years of hectic stuff going down. Wars and all that sort of thing, conflicts. So the pre-millennialists usually look for signs of this developing, usually in times of turmoil, war, etc., it will pop up and say, "Aha, millennium, Jesus is about to return."

The reformation and the 17th century wars, the French Revolution, are outcroppings of the pre-millennialists. The problem politically was they're looking for signs—the signs are things like the beast, the dragon, the scarlet woman, the return of the Jews to Palestine, their conversion to Christianity, etc.

[unintelligible] the beast, exegesis for people [unintelligible] matters. But the thing is that all of these people committed to certain dates, the timetable of prophecy. So Isaac Newton, for example, thought that physics was relatively unimportant. His real contribution was trying to figure out how old the world was and when it would come to an end, by biblical exegesis.

They're looking for signs, and usually picking specific dates, the most famous of which were the Millarites, who were very popular in England in the 1840s. One historian speculates that this influenced Marx. There's no evidence for this. But he was certainly around at the time.

In other words, the Millarites said that Jesus will return on October 22nd, 1844, period. But the problem with specific predictions, it's very much like economic forecasting. What do you do when October 23rd comes around and there ain't no second advent? That's the big problem for prophesy of this sort.

So Millarism became discredited. Usually what they do is they say, "Sorry, my calculations were slightly off; it's really 1864," or something like that. But basically, the Millarites had had it, and they were succeeded by a new theory, which established essentially current [unintelligible] fundamentalism now, pre-millennial fundamentalism, the theory of dispensationalism, invented by John Nelson Darby, the English pre-mil, which is that, see, the thing is you can't have this timetable—timetable stops when the Christian Church is established.

Christian Church, they call it the big parentheses. So the prophecies or the timetable stops, and only will resume at some date, which might be soon, but we don't know. This gets them off the hook, so to speak. They don't have to predict a specific date. They're still looking for signs. Now, politically the pre-mils are not that important, except there's always a problem that, if you think Armageddon and the great war between good and evil is about to arrive, you might be tempted to try to speed it up a bit.

And if your finger is near a nuclear button and you're a pre-millennial, you might be tempted to speed the timetable along. Outside of that, there's not too much political implications for this. So I guess with the post-millennialists that we get the political implication of post-mils believe that man has to establish the kingdom of God on earth first in order for Jesus to arrive.

Key difference. In other words, this is essentially, we don't worry about the millennium, the [unintelligible] millennialists. Here you get [Jesus] establishing, although you have various assistance, a cadre. As a matter of fact, there's a dominant view of a pre-trib—the question is when does the trib come, the seven years of heartache? The tribulation.

The orthodox view among pre-millennialists is that Jesus arrives just before the trib, and raptures up all the good guys to heaven, where they can just stand along with Jesus and see the jerks being slaughtered down below, and then return after the Armageddon to establish a kingdom of God on earth.

This is the orthodox pre-trib. There are many mid-tribbers and post-trib. I'd hate to be a post-tribber; in for a bad time. Rather trib first, then Jesus... The post-mils believe that man has to establish 1,000 years of the kingdom of God on earth first, in order for Jesus to return. This

places on man a heavier theological responsibility, and almost always, not in every case, but in most cases historically, pre-mils have been raging statists because the government is a shortcut.

In other words, if Jesus comes and brings Armageddon, then the bad guys are slaughtered in Armageddon. But if man has to establish the Kingdom of God on earth first, it means the bad guys have to be some way eliminated by human means—either by slaughtering the bad guys, is one version, or else gradually by the government sort of stifling them.

But at any rate, the post-mils almost always turn to the state to be the great instrument of bringing on a kingdom of God on earth, and this is where it becomes extremely important. I think basically, [Eric Bergelund] is a famous Christian political theorist who died recently, an Austrian [unintelligible]. He was always a student of Mises's seminar, [unintelligible] anything that means. But Bergelund's [unintelligible] writings, his basic theme was, his guiding theme was [unintelligible], a very complex way of saying, I think, something very important.

[unintelligible] A sort of Germanic way of saying something important—Namely, if you bring eschatology, in other words, if you bring a millennium into human history, you're in trouble. The orthodox Christian view, a millennial view is the last days, kingdom of God or whatever is up in heaven, so you don't worry about it on earth, so to speak.

If you bring it down onto earth, you imminentize it—make it imminent within the earth, within human affairs, within human history—then you have a problem. You have people trying to stamp out sin by fire and brimstone, etc. And that I think is an important insight, despite its German formulation. Thank you very much.

end of transcript.

The Emergence of Communism

Murray N. Rothbard

The second in a series of six lectures on The History of Economic Thought.

Transcribed and Donated – Thomas Topp

Rothbard:

Communism starts as a doctrine as far as I can see. By the way, there's a great book on it, a marvelously written book, a famous book by Norman Cohn called *Pursuit Of The Millennium*, it's in paperback. He writes about these guys in "loving detail." He obviously has a proper attitude of contempt and hatred, sardonic hatred, *Pursuit of the Millennium*.

It starts apparently with an extremely influential, extraordinarily influential, evil, or earlier than that, heretic, late 12th century Italian mystic, Joachim of Fiore, born and lived in Calabria in southern Italy, became an abbot and also a hermit. 1135-1201—late 12th century. The thing about Joachim of Fiore, you have to realize, he's not just a lone nut.

He's extremely influential. He almost converted a couple of popes. In other words, he was just this close to translating this to orthodox Catholic doctrine. Basically, what he said was—well, first of all, he launched apparently the idea of the prophesy, that you have to look at the bible to find out the prophesy of the end of the world, etc., concentrating of course on the Book of Revelation.

And he came to the conclusion that history was destined to move through three successive stages—always three, by the way, in all these things. It's very much, again, like the Platonist thing. The first stage of humanly regard, the second stage is alienation and all that. This is a different version, and more advanced, so to speak.

The first age was the age of the Old Testament. So you have age one, Old Testament. This was the age of the Father in the Holy Trinity. It was the era of the Father or the age of the Law. You have the Father and the Law. [unintelligible] Also ruled by fear and servitude. The second age, ushered in by Jesus, was the age of the Son. So this is the New

Testament, the age of the Son, Christian era, which is the age of faith and submission.

And then this coming inevitably and soon, the third age—this is always the age to watch out for, the age of the Holy Spirit, which is when all hell breaks loose, so to speak. [laughs] Age of the Holy Spirit. The era of perfect joy, love and freedom and the end of human history, and of course the era of perfect joy and freedom also the end of property, and nobody has any property, nobody works.

When we envision a kingdom of God on earth, very few people talk about working—it's never part of anybody's real utopian vision. So nobody works. Norman Cohn puts it, paraphrasing Joachim of Fiore, "The world will become one vast monastery in which all men will be contemplative monks, wrapped continuously in mystical ecstasy until the day of the last judgment."

The interesting thing, the reason why this would "work," as the first thing you talk about Communist utopia, is who works, how do they allocate economic resources and all that stuff? Who does all these things? The answer is they don't have to do any of it because all men would be pure spirit. The body will have withered away or disappeared, so everybody's pure spirit.

If you're pure spirit, you don't have to worry about economics—don't have to worry about labor, property, food. All these things disappear and everybody's pure spirit, chanting praise to God. That sort of solves the economic problem. There's no economic problem because there's no bodies.

Unfortunately, the other communism that came later—Marx, for example, obviously did not believe in pure spirit. He faced the economic problem which Joachim avoided. So you have the whole pre-Marxist, so to

peak, era. The first age is the age of primitive communism, and then you have the second age, the age of the Son is the age of class conflict and class separation, and then finally you have the realm of perfect freedom, total communism and no division of labor and the end of human history. You don't have to have any labor at all, obviously.

As with many [chileastes] or messianic types, Joachim was sure of the date of the advent of the third age, the final age. It was going to be soon, but not too soon. He didn't make the mistake of the Milarites of saying it's going to be October 22nd, 1844. "It's going to be about 50 years from now." 50 years is a good time because it makes everybody [hopped] up, and yet it's not soon enough to be tested quickly by empirical reality.

So he said, "Around 1250 will be the ushering in of the third age." The third age will be ushered in by a cadre, a vanguard, order of people who will usher in this third age, will prepare the way and sort of lead the path here. And when the Franciscan movement, Franciscan order started around the early 13th, the rigorous Franciscans, a wing, the rigorous wing—I mentioned this last night—the anti-property wing or the pro-poverty wing—many of them felt that they were the Fiori, they were the Joachimites, they were the people destined to usher in the final age.

A new ingredient comes into this whole witch's brew, and I call it that—around the same time, the end of the 12th century, a little bit later than Joachim, the University of Paris, which in those days was the great center for theological studies, a learned professor of theology, a favorite of the French Royal Court, at least until he came up with this doctrine, was a fellow named Emeric, whose followers became the Emorians, the Emorian movement. Emeric doctrines were condemned by the pope. He did not almost convert the pope, and forced a public recantation, and died shortly thereafter.

The Emorians were students of theology in Paris. Usually his students or students of his students, and he influenced many people and distributed many popular works of theology in the vernacular, since most people couldn't read Latin, it was difficult to influence them. So they were propagandizing in the vernacular.

Their leader was Father William [Orofex]. In other words, he was the Emorian, which means gold in Latin. Apparently, he was either an alchemist or a goldsmith, it's not clear. He had some professional connection with gold. At any rate, the Emorians believed, they had a very similar doctrine, they added some more spice to this. They said each age had its own incarnation, where God is incarnated in man.

The first age, Abraham was the incarnate, first incarnation. The second age, of course, Jesus was the incarnation. The question is who would be the incarnation of God in the third age? Obviously, it was them, the Emorians, they were the incarnation of God in the third age. It usually is, by the way, with third age types, they become the prophet, the messiah, fulfill human history, end it and fulfill it. Fulfill it and end it, I should say.

So they considered themselves the incarnation—they proclaim themselves as living gods, the embodiment of the holy spirit. And of course, they start as a define elite, but eventually everybody becomes—eventually, after various tribulations or whatever, everybody would become the Holy Spirit, living gods.

In the current period they were the only ones, they were the elect. In the early 14th century, 100 years later, there comes another group. Various groups were decentralized, continuing this tradition called the Brethren of the Free Spirit. The Emorians, by the way, were wiped out. The Emorians were mostly wiped out. But anyway, it continues on, bubbles underneath.

The Germans call luftmenschen; in other words, people of the wind. They're sort of like hippy types, sort of wandering around, no fixed abode. No fixed needs of support. So there are a whole bunch of brethren of the free spirit, and they added another important ingredient, the ingredient which we mentioned called [tynus], the reabsorption into God on the final stage.

We have the communism stuff, and then you have a reabsorption, the final unity. They also added a new elitist twist. The brotherhood of the free spirit had two types of people, of their brethren: the crude in spirit, who have to die first, and the glorious minority, namely themselves and the leadership, were subtle in spirit, who could and did become reabsorbed, and therefore living gods in their own lifetime.

In other words, they already had their own individual reabsorption, and therefore they were eternal and gods. This minority was of course the brotherhood themselves and their leadership—would achieve the status of divinity by years of training self-torture, visions, so forth and so on. Became perfect gods, and more perfect and more godlike than even Christ himself, you see, because Christ was back in the second stage; they're in the final stage. They're even more divine.

And they also proclaim themselves greater than God himself. For example, a group of female free spirit at [Schweidnitz] in Germany claim to be able to dominate the Holy Trinity, such that they could ride it as in a saddle, and one of the women declared that, "When God created all things, I created all things with him; I'm more than God."

Anyway, also, of course along with this, being living gods, we have an extreme form of the anti-[Nomian] heresy, namely that some people are gods and it's impossible for them to sin. Anything they do can't be sin,

by definition, because they're already divine, and whatever they do is necessarily moral and perfect.

And of course, the free spirits, like other anti-Nomians, attempted to demonstrate their freedom from sin by doing all sorts of sinful things. [laughs] There's a catch with the free spirits: Only a minority, as I said, were divine. These were the leadership of the free spirits. The rank and file was destined to become gods, they were striving to make it, they'll make it eventually.

And there was only one sin for all these people. In other words, all the other sins were out because they're living gods and so forth and so on. For example, Nicholas of Basel, who's one of the top free spirits, had his own cult, for the rank and file there's only one sin, ever—that's disobeying Nicholas of Basel. [laughter]

Because Nicholas of Basel is God, that's it. Any disobedience of course is sinful, and should be met by immediate punishment. So each disciple took an oath of absolute obedience to Nicholas of Basel being a living God. This is, I guess, true of most of the other free spiriters. So every member of the Nicholas of Basel group took an oath of complete obedience to Nicholas of Basel, in turn for which he granted them freedom from all sin, since he was God.

A neatly packaged circle. What about the rest of mankind outside the cult? Their role is to be exploited, used and exploited by the elect. So along with this came an assault on the institution of private property. In other words, for them, communism was essentially theft. In other words, the idea was the elect could steal property and money from anybody because they were the elect, they were divine, and therefore, for them communism essentially meant everybody, "Your goods are my goods."

So as the Bishop of Strasbourg summed it up in 1317, summed up their doctrines, “They believe all things are common once they conclude that such is lawful for them,” of course. I think other people stealing from them they wouldn’t look on very benignly. For example, Johann [Hauton] was a free spirit [adapt from Erfurt] in Germany, said, “The truly free man is king and lord of all creatures. All things belong to him and he has the right to use whatever pleases him. If anyone tries to prevent him, the free man may kill him and take his goods,” free man being one of the elect.

And one of the favorite sayings of the free spirit was, “Whatever the eye sees and covets, let the hand grasp it.” [laughter] Great moral theory. Then we have, in the early 15th century we have the final ingredient for all this—the extreme wing of the [Taborite] movement, which is itself the left wing or the radical wing of the Hussite Movement, which bubbled up in Bohemia. They were a pre-Protestant group in 15th century Czechia, I guess [unintelligible] describe it, which blended, by the way, a religious struggle against the Catholic Church, nationality—Czechs versus German—class, artisan versus the patrician, so it sort of blended all three of these things, the Taborite movement.

The extreme wing, the Taborites added something else—a divine duty to exterminate all heretics, which means everybody except themselves. So the last days are coming soon, the final days, and the elect must go out and stamp out sin by exterminating all the sinners. The easiest way to stamp out sin, of course, is to exterminate the sinners, which means all non-Taborites, at the very least.

So the sinners are enemies of Christ and, “[unintelligible] withholds his sword from shedding the blood of the enemies of Christ. Every believer must wash his hands in that blood.” Having that mindset, of course, they didn’t stop at intellectual destruction. In addition to killing all the heretics,

they would burn all heretical things, like books, images, paintings, libraries, and so forth and so on.

Besides, the elect have no need for books. When the kingdom of God on earth arrived, there would no longer be “need for anyone to teach another. There’d be no need for books or scriptures, and all worldly wisdom will perish.” I guess all people too. The general destruction of everything, theft and general destruction.

And of course, again, the Taborites were going to return to a lost age, [unintelligible] early communism, [unintelligible] great society with no private property. And of course, in order to do that, you have to exterminate the cities, which are centers of sin and avarice and luxury and greed, [unintelligible] the landlord, virtually everybody else.

And after the elect had established their communist kingdom of God on earth in Bohemia by revolutionary means, they would then spread it to the rest of the world. Today Bohemia; tomorrow, the world. In addition to that, they were very consistent, the communists—this is true, by the way, of communists in general, it’s been sort of dropped out of the literature—also, communism of women—personal bodies.

The Taborite preachers, left wing preachers taught that everything be common, including wives—there’d be no marriage, etc. The first thing’s the Hussite revolution breaks out in 1419, the same year the left-wing Taborites got together and captured a town called Usti in northern Bohemia. They renamed it Tabor, which I guess means [unintelligible] or something. There’s some biblical, there’s a New Testament reference with Tabor.

They renamed this town Tabor, and they installed Taborite communism, so to speak, and engaged in a communism experiment. Only everything in common, dedicated to the proposition “that whoever owns private

property commits mortal sin.” All women were owned in common, true to their doctrines, and if husband and wife were even seen together, they were beaten to death or otherwise executed.

The form of execution, I can leave to your imagination. They also believed in the unlimited right to consume from a common storehouse. They had a common storehouse. Nobody gets paid, everybody sort of takes what they need. Except the Taborites, of course probably were exempt from all work, since they were divine.

As a result of nobody working and everybody taking from the common store, there's not much production left. Very early the common store disappears, who's going to contribute to it? That's one of the great communist problems. So then, since the common store of the Taborites in Usti was gone, they decided, “Well, now we take, rob and exterminate everybody outside of Tabor. We externalize the movement,” so to speak.

The moderate Taborites were very much against this. They said that the many communities never think of earning their own living by the work of their hands, but only willing to live on other people's property, they undertake unjust campaigns with the sole purpose of robbing. Anyway, with [unintelligible] everybody around them—the peasants and everybody else—the Taborite, the Usti experiment quickly collapsed.

But again, it keeps bubbling on. The idea is picked up by other groups. One group are the Bohemia Adomites, who added another special—each one of these groups adds their own special contribution to this great movement. The Adomites, again, like the free spirits, believed they were living gods, superior to Christ. And one of the reasons—get this—as a reason why they were superior to Christ—because Christ is dead and they're still alive.

I think it's one of the least convincing reasons I've ever heard. [laughs]
 At least short-sighted, certainly. Again, not only are all goods strictly owned in common by the Adomite, but marriage is considered a heinous sin. Promiscuity is compulsory for the Adomites, since the chaste were unwilling to enter the messianic kingdom. Any man could choose any woman at will and would have to be obeyed.

Also, the Adomites went around naked most of the time, imitating the original state of Adam and Eve, the alleged original state. Also, another peculiar thing—the government, there's a famous quip, "The 20th century whatever is not prohibited; it's compulsory." Well, the Adomites both made promiscuity compulsory and restricted, because it was compulsory, but only with the permission of the Adomite leader, his name's Adam Moses.

So in order to engage in compulsory promiscuity, you had to have his permission. Again, like all these other guys, the Adomites regarded it as sacred divine mission to exterminate all the unbelievers in the world, wielding a sword—it's a marvelous image, I think—wielding a sword until blood floods the world at the height of a horse's bridle.

[unintelligible] like that. They were God's scythes sent to cut down and eradicate the unrighteous. These groups began to use the agricultural image of a scythe. "I am God's scythe." At any rate, they were crushed by the moderate Hussites, moderate Taborites, as you might expect. They were robbing and killing everybody they could. [unintelligible] commando raids that rob and kill the unrighteous.

They were finally smashed. But again, it keeps popping up, and we get now to the Anabaptists. This is after the Reformation comes and lets loose a lot more of these people. I could easily spend the rest of the hour talking about the Anabaptists. It's rich in narrative and examples. It

really starts with Thomas Müntzer, who was the first coercive Anabaptist, a communist Anabaptist.

He starts off as a young priest and then becomes a Lutheran. He's quite learned in the scriptures and the writing of the German mystics. He becomes a Lutheran as soon as Lutheran launches the Reformation in 1520, he's there, and Luther recommends him for one of the top pastorates.

He then continues on. As a matter of fact, he meets a Bohemian, one of the Bohemians, had been influenced by the old Bohemian movement—a weaver named Nicholas Storch, and Storch converts him to the Taborite doctrine. Müntzer picks it up and says, “Okay, I’m the prophet.” He gives from one city in Germany to another, usually getting kicked out, but getting more and more followers. And one time, it’s kind of funny, kind of amusing, he goes to Czechia, the heartland, “I’ve got to meet the Czechs,” and he starts preaching to them.

Unfortunately, he didn’t know Czech and they didn’t know German. It was a preaching failure, as you might imagine. At any rate, but he keeps finding more and more support, goes to more and more towns, gets kicked out, forms a revolutionary organization called the League of the Elect.

One of the interesting things—the Duke, it’s kind of interesting, has heard about this guy preaching, and he goes to listen to him. This is the brother of the prince of the Kingdom of Saxony, and the duke seems like a real dimwit to me, because he’s preaching his doctrine—he lays it all out.

He tells the duke that the duke and the princes have an obligation to exterminate the unrighteous. Then he says if they don’t do it, the princes fail in this divine obligation, “Then we will have to rise up.” As he puts,

“The sword shall be taken if they resist, and let them be slaughtered without mercy.” In other words, “We will rise up and slaughter all the princes and dukes.” Somehow, the duke didn’t realize the implications of this. “This is an interesting preacher.” He imposes a communist regime, he takes over the town of [Mohausen], decrees all property to be in common, and as one contemporary observer said, he was so effective that folk no longer wanted to work.

Again, the other guys will contribute according to their ability, and we’ll take according to our needs—would be the practical implication of all that. He talked about love a lot, communism and love. Basically what it means is theft and general slaughter. At any rate, Müntzer gets wrapped up in the Peasants’ War, which was a much more general thing as to nobility, and his wing of Anabaptist peasants gets involved in that, and he gets finally chopped up.

But again, he keeps getting—his body may be [unintelligible] grave, but his spirit went marching on. He’s picking up disciples before he gets conked out. By the way, one of the things that Müntzer does, he was marching with the peasants in Heidelberg. The princes and the [unintelligible] had a huge number of cavalry and artillery, a lot of firepower; the peasants have practically nothing, and no arms.

He tells the peasants, gave his last flaming speech, holding aloft his naked sword, and he says, “Don’t worry about it, because God personally promised me victory,” and he would catch all the enemy cannonballs on the sleeves of his cloak, and God will protect them all. This is a strategic moment that he spoke, [unintelligible] a rainbow emerged in the sky, and the rainbow’s considered the symbol of his movement, sort of like an early Rainbow Coalition. [laughter]

That was it. That was a sign that he would be triumphant. Of course, the whole gang was slaughtered—the peasants, him, the whole business. At any rate, he misinterpreted the sign, I guess. And so other followers pop up, and finally they get a town—they get a real city, 10,000, which was a big city in those days.

They get a city in northwestern Germany called Munster. I have difficulty distinguishing between Müntzer and Munster, but anyway, Müntzer was dead by this time, and Munster was the final, I think a year's experiment in compulsory communism. This is the 1530s, I think 1532, three, four, in that period, sort of the climax of the compulsory Anabaptist movement.

And when they capture Munster, all the good guys, so to speak, leave. They have to leave—as a matter of fact, are expelled. First of all, some of the hopped up theoreticians said, “Let’s kill them all, kill all Lutherans, all Catholics,” and a gleam of rationality entered the head of it. There are two heads of it, once named Mathis, and the other one named Bokelson. After Mathis dies, Bokelson takes over, Mathis’s assistant. Bokelson is also known in history as Jan of Weiden, also called himself King Bokelson. So rationality takes over among these people, they say, “No, we won’t kill them, it might anger everybody else in Germany and Europe. Let’s just drive them out.”

They expel them in the middle of a snowstorm, forcing them to leave all their clothes, property and money behind—very reminiscent of Cambodia and the Pol Pot regime in Cambodia. Compulsory expulsion during a snowstorm. So the good guys—every nut in northern Europe, every coercive Anabaptist flocks to Munster. “This is it, this is the new Jerusalem,” and the idea was that [unintelligible] Munster will flow outward, and everything else will be destroyed, and all the world will become one great Munster. So they all flocked in there, the whole different followers of different groups—the Bokulites and the

Rothmanities and a whole bunch of people, they all flock to this great center.

At any rate, so first there's compulsory communism. There's also, one of the extreme things they did immediately, Bokelson and Mathis, they compulsorily outlawed money, the use of money, which was also done in Cambodia. The best way to get control over a population is to outlaw money. In other words, they confiscated all the money.

From then on, anything which you receive, you receive by the ration in kind of the beloved elect—namely, equality. It's equality enforced, but some are more equal than others, as you well know. And the elect were running everything. The elect decides who gets how much food, and whatever, you can imagine the situation.

You can't really have total totalitarianism unless you abolish money, and the state then provides you with every according to their wisdom and largesse and benevolence, right? The money, by the way, was all confiscated and used for Bokelson and his cadre to buy stuff in the outside world.

So first they [unintelligible] any Catholics, Lutherans, or whoever else was around. There was also, for a while there was compulsory marriage among the elect, and then there was a little bit of rebellion against that. So they finally said, "Okay," and swung to the other side. For about three months they moved from compulsory marriage to compulsory promiscuity for everybody. Communism of women again came in. Which he took to like a duck takes to a water, as a matter of fact—he immediately, very quickly had 13 wives, thereby unifying theory and practice. [laughter]

Anyway, Mathis, by the way, we know Mathis was the original absolute leader of this group, he got filled with too much hubris, and was

convinced that Easter, that got had ordered him and a few people to rush out and defeat the Bishop's armies, and he rushed out, and of course they were all hacked to pieces. Bokelson then becomes the king. He had himself proclaimed, by the way. So Bokelson says, "Don't worry, people, God will give you another prophet, who will be more powerful," which of course was himself.

One time, by the way, when he instituted his new rule, Bokelson, he ran through the streets of Munster naked in a frenzy, falling then into a silent three-day ecstasy, and he rose on the third day, as some certain other person did, and announced to the populous a new dispensation had been arrived at, which was that he, God had revealed to him that he's not going to take over.

He abolished the previous town offices and had himself proclaimed elder and king and all that, and he would pick all the elders, and all the rest of it. By the way, for any act, disagreeing any act whatsoever, I mean a litany of stuff, goes on and on, any act of disobedience to the Bokelson—using money, disobeying any kind of edict, including, by the way, lying, avarice and quarreling—death penalty, immediate death. Death penalty for everything.

Death penalty for anything—quarreling, nagging, anything was the death penalty. It was the great age of capital punishment. There was also compulsory polygamy because most of the men had left, leaving the wives and children behind, so there was about a three-to-one ratio of women to men. So compulsory polygamy was at least technologically feasible.

And by the way, here's a great thing—I'll wind up on Bokelson on this note: It starts with equality and poverty and all that. He winds up, he takes all the confiscated money, transforms it into gold and jewelry, and

he and his court, he and his queen and his nobles, as they call themselves, the elect, all have fantastic luxury stuff, living in fantastic luxury while everybody else was literally starving—totally desperate.

And his reason for this—because a few people I guess were a little bit edgy about this—how do you explain absolute equality and absolute communism? How come these guys are living in luxury? That question was very interesting. “Since we are now gods, we’re now pure spirit. Therefore, none of this means anything to us. We’ve risen above pure material objects, so we’re not really enjoying it,” or whatever. If you can buy that line, I got a Brooklyn Bridge to sell you too. [laughter]

So at any rate, the bishop and everybody, the siege was, although it lasted until the very end—it was only betrayed by a few informers, and they finally got into the town and slaughtered, of course, the whole Bokelson movement without too much ado. So that was, I guess, the end of the compulsory communist experiment.

The thing you have to remember is that left liberal historians and Marxist historians dealing with this issue, how do you react to these people? It seems like any rational person would react in total horror to the Bokelson Movement. They love them. They’re great people. Why do they love them? One, they were communists, no question about that, they believe in communism and carried it out.

Two, it was a mass movement, a movement of the people, no question about that either. Most of the people were real life’s losers, no question about the fact it was a lower-class movement, a working-class movement, peasant movement, whatever you want to call it, and Marx would call, I guess, should’ve called a lumpenproletariat movement, movement of marginal types, and it was a communist movement—therefore, it’s great.

It's really kind of interesting to read historians, left wing historians talking about these people. They love them. They're setting the stage for the rest of history. Communism pops up again—this sort of discredited compulsory communism, Anabaptism for most people by this time. It pops up in the French Revolution or just before the French Revolution, when things are being overturned in general.

You had a secularized version of this, but not all secularized. We know, of course, that Marx was an atheist, but there was a real conflict, a real dispute until the very end, until 1848, really, the time of the Communist Manifesto, a real dispute between Christian communists and atheist communists.

They both really agree on everything except the groundwork. The atheist version, the secularized version, which of course we know about, called secular, and the communism version, which was, the Christian version, which was that they are the prophet, the same stuff we're talking about. Just a little bit on that:

One problem, of course, the atheist communists had, what we call the agency of social change. How was this brought about? How is communism being brought about? For post-millennial types, it's easy—God brings it about through history, it's inevitable. The messiah returns or the prophet returns and brings it about.

For atheists, however, we have a real problem. How is this brought about? Since we can't rely on God of the third age anymore, who's going to bring it about? And most socialists and communists—by the way, socialism and communism was boiling all throughout Europe in the 1830s and '40s, all sorts of socialist groups—Owenites, Fourierites, a whole bunch of stuff.

But anyway, all these people said, “Well, we educate the public,” essentially educationists. That, of course, was not suitable for Marx. Marx wanted to show it was inevitable, “scientific.” It’s got to come about, it’s inevitably decreed by history. And of course, bringing in Hegelianism, [alienation] of the dialectic, allowed to do it. He found his alleged inevitability, which gave him a leg up on everybody else, who rely on people’s will.

There were also communist groups in the 17th century, the civil war in England passed them by quickly. [Monarchy men] and the Diggers and so forth. The two big philosophic communists, so to speak, before the French Revolution, Mably and Morelli—Mably was an aristocrat, and interestingly enough, the brother of a great laissez-faire utility theorist, [Kungelac], his name was Mably de Kungelac or something. Mably was an aristocrat, and spent most of his time, I guess 1709 to ‘85, he wrote in the 1750s, I believe, and he wrote a lot of stuff [as Alexander Grey].

By the way, now we get to socialism, and there’s a whole bunch of books I can recommend. One of the great works is by Alexander Grey. Witty, perceptive, sardonic for a socialist position. He’s also very good on Ricardo and so forth in his other book, his two books—one is called *Development of Economic Thought*, which is a short book by Grey, which deals very well with Ricardo, etc., and a larger book called *The Socialist Tradition*. He wrote from the 1930s to ‘50s.

What he says about Mably was he says Mably’s works are “deplorably numerous and extensive.” Extremely prolific, tangled kind of stuff. He wrote his collected works—he was very popular at the time—collected works range from 12 to 26 volumes, depending on the edition, which came out in four different editions after he died.

In other words, he died in 1785. By this time, the French Revolution was coming up. Four different editions of a 30-volume work, it was extremely popular. Mably believes—he's an egalitarian, believed all men are perfectly equal and uniform. All men are one and the same everywhere, totally uniform.

He professed [unintelligible] laws of nature, and he advocated communism. His problem was, of course, the problem of who does the work? It used to be said in my day, under socialism who carries out the garbage? If property's owned in common and each person is equal, who's going to contribute to the common store?

He had some solutions to it. One solution was quite prominent in the New Left period. For those who did recognize the economic problem, that is you tighten your belt, reduce your desires and wants. The big gap of communism, it's producing very little, you'll just desire less, call it the mystic or the Indian solution or whatever, Buddhist solution.

It's not a solution that appeals to me, I'll tell you that. The other solution was a solution of Mably. He went through, logically, all these possible solutions of the economic problem under communism. Of course, we're not talking about calculation of data, this was [unintelligible]'s contribution much later.

The other line was, "Well, we give them ribbons or medals." This is the Che Guevara/Mao Tse-Tung solution. You don't give them more money because everybody's equal, but you give them a lot of ribbons—hero of the socialist revolution medal, things like that. That would provide the incentive to do the work.

[unintelligible] magnificent critique of that. So the idea that the world may find its driving force in a birthday honors list, in other words the king's

birthday honor list—the king, and if necessary, 365 official birthdays in the year.

It occurs with pathetic frequency in the more utopian forms of socialist literature, although perhaps few are so badly bitten with the notion as is Mabli. Mabli calls them distinctions. You give bigger medals for more work and so forth. Grey said, “But obviously if anyone [unintelligible] enough to say that they preferred indolence to a ribbon—there would be many such—they would have to be allowed to continue to lead idle lives, sponging on their neighbors. Perhaps someone who at last obtained a ribbon might burst into a blaze of laziness in order they might, without distraction [unintelligible] pleasure which accompanies this consideration.

“Mabli’s world, in short, is one, it’s expected that work will be done by all without intermission in the hope of a distinction to come or in gratitude for distinction already received.” He then goes on to say that, “As you hand out more and more distinctions, the value of each distinction becomes less.” Every third guy down the block has a medal; what good is it?

Then he says, “Further, Mabli does not say how or by whom his distinction ought to be conferred. It always is assumed,” says Grey, “there will be universal, unquestioning belief of a fountain of honor has sprayed its refreshing waters on all the most deserving, and are none but the most deserving. This naively innocent faith does not exist in the world, as we know, nor is it likely to exist in any earthly paradise that many may imagine.”

Then he says, “A general or a civil servant kept waiting [unintelligible] in the queue for a night of the bath, they find [unintelligible] replaced by [unintelligible] zeal may flag.” In other words, you might start resenting the fact that this guy down the block’s got his ribbon, I ain’t got my ribbon; to hell with it.

And Mabli does not consider these natural human traits. Anyway, at bottom Mabli was a realist and he says, "It's not going to work." He says, "I love communism," basically he said, "But there's no hope for its victory because man is not good enough to solve this problem," and be a new socialist man, as the Marxists will later say.

Basically, he's a pessimist, and therefore that really inspires something like the revolutionary communist movement. Then you had Morelli. We don't know his first name. An unknown figure writing in 1755, a Frenchman who, again, [unintelligible] five editions in a few years. Morelli was an optimist—"No, no, we can establish, man will be good enough to establish communism because man," this is of course a Rousseauian or [unintelligible] Rousseau-ization thing.

"All men are good and beautiful and benevolent, will work hard with direction," so forth. "Only institutions are evil," especially, of course, the institution of private property. [unintelligible] institutions are created by good men, how they can be evil is something none of these guys ever talk about—inner contradiction.

So for Morelli, the administration of communists he thought would also be easy. This is the beginning, by the way, of Lenin's famous statement, "All you have to do to administer resources is be a record-keeper." You don't need entrepreneurs, you don't need to allocate; all you have to do is list stuff, like a bookkeeper, and Morelli I guess originated this idea.

You just have a minister of labor and he enumerates everything—lists things and lists person, that's it, that's all you need. But then he says, "Being a pessimist on human nature," even though an optimist on, alleged optimist, "it's chiefly [unintelligible] prepare to employ [unintelligible] methods," to people, the so-called good citizens in line.

He recognizes the fact that most of these good people aren't going to do the proper amount of work.

So coercion comes in very heavily with Morelli. There's no private property, of course. Every person is maintained and employed by the public. Every man will be forced to work to contribute to the public storehouse, work according to his talents. Marriages are compulsory, and once again we have this whole thing, compulsory personal life.

Children will be brought up not only communally, but absolutely identically—identically in food, clothing and training. That assumes, of course, that all people are identical before you can really do this. All nurses, all governesses, whatever, are identical. And also, no differences in doctrine will be tolerated. Philosophic and religious doctrine is absolutely proscribed, no difference is tolerated, and children are not to be corrupted by any “fable, story or ridiculous fictions.”

No fairy tales, no fiction at all. Fiction might be unsound. All trade or barter is to be forbidden by inviolable law. Everything's going to be the same. He goes into this whole architectural thing. Everybody's got to live in the same barracks, grouped in equal [unintelligible], all clothing will be made out of the same fabric, etc.

All occupations assigned by the state. Anybody attempting to change these laws, they're all sacred and inviolable forever, eternal. Anybody trying to change them or advocating change will be isolated and incarcerated for life. Again, I'm going to quote Grey as summing up, talking about all these guys—Mabli, Morelli, all the socialist and communist utopians, including Marxism.

He says, “Viewing them as a group, you have here writers who set out to describe the ideal state and reveal its functioning through ideal institutions, and in all cases they assure there never was such a happy

population. Yet in fact, no utopia has ever been described in which any sane man without any conditions consent to live, where you could possibly escape.”

The beginning of the French Revolution, [unintelligible] movement comes down, a key thing, as an organized movement to achieve a revolutionary communist movement, to achieve these ideals. [Talus Gracus Babouef], the conspiracy of the equals. By the way, in all this stuff, there's an exciting book on the history of the movement, the socialist movement, the interconnections and ramifications.

He's not totally sound on all the theories he's talking about, but he's excellent on the history of all these things. His footnotes are in about eight different languages. That's James Billington, called *Fire In The Minds of Men*. Huge book, massive work, and he shows how each of these people influence each other and pops up in different places, sets up a revolutionary movement. Excellent stuff, and it has some very obscure, but important communist characters in the 1830s and '40s.

Babouef, as I say, was an organized leader. Babouef was the organizer, the Lenin, so to speak, of this movement during the French Revolution, 1790-93, that whole period. Perfect equality, perfect communism, etc., abolition of property, communal storehouses, all the rest of it. And by the way, there'd be a cadre of superiors because they'd have to be running everything, obviously, in this equal set up, which he admits, everybody's controlled from birth to death.

And he's very strong on punishments. All the punishments were described in loving detail by Babouef, what's going to be done to the dissenters and heretics and people that disobey orders. All meals will be eaten in public in every commune, compulsory attendance for

everybody, for all community members, and you can't travel without permission of the administration, etc.

He was also against private entertainment, be strictly forbidden, "lest imagination, released from the supervision of a strict judge, should engender abominable vices contrary to the common wheel." That takes care of that. "All divine revelation," he was an atheist communist, would be banned by law, belief in it.

Anyway, he added to, as an organizer of the movement, rather than the theoretician so much, he said that we have to complete the French Revolution by total upheaval, [bouversement] total, total upheaval and total destruction of all existing things, so that a new and perfect world can then rise up out of this total rubble.

As usual with these guys, destruction was fairly clear, the new and perfect world was kind of cloudy that emerged eventually. Babouef wrote *The Plebeian Manifesto*, which is sort of the ancestor of the first manifesto [unintelligible] or *The Communist Manifesto* by 50 years. He winds up in his *Plebeian Manifesto*, he says, "May everything return to chaos, and out of chaos may there emerge a new and regenerated world."

As [unintelligible] comments on this, he says, "What is desired is the annihilation of all things, trusting that out of the dust of the destruction, a fair city may arise, and buoyed by such a hope, how blithely would Babouef bide the storm."

The key to Marx was—I discovered that—I was trying to read through Marxism and working in my book, [unintelligible] ten million words have been written on Marx, [unintelligible] Marx was all about. I finally came to the conclusion that he, as in Marx, was a commie. This you might think is a fairly trivial conclusion, but it isn't, because I haven't the Sowell book

which has been highly touted, but I understand that he doesn't even mention the fact that Marx was a commie, which is a key—tells something about the book.

Marx starts as a millenarian communist, atheist version, and then he tries to find the handle. He's not interested in convincing people and all the rest of it. He wants to come to the conclusion it's inevitable. Nature is the creed or whatever, it's going to come inevitably. That's the so-called scientific aspect, scientific socialism, against utopian—"scientific" because the inevitable laws of history decree it will come about.

And morality then becomes swinging in the inevitable. It's not that Marx was anti-morality. "Moral" meant anything which furthered the communist revolution, inevitable revolution, and the immoral is that which blocks it or stops it, restrains it, I should say. So the idea of mankind is to help along the inevitable. Marx's famous metaphor, "Become the midwife of history." Alexander [unintelligible] points out a lot of obstetrical metaphors in Marx.

So Marx starts off as a commie, then he tries to find the handle of why it's inevitable, and [unintelligible]. The handle consists of an integration, I think a very interesting integration of Hegelian, the alienation stuff, he starts off in life as a left Hegelian. The dialectic, alienation and all the rest of it, and later on trying to find the economic, and he gets to the class struggle and alienation and the proletariat and class conflict.

And then at the class conflict stage, why does capitalism inevitably emerge in a socialist revolution, communist revolution? And then the labor theory of value comes in very late in this thing as part of a handle on the theory of crisis and all that, the impoverishment of the proletariat, to show why it is the proletariat will rise up and smash the capitalist class.

[unintelligible] capitalists become fewer and fewer, and workers become larger and larger, then it becomes fairly easy to use it. The key was that he was a communist, and his vision was how do you achieve ultimate communism?

An interesting thing is that Marx didn't publish the economic and philosophical manuscripts of 1844, much of this was in, did not get published in his lifetime, and also Engels didn't publish it. Engels lived on for 12 years or so after Marx, and tried to publish *Das Kapital*, which was also unfinished, he never published this stuff.

In fact, it never got published until, I think the 1930s. So Marxism grew up in Europe not knowing anything about the communist stuff, about so-called humanist aspects of Marx or Hegelian aspects. [Kausky], who became Engels' anointed as leading the cycle, Karl Kausky in Germany didn't know that Marx had any moral theory at all; he just thought that Marx was scientific and an economist, and tried to bring in some morality, I think Darwin or something like that.

He didn't know anything about this. So the question is why did Marx and Engels suppress the publication of this material, so-called early Marx? The humanist, I think he said with a certain amount of sardonic aspect to it. And we'll see I think why this is true, because I don't think anybody would've bought it. Not too many communists or proletarians would've bought the whole package if they knew about it. After the humanist stuff came out in the 1930s, etc., and Marxists began to look at it, then it became sort of a conflict between the so-called humanist Marxists—by that time the labor theory of value was becoming discredited—very few Marxists now believe in the labor theory of value.

Even Joan Robinson and people like that have abandoned it. Then they started latching onto the alleged humanist early Marx—alienation, it all

sounds very trendy, etc. Not quite realizing it's even more totalitarian than the so-called scientific economist Marx, or maybe realizing it. At any rate, so there was a split, that [Altousei and Sweasie] and these people said, "No, the early stuff was irrelevant, he wasn't really a humanist."

Basically, there was only one Marx, and the one Marx is pretty monstrous, and it's a combination of the communist vision and humanist vision, plus the later stuff, economic stuff, which is essentially trying to find a route to the inevitable communism. Books on all this, I'll suggest one of them which I think is a brilliant work by Robert C. Tucker called *Philosophy and Myth in Karl Marx*.

Deals with the communist part and how Marx arrived at it and Hegel, Hegelianism and so forth and so on. There's some other pretty good stuff. Bruce [Maxlich] of all people, who's sort of a Freudian psychobabble historian, has a very good book on the meaning of Karl Marx—came out a year or two ago.

But I'm going to start even earlier with Karl Marx because I think it's just important, which has been neglected even by Tucker, some of this. It's not realized that early early Marx, before the humanist, before the economic [unintelligible] manuscript, before even official communism in 1843-44, Marx begins life as a messianic Christian.

This has been totally overlooked, and we all know that Marx was of Jewish descent, and his father converted to Lutheranism, a very modest form of Lutheranism, as sort of compulsory conversion shortly before Marx was born. What's not realized is that Marx in high school was a Christian, a dedicated Christian of some sort, and also his graduation essay in high school in 1835 was on an assigned topic that he was quite ardent about, called *The Union of the Faithful with Christ*.

And in this union, he talks about, I think there's certain hints of the Hegelian messianic stuff, the unity of the blob. Talks about the mystical necessity for union of Christ, and God's rejection of man. This is not really orthodox Christian as far as I'm concerned. It's beginning this whole alienation-reunion stuff, very early. He was 17 years old at that point.

He also wrote in the late '30s and early '40s while he was a student at the University of Berlin and learning about Hegel, he also wrote some poems, which I think is very revealing. I really think they sort of foreshadow Marx's broad system. The poems have not been stressed by historians.

Maslich talks about it, and Robert Payne in his book *The Young Karl Marx*, talks about them. I'll read you a couple stanzas from a poem, because I think they're very significant. The basic emphasis in these poems was—usually it's been dismissed by historians as just romantic trash or whatever. I don't think it's trash. I think it's really pretty revealing.

Basic themes of these early Marxian poems, were one, megalomania, a desire of Marx for total omnipotence, and two, hatred of God for being greater than he is, basically. In other words, for creating a world which he didn't. And [unintelligible] therefore for destruction of the universe.

This is from his poem, *Feelings*. The hatred of God of creation—for example, he said, "I hate all the gods." At any rate, in his poem *Feelings*, it has the following two stanzas: "Worlds I would destroy forever since I can create no world, since my [unintelligible] they notice never. Heaven, I would comprehend, I would draw the world to me, loving, hating, I intend on my stars shine brilliantly."

And by the way, Bakunin who was a communist anarchist at the time, I think is important here, the retort of Bakunin to Voltaire—Voltaire’s famous phrase—Voltaire was a skeptical atheist, I guess—there’s a difference between militant atheists and skeptical atheists, and Marx was a militant atheist, as was Bakunin.

Voltaire’s famous phrase was, “If God did not exist, it would be necessary to create him.” Bakunin’s retort to that, and I think even more interesting and revelatory, “If God did exist, it would be necessary to destroy him.” I think you should ponder that for a minute because I think that’s behind much of militant atheism.

At any rate, particularly interesting is poetic drama called [Ulanem], which Marx rate, the hero is Ulanem, and Ulanem has a soliloquy in which he pours out his hatred for the universe. “I shall howl gigantic curses on mankind, as it is having no purpose safe to happen, to be ruined, so that there should be something to ruined.

“There is a something which devours, I weep within it, and I bring the world to ruins. The world which [books] between me and the abyss, I will smash to pieces with my enduring curses. I’ll throw my arms around its harsh reality. Embracing me, the world would dumbly pass away and then sink down to utter nothingness, perish with no existence. That would be really living.”

I think an interesting inner contradiction, as the Marxists would say. You’re really living, destroy the whole world. “The leaden world holds us fast, and we are chained, shattered, empty, frightened, eternally chained to this marble block of being, and we are the apes that recall God.”

And finally, my final phrase here is in a poem called *The Fiddler*, he says, “With Satan I have struck my deal. He chalks the signs, beats time for me. I play the death march fast and free.” I like the “free” part. I

think these are very revelatory considering Marx's later doctrines and so forth—first for destruction, and a new world somehow emerging, vaguely emerging afterwards.

Just one other quote on communism before we leave it, on the idea of unity of all people, unity of God, etc. As I mentioned Chesterton's critique of [Annie Bazant] last night, and I found it—Annie was a Fabian socialist and a theosophist, sort of a neo-Buddhist. Chesterton writes, "According to Mrs. Bazant, the universal church is simply the universal self. It is the doctrine that we are really all one person, that there are no real walls of individuality between man and man.

"She does not tell us to love our neighbor; she tells us to be our neighbors. The intellectual abyss between Buddhism and Christianity is that for the Buddhist or theosophist personality," it means individual personality, "is the fall of man. For the Christian it is the purpose of God, the whole point of this cosmic idea."

I think that sets it off very nicely. As I say, I think the labor theory of value and all that stuff, this is all peripheral to Marx's basic thrust. His aim of the withering away of a state, which is attractive to I guess some libertarians, what he did is he took that, he took the phrase, even, the famous phrase of what was supposedly [unintelligible] communism, the government of men shall be replaced by the administration of things, is really a phrase coined by a French libertarian theorist called [Vimlayay].

They were talking about the withering away of the state into a laissez-faire world, a market world in which there would be no government, just administration of things. There it makes sense. It makes no sense—one of the reasons it makes no sense in the communist version of it is because instead of having private ownership, you have communal ownership.

So some kind of communist makes a decision for allocation of resources. Of course, he assumes in communism there'll be super-abundance, so you don't have to worry about it. If there isn't super-abundance, somebody's got to allocate, and the whole world then allocates some resources in some way, and of course what you inevitably have is a group of people calling themselves representatives of the proletariat or whatever, and actually doing the allocating—you're back to exploitation of man by man, etc.

So once you assume a one world communal collective ownership, you don't really wither away the state, although you can call it the People's Statistical Bureau and not a state—this is, by the way, what Colonel Qaddafi does in Libya. People don't really know it—Colonel Qaddafi, there is no government in Libya; there's also a People's Statistical Bureau, a People's Statistical Congress. You can call the thing anything you want, but a state under any other name will smell as lousily.

Another key thing of Marx's vision of communism, I can't leave without that, a key thing about communism, there is no division of labor—the division of labor is smashed. Alienation is the division of labor. A key part of alienation. The unity of man with man means that everybody does everything. Everybody's sort of an all-around dilettante.

Marx's famous phrase in the critique of [unintelligible] program, everybody will spend two hours in the morning being an artist, another two hours working in the field, another two hours doing this, becoming a critic, another two hours... Life is one big dilettante paradise, and he said, "The cattle will be [reared] for two hours in the evening," to which Alexander Grey retorts, "The cattle might have some objection to that," casual [unintelligible] two hours in the evening. So the division of labor is a key to the concept of communism, the end of the division of labor.

One of the reasons—I really can't leave this—one of the reasons why I think Marx didn't publish any of this stuff, and Engels didn't either, is because Marx admitted—I found this really interesting and surprising—after the proletarian revolution, the great, marvelous proletarian revolution—communism comes in two stages, not just the socialist and communist stage, which is the Stalinist bowdlerizing of it—the first stage, the dictatorship of the proletariat, is what he calls raw communism.

This is before you get the higher communism, the ultimate communism where there's communal ownership and everybody's happy and so forth and so on. In raw communism—there's a description of raw communism. It's pretty horrifying. In other words, it'd be difficult I think to inspire a proletarian communist movement for the first stage of raw communism, which he says is inevitable.

He says that raw communism will be the acme of human greed and envy, says everything that anti-communists talk about when you talk about communism. Envy will run rampant, universal theft, universal destruction, so forth and so on. And he says that—about raw communism—said it's egalitarian, and envy will run rampant. And again, you have communism women coming in.

He says, "The same way as women is to abandon marriage, marriage for general prostitution," in other words, universal prostitution, "so the whole world of wealth, that is the objective being of man, shall ban the relation of exclusive marriage with a private property owner for the relation of general prostitution in the community."

He sets really a monstrous setup. The personality of man will be negated, as he says general envy constituting itself as power is a disguise in which greed re-establishes itself and satisfies itself, etc. But

then, so his description of a communist world, at least the first stage, is just as horrifying as any anti-communist description of it.

But then you see, what happens is, by the [aufhebung], the magic dialectic, it's suddenly transcended, bingo, you can have a world of pure communism and harmony and all that. I don't think anybody's going to commit their lives to raw communism, and I think it's one of the reasons why he and Engels never published it.

At any rate, so there's no division of labor. In the world of Joachim of Fiore when everybody's pure spirit, you can sort of see how it might work. It would not work in a world where bodies are around, as an economic problem. By the way, poor Craig Roberts, before he became a supply sider, wrote two very good books on this—*Alienation and Marxism* and something else. He describes key to alienation becoming eradication of the division of labor. That's the key to Marxist, one of Marx's goals.

What happens is when communists took over in Russia, Roberts points out, they try to establish raw communism, eliminate money and so forth and so on, so-called raw communism, tried to establish it. It didn't work, and Lenin being a supreme pragmatist, "Uh-oh, step back, fellows," and then reestablished capitalism during the 1920s.

I'll say one thing about the theory of value here before I leave Marx. If you read *Das Kapital*, first volume. Forget—there's all the contradictions between first and third volume and all that. Just read the first volume, the first three pages will tell you all. He starts off by saying products exchange at certain prices. What determines these prices, what determines these values?

He says, "What is it? First of all," he says, "Values are equal." First mistake. Since the price of something is equal to something else, since

the Wonder Bread costs \$1.09 a loaf, this means that somehow the loaf and the bread are equal value, the bread and the money are equal value, or something else that's \$1.09 has equal value.

So he immediately says there's an equality of value. That's the first mistake, since we know Austrian subjectivism—the fact there's any exchange at all means there must be inequality of value. Both parties value the product unequally. In other words, if I buy a newspaper for a quarter, it's not that I value the quarter equally with a newspaper, or a newsstand doesn't value [unintelligible]; otherwise, why bother exchanging at all? What's the point of exchanging if they're both the same thing anyway?

So the point is both have a reverse inequality. I value the newspaper, getting the Washington Post or whatever higher than my quarter, and the newsstand of course values the quarter higher than keeping the Washington Post. We have a double reverse inequality of value, which creates the condition for exchange, for profitable exchange for both parties, so both parties benefit.

So there's no equality of value. Quite the opposite—there's a double inequality. That's the first problem in Marx's formulation. Then he says, "Well, you have equality of value between these two things which are the same price, so what is equal about them? What is there in these things that's equal? They're not of equal weight, that can't be it; not of equal volume, that can't be it."

Finally, he works the thing, "Must be equal quantity of labor," by certain exegesis. And at that point you really don't have to read the rest of it, because you have about four or five fallacies all piled on top of each other. And then of course there's a problem, how do you arrive at different prices and have same quantity of labor and all the rest of it?

There's a whole bunch of problems with the labor theory of value, which I need not go into. [unintelligible] the famous refutation of Marx's theory of value and theory of prices, which is available in a separation edition, I think it's called *Karl Marx and the Close of His System*, unfortunately what happens always when Marx is refuted, the Marxists have a fallback position.

It's very much like a religious cult. If Marx makes a whole bunch of predictions, a whole bunch of statements which turn out to be wrong, you then change the terms of the argument. You say, "Well, he didn't really mean that." Marx obviously meant to explain the price system by the labor theory of value.

When it turns out he couldn't explain it, the Marxists say, "He didn't really mean prices; he just meant value in some mystical inherent sense; has nothing to do with price." That's one way to wash that out—"You can't really refute it at all." The second thing, Marx's famous prediction of why it is we have an inevitable proletarian revolution, is the workers get worse and worse off, the impoverishment of the working class, and they finally rise up in desperation.

So it's obvious through history, as the 19th century and 20th century proceeded, workers are getting better and better off, so doesn't this refute Marx's key prediction about why proletarian revolution is inevitable? So the Marxists' fallback position, "Well, he didn't mean absolute impoverishment; he meant relative impoverishment. He meant the workers, even though they might be much better off than they were 50 years ago, are still less well off than Rockefeller or Bunker Hunt."

So you change the terms, I can't see anybody really engaging in bloody revolution, committing their life to bloody revolution because you only have one swimming pool instead of five. [laughter] Somehow, the so-

called relative deprivation. This is, by the way, the gimmick by which everybody's always—you always have a huge number of people under the poverty line.

We keep redefining the poverty line. "Poverty doesn't mean subsistence; it means whatever. TV sets. If you don't have a TV set, you're under the poverty line." So they keep pushing the so-called poverty line up, so you always have at least a third of the population impoverished. You can never eliminate poverty because there's always some guy with five yachts instead of one.

By the way, somebody asked me about Tom Sowell's book on Marxism. I think it's a highly inflated work. Not only doesn't he talk about communism, which is the key; he also criticizes [Bombarverk] and absolute deprivation from the same Marxist position. He takes the Marxian line that he didn't mean it, and he means relative deprivation. He wrote the book when he was still a Marxist.

If you look at Sowell's footnotes, there's nothing after about 1965, which is the key to the composition of the book. He took the book—since he's now a big shot, slapped the other book [unintelligible] and take your old notes and whatever, articles, and he slapped together and published it.

It's not unique to Sowell.

I've got to talk about 19th century America and post-millennialism. It's a short course in American history, and it's very important. In the early 19th century, 1820s approximately, the [pietous] movement develops. Before that, it's too extreme to say Christianity died out in the United States, but it almost did.

In other words, most Christians were a Unitarian of some sort. Christianity was sort of dying out, and I don't know if it died out in

Europe, but Europe pietism mostly begins around the same period. And in fact, the founding fathers were all deists—even George Washington. He's always held up as a great Christian; he's not a Christian at all, he was a deist.

Actually, of the founding fathers, the only ones who were really Christian were the older ones—Sam Adams and Patrick Henry, who were a little older than the rest and were still Calvinist Christians. The others were all sort of deists, which means that God is a great clockmaker, so to speak. God created the world, created natural law, and then left, and then everything runs by itself, sort of.

Christianity then is revived in the early 20th century in the United States, and also in Europe, although I'm not going to make any dramatic pronouncements about Europe, by pietism, which is a new form of Christianity, I think brand new, through the revival movements, which we're now fairly familiar with.

In those days it was a big new thing. Where you arrive at Christianity through a mystical experience or emotional, mystical conversion, with revival meetings and rolling on the floor, speaking in tongues and so forth and so on. You're born again. Not just a regular baptism, but another baptism, a baptism of the Holy Spirit.

A second baptism becomes necessary. With this new form of post-millennial pietism, swept Protestantism, taking over almost completely, especially in the north, especially Yankee country—I define Yankees as being a cultural group who originated in rural New England, not so much Boston or the cities, but rural New England, rural Connecticut, Massachusetts, etc., and then emigrating. There were big migrants.

Heading westward into upstate New York, western New York, northern Ohio, the famous Western Reserve area, northern Indiana, northern

Illinois. This is Yankee country. The Yankees were always compulsory conformists, what one historian called Yankee imperialists. They wanted to crush all dissent in one form or another.

It was the Yankee who originated the public school system in the United States, for example—force everybody into public school and teach them the correct doctrine. So the Yankees took to this like a duck takes to water, this new form of pietism. Essentially, the new form of pietism was as follows: Creeds are not important. Whether you're a Presbyterian, Methodist, Baptist doesn't make any difference.

It's all interdenominational, as long as you're a Christian. Law is unimportant. The bible is unimportant. The key thing is this personal relation with God. And this is, by the way, the origin of the YMCA movement, all the interdenominational movements, because divisions between Protestant churches are unimportant.

Each individual then is sort of naked to his creator. In other words, a personal relationship with God and Man, and the church is unimportant too. Whether you're a church member is really unimportant, and which church you belong to is unimportant.

The Yankee wing, which is called Evangelical pietism, is different from the southern pietists, which became sort of quietist types. You try to achieve your born again conversion and that's it. It has no political implication. Evangelical pietists believe it's part of pietism that you can't be saved unless you maximize the salvation of everybody else—key.

It's not just you like to have a missionary thing and bring everybody else the word—more than that—it's your divine duty—otherwise you won't be saved—to try to maximize everybody else's salvation. So in order to do that, in order to maximize everybody's salvation, you have to eliminate sin—temptation, occasions for sin, so forth and so on.

So very quickly, of course, they became big statisticians, because you use the government as a shortcut to stamping out sin and trying to create the conditions for this, to save individual souls by [unintelligible] stamping out sin. So what you have from the very beginning of pietism, from 1830s until 1920s, really, the whole 19th century, you have a situation where all these guys were constantly spending their time trying to outlaw sin on the local and state level in the United States—meaning anything which interferes with your theological free will.

These were theological free willers. So that anything which clouds your mind, so to speak, and interferes with your free will, should be outlawed. This meant, in practice, demon rum, number one, liquor, liquor's evil. They broadened the definition of sin. One Catholic opponent of this said they made sin where God did not.

So anything liquor is sinful, because liquor clouds your mind of theological free will. Liquor is evil. Anything on Sunday except going to church is evil and should be stamped out. So drinking liquor on Sunday is probably the ultimate evil, it's like a double-whammy. [laughter]

There's nothing more sinful than drinking liquor on Sunday. And the third thing, of course, is the Roman Catholic Church, where everybody's enslaved agents of the Vatican, and the pope is the antichrist. So the idea is to stamp out liquor, stamp out Sunday activity and stamp out Catholicism.

Now, they couldn't stamp out Catholicism exactly, directly, constitutionally. They tried their best. They tried to restrict Catholic immigration in various ways, and once the adult—they said, "Adult Catholics are doomed, but you get the kids." The famous cry of the pietists was, "Christianize the Catholics," and the way you do it is get the kids in the public school system, prevent parochial schools, outlaw

parochial schools, get the kids in the public schools and then Protestantize them, or pietize them.”

So the whole public school system, the real thrust of the public school system was pietists, was Protestant pietists. All these guys I’ve hated for years, like Horace Mann, the whole public school movement, their real motivation was pietist. “I want to crush the Catholics and Lutherans,” the German Lutherans in particular, who are formalists, liturgical Christians.

And you get them by getting the kids in the public schools and Protestantizing them. In many cases, many jurisdictions in the United States, for example, you could not be a public school teacher unless you were a Protestant church member. This is going on on the local and state level for 100 years. What happens is that the Catholics, as they come to the United States, and the German Lutherans that come to the United States, are horrified.

First of all, the Germans, both Lutheran and Catholic, have marvelous customs, charming customs. After going to church on Sunday, the whole family repairs to a beer garden with a brass band and so forth, and here they are in a beer garden minding their own business, and these WASP fanatics descend upon them, “Sin, sin, double sin, crush kill.” [laughter]

This conflict is going on for almost 100 years. These guys are hopped up. So what you have then is the party system has developed in the United States until 1896. From 1830 to 1896, the political party system has a one-to-one correlation between pietists versus liturgicals. In other words, those who believe the importance for salvation is the church—joining the church, obeying the law, the sacraments or whatever. Total conflict here.

Liturgical [unintelligible] consists of Catholics, German Lutherans and old-style Calvinists, by the way. Those who are left, who hated the

revival movement and the pietists, became allied with the Catholics. So what you have, you have a political party system with a one-to-one correlation—the Whig Party and the Republican Party were straight pietists, and the Democrat Party was liturgical, and never the ‘twain met.

So what you have is a total fantastic ideological conflict in the Republicans and Democrats, everybody hating each other’s guts. There were no independent voters, no floating vote. No Democrat would ever vote Republican and vice versa. What they’d do is if your guy wasn’t militant enough, he just didn’t vote, he just stayed home, and usually elects were very close.

So the idea in the campaign is not to sell out to the [unintelligible]. The idea is to be as militant as possible to get your guys to vote. So on the campaigns, the politicians were even more hardcore than they were the rest of the time. It must’ve been a wonderful world to live in. And the thing is, worse than economics says, these guys, the economic creed was sort of a generalized consciousness from a religious creed.

In other words, the Republican leadership and the Whig leadership would tell their people, “Look, just as you need big government on a local level to stamp out sin and liquor and dancing and things like that, in the same way you need government on an economic national level to stamp out cheap foreign products and cheap foreign people, and increase purchasing power by inflation, by printing more money,” and so forth and so on, and high tariffs.

In other words, there was a direct relationship between the big state on a national economic level and the local level. In the same way, the Democratic leadership, all laissez-faire liberals, would tell their people, “Look, the same WASP SOBs that are trying to outlaw your liquor and your parochial schools are the people who are trying to prevent, keep out

cheap foreign products and have special privileges, and decrease the value of your savings through inflation.”

So this is how people got hopped up. This is why you have illiterates writing books and pamphlets on gold and silver and banking. I can't get my own students interested in this stuff. There's people writing pamphlets, they're all hopped up. The reason they're hopped up is because of the original religious motivation.

In this situation, unfortunately one of the black moments in American history came in the Democrat Convention of 1896, when the Democratic Party, the great liturgical, known as the party of personal liberty—by the way, the Democrats were known as the party of personal liberty, both to themselves and other people, and Republicans were known as the party of great moral ideas.

And so the Democrats in 1896 were taken over by the extreme pietists in one of the cataclysmic events, by various reasons. By that time, the South, which was always of course Democrat since the Civil War, southern pietism was transformed into Prohibitionism and Evangelicalism, which it had not been before, and the mountain states are created—you can imagine how many people were in Idaho.

There are no people in Idaho now; you can imagine how many there were in 1890. [Laughter] These phony states were all created by Republicans, they knew they were pietists. Most of these people were pietists, and they vote Republican. And within the Democratic Party there were pietists.

And so Bryant, one of the most evil people in American history, William Jennings Bryant, was able to form a coalition between the southern pietists and the mountain pietists to take over the party and kick out the liturgicals, at which point the whole laissez-faire movement drops out. In

other words, the Democratic Party had been the political embodiment of laissez-faire and libertarianism, liberalism. There was now no longer any political party to reflect this. Both parties are now pietist, more or less, and so this left a power vacuum for experts, intellectuals, progressives, etc., to take over. The results we all know.

This is a lead into a couple of these progressive intellectuals I can't ignore, both philosophers and economists. The Progressive Movement was a pure pietist movement. As a matter of fact, everybody who I detest was involved in this thing. The Progressive Party Convention, for example, in 1912, which was not the only Progressive Movement—they were the extreme versions—Teddy Roosevelt was an old-time Progressive.

He began his career as police commissioner of New York, smashing saloons. This group consisted of the following people, the Progressive Convention: Morgan Partners, who are extremely important—I can't get into all that—Morgan Partners, JP Morgan Partners, pietist ministers, social workers, intellectuals, economists, political scientists, shrinks—almost everybody you can think of was involved in this thing.

Roosevelt's acceptance speech was called a confession of faith, and in his speech was punctuated by him singing one of the pietist hymns, "Follow follow follow Jesus' way," substituted the word "Roosevelt" for the word "Jesus." "Amen," and finally Roosevelt wound up his famous [unintelligible] by saying, "As we stand at Armageddon, we battle for the Lord."

So there's fantastic religious, pietist imagery here. What you have is all these guys, all these progressive intellectuals, from John Dewey, Richard [unintelligible] and all these people, every one of them, it's bing

bing bing, they all grew up in pietist homes, they're all rural New Englanders or rural New Yorkers, whatever, all Yankees.

Usually their father was a preacher or their mother was the daughter of a preacher. They usually kept a very strict sabbatharian home—nothing was done on Sunday except praying, etc. And they wind up, they have post-millennial pietism in the gradual sense—not the sense of killing everybody immediately, which we talked about before, but gradually, sort of evolutionary.

The government takes over and the government becomes God's major instrument. The great phrase, which Eeley repeats, and all these guys repeat—Eeley was the founder of the American Economic Association, by the way, a great progressive statist intellectual. The phrase is, "Government is God's major instrument of redemption." Through government, through statism, through purging, crushing liquor and bringing about equality and statism and government regulation, everything, kingdom of God on earth is established gradually. And by the way, Eeley thought it was going to be pretty fast. It wasn't so damn gradual. He talked about in his lifetime perhaps the kingdom of God on earth will be established by this method.

John Dewey, of course, is the classic example of atheists or secular humanists. It's little known, the fact that at the beginning of his life, he was a Christian post-millennial pietist. In the 1890s he taught at the University of Michigan, Christian sociology, etc., and talked in these terms.

It's very easy for these guys to become secularist. All they said was, "To have a kingdom of God on earth, we'll establish through government." Pretty soon God sort of drops out and you've got the government, why worry about God? You have a gradual secularization. The post-

millenials sort of die out. By 1920 they all died out because they all became straight people we know and love—social gospel ministers and all the rest of it—people who are essentially non-theists.

end of transcript.

The Pre-Austrians

Murray N. Rothbard

The third in a series of six lectures on The History of Economic Thought.

Transcribed and Donated – Thomas Topp

Rothbard:

I guess modern economics as a scientific doctrine begins with [Kantalon], Richard Kantalon, who's a very interesting character too. [unintelligible] Kantalon, who's hardly talked about, but to put in a plug for myself, *General Libertarian Study*, the current issue now out has an old Kantalon issue, [unintelligible] Kantalon, came out of a conference on Kantalon several years ago.

Kantalon has essentially the praxiological methodology, he's got the methodology of abstract reasoning. He starts off with a world of one landlord. In other words, one landlord owns the whole country. Not so far off, because the French situation was you had landlords, and you had farmers.

The landlords, absentee landlords had gotten the land through conquest, and they would lease the land to farmers, and then you had other people. So you'd start off with one landlord, what happens with him? They bring in more people. Sort of like [unintelligible] economics. It's an excellent methodological presentation.

His theory, utility of value, essentially utility theory. He's also the first person to talk about the entrepreneur. The entrepreneur's uncertainty, bearing uncertainty. Brings an entrepreneur into economic thought. Theory of money is magnificent. He has a whole [unintelligible] theory, except with a process analysis—that evil word.

And it was not equilibrium. In other words, equilibrium is a process toward equilibrium. So you have, in British classical economics, you have different equilibrium states—you have this state and that state. You leap somehow magically from one to the other, and talk only about equilibrium state.

With Kantalon, you talk about the process towards equilibrium. For example, when Kantalon talks about what happens when the money

supply increases in a country, he talks about—it's very Misesian, so to speak, pre-Misesian. The first people get it, they get the new money, they spend more, prices go up as they spend it, they have goods they buy, then it percolates to other people and you have sort of a rippling out effect, and each group gets it, until finally you have—say if you double the money supply, finally you wind up with prices more or less doubled, but not completely, because you have a different equilibrium now, you have different wealth effects, etc.

And it's a very sophisticated, excellent analysis of [unintelligible] so-called [Hume's] specie flow analysis, except Kantalon is much better than Hume. Hume is writing about the same time, a little bit later. Actually, no. This is the 1730s, and Hume wrote in the 1750s.

Hume probably read it, and all these guys knew each other. The British knew the French stuff. With Kantalon you have a pre-Austrian analysis, no question about it. The process thing with individuals starting at micro-individuals. They get new money, they spend it, and so you wind up with let's say a doubling of price, but not automatic doubling, you have difference in relative prices.

On the other hand, Hume, who's a Scotsman, part of the British tradition, was a brilliant writer. I have to concede, Hume was one of the few people in the history of thought who was a great writer while a confused thinker. Usually, confusion and good writing, I mean good writing and cloudier thought come together—confusion and bad writing come together.

In the case of Hume, his writing was better than his theory, so to speak. Anyway, with Hume you have a pure pre-Friedmanite, pre-monetarist analysis. In other words, all the equilibrium states. As a matter of fact, there's a famous example which Mises uses, a good first approximation

of what happens with money—what I call the Angel Gabriel model. In other words, you're sleeping overnight.

Overnight, the Angel Gabriel descends to man. They hear that mankind's always bellyaching that we haven't got enough money. The Angel Gabriel is benevolent, but confused, a lousy economist. Says, "Okay, I'll fix these guys up, I'll double their money supply, then they'll shut up, I'll satisfy their complaints."

So overnight everybody's money supply gets doubled magically—your bank account, your wallet, your purse, etc., gets doubled. And Hume talks about that. He doesn't use the words "Angel Gabriel Model," that's basically what it is. Then what happens? Well, everybody rushes out, spends it, and then according to Hume, prices overall double, and that's it.

In other words, you move quickly from one equilibrium state to the other equilibrium state, without talking about the process. With Kantalon, it's very different. You have different people benefit and different people lose out. In this model, for example, the guys who know what's going on rush out at six in the morning or eight in the morning and spend everything immediately.

The other guys who decide to save it, of course, are shafted, because they find that prices have doubled before they get around to spending it. So there are differences in the benefits or burdens. So with Hume, very good analysis is the first approximation of how the money supply increases prices. Already, you blot out the essential pre-Austrian process and the differences at a micro-level and you just talk about the macro.

This is the beginning, by the way, of a disastrous split between micro and macro, which ends with Ricardo, the final classic example.

[unintelligible] sense. In the pre-Austrian analysis, Kantalon, Tourgal and all those people, there's no split between micro and macro. Everything is an individual process which has different social results.

It's only with, as I say, the British, that you have micro, you have things going on in the micro world, and supply and demand, and suddenly in the macro world you have quantity and velocity and all that, it's totally different, no relationship between the two of them. Kantalon, I should say something about Kantalon the man, Richard Kantalon.

He's a fascinating figure. One of the reasons why he's so good about money is he was a great monetary practitioner. He was an Irish Catholic banker who moved to the Jacobite court in France when the [unintelligible] had located. He became a bank—his cousins, it's very confusing, his cousins are all named Richard—there's about eight Richard Kantalons, and it's easy to get confused.

One great Kantalon expert—Antoine Murphy at the University of Dublin, he's a big expert on the Kantalon family, worked the whole thing out, genealogical map. At any rate, Kantalon becomes a banker to Stuart [unintelligible] and a big-shot banker in general, and John Law, who starts off in this period, and is a famous [unintelligible] paper money inflation in history.

See, there was no paper money before—the first government paper money ever was 1690 in Massachusetts. Before that, gold was money. The only way the government could do anything was clip the coins, debase the coin. When paper money comes in, it's a great new invention for the government—means you could just print money ad lib.

Essentially, John Law, the Scottish adventurer, gets a hold of the royal government in Paris and convinces them he should be the central banker, print money, and through unlimited inflation you can wipe out the

public debt, have great prosperity and all the rest of it. So Kantalon—the legend is that Law goes to Kantalon and says, “Look, you’re the only person here that can challenge me. I’ll give you 24 hours to get out, or I’ll throw you in the Bastille.”

Kantalon says, “No, it’s better for us to join forces. I’ll be a Law-industrialization.” He and Law and some other guy named [Beaugade] become a three-man triad running this whole system, except Kantalon knew the whole system was going to collapse.

What Kantalon did was he loaned a lot of money to these guys at very high interest rates, cashed it in, sold the collateral, and then skipped town, skipped the country just before the great collapse of the Law bubble, and came back to clean up multi-millions to the great distress and resentment of his fellow Law types.

So anyway, he made millions out of this. He wrote his book as sort of a reflective response to this experience. His book was very influential, even, like I say, when it was still unpublished in the early ‘30s. It became published, printed in 1755, after he died, and it was read by everybody in France—all the laissez-faire people, all the intellectuals, etc. It’s extremely influential.

One of the things about Kantalon was he had mansions in every city in Europe. He was probably the only economist in the history of thought who was murdered. I can’t think of anybody else except Stalin’s victims or something like that. He was murdered presumably by his disappointed servant who skipped town with his jewels or something.

At any rate, but Antoine Murphy told me privately—he refuses to publish it because he said he hasn’t got enough data on it yet, but it’s a marvelous story—he claims that Kantalon really didn’t die there. He was

heavily in debt. He skipped town himself and went to Borneo, where his papers or whatever remained, died 20 years later.

At any rate—yeah, great character. The thing about Kantalon, he wasn't a pure free trader, but he was really in matters [unintelligible]. What he said was, "If you bring treasure into the kingdom, when you spend the money, it'll increase prices. So you advise the king not to spend the money." Great advice.

In other words, "All right, get money coming in, don't spend it; sit on it. That means you won't have inflation, you won't have this problem of deficits, balance of trade deficits, etc." After Kantalon, we had the physiocrats in the mid-18th century, who are laissez-faire people, but were quite nutty in many ways, and had various deviations. The interesting thing about physiocrats, they were the first probably real sect or school of thought...

We know the date at which the school of thought was founded, because one moment in July 1757, when Dr. Tennay, the founder, the guru of this thing met Mirabeau, Count Mirabeau, who was in those days a Kantalonian, a Kantalon disciple, [unintelligible] shifted to Tennay, and they became a two-man school of thought.

To have a school of thought, you have to have at least two people, and this was it. The thing is they were both very highly placed. Tennay was a physician, distinguished physician. He became the physician of the court, first to the king's top mistress. There is, by the way, [unintelligible] one way to influence the king and try to convert him to laissez-faire was to convert the king's top mistress.

This was done by Archbishop [unintelligible] in the early 18th century, late 17th. And Tennay was physician to Madame Pompidour, who was the king's top mistress, and then became influential at court. Mirabeau was

influential—first of all, he had just written a massive book called *Friend of Man*. It was a multi-part work which is incomprehensible, but the thing was very popular because it was written in 17th century style.

Here it is, a mid-18th century guy writing in mid-17th century style, so it sort of charmed everybody, and it was a bestseller. So Mirabeau and Kantalon and Marquis [unintelligible] organized the movement. No, excuse me, Tennay. They set up their own school of thought among journals, their own doctrine, they reviewed each other's books favorably, and so forth and so on. All of a sudden they became a sort of cult of personality.

All these guys thought that Tennay was the top guy of all time. For example, his followers claimed that Tennay looked like Socrates—kind of difficult to figure out, because we don't really know what Socrates looked like. And they also referred to him as the Confucius of Europe, the great sage of Europe.

Mirabeau went so far as to proclaim that the three greatest inventions in the history of mankind are lighting, money and Tennay's crazy diagram, a tableau economique for the beginning of input-output analysis, with arrows. [laughter] So anyway, there were laissez-faire, natural rights people and laissez-faire people.

Unfortunately, [unintelligible] deviationists, they were very much in favor of high agricultural prices. One reason I think, Tennay was a farmer and he owned farms, and I think he would've been in favor of farm price supports if anybody proposed it. In those days, farm prices [unintelligible] election, farm prices were kept low, and of course they're very much opposed to that. Maximum price controls on farm products. I think minimum price controls are going to come up.

Anyway, there were laissez-faire people according to their lights, and their strategic objective—the question is, if you’re a laissez-faire person, and this came up in the late 17th century too, what do you do about it? Obviously, you have absolute monarchy by this time in France. The thing is convert the king—if you can convert the king, you can establish laissez-faire from the top—revolution from the top, so to speak, and that’ll be it. So the strategic perspective of [unintelligible] and the physiocrats, convert the king, he will establish laissez-faire and that’s it. How do you convert the king? First of all, you convert the mistress—one route. How do you convert the king?

You have to convince the king it’s really in his interest to have a laissez-faire system. So they tended to become utilitarian in that sense. In other words, even though physiocrats are natural rights people, they tend to stress that, “It’s for your benefit too, sire, if the kingdom is prosperous.” The thing is I’m not sure they’re right. You could make a good case for saying the king’s self-interest is to crush his inhabitants, loot every penny, so forth and so on.

So I think you have a problem right there from a strategic perspective. What happened is [Eva Turgo], who was a friend of the physiocrats politically, although not economically—a laissez-faire person politically—Turgo was a top bureaucrat, finally gets in as finance minister in 1774, this is it, this is the key. “We’ll win out.” And as soon as he starts [unintelligible] laissez-faire, he’s kicked out, of course, by the vested interests. At that point, physiocracy sort of disappears. Also, Tenny was losing interest in economics—he was not interested in economics until in his 60s, then he got interested in [unintelligible].

By his 80s or whatever he was when he finally died, he got into mathematics; he claimed to have squared the circle, which is of course impossible. Anyway, he claimed to have solved the problem of squaring

the circle. [unintelligible] and Turgo I think really did them in. Turgo I refer you to is a magnificent person. I've written a pamphlet on this thing, which is available in here [unintelligible].

Turgo is magnificent, just great, my favorite character in the history of thought. Considering also the fact that he was, first of all he spent very little time in economics. He was a busy top bureaucrat, [unintelligible] governor, and most of his time intellectually was spent on other things—history, linguistics, he's an all around type.

Wrote and read a lot on that topic. On economic topics he's only sort of good offhand, when he was pressed into it, when he had to tell somebody something. For example, his *Reflections on Wealth*, his longest book was about 50 pages, was written under severe time pressure. He was trying to form questions to ask two Chinese students in France about the Chinese economy, or preparing them to ask about French economy.

So he wrote this as sort of an outline to himself, as a memorandum to himself of what, preparing questions to ask. This is a great work on wealth and capital theory, etc. So he wrote all this stuff under severe time pressure, sort of dashed it off, and it's absolutely magnificent. He has the whole Austrian stuff in there—not only laissez-faire; complete laissez-faire, without any of Smith's evasions, qualifications, etc.

But also he's got Austrian time preference theory, he's got Austrian [capital Bombaverte] and capital theory. He's got money and process analysis, he's got the whole business. And done with brilliance just sort of in passing, almost, a few clauses. And I would strongly recommend to any of you, all of Turgo's economic writings have been translated into English by P.T. [Gonavagen], the Dutch Turgo-ian expert in New Zealand, I think. It's called *Economics of ARJ Turgo*.

It's one of these things, a Dutch paperback cost me about \$60, insanely expensive, but it's worth it. It's got very good notes and introductions and annotations by Gonavagen, *Economics of Turgo*. It's just remarkable. Schumpeter's very good on Turgo. Turgo, for example, is really the originator of [unintelligible] law, [unintelligible] capital, the whole thing about the [unintelligible] constitutes the man, etc.

All these things are in Turgo. Just fantastic. It's difficult to overestimate his importance and his brilliance in this area. He's also got the entrepreneur in there. As a matter of fact, in a sense he's a little bit better than Kantalon because he stresses that capitalist [unintelligible] being particularly important.

He's got the whole so-called Smithian capital theory of investment and all that, savings and investment theory. He says, "Well, the important thing is the capitalist entrepreneur, the person who commits resources and capital in an uncertain world to entrepreneurship." He's phenomenal, and again, extremely influential.

As I say, he's got expectations, he's got the whole thing in there. He's also got, by the way, the law of diminishing returns, beautifully presented. Schumpeter says no presentation of the law of diminishing returns equal it until about 1920. It was written about 1760, 1770. All this is forgotten.

Turgo drops out of knowledge. Again, talk about lost paradigms. Totally lost until right now, until recently, until 1967 or something. [unintelligible] an interesting story. By the way, along with Turgo you have Condulac, [unintelligible] the utility theorist and philosopher, who points out very clearly, even more clearly than Turgo, that change comes from doubling equality of wealth, doubling equality of utility.

In other words, the reversing equality of exchange that I mentioned. Sets that down with absolute clarity. There's others, like Galliani, who wrote a great book on money at the age of 23 in 1751, Abay Galliani, a great character. He was Neapolitan, but loved France and spent most of his time in France as a diplomat. His book on money is super. Only parts of it have been translated, unfortunately, yet.

By the way, Galliani was an interesting character. Erratic, witty and erudite, and was four and a half feet tall. Became a social [unintelligible] in the Paris salons. As soon as he got to Paris, he began to sell out. In other words, began to get witty and became a social lion, he has to become anti-laissez-faire, and gives up the utility theory and becomes in favor of protection, protective tariff.

Anyway, his great work was written before his Parisian experience. All this, I should say the founding of mathematical economics comes in about 1720, first misfortune on the road to mathematical economics by Bernulli, [unintelligible] whole bunch of Bernullis, all of whom are French mathematicians, probability theorists, inventors of the calculus, things like that. Bernulli arrives with the mathematical theory of the diminishing utility of money purely out of left field.

In other words, he wasn't interested in economics at all either before or since. He just arrived at this as part of his probability calculations, and he's got a whole series of fallacies, of course, wrapped up in this. The diminishing marginal utility of money had already been arrived at by a couple of the Spanish scholastics in the 16th century.

What he does, of course he immediately says, "Well, if $VEUDX$ was the supply of money is X , and utility is U , as soon as you do that, you have at least two major fallacies right there." One is that life is not like the calculus. There's no infinitesimally small actions in life; everything is

discrete. Everything is qualitatively different, and therefore, and there's no infinitely small steps that we can take. He really crosses that out, crosses out calculus right there.

And the UX thing is a ratio. And since utility, we know, is ordinal and not cardinal, there's no such thing as a ratio. I don't know if you can have a ratio of utility to money anyway. Doesn't make much sense. But since utility is ordinal and therefore not cardinal, you can't put it into a ratio. You can't equate it to anything either.

So the whole series about, fallacy piled on fallacy—he also says, with no proof or no evidence whatsoever, that the utility of money is in inverse proportion, declines in inverse proportion to the quantity of money. First of all, what does it mean, inverse proportion? Second, there's no evidence whatsoever.

Some other mathematician said, “No, it's not inverse proportion to the quantity of money. It's inverse proportion to the square root of the quantity of money,” even more silly. What does this mean? What are you talking about? Much less what's the evidence for it?

Just hot air is the only way to describe this. All he knows about utility of money is it declines. In other words, you have a stock of money, you have a falling demand curve, so to speak, falling utility, and it declines as each unit, the utility of each unit declines as you add more, that's it, [unintelligible].

There's no ratio, there's no inverse nothing. And then of course he thought it was measurable between people—even more fallacious, that somehow you can compare everybody's utility of money and sum it up and add it up and divide it. All these things are precursors to mathematical economics which we know and love today. It's the beginning of this stuff, and what we say about it.

Speculation here—why does the knowledge of Kantalon and Turgo drop out? And the whole French utility, laissez-faire, time preference, whatever, tradition. Entrepreneurship. And why do people then think that Adam Smith founded economics? They all preceded Adam Smith. All these guys wrote before *The Wealth of Nations*.

Condulac wrote the same year [unintelligible] government. Of course, it was forgotten in the great Smithian wave. Why did Smith, as Cotter says, make waste and rubbish of 2,000 years of economic thought? And why was he allowed to get away with it? Why did nobody even say that he was doing this?

For one thing, [JB Say], who succeeds Turgo in the French tradition, never referred to Turgo or any of these people. He knew them. He was a disciple basically of Turgo and Condulac, all these people. He was a classical liberal laissez-faire person, carrying on the battle through the French Revolution and after it.

He's not just an economist; he's also a political thinker and activist. The question is why did Say say that Smith founded economics? Say was one of the people responsible for the myth. Why doesn't he talk about the French tradition? He really disagreed with Smith on almost everything. Read the book—there was nothing Smithian about it.

No cost of production theory, no labor theory. It's all utility and productivity and hardcore laissez-faire. I think there's only two explanations, and I puzzled over this for quite some time, how the Smith myth originated and why these guys, the knowledge of the French theorists got lost.

They were discredited in France itself. Discredited for two reasons—one because Turgo was locked in with the physiocrats, even though he really wasn't. He was a political ally of the physiocrats, he was not an

economic—way beyond the physiocrats, who thought that agriculture was the only productive factor of production, and crazy tableau economique. Turgo didn't believe any of this stuff.

But he was linked with the physiocrats politically, and politically the physiocrats were linked up with the absolute monarchy, because their strategic perspective was [unintelligible] because it's simple—you convert the king and that's it, you get laissez-faire. Why mess around with democracy and mass movements? Convert the king.

And in fact, they tried to convert a whole bunch of kings. A great story about Catherine the Great, who had very interesting ideas, Western ideas, and she called all these people to Russia. [unintelligible] Riviere, the great French physiocrat political theorist, natural rights theorist, "Explain to me, M. Riviere, about what this physiocracy's all about," and he said, "Well, Madam, essentially the laws of nature govern natural rights and [unintelligible]."

She said, "What room is there for the king?" "Well, the king just follows the laws of nature," and she said, "Thank you, Monsieur," then ran lightning out, didn't want to hear this. There's no role for the king whatsoever. As a matter of fact, there's one loveable guy [unintelligible] called Margret of Baden, who was a physiocrat convert, and he speaks, I think, to not Maurissier, but some other, Mirabeau or somebody.

He says, "Gee, it seems to me there's role for government at all in your system. It could all be laissez-faire, sort of anarchistic." The guy [unintelligible] back, "No, no, we need the government for the framework," and blah blah blah, etc. And of course, Margret was perfectly direct. The implications of laissez-faire natural rights, you don't need the government at all.

But at any rate, they were [unintelligible] with absolute monarchy, the physiocrats, and so after absolute monarchy disappeared, after the French Revolution they were politically discredited. Nobody wanted to listen to anybody in favor of absolute monarchy. And also, of course, the physiocrats, nobody really believed by this time agriculture is the only productive factor, because there was a lot of industry growing at the time.

So for those two reasons, I think, the physiocrats and Turgo got discredited, unfortunately, in France, and nobody referred to them, and the knowledge drops out. Paradigms lost. [laughter] The whole thing drops out, a real tragedy for economic thought, because then we're stuck for a century with the British.

Essentially [unintelligible] begins with Grotius, the same guys I mentioned, the Dutch Protestant scholastic, who are Protestants, but natural law people. Grotius were heavily influenced by the Spanish scholastic, by Suarez, etc. What happened is that Puffendorf, who's a Lutheran Grotian—this is early 17th century; Puffendorf was mid—so Grotius was early 17th century, and Puffendorf was middle and late.

Puffendorf was sort of a popularizer of Grotius. People would start reading Puffendorf and not Grotius. Grotius mentioned the Spanish scholastics, hailed them as being his predecessor. Puffendorf, being a hardcore Lutheran, hated Catholics, refused to mention any Catholics.

As a result, knowledge of scholastic economics drops out, scholastic political theory drops out almost forever. Since Puffendorf didn't mention it, and Puffendorf was read by the Scottish enlightenment people. One reason, by the way, why knowledge of scholastic economics drops out is the Latin drops out.

Scholastics usually wrote in Latin. There are not too many Latinists around. And the fact that [unintelligible] and Schumpeter and these people actually read Latin is one of the reasons why they were able to bring them back. So Puffendorf brings the natural law doctrine and semi—I wouldn't say laissez-faire—sort of semi-free-market, it's very vague, but at least it's something. The first Scottish enlightenment person, the first professor—I forget whether it's Edinburgh or Glasgow, one or the other—was Grisham Carmichael, he was only a professor for about two years before he died, but he's a professor, from the beginning of the professorial—before they were readers or whatever they were, and he translates Puffendorf and writes a commentary.

He was a founder of a political economic wing of the Scottish Enlightenment. So you get Puffendorf, Carmichael, and Carmichael's the teacher of Francis Hutcheson, who in turn teaches Adam Smith. Carmichael-Hutcheson-Smith connection. By the way, Smith, the famous phrase, talks about the never forgotten teacher of Francis Hutcheson, phrases it—however, he only plays in a private letter to the university in Edinburgh. He never talks about Hutcheson [unintelligible] or anywhere else.

Part of Smith's Columbus complex, that he originated almost everything. At any rate, these guys are really natural law people, Carmichael, Hutcheson, etc., more or less free market and natural rights, more or less. Not hardcore, but sort of soft-core classical liberals, I would say. Hutcheson, by the way, has a very good attack—one of the places I differ with Hayek strongly in the history of thought is the status of Mandeville. Bernard Mandeville was a Dutch physician who lived in London with his wife, who wrote a fable of the bees and other such fables, which Hayek claims are the original idea of spontaneous order in the free market, how the free market works and so forth and so on. I disagree with that totally.

I think the Weiner position, which is the Hutcheson position, which was that essentially Mandeville was not only a statist, but also the fable of the bees is really a sort of pre-Keynesian plea for the glory of consumption. Saving is really bad, you benefit the market, benefit society by consuming a lot.

Hutcheson basically pointed out, Hutcheson was a man who was really against consumption, in favor of libertinism, a libertinist rather than a libertarian, so to speak. I think that's the correct interpretation. Weiner points out Mandeville wrote a follow-up, a book called "Letters From Xelon" or something like that, becomes explicit, even more explicit than the fable of the bees.

Both Carmichael and Hutcheson were essentially utility theorists or utility-scarcity theorists. Value, economic value is brought about by demand, demand and supply, and demand is caused by utility, and diminishing utility and scarcity. In other words, essentially the scholastic position, that they were Protestant scholastics.

If this is true, where does the labor theory of value come in? The cost theory, how does [unintelligible]? It's not Hutchesonian, it's not Carmichaelian or whatever. And not only that, but Smith himself, in his lectures, gives the correct version—in other words, the famous paradox of value, which [unintelligible] economic thought.

The paradox of value, which is quite famous, is that how come, if diamonds, if bread or water, whichever you want to use, is necessary to life, bread is good, the staff of life, or water is good how come it's very cheap on the market, whereas diamonds, which are a fricary and a luxury, how come they're so expensive?

In other words, you have this famous split between use value—when you get to use value, diamonds are terrible and bread is great, but economic

value somehow violates that. Smith allegedly couldn't solve this, Ricardo couldn't solve it. It's all about consumption, consumption just drops out. You have a disastrous split between use value and economic value, which results in Marx and Weber and the whole thing is a production for use versus production for profit, really stems from this idea.

Somehow the market values fripperies over important stuff like bread, [unintelligible] in real terms, are much more valuable. So the usual story that Smith enunciated this paradox of value, and the Austrians finally solved it—it's not really that Smith—Hutcheson had solved it, the scholastics had solved it, there was no problem, when they realized what the problem was: Diamonds are very scarce, and there's lots of bread around, it's very simple.

You have an enormous amount of bread, enormous amount of water. Each unit of water or bread is going to be worth much less than diamonds, which are philosophically weaker, are much more scarce. So relative scarcity and utility, that's the whole bit. Not only did Hutcheson solve it, but Smith himself had solved it in his lectures, his unpublished lectures at the time.

Smith realized, in *The Wealth of Nations* he totally changes it and poses a paradox of value, which then ruins classical economics from then on. And you might say, "Well, after all, the lectures were 20 years before; maybe he's assuming everybody knows the lectures, and then he goes on." That's not true because his lectures were never published in his lifetime, only published very recently, 20th century.

It's quite bizarre. We have in Smith not only a decline, a loss of economic thought from the French [unintelligible], Hutcheson, and even from himself in a previous persona 20 years before. This was true not only of the paradox of value; it's also true of the Hume international

money flow stuff. He doesn't even have that; that drops out. The whole idea of an international money equilibrium and all that stuff drops out. It's very strange, *The Wealth of Nations* is a weird book.

Not only is it not true that he did not create economics, but he lost a lot of economics even from his own previous 20 years ago, his own previous being, whatever you want to call it, before.

Smith was growing up, when Smith was a young man in the 1750s, Scottish Enlightenment hit Scotland. So the University of Edinburgh and Glasgow become the shining lights, intellectual lights in Europe, firstly in Britain. At this point Oxford and Cambridge had degenerated into sort of rich man's playthings, they're not intellectually important or good or useful at that time.

So as a result, Edinburgh and Glasgow become key centers, and people come from all over Europe to study there. Smith started off as a club man. Clubs were very important in 18th century social life and intellectual life. He was a member of about eight different clubs, each of which had a weekly meeting, and things like that.

There was one club, by the way, his friend David Hume was president. The two were very different, they never spoke—kind of odd, since they were the smartest... There were disagreements with them, they were certainly the brightest people in the club. As a result, so there's a big club life, intellectual life developing, plus the fact that you have titanic struggle between, and within the Church of Scotland, which was the established church, in typical British compromise. Anglicanism was the established church in England; Presbyterian was the established church in Scotland, which angered the Anglicans in Scotland, of course, tremendously, and threw them into the Jacobite camp in a way.

And of course, the pure Calvinists or whatever, the dissident faction broke off and established the free Kirk of Scotland. As a result, they established the Scottish Presbyterian Church. There was a titanic struggle between the Moderates, as they were called, and the Evangelicals. The Moderates consisted of all the bright people and wealthy types in Glasgow and Edinburgh, and the Evangelicals everybody else, the oppressed [unintelligible] masses. As a result of fantastic maneuvering, even though the Moderates were in the minority, they were able to control the church until about 1800, which was ultimately 50 years or so, headed by Principal Robertson, William Robertson. A whole bunch of other people, and Smith was a member. They all knew each other and they were all friends and compatriots. Even though the Moderates were not as hardcore Calvinists, obviously, as the Evangelicals, they were still pretty Calvinistic, especially Smith. Hume was the least, Hume I guess was tending toward deism or atheism or whatever. Hume couldn't find an academic post in Scotland, by the way, an interesting commentary on academia, the guy couldn't find a university post, because of his religious views.

He was not impoverished, however, since he was a high aristocrat, independently wealthy aristocrat, a member of a huge family, which I think merged [unintelligible], it's all the same group. So Smith starts off in this environment, however, was also deeply Calvinist, even though moderate.

His mother wanted him to become an Anglican minister and send him to Oxford, I believe, in order to, probably an Anglican fellowship. When he graduates, he's supposed to become an Anglican minister, and he said to heck with that, and he became a Glasgow professor. He had to sign a Westminster Confession, which was one of the requisites, and he had no difficulty, apparently, signing it.

I think this accounts not only for the adoption of the labor theory of value late in the game, and discarding the utility theory—also for other things. One of his deviations from laissez-faire, one of his many deviations, which we'll get into in a minute, was his favor of usury laws. In other words, he was in favor of maximum interest rate laws restricting the supply of credit.

Eddie West, who's a friend of mine, is a biographer of Smith and worships Smith, Edwin G. West, couldn't understand this. We had a session in the Kantalon Conference, where Smith of course came in as a general object of attention. West said, "Gee, Smith deviated, he should've understood that if you have a maximum price control, if you have a maximum interest rate, it will restrict the supply of credit," and so forth, and he didn't seem to realize that, a hole in his doctrine.

Roger Garrison gave a comment on that, an Austrian, pointed out quite the contrary, Smith understood all too well the consequences. He wanted to restrict the supply of credit. That's the whole point. He understood that the usury laws would restrict supply of credit, and he loved it. He wanted to do it, why? Because he hated consumption. He wanted credit to be channeled to the prime borrowers who will take prime interest rates.

He wanted to exclude from credit, he wanted to ration credit so that speculators and high consumer types—in other words, non-Calvinist types—would not get credit. He wanted to channel credit away from dissolute types, and it was quite conscious on his part, and I think it's absolutely correct. Even when he gets to the diamond, water/bread or diamond paradox, the way he talks about it is kind of interesting.

He doesn't say that diamonds are a luxury, and therefore of lesser value. He said diamonds are of no value. No value. There's a constant thing

with Smith, is an attack on consumption and an attack on material... One of the reasons I think why he adopts the idea that some labor is productive, labor which embodies material objects, and other labor which is unproductive—in other words, services—he wasn't so much interested in material objects, he was interested in capital, he wanted capital investment.

In other words, he disagreed with the saving-consumption preference of the market. He wanted more saving and less consumption, basically. And one of the ways, a usury law is one way to channel consumption into prime borrowers. And in general, he disliked consumption, fripperies, he wanted to tax consumption.

He wanted all sorts of ways by which he would, I say restructure the preferences of the market. And it all fits in with what I say is the Calvinist approach to all this, where luxury becomes evil. Anything beyond moderate consumption becomes wicked. So that was one of the—the idea of productive labor fits right into that, and building up capital investment.

So the opposite deviation from the physiocratic Mandeville one, where only consumption is good and saving is evil, this is the opposite. A lot of free market economists, by the way, still hold this. As a matter of fact, read any economic literature, financial literature. The supply-siders, for example, will say, "We have to lower marginal tax rates because we want people to save and invest more, saving and investment is good," but if savings and investment is good, then consumption must be, in some way, bad.

People are adjusting their own proportions. So if you read a lot of this, you'll get the same sort of, even now, the same sort of idea that saving is good, and of course consumption is bad, is not explicitly stated, but it's

part of the paradigm. In other words, very few people are willing to allow individuals in the market to decide their own saving/investment preferences.

In addition to the fact that it leaves out productive labor stuff, creates a lot of problems. Theory of value is totally confused, he's a very confused writer. The theory of value has about three or four independent, coexisting theories of value in there. On one hand, he puts too much emphasis on division of labor to the neglect of investment in capital.

On the other hand, in his later books, toward the end of the book he attacks the division of labor, calls it alienation and all that sort of stuff, the pre-Marxian, anti-alienation... One of the reasons, by the way, that he worries about the division labor, is it weakens the martial spirit of the people.

If you're making parts of a pin or you're tightening bolts, you'll somehow lose the spirit of running out and conquering, and in that sense he's very pro-war, something that's really overlooked. His theory of money leaves out even the Hume stuff, much less than Kantalon stuff, on money and prices. He leaves out a lot of stuff, he leaves out a lot of stuff that either he had or Hutcheson had previously.

I have a list of, a compilation of deviations from laissez-faire in Smith, it's pretty long, I'll tell you that. Of course, there's the navigation acts, there's national defense, which include practically everything. The martial spirit decay. He's in favor of government-run education. "In order to inculcate obedience to the state among the populous." Scarcely a laissez-faire doctrine.

According from Smith, "An instructed and intelligent people besides are always more decent and orderly than an ignorant and stupid one. They feel themselves more respectable, more likely to obtain the respect of

their lawful superiors,” says Smith, “and they’re therefore more disposed to respect those superiors. They’re less apt to be misled in any wanton or unnecessary opposition to the measures of government.”

That’s why he’s in favor of government-run education. Kind of a statist, let’s face it [unintelligible] laissez-faire person. He’s in favor of regulating bank paper, allowing fractional reserve banking, which most of his predecessors were against, by the way, including Hume. Hume is a hardcore 100% gold person. He thought fractional reserve banking was fraud.

Most of his friends and predecessors did. It’s only Smith who starts bringing in bank credit. He’s in favor of public works, including highways, bridges and harbors under the rationale that private enterprise “would not have the incentive,” to maintain them properly, a rather odd position to take.

And particularly a lengthy list of taxes which he advocated, each of which interfere in the free market. For example, he was sort of a pre-Georgist, as Ricardo was definitely a pre-Georgist. All these guys, including Smith, believed that the landlord had no function. Farmers had a function, but landlords, just ownership of land was functionless, and therefore can be taxed. It’s a tax on rent. The whole smearing of rent, the whole vicious smear of rent, which really starts with Smith, and Ricardo maximizes it.

What they didn’t understand, for example, is that landlords performed a very important function, namely allocating scarce land. It’s an extremely important function, which they did not—because they didn’t think in terms of allocation. He also favored taxes on imported farm manufactures, moderate taxes, taxes on the export of raw wool. There’s a lot even in the free trade thing, he had a lot of deviations on that.

And heavy taxes on luxurious consumption, as I mentioned. Taxes on luxury carriages, specifically to tax the indolence and vanity of the rich. Once again, the Calvinist thrust. He also, again, has a puritanical hostility to liquor, which even though he's not a post-Millennialist, but the anti-liquor thing was already there.

He called for heavy tax on distilleries in order to crack down on hard liquor, and induce people to drink instead the wholesome and invigorating liquor of beer and ale. Somehow that was okay. [laughter] Whereas hard liquor was evil sin. He was in favor of a high retail tax on retail sales of all liquor to discourage alehouses.

He was also in favor of a soak the rich policy of progressive income taxation, let it never be forgotten with Smith. Who would wear a Smith tie after this? [laughter] As I said, usury laws, even though Turgot and Kantalon already blasted usury laws off the face of the map. Even Bentham was against usury laws, even Bentham, who's one of my least favorite people also. An interesting thing about Smith, one of the most interesting, charming things, there's an article by Anderson, Gary Anderson, I think Tellison is involved in this thing, right?

A marvelous article called "Adam Smith and the Custom House." One interesting thing about Smith, he was a great free trade, laissez-faire person—how come he spent the last 12 years of his life as a customs official? Not just a customs official, but a member of the customs commissioners, running the whole customs system. Extracting tariffs and all that, cracking down on smugglers.

How do you square this? The usual whitewash of Smith is, "Well, he just used it as a sinecure," it's called a no-show job, like in the Bronx we have pothole inspectors.

For \$8,000 a year, you find a pothole and report it, you call in. Because there's a pothole every five yards, it's very easy to do this. But it turns out, however, it was not a no-show job, he worked hard at it, he was there three days a week and was full-time, and he loved it—not only that—had no qualms about it, he loved it.

He was writing letters to people saying, “Boy oh boy, we got another smuggler today,” they're cracking down on these people, sort of like Reagan claiming he was against income taxes and maximizing IRS funds and power. You ask yourself which is he really in favor? You look at his actions, they speak louder than the words here.

Some people claim, “Well, it's too bad Smith didn't do any more academic work, intellectual work after *Wealth of Nations*,” but he said he loved this. He could've gotten a top academic post with almost as much money. He liked this stuff, he thought it was great. Somebody went to Scotland, Anderson or someone, found the minutes of a customs house and actually found out what he was saying and doing, cracking down.

Just one quote from Smith: He writes to a fellow customs official in December 1785, and he says, “May perhaps give a gentleman pleasure,” the guy he's writing to, “to inform of the net revenue arising from the customs in Scotland is at least four times greater than it was seven or eight years ago,” when he took over.

“Has been increasing rapidly these four or five years past, and the revenue of this year [unintelligible] one half the revenue of the latest former year. I [unintelligible] myself that it's likely to increase, though, further.” Well, God bless him. [laughter] Hardly, however, a champion of laissez-faire and free trade.

He gets this reputation as being the founder of economics, and the other guys are lost. And we come to some Smithians now. I think [Dougall

Stuart], for example, was Smith's descendent at the University of Glasgow. Very few people studied under Smith himself, but everybody you can think of studied under Stuart.

For about 10 or 15 years he was a big shot professor of political economy at Glasgow. James Mill studied under him, and a whole bunch of other people, McCullough and a whole group, whole Scottish group. When we get to the labor theory of value, it's pretty clear that the preponderers of the labor theory of value are not only Smith, but also his direct descendants, James Mill, who was Scottish, originally a top Scottish Calvinist who was studying for the Presbyterian ministry, and as somebody said, when James Mill went to London, he lost his Calvinist faith, he became an atheist, but he continued the same zeal for world salvation and crushing the enemy or whatever they had before, cadre doctrines continued apace.

As a matter of fact, there's a great quote about James Mill, is that when he was a hardcore Calvinist, he hated Hume for his skepticism, and when he was an atheist, he also hated Hume for the same reason. Hume was too level-headed and skeptical, and wasn't hardcore enough. Kind of a charming doctrine.

Bentham was a Smithian, started off life as a Smithian, a devoted Smithian, and he wrote a very good, his only good book, I think, *In Defense of Usury*, in which he attacked Smith for selling out on the usury question. He wrote that in the 1790s when he was a devoted Smithian. Bentham of course was not the founder, but probably the big systematizer of utilitarianism, a bitter opponent of natural rights, natural law or whatever.

When you had to cut through the Benthamite movement, a whole bunch of Benthamites around, you cut through, you find the real core of

Benthamism, which is pretty monstrous. And of course, Bentham is really the founder of modern economics, in the sense of welfare economics, cost-benefit analysis, it all comes in with Bentham.

These people, James Mill and John Stuart Mill are essentially Benthamites and bring in the Benthamite, replacing whatever natural law doctrine there was, and I think it's all fallacious. Personal utilitarianism is fallacious, and certainly social utilitarianism, where you try to add up personal utilities and personal benefits and figure out what the maximum general greatest good for the greatest number is. It's, to me, obvious nonsense—you can't add them up, since all utilities are subjective and ordinal.

Bentham's famous phrase, "the greatest good for the greatest number," which is the cornerstone of his doctrine, one of the problems with that, of course, one of the many problems is suppose you're in the lesser number, then what? What happens then? Utilitarianism can justify almost everything.

I think Benthamites would admit this. In other words, since there's no justice, no such thing as natural rights, justice or anything else, [unintelligible] manipulate everything for alleged cost-benefit arguments. For example, take the idea, say punishment theory, which is an arcane part of libertarian doctrine, Benthamites are pure deterrence theorists—they don't believe in justice, it's all deterrence.

Well, deterrence—for example, to deter—take for example this sort of situation: Most people don't want to commit murder for whatever reason, they don't like it, they're against it, they're reluctant to commit murder. On the other hand, a lot of people are willing to steal an apple from a pushcart or from a food store. Therefore, according to pure deterrence theory, punishment for murder should be very light and punishment for

apple stealing should be capital punishment, preferably in public, to make an example of the stealer.

Most of us think there's something wrong with this, it's what the philosophers would call counterintuitive—in other words, nutso. Most of us have a view of justice, even if we don't have an articulate theory of it. Bentham throws that all out. Benthamites are also in favor, for example, of punishing the innocent, execute the innocent, provided the public doesn't know they're innocent.

If the public thinks they're guilty, it's good enough. No moral principles and whatever. What I want to talk about with Bentham is the Panopticon, the key to his thought, which Benthamites don't like to talk about. This was Bentham's great project, he was a great projector. He wrote millions of words, much of which fortunately have not been published yet, because he had a fleet of secretaries, he was a very wealthy aristocrat, so he employed secretaries to take them down, copy them—there was no, of course, Xerox machine or typewriter in that epoch.

He was sort of living *reducto absurdum* in his own—his Panopticon, living *reducto absurdum* in his own thought. He used to be a Tory, a Tory aristocrat, and he converted to democracy, actually converted by James Mill, because the Tories wouldn't adopt his doctrine, his Panopticon. He figured nothing would be worse than that, maybe democracy will adopt my Panopticon. Panopticon was a theory which Benthamite apologists claim only applied to prisons; it did not apply only to prisons.

There's an excellent, very amusing article—Douglas Long has a book called *Bentham and Liberty*, a very good scholarly work. Gertrude Himmelfarb, usually not one of my favorite people, being

neoconservative, has an excellent critique of Bentham called *The Haunted House of Jeremy Bentham* in her book on Victorian minds.

Panopticon was a scheme not just for the prisons; for almost everybody—for the poor, for children, for vagrants. Everybody would be rounded up. It's been estimated by Bentham [unintelligible] from a third to two-thirds of the population would be incarcerated in Panopticons, which were essentially compulsory concentration camps.

It was scientific. There's no such thing as justice or privacy; it's all cost-benefit, right? You maximize surveillance. So you have one guy sitting in the center of a circle, and all the prisoners and kids and whatever, paupers, all lined up, so you can see into them at any quick—this is before the age of television and all that.

A brilliant prophesy of the Orwellian future. Even though you couldn't see everybody every time, nobody would know when you're seeing them, so everybody would feel he's under surveillance. It doesn't follow the utilitarian—it's very important for everybody to feel at all times he's under surveillance by Big Brother, by the Panopticon leadership.

And so this would keep them, not only keep them on the straight and narrow, keep them working, you want to get maximum production out of them. 12.5 hours a day of forced labor, so forth and so on. And he had everything beautifully worked out. The idea of course to have maximum production by slave labor, which is essentially what it was.

Panopticon by the way is Greek for "all-seeing," it's the controller who sees everything. Sounds like the Big Brother. Also, "inspection house" was another way to put it. This is a big reform. Himmelfarb puts it very neatly. He said Bentham was an atheist, but she says Bentham did not believe in God, but he did believe in a quality that [unintelligible] by in God. The Panopticon was a realization of a divine ideal, spying out the

ways or the transgressor or potential transgressor by means of an ingenious architectural scheme, turning night into day with artificial light and reflectors, holding men captive by an intricate system of inspection.

The Panopticon becomes omniscient and omnipotent, omnipresence of the inspector. This of course makes things most efficient, the goals of the inspectors. At one point Bentham says, “There might be some drawing back to adopt my scheme because it might be said that these people become robots instead of people.”

As he says, “[unintelligible] of an imbecility, for the formerly free man would not longer, in a deep sense, be human.” And he asks himself whether the result of this [unintelligible] contrivance might not be constructing a set of machines out of the similitude of men. And to this critical question, he gives the utilitarian reply—brutal, brusque and utilitarian—namely, who cares? Who cares if they’re just machines?

The only real question is would happiness be most likely to increase or diminish by this discipline? Of course, he being a scientist of happiness, could answer the question very neatly. Namely, as he said, they’ll be happy almost by definition. Call them soldiers, call them monks, call them machines, he says, so [unintelligible] but happy ones I should not care.

This is what Patterson would call the humanitarian with the guillotine or the slave pen. So economy and productivity were what he was trying to maximize. As he put it, industry is a blessing. Seven and a half hours a day is enough for sleep, an hour and a half total for meals, the rest of the time working in a forced labor regime.

The punch line of this whole thing, whole Panopticon scheme, is that he would run it. In other words, it would be a privately owned Panopticon, giant Panopticon. Slave labor would be owned by him. He, Bentham.

He'd extract the profits from the slave laborers. In this way we have a unity of private and public institutions. So he tried to lobby the parliament, lobby the court, and never get it through, fortunately for Great Britain.

Bentham had a group of secretaries. The most interesting secretary was James Mill, [unintelligible] out of turn, who in a sense was the founder of the Ricardian system. I really think more and more we find out about—Mill I think is a fascinating character. Not John Stuart, not [Olumpo], but James Mill, the father.

James Mill, I call him the radical with Lenin, a real cadre type, a real Bolshevik type in every sense. Personally, ideologically, whatever. Although he was semi-libertarian, and he basically had this kind of mindset. I'd say he was originally a Scottish Presbyterian minister. Comes to London, makes a precarious living as a freelance writer, which is always precarious, and he latches onto Bentham. Bentham has a lot of money. And he's writing all the time, becomes his secretary. He's always trying to organize everybody. He was a cadre-type person.

He's organizing his kid, John Stuart, organizing everybody, his friends, his wife. Everybody's being organized in a cadre manner. So he's trying to organize Bentham. Bentham was very unsystematic, would scribble all night or whatever. He kept saying, "Bentham, why don't you work on this? Complete this book, and then we'll get you the next book."

Bentham was writing, "This young whipper-snapper is trying to organize me." So there was a clash of temperament. It was Mill who talked Bentham into being a democrat. Mill had his own reasons for being in favor of democracy and universal suffrage. He adopted Bentham's utilitarianism and believed in laissez-faire much more than Bentham at this point, but he felt that he was a true Benthamite.

He's a very creative thinker, one of the most creative thinkers of this whole modern period. But he always pretended, in contrast with Smith and a lot of other people, "No, I'm just the number two man, I'm a faithful Benthamite, I'm a faithful Ricardian. I'm just a mouthpiece of the great Bentham and the great Ricardo."

Actually, he was contributing much to the doctrine. He was one of the few people in history who underplayed his own role. I was talking to my old friend [Runaligia] about this. "It's rather strange." He said, "There might be an economic explanation for this," which usually I'm quick to... I wasn't quick enough on the mark.

An economic explanation being that Mill was impoverished and a freelance writer, whereas Bentham was very wealthy and Ricardo was very wealthy. So this pretension of being a humble number two man might have a personal economic financial motive. "Yes, master," you know, as a source of a lot of...

In fact, Bentham kept Mill going for many years until Mill wrote his history of British India, history of India. At any rate, he does the same thing with Ricardo. He finds Ricardo, who's a retired stockbroker, really a bond dealer or whatever it was. Ricardo's whole ambition was to retire and become a country squire. Forget it, a young retired person.

And Mill keeps nagging him, "No, no, you've got to be a great economist," and he keeps "forcing" Ricardo to write this book, and he keeps correcting every chapter. Every chapter Ricardo gives to Mill, Mill corrects and adds stuff to it—important thing—rewrites it and gets him to publish it, and then he said, "Okay, now you gotta be our cadre leader in parliament of the philosophical radicals."

Mill organized the philosophic radical cadre, he had about 20 or 30 MPs by the 1830s, which had a balance of power position, quite powerful.

And it turns out more and more that Mill really originated much of the Ricardian system. For example, one of the few good things in the Ricardian system is the law of comparative advantage—that international trade—that even if one country or one person, of course, is terrible in everything, is unproductive in almost everything, it could still be an advantage to trade with it, because it's to the advantage of everybody to concentrate on the least unproductive area, and trade with somebody else who concentrates on the most productive areas.

So you don't have to have an absolute advantage at anything, you can just have a comparative advantage. Ricardo turns out not only didn't originate it; James Mill originated it and forced Ricardo to put it in, because Ricardo wasn't interested in it. Ricardo had one interest in life, namely crush the landlord, the unproductive landlord class.

Since he believed that landlords were an unproductive weight, and rent will inexorably increase and mess everything up, he tried to postpone the inevitable by lowering rents, and the way to lower rents was import wheat, or corn, as they called it. You import wheat. At least for a few years you'll keep down rental value and lower the price of wheat, and keep the economy going until the whole thing cracks.

So Ricardo's only interest in free trade was free trade in the importation of wheat, because of his rent theory. Mill was also Ricardian, but he also had a general free trade position, plus comparative advantage, which apparently he wrote and he put into Ricardo's book, which stands out like a sore thumb, like a page or two pages, which Ricardo never referred to anyplace else.

Ricardo's real interest was monetary theory, of course, money and banking, which I haven't got time to go into. And the rest of it might well have been—we don't know how much Mill contributed—Mill had endless

correspondence, endless [work] through Ricardo, giving him the line, and we don't really know how much this stuff was James Mill. Ricardo said, "James Mill changed my life," and all that sort of stuff. James Mill was a fantastic, very charismatic figure, changed everybody's life who was around him and so forth and so on.

So, much of it might be the Millian system. An interesting thing about Mill is the fact that he was one of the inventors of libertarian class analysis, class conflict theory. Before the Saint Simonians. About the same time as [Cump and Dunley], I'm not sure who was first. I'm not sure whether it was independent on Mill's part or whether he learned it from Say. Charles Cump was JB Say's son-in-law and a libertarian analyst. They were much more sophisticated in their historical approach, which Mill didn't have, so I presume he probably got it from them.

Basically, libertarian class conflict analysis says, contrast of Marx, which, where capitalists and workers are an inexorable class conflict, the only class conflict comes from the state. In other words, the state exists and does something, there's a ruling class and a ruled class right away. Taxation, tax consumers and taxpayers, the people get benefits from the state, the people lose by the state, that creates class conflict.

Everything else, on the free market there's harmony; class conflict comes about through the state. So Cump and Dunley had this, and they said, "Industrialization requires free markets and free trade, and as the state withers away, class conflict will be eliminated, we'll have a classless society," not in the sense of a communist society, but in the sense of a free market. That was the Cump and Dunley approach.

Mill had something similar to this, it was narrower. Basically, Mill said there were two classes in society, the ruling few and the ruled many. There's always a ruling class. Ruling class is exploiting the public

through taxes and control, etc., and his object was to eliminate it and have pure laissez-faire.

The reason why he was in favor of democracy is he felt that if you had pure democracy and universal suffrage, the public can't exploit themselves because there's always a minority; therefore the public will guard against the emergence of a ruling class. Of course, as we now know, it's an incorrect theory.

It made a certain amount of sense in that period, before democracy was tried. At any rate, that was his objective, and he convinces Bentham that it was Bentham's idea, which it really wasn't. And then he starts cadre activity in that direction, for pure democracy and laissez-faire.

He thought democracy was more important than laissez-faire, because democracy is the key thing. If you had universal suffrage, then laissez-faire would flow from it inexorably. He then arrange his followers on a cadre basis, using, for example, organized deception. There's a very good book, Joseph Hamburger, very good books on James Mill.

One is called *John Stuart Mill and the Intellectuals*, it's really about James Mill mostly. The other one's called *James Mill and the Art of Revolution*. James Mill wrote books and journal articles all the time, wrote books on practically everything—wrote a book on logic, a book on psychology, a book on utilitarianism and economics, books on everything, plus journal articles, plus organizing his friends, kid and wife, and plus organizing a cadre in parliament.

I don't know how the hell he did it, unbelievable. He also organized the reform campaign of 1832, a reform bill, which of course opened suffrage to the middle-class in England, which to him was a way station on the road to universal suffrage. He really pushed it through by an organized campaign of cadre deceit.

In other words, he got control of most of the press by various means, most of the top newspapers, he got them to lie about the idea that there was a revolution out there. If you don't pass the reform bill, the masses will revolt—pure fiction. No revolution, no nothing. And he got the Whig government, he scared the Whig government into thinking there was going to be a revolution if they didn't pass the bill.

He also worked out a theory about why lying is good. First of all, some people don't deserve the truth, and secondly that politically they don't necessarily deserve the truth, and lying is a high utilitarian good.

Anyway, he did this and was successful. It was only discovered ten years later, when his aide-de-camp, his chief aide, John Roebuck wrote a history of the reform bill and how it was put through. And the whole cadre was devoted to Mill, they figured he's the guy, and they'd take orders from him at all times, etc.

The reason why he brainwashed his good—and a very famous thing, John Stuart Mill gets brainwashed, learns Latin at the age of two days or whatever it was—but he didn't do it just for the hell of it. He didn't do it to try out his theories of education on his kid; he did it because the kid was supposed to be his successor as cadre leader. The kid had a world historical responsibility to carry forward leadership of the cadre. Wasn't just an ordinary kid.

That was his basis, and of course he flopped. Actually, John Stuart was the cadre leader until the old man died. John Stuart Mill, who lived in deception, was not only muddle-headed, John Stuart, but also engaged in total deceit almost at all times. For example, he wrote an article praising Bentham, this was when his father was still alive and a Benthamite, praising Bentham, writing it publicly, and at the same time, writing an anonymous article attacking Bentham.

He's messed up, at the very least. [unintelligible] the fact he was no longer cadre leader until his father died, that was about eight years later or something. Anyway, what happens, Ricardianism, I think, again, it's very difficult, first of all, to understand what Ricardo's talking about. Both Ricardo and J.B. Say are trying to understand Smith. Smith is very confusing. As I said, about three or four different theories of value at the same time, using words in an obscure manner, so forth and so on.

[unintelligible] said this is a great book. We know it's a great book, but we don't know what the hell he's saying. [laughter] So they're trying to systematize Smith. Say does it really as a Turgo disciple, really not a Smithian, and Say's whole book—I recommend, by the way, Say's treatise on Turgo, it's a marvelous book.

It's still in the 1860 edition or something. The translation is 1821 or something. It's a marvelous book. It's straight Turgo, it's entrepreneurs, productivity, not marginal, but productivity, explanation of factor of prices is there, utility theory is there, entrepreneurs are there very heavily. The whole thing is a Turgoian book. It's not a Smithian, though he says Smith is the greatest.

The only thing Smithian is what's picked out from Turgo, namely Say's law—essentially, the old Turgo thing, saving is okay [unintelligible] investment, no problem of overproduction and all that. It's really Turgo law, which Smith gets, and Say gets from Smith or Turgo. And Smith is also the classical liberal libertarian leader of the movement, in addition to being an economist of note. In addition to that, Say was very hardcore on banking, was 100% banking gold theorist, and all the people, Clump [unintelligible] all these people were essentially Say in the same movement, they were all disciples, descendents of J.B. Say. A marvelous book, great stuff.

The only thing bad about it is he says Smith originated all that. I can't believe he really meant it. Meantime, Ricardo is writing what I can only call verbal mathematics. The only thing worse than mathematics is verbal mathematics. In other words, we're writing mathematical equations in linguistic form.

The whole thing becomes, it's an equilibrium analysis where you're trying to set some things constant, other things variable, by putting it in words, which makes it almost incomprehensible. Of course, the theory of rent not only says that landlords are unproductive; it also says that rent is not really a part of cost because rent is differential, that the poorest land earns zero rent, and therefore any rent is really just a differential, it's not really earned, so to speak.

You could say the same thing about wages. Wages are not a part of cost, because anything above unskilled labor [unintelligible] differential should be taxed away or whatever. Ricardo leads directly, not himself, but his followers, Henry George is a state Ricardian, Marx is a Ricardian on the labor theory of value, which Ricardo lifted from Smith.

In other words, Ricardo systematized Smith by taking the worst stuff in Smith and making a system out of it. And Say systematized by taking his best stuff. That's, I think, the difference. They only agree, Say and Ricardo, on Say's law. Again, Ricardo [unintelligible] Turgot-Smith tradition.

The thing that happens to Ricardo, the whole system, labor theory of value, theory of rent, etc., again is a myth, which I'm sure you've all read, namely that Ricardianism dominated English economics until [Yeben], until 1870 or even 1880 with Marshall. It's not true. We now know that Ricardianism died out by about 1830.

In other words, he died about 1822, and in six or seven years Ricardianism had been smashed by all sorts of people—by utility theorists like Samuel Bailey, by anti-rent people like Thompson, anti-Ricardian rent theory. So by 1830, [Colonel Torrens] was addressing the political economy [unintelligible] said nobody's a Ricardian anymore. The Ricardian system is finished.

So you had a whole bunch of things going on, very interesting stuff. The Irish theorists, the Trinity College, Dublin had a whole bunch of utility theorists, objective utility theorists who were excellent, including Archbishop Weightley, a very interesting character, who was English, and gets a, was a professor at Oxford, a master at Oriole College, and he was fighting the fight against the high churchmen in Oxford, high Tory. He was a [Lautunarian] type.

He becomes the archbishop of Dublin, immediately sets up a Weightley chair of political economy, and puts in, for the rest of his life, selects the [unintelligible] of it, every one of them is a utility theorist, until he dies. It carries on, Longfield and Bretton, all these people. Of course, they're sort of outside the English mainstream. The English don't care what's going on in Ireland, so they're not that influential.

But still and all, adding the whole thing up, Nassau Sr. has some excellent stuff. Nassau Sr. was very anti-Ricardian without explicitly saying it. And of course, again, something which I should've gone into, but I haven't got the time, is the Malthusian thing, which comes from Smith.

Malthus gets his anti-population stuff of course from Smith, landlord wages and all that, it's derived from it. Ricardo of course was a big Malthusian on population, not on other things. And Sr. essentially smashes that without saying so, and essentially demolishes...

What's strange about Malthus, by the way, here's a guy growing up after 50 years of the Industrial Revolution, an explosion, a fantastic explosion of standard of living, and worrying about population increase. It was much more apropos 100 years before when nobody was a Malthusian. But he waits, so to speak, until the Malthusian problem was over, and sets it up as a real problem, a big problem of population pressure.

So what happens is that basically Ricardianism was finished until John Stuart Mill resurrected it in his monstrous work of 1848. In other words, from 1823 to 1848, there was no Ricardian [unintelligible] in English economics. There was a free flow of utility theorists, there were anti-Ricardian rent theorists, etc.

There's one very interesting character I can't omit in this thing, a fascinating character named John Rae, who was a Scotsman, and one person [Bombavrey] does acknowledge as being a pre-Bombavrean, pre-time preference, pre-Austrian capital theorist. And he's a very strange duck. He's a Scottish physician who's unemployed and doesn't do well, and he has a marital problem, and anyway he leaves Scotland for Canada.

He's a very contentious character. Anyway, he gets involved in Canadian Calvinist politics between, I forget now which faction he was in. Anyway, he was in the losing faction. He was essentially kicked out of Canada, and leaves for, I think it was Hawaii, some minor Hawaiian island, he stays there for the rest of his life as a village physician. Anyway, he writes this thing.

His passion in life was geography. He wrote the definitive work on Canadian geography, geology and all that. He's a big protectionist, he's pro-protection. He hates Adam Smith. So he writes a book in the 1840s designed to attack Adam Smith and free trade. Then he says, "Well,

before I talk about protection, I have to deal with capital theory,” and he works out a whole Austrian capital theory—had no relationship with free trade whatsoever, protection.

It's a fantastic thing, and he works this whole thing out, and he publishes... But the publisher was a New England protectionist, who publishes a good, firm anti-Jacksonian, anti-free trade book. He publishes this book, nobody can understand what he's talking about, and he says, “Gee, this says nothing about protection, really, it's worthless.”

So nobody reads it, and the guy disappears, goes to Hawaii or something. And anyway, John Stuart Mill read it, because he read almost everything anyway, and somebody showed it to him and reads it, “This is a good book” and he praises Rae's book for the wrong reason. He didn't understand it too well. Doesn't get the pre-Bombaverk stuff at all. So he praises it, and poor Rae gets a clipping, I think, from Mill, this is many years after the book was written. “Gee, thank you, Mr. Mill, you're the only person to ever talk about my book, and you like it,” kind of pathetic. The poor guy's writing as a Hawaii village physician.

That was it. Nobody referred to it until about 1900, when Mixtor, Theodore Mixtor discovered it, and Bombaverk said, “You're right,” Bombaverk [unintelligible] either and praised it. So anyway, he's a very interesting character. So all this was going on, and Mill's book comes in and reestablishes Ricardo, Ricardianism.

And Mill had such tremendous prestige by this time as a philosopher, logician, intellectual, etc., and everybody just fell for it, and sort of toppled over and adopted this. The whole utility stuff drops out, and non-Ricardian rent theory drops out, and the whole thing just sort of caves in. J.S. Mill becomes dominant from 1848 'til the 1880s, let's say.

That's really the dominance. It's the resurgence of Ricardianism. Also, in addition to that, Mill establishes positivism as a self-conscious methodology for the first time. The previous classical economists—Say was explicitly what we call a praxiologist. He's a deductive—you start with [unintelligible] axioms and deduce economic theory.

Senior was definitely a self-conscious praxiologist. And Mill said, “No, no,” Mill talks about the idea of false assumption, a pre-Friedmanite view of... You have to have false assumptions which you then reduce and test and all that sort of stuff. It really begins with Mill.

And Mill, having great prestige, which the others, of course, didn't have, essentially wins out. Then of course was Alfred Marshall, sort of the same thing marginal utility theory. Marginal utility theory comes in in the 1870s, [unintelligible] in England and [Byar] in Switzerland and Minger in Austria.

Marshall's function in life was to bury marginal utility theory with faint praise. In other words, to reestablish Ricardo and Mill. That was his whole goal in life. Unfortunately, he succeeded in Britain. When I went to college, I read Marshall's *Principles of Economics* straight through. We had a seminar, and we read Marshall's *Principles*. It was great, much better than reading Keynes or something. That's what we did.

First of all, if you read Marshall, you see Evangelicalism, you see the pietism shining through. He's constantly making pietist moral arguments throughout, in the midst of talking about a representative firm and all that. But more important here is that what he's doing, he talks marginal utility and he trivializes it.

In other words, confines it to consumption. “Okay, it's true about consumption, and you get the diminishing marginal utility, and that's it.” True, he saw the value paradox. And from then on he talks about

production and he talks about cost. Cost is the key thing. So the real essence of the utility theory drops out.

And since when I was going to graduate school or college in the '40s, the general view was that Marshall hadn't integrated anything of value in the Austrians, that was it. Any good stuff was in Marshall, and the rest of the stuff doesn't have to be read. The view here is that, Marshall's famous phrase, "Value is determined by scissors, the scissors of supply and demand."

You have the demand scissors [unintelligible] rising supply curve, which is the cost, determined by cost, allegedly, and these two scissors determine market price. However, and this is really starts with Smith, by the way, and of course Ricardo emphasized it.

The key thing is not market price. Who cares about market price? The key thing is long-run normal pricing—in other words, equilibrium prices, which you never get at anyway. That's much more important. And long-run normal, Marshall claimed the supply blade or the cost blade was triumphant; demand sort of drops out, and the really important part of the scissors, the important blade is cost, objective cost determined by labor disutility and whatever.

So what he does is he brings back a sophisticated version of Ricardianism. You don't worry about market price; you worry about long-run cost. And of course, one of the—the two basic problems—one is the long-run cost never arrives, so it can't be really the key thing. After all, the key thing, you want to explain the market, the real market, and not the long run which never shows up.

And secondly, what do you do about goods that have no cost? Rembrandts, for example. Rembrandt painted the thing and then corked off. The price of Rembrandts fluctuates. Where's the supply cost,

where's the supply part of the blade? It ain't there, of course; there's only demand.

They had to admit, well, it doesn't work for non-reproducible products. Well, after all, non-reproducible is important. That's part of pricing too. Isn't it better to have a price theory where you have a general explanation of all prices, and one which only explains reproducible goods? And so that of course is not discussed. [unintelligible] goods are just tossed in the wastebasket, along with consumption with Ricardo.

All this is brought back, as I say, in a very sophisticated manner, and [unintelligible] having tremendous prestige as a Cambridge professor, dominates all English economics from the 1880s until the 1920s. Jebins was sort of a maverick semi-Austrian, so to speak, maverick, doesn't get any hearing, and he dies young too, so that pulled against his influence.

So what you have is the reestablishment of Ricardianism with Mill and Marshall. Essentially, a more sophisticated form. That really ushers in the 20th century.

end of transcript.

Menger and Böhm-Bawerk

Murray N. Rothbard

The fourth in a series of six lectures on The History of Economic Thought.

Transcribed and Donated – Thomas Topp

Rothbard:

—got the Austrian family tree up there. The founder of Austrian economics is Karl Menger, 1840–1921. The generally accepted position on the Austrian school was that, of course, Menger was the founder. Eugen von Böhm-Bawerk was the most important student. Friedrich von Wieser—I'm putting him to the side, was the brother-in-law of von Böhm-Bawerk—contributed a little bit, but not a great deal. Then, Mises, of course, was the great successor to Böhm-Bawerk.

The story has been sort of changed and revised in recent years. Revisionism can either be good or bad; it's never indifferent. You're either correcting the historical errors of the past, or else you're adding errors to the previously accepted truth.

What's been happening recently—I'll get back to this in a minute. What's been happening in the last ten years or so is an explosion of the Menger study—which is good, it's great stuff. One thing Menger didn't like very much—he wrote his great *Principles of Economics* in 1871. It was supposed to be volume one of a mighty [unintelligible], the rest of which never got published.

By the way, just as an aside, scholars don't write books entitled part one or volume one, because often the other parts never get written. This is what happened to Menger. He never completed this. It was supposed to be an introductory volume, then he got off on methodology—his famous methodological struggle with Schmoller and his famous argument on the origin of money. That's just about it, with a couple of other things, but basically he didn't make too much more than that.

With the explosion of Menger studies, there's been a whole series of essays on Menger. There will be more of that coming up, fortunately, because what happened was all of his lectures and papers and all that have been apparently in the custody of some Carl Menger, Jr., a

distinguished mathematician at the University of Chicago, who refused to allow anybody to see them.

This was, of course, a mystery in itself. Why did he refuse to do this? Tied up, by the way, with the mystery of why Menger retired, in 1903, from his chair and didn't do anything after that. He sort of retired and had his famous library, and that's about it. At any rate, the story is—this might be a [unintelligible]. This is, I realize, a reporting rumor here, but it's interesting anyway.

The story is that Carl Menger, Jr., was haunted for all of his life by the fact that he was apparently an illegitimate son of the Carl Menger, Carl Menger, Sr., by a housekeeper. In those days, of course, in the Victorian Vienna, if I use that statement, this was a real shock and whatever. It was swept under the rug. Apparently, one of the reasons perhaps why Menger retired from his chair early in his life, or earlier than he had to, was because of this potential disgrace.

Anyway, Carl Menger, Jr., therefore refused to allow the papers—he still, at the age of 90, whenever he died, still felt this terrible, stinging illegitimacy. Apparently, it was impossible to tell him that these days things are different. So, he died a couple of years ago, and now the papers are at Duke University and in the process of being catalogued by the scholars.

So, we'll know more about Menger's ideas and where he stood on various things as time goes on. So, whatever I say about Menger's going to be fairly tentative.

One of the problems with the explosion of the interest in Menger is it's also an ideological drift connected with this, this hidden agenda in the accolades given to Menger, namely, a big depreciation or deprecation of Böhm-Bawerk. As Menger had been lauded as the great founder of the

Austrian school, which he was, indeed, the achievements of Böhm-Bawerk have either been denigrated or forgotten and sort of stuffed away.

This is part of what I call a nihilist trend in the modern Austrian movement. It's also sort of an attempt to claim that Menger and Böhm-Bawerk were totally different, disagreed almost over everything and so forth and so on. I don't think that's true. I'm not prepared to state one way or the other. As I said, for one thing, the Menger papers have not been [in court] yet or studied. I think this is an artificial...

The romantic story—and this is a true romantic story—is that Menger published his work in 1871. That was a dramatic, revolutionary trend in the German scene, German speaking scene, in general. Two young economists in their 20s, Wieser and Böhm-Bawerk, who were brothers-in-law—I'm not sure when they became brothers-in-law, but fairly early in the game—became Menger's great disciples. Both eventually taught at the University of Vienna, after many years of teaching at other places.

They came to disagree fairly sharply. Wieser was certainly a praxologist. He wrote a methodology—in a sense, nothing more than Böhm-Bawerk did, but his basic view—and he also contributed a [unintelligible] theory and certainly opportunity cost theory. Basically, the whole drift of his approach, I think, was much more pre-neoclassical or pre-Keynesian.

He did not believe, for example, in time structure of capital, as Böhm-Bawerk and Menger did. At any rate, the two of them—Mises told me one time in a seminar—were brothers-in-law, very close friends, and they never discussed economics. Once they got to the point where they disagreed on stuff, they just never talked about it. They talked about the weather or what's going on in Vienna, the opera and stuff like that.

They confined their arguments to the written page, where they lashed out at each other in a polite, but devastating, manner. I think that's kind of a charming solution to the family question. Certainly, both of them start of themselves as Mengerian disciples. As fulfilling as standing on the shoulders of Menger, they sort of drifted off in the methodology and not doing much.

One of the interesting things about Menger, which, by the way, I just found out fairly recently, is he was the tutor of Crown Prince Rudolf, the successor to the Austrian-Hungarian throne. Sort of did with him apparently what Archbishop [Fenningwall] did with the Duke of Burgundy, back in late 17th century, early 18th century France.

One of the problems here—I'm not sure what Menger's political or economic views were because, to me, it's unclear. Mary Smith published an article on Menger's political economy. The Mary Smith book was an excellent compendium. It's called *Western Economics*, a series of essays really on Austrian philosophy underlying Austrian economics.

Anyway, there's an essay there on Menger's political philosophy, which sounds pretty grim. It's sort of very conservative, semi-status Austrian whatever. The great Erich Streissler, on the other hand—I met with him a couple weeks ago in Austria—he claims that it's clear Menger's lectures—his unpublished works, he was really a hardcore laissez-faire person. If I leave that up, I have no way to resolve this yet. At any rate, those are two views about Menger.

Apparently, Menger tutored Crown Prince Rudolf in laissez-faire doctrine. Crown Prince Rudolf was the successor to the Austrian throne. The idea was he would then take over and propose classical liberalism and laissez-faire liberalism from above, so to speak.

I mentioned [unintelligible] because that was his plan of how to bring laissez-faire economics and politics to France. Here they were, living in the absolutism of Louis XIV. It was sort of the epitome and apogee of absolutism and [unintelligible] and all the rest of it. Here's Archbishop Fenningwall, who's a laissez-faire, anti-war, anti-military and all the rest of it.

What do you do about it? How do you convert a king? The idea of building a mass movement was considered kind of bizarre. I don't think it was considered thinkable in late 17th century France. The previous mass movements had been wiped out by the French monarchy.

What Archbishop Fenningwall decided to do was get a hold of a crown prince—the [unintelligible] was going to be the [unintelligible]. The grandson of Louis XIV was supposed to take over the throne of France. He was the Duke of Burgundy.

Archbishop Fenningwall became the confessor and the tutor of the Duke of Burgundy, and he formed what was called “the Burgundy Circle,” a whole group of people at the court who were the top laissez-faire scholars, historians, political philosophers and economists in France and worked on the duke and converted him. By the time he grew up, he was totally dedicated to laissez-faire—eliminating the taxes, the controls and all the rest of it, the whole structure of totalitarian statism that Louis XIV had imposed.

Well, unfortunately, what happened was about a year before he would've taken over the throne, he and his entire family were wiped out in the measles epidemic. The whole plan—a 25-year plan of converting the French monarchy—dust. Fenningwall was, of course, in despair at this. I don't blame him. Now, that's one of the problems with this kind of

strategy. If you rely on converting one prince or something, what do you do if the prince corks off?

Essentially, the same thing happened, apparently, with Menger and Crown Prince Rudolf. There was also some [Mayerling] revisionism. Those of you who are interested in historical revisionism, there's a whole area. Since, again, I don't really know German and there's been very little written on this in English.

But apparently, there's a whole... Of course, the orthodox view, as you all know from the Charles [Boye] picture or whatever, or later movies with the Archduke Rudolf committed suicide and killed his lover and whatever. That was 1889. There's other, much more interesting, revisionist views, one of which that he committed suicide because laissez-faire was losing out or whatever or coming more in Europe.

The other one, a much more interesting one, which [Leland Jager], by the way, is convinced of, is that he was murdered by the statist in the Austrian court who didn't want him to take over. [Believe that] whether you prefer the research or the non-presuming Mayerling revisionism.

Apparently, one of the reasons why Menger sort of [unintelligible] for some scholarship and didn't do much in his later, last 20–30 years of his life, is because of the death of Crown Prince Rudolf, the end of the Rudolf experiment, so to speak.

To set the stage of the revolution Menger effected and the [unintelligible] Menger and von Böhm-Bawerk, the Austrian revolution, is that he was reacting against the historical school, which was dominant in German-speaking countries, headed by Gustav Schmoller, who believed there were no economic laws, partly because he was interested in building up the state power in Prussia and the rest of Germany. It was inconvenient

to have any economic laws out there which might contradict or confound government degrees and actions.

As a matter of fact, the famous phrase of Schmoller, which Mises liked to mention from time to time, is that the function of the University of Berlin—which, of course, the creation of the Prussian state—the function of the professor of the University of Berlin is the intellectual bodyguard of the [unintelligible]. That was the dynastic Prussian monarchy.

When Menger's *Principles of Economics* was published, it was greeted with hatred, bitter derision and hatred by the Schmollerites of Vienna, that organized a contrary campaign against it. Then Menger got up in the mythological conflict, explaining why there is such a thing as economic law, and why it's just not just historical bound and all the rest of it.

What Menger did was really revive the continental traditions, Galactic economic condition in the tradition of [unintelligible] in 18th century France. In the tradition, of course, of subjective value theory, of individual action, praxiologic work, focus on individual action and individual expectations, and acting through time. The fact, of course, that consumers valuing the good determine the price of the good, and mostly determine the value of the factors of production.

So, the basic outlines of Austrian doctrine were any of Menger's principles that weren't fully worked out, but they were sort of in there. They were essentially a revival in the development of the scholastic medieval and late Spanish scholastic and 18th century French tradition.

But there was, as I say, the fight in Germany. German-speaking countries, there was the fight with the Schmollerites. In England, of course, there was classical economics, classical economics which the

Austrians never really grappled with too much, because they were much more concerned with grappling with Schmoller.

That's kind of a sweet thing that happened with [being] in the seminar. One time, we really had an argument. It was a very friendly argument. We were arguing about one of my major deviations from Mises, which is on monopoly theory. I was claiming there was no such thing as monopoly on the free market.

The discussion ended when he accused me of being a Schmollerite. The interesting thing is that nobody else in the room, I think, understood what he was talking about and understood this was the ultimate insult an Austrian could level at a critic. The Austrians never really came to grapple with the English classical tradition or understood where they stood in relation to it.

After all, England was far away. They were fighting with the German situation. My vision of the history of economic thought is the great "me" tour, the great diversion from the main line of scholastic French tradition. The scholastic French tradition was a classic [dashed] French tradition, continental tradition was much subjective value theory. It was basically what I call pre-Austrian. I realize it is anachronistic to say it, but that's really what it was.

With Adam Smith, and with especially Ricardo, we have—in the middle James and John Stuart. We have a tremendous shift toward a new kind of theory, a theory which still plagues us, of course, to the present day, namely that the real determinant of value, of prices, values and prices of good, is not consumer subjective utility, but objective labor pain, labor toil—whatever you want to call it.

This was established basically Smith and Ricardo. It then fell out of favor in England and was restored by John Stuart Mill, in a tremendous of

filiopietism, paying his great debt to his father and by sheer intellectual bravura and the fact that he had tremendous stature in England at that time. [Unintelligible] again restored Ricardianism to its unfortunate place in the history of thought.

So, when Menger created kind of the Austrian theory, the standard discussion since then of marginalism—until very, very recently, of course, the standard of discussion of history of thought folks was, well, marginalism popped up independently in three countries: Menger in Austria, Jevons in England, and Walras in Switzerland. They were all basically the same.

The basic view and history of thought, as I said, until very recently was, well, they're all about the same, Menger, Jevons and Walras, except that Menger didn't know math. Menger was good in theory, but he didn't understand mathematics. Therefore, you should concentrate on Jevons and Walras. Of course, Walras is being taken over with modern microeconomics.

You read, for example, one of the most repellant and odious works written on Böhm-Bawerk by George Stigler, his PhD dissertation called *Production and Distribution of Theories*. He has a chapter on Menger and a chapter on Böhm-Bawerk. He didn't like Menger, but he hated Böhm-Bawerk. All bad people hate Böhm-Bawerk.

What he said about Böhm-Bawerk, "Well, he didn't understand mathematics," basically that's it. Both Menger and Böhm-Bawerk were trained in mathematics. They understood it all to well, which was why they rejected it. This, of course, the idea of knowing mathematics and rejecting its application of economics does not even occur to the mathematical economists. It's just outside their ken, the unthinkable thought.

Then, what happens—Austrian economics, even though this was the official view, so to speak, Austrian economics was extremely influential in the United States with Fetter—Fetter was a very important Austrian—Davenport, Greene. These were important Austrians who ignored the British classical tradition or attacked it.

Unfortunately, what happened in the United States was in World War I something snapped in American academic economics and theory drops out; institutionalists take over, except for a few people here and there, Fischer and Knight, who were [pre-modernist] types. Fetter lost interest in economic theory more or less and got hung up on monopoly, which he spent the rest of his life on.

So, unfortunately, this left a vacuum and institutionalism poured in—the American, a dumb-dumb variant of the Schmoller historical school. Historical school people have no knowledge of history or social science or anything. These are the guys who kind of took over economics and left a theoretic vacuum in American economics.

This meant that in England—which, of course, was the revered home of economics supposedly. What happened in England was that the Austrian contribution—in this case, Jevons and—was very cleverly and cunningly trivialized by Alfred Marshall, his mighty work *The Principles of Economics*, and disposed of it that way, by trivializing it. From then on, Austrian school was not considered, not even mentioned or thought of by English economists, by Cambridge economists or by anybody else in English tradition.

When I grew up, I cut my eye teeth on Marshall. We had a very interesting college seminar, a senior seminar. We spent the entire year on Marshall, going through every chapter. It was very interesting. I'd

recommend it if you had nothing else to read. It's certainly better than Cain's.

It was very interesting because that was considered economics. What he did was marginal utility theory is he trivialized and said it's interesting. It fills a gap in the Ricardian program, because Ricardo really didn't consider consumers. It sort of explains consumer demand and finish it off.

Because, as most of you know, the famous Marshallian scissors, every price is determined partly by demand, thus the demand blade and the supply blade or the cost blade. Of course, the really important thing is the cost blade, because that's the long run, the real gutsy thing, the equilibrium thing, whereas consumers are sort of, yuck. They're creatures of caprice and whim. They change their minds all the time.

So, the really important thing about economics is the cost. The real important thing about cost, of course, is labor pain. We're back to Ricardo and Marx and all the rest of it. It was a very clever device that he used. You can't say he ignored marginal utility; he just trivialized it. It got capsulated in a couple of appendices, or whatever, and that was it.

I remember when I was taking History of Thought of Columbia, in those days, the Columbia Graduate School was a very tough department, no question about it. It had not fallen to its present sorry state. It was ranked among the top three graduate schools. My professor was J.M. Clark, a revered figure. I asked him, I said, "Well, I didn't know anything about Austrian."

I asked him about Jevons. I knew Jevons was someone important. "Oh, you don't have to read Jevons," he said. "We'll incorporate it with Marshall." I'm sure if I had known about Austrians, he would've said the

same thing about that. So, that sort of shoves everything aside. Marshall then takes care of everything else.

This was before the Keynesian takeover. This was the Marshallian takeover. Of course, the Keynesian takeover is really part of that. In a larger sense, Cain was Marshall's student.

To sum up Menger very quickly on what did he contribute, again, he essentially brought back or developed a scholastic tradition, the praxiological method of focus on individual action, entrepreneurship. All this comes in, of course. Time, structure of production, focus on individual, the fact that the expected values of the consumers determine the value of the factors of production that entrepreneurs are willing to invest in.

The whole Austrian framework—if you read Menger, you know you're reading an Austrian book that reads differently. Austrian books read differently, look differently, smell different than the old, classical books. One thing, there's no math in them, or very little. They're clear, they're logical, they proceed step by step. There's no sort of sudden flights of abstract fancy not grounded in actual individual action.

But what about Böhm-Bawerk? What Böhm-Bawerk did was he developed this outline, which Menger contributed, and particularly developed a value theory, developed the value of price theory, very important, his famous marginal pairs, the horses—you know about the horses, the first horse and the second horse and all that—developed the diminishing marginal utility brilliantly, and of course, developed the entire capital interest theory—[unintelligible] capital interest theory from neglect.

And, as I said, always consider the Böhm-Bawerk was the main line, main [unintelligible]. It's only in the last ten years or so when Böhm-

Bawerk's been deprecated [unintelligible] and other people who say, no, no, Böhm-Bawerk was an evil Ricardian. Menger was the only true Austrian. I think it's a current fancy which has been developed. I don't think anybody before that ever thought that, including Menger or Böhm-Bawerk.

Their attempt—Erich Streissler, for example, attempted to say, no, no, there are tremendous differences between Menger and Böhm-Bawerk. Menger, for example, when he retired as chair in Vienna, conferred the chair upon—only one person can hold the chair at one time. He conferred it upon Wieser. Presumably, he liked Wieser better. That still doesn't really establish much.

He said various things like he didn't like Böhm-Bawerk's capital theory, a terrible mistake. So, what does that mean? The Streissler view is that—he's written several articles on this—well, he said that it means that he didn't believe there was such a thing as... He believed in time preference. We know that. We know Menger said that time preference was important.

But [unintelligible] didn't believe that time preference was reflected in the rate of interest. There was no rate of interest. It was too much equilibrating thing. Only 2,000 rates of interest around, there's no one rates of interest, there's no tendency toward it.

Well, that's possible. I don't believe it. Matter of fact, I don't believe it. I don't think Menger rejected equilibration. [Kersner], in a very interesting article in *The Atlantic Economic Journal* about eight years ago or so, they had a whole issue on Menger. It was a typical Kersner article, very subtle. He's one of the most understated economists I've ever read. You have to read him with great care. It's pretty obvious that he's

refuting this idea that there's a big split between Menger and Böhm-Bawerk, and that they're really fairly similar.

If you look at Böhm-Bawerk himself, what does he say about Menger? He doesn't say that Menger doesn't believe in a rate of interest. He says that Menger believes in a rate of interest, but it's incorrect. By the way, I recommended Böhm-Bawerk highly. I love reading Böhm-Bawerk. He's probably the great Columbus of the history of economic thought.

He sits down with different economists and very patiently, paragraph by paragraph, page by page, demolishes them in a very polite manner. What he does with Menger, he's very respectful of Menger. Menger's a great guy, etc., etc., great insights. However, unfortunately, he's got a very incorrect theory of interest.

His theory of interest was the so-called [Menger] theory that somehow—and he explains it the usual brilliant and lucid manner—that Menger somehow believed that when you buy capital goods, when you buy factors of production, you pay a price for them [unintelligible], but you're also doing something else. You're also paying an extra surplus for the use of the factors of production.

Böhm-Bawerk very carefully, page after page, says there's no difference between the use of something and the thing itself. When you buy something, you buy the uses of it. That's the whole point. When you buy a machine, you buy the uses of the machine. There's no extra use payment, in addition to the payment of the machine.

Very beautifully and lucidly and carefully, he demolishes Menger. Obviously, Menger doesn't like to be demolished. There are very few people in the history of social thought who love being demolished. There might one or two here and there, but I don't know of them. I think that's

it. I don't think the argument was over equilibration; I think the argument was over use theory.

Böhm-Bawerk, of course, brings in the time preference theory of interest. Somebody asked Roger, "Why did Böhm-Bawerk reintroduce it?" I really don't know that. That's a famous puzzle in the history of thought. Böhm-Bawerk's volume one, *Capital Interest*, is a total demolition of the productivity theory.

My only quarrel with Böhm-Bawerk, he's a little unfair. He's unfair to [unintelligible]. There's no question about that. What he does is his strategy was—here he is running the definitive interest theory, capital interest theory. You start off by smashing everybody before you, it's kind of loveable. On the other hand, once in a while you're unfair to people, because [Torgar] really had the whole Austrian theory encapsulated.

Know that Böhm-Bawerk, as much as I revere Böhm-Bawerk and love him, unfortunately we know that he lied about Torgar, because we know that there's an unpublished manuscript of Böhm-Bawerk's, written about eight years before his book came out, in the seminar of [Karl Kleiss] on Torgar's theory of interest.

He hails Torgar's theory of interest as great and wonderful, and so forth and so on. When he gets eight years later to publish the book, he dismisses it as nonsense. So, something happened there, something in the eight years. I think it just didn't fit his strategy, so to speak.

Anyway, this unpublished work, I'd love to see translated and published someday. It's in the possession of F.A. Hayek. Böhm-Bawerk's widow gave it to young Hayek in 1919 or something, and it's still somewhere in Hayek's repository. That's something that's another research project for you.

So, Böhm-Bawerk then establishes the time preference theory and beautifully demolishes there's no extra surplus. There's a difference between the productivity of capital goods. There's a reason why there's a price on capital goods, the interest payment, the time [unintelligible]. For some strange, crazy reason, in his volume two, he brings it back. Not only does he bring back productivity, but he makes it the most important element, so it's a total contradiction between his volume one and volumes two and three.

Frank Fetter's contribution was to demolish Böhm-Bawerk out of turn, saying, "This doesn't work," and to establish the so-called pure time preference. The reason why we call it "pure" is because there's been all these add mixtures, impure add mixtures of productivity theory and all sorts of other stuff. I'll try to distill the purity, pure causal factor.

A couple of famous problems with Böhm-Bawerk, alleged problems... Again, I think the reason why Böhm-Bawerk has been particularly attacked by the nihilist forces in modern Austrian economics is because it's obviously clear, it's obviously equilibrating, it's obviously part of a great economic tradition.

It's also what Mises built his theory on, Mises' elaboration of Böhm-Bawerk and an implication to money, theory of money. If you eliminate Böhm-Bawerk, you also implicitly eliminate Mises, sort of cut the ground out from under Mises, a strategic ploy on the part of the nihilist forces. The thing about the nihilists, if they don't like Mises, they don't like Böhm-Bawerk, who are they going to like? They call themselves Austrian. Menger is the only one left, and he's far enough in the past to sort of be safe, I suppose.

On alleged problem with Böhm-Bawerk always comes up, so I'm going to talk about that. Why is it that an increase saving and investment always

[likenes] the structure of production? Why is it always a more roundabout production process? Why can't it be in a short production process?

The answer is very simple. I like to have a little grid here, a two-by-two grid. This, of course, is simplifying the picture, but I think you'll see the story here. You have production processes, less productive and more productive. In reality, of course, there's a whole spectrum of productivity. I'm making it a two-by-two grid here.

Here, we have shorter—in other words, coming early—and longer. Well, if a process is very short, if it takes five minutes, and very productive, it's going to be used already. It's not a problem. It's like manna dropping from heaven, or the shmoo, if you remember the early AI Capp. The shmoo is infinitely productive. It can be used for anything. Obviously, you're going to snap it up. It's already going to be used. That is no longer a part of human action. Whatever is there has already been used up.

On the other hand, if a process is very long and produces almost nothing, it's not going to be used at all. Only morons would use it. In other words, if it takes you 50 years to produce one widget, you're not going to do it, if you have any brains at all.

So, this is out of the picture, too. So, you toss out the long, unproductive processes and the short, very productive processes. You're left with two things. You're left with short, less productive processes versus longer and more productive.

So, when you save and invest, you decide when you're going to give up early consumption up for longer and more productive process. That's why more saving and investment is always a longer process than production. It's very simple if you look at this grid work. Of course, he's

got the time structure of production, a wonderful analysis of capital and interest.

Another thing I should say about Menger and Böhm-Bawerk and the [media] they were involved in, it's not an accident. I think [Cauter] was the first one to analyze this and point this out. I think he's actually on the ball. It's no accident that the value climate, the epistemological value and value climate in Austria are completely different than it was in Germany and Britain—namely, in short, Austria was Catholic and always had been Catholic, whereas northern Germany was Protestant, and England of course was Protestant. What this meant in epistemological and value terms is that in Austria they still continue to read Aristotle in the high schools until very late.

Certainly, by the time Menger and Böhm-Bawerk were growing up, and they were steeped in natural law and natural rights and Aristotelian epistemology in general. Northern Germany and England and Britain were influenced by Calvinism and Protestant Evangelicalism, which tossed out the so-called scholastic method.

And in addition to that, and of course Aristotle is not read, Hegel of course was Protestant or some form of Protestant. So we have the Austrians steeped in a very different tradition, religious and philosophical tradition than either the Germans or the British. And the new book by Barry Smith, the very interesting thing about that is he points his, the best article there is the one by Smith himself on the philosophical climate of Austrian economics. He points out not just that they're reading Aristotle, but the big philosopher of Austria was Franz Benatano, who was an Aristotelian realist, the guy, read all the time, all over the place in Austria, and also points that Menger's principles, he has paragraphs on Menger and paragraphs on Brentano showing almost identical in their basic epistemology—their view of natural law, their view of essences of

things, the so-called exact law of essences, of action, the connected cause and effect.

All these things very close to Brentano. They knew each other, by the way, they interacted a lot. Their value theories are quite similar too. The subject of value theory in Brentano was quite similar to that of Menger. So the interaction between Menger and Böhm-Bawerk people on the one hand the Brentano people on the other...

In Britain you had even worse situation from my point of view, you have Calvinism rampant, which was dominant in Adam Smith. I don't think it's an accident that Adam Smith tossed out short-run consumer value. He knew about subjective utility because, and the subject of value theory, because Turgo, he knew Turgo, was a friend of his and he read this stuff. But Smith, being a Calvinist, could not believe that you could rely on, consumers could have any dominance at all.

Consumers were fickle and they spent a lot, and they believed in luxury expenditures, they're obviously sinful anyway. The real core determinant was thrift and industry, hard work and thrift. So we have in Smith a bias towards thrift, a desire to tax consumption heavily, for example, and to stimulate, to have usury laws to channel saving into so-called productive investment.

And also, the emphasis of course on labor pain as a real basis of value, it's true that Ricardo was not Calvinist, but James Mill, who was Ricardo's control—that's a strong term, but I think more and more believe that James Mill was the real heart of Ricardianism. James Mill was a Scottish Calvinist and imbibed the whole doctrine of [unintelligible] and continued it.

John Stuart Mill, of course, was his father, a very peculiar relationship with his father, and the only place where Freudianism might have some

kind of truth value, I think. The Mill father-son relationship, a very weird situation. Anyway, John Stuart Mill reestablishing this whole doctrine. And with Marshall, interestingly enough, you read Marshall as Calvinist moralism constantly throughout—here he is, allegedly value-free scientist talking about demand curves and all that, but he's constantly shoving in stuff about the importance of thrift and all that sort of stuff.

There's a sort of neo-Calvinism redolent throughout the book. And I don't think it's an accident that then the people who are neo-Calvinist types don't like to talk about consumers, because consumers are fickle and they spend and they're luxurious and they're sinful anyway, whereas pain and hard work and thrift is really good stuff.

I don't know of any labor theory of value person who's not brought up in the British tradition. Marx of course economically was Ricardian. I think Böhm-Bawerk, despite his peccadilloes and bringing back productivity, is a key person in the development of the theory of capital and interest. I recommend reading him, I think he's great.

The slow, patient [demolition] of the enemy, magnificent. As promised, a reference to Marx in this thing: Maybe I should've recommended some more of his readings, like Barry Smith, etc. I've just gotten finished with dealing with Marx in my own work, so I just want to inflict the pain on other people.

The interesting thing about Böhm-Bawerk's reputation with Marx, which of course a famous refutation. In his review, he [unintelligible], he sort of had the basis of it in his theory of capital and interest, but after Marx's long theory of capital came out, was put out by Engels, Böhm-Bawerk does the ultimate demolition of it.

He was generally accepted by economists of the day. You're right. Really until this day, Marxists as economists are very weak on labor

theory of value. They're not labor value theorists. Even Joan Robinson and people like that. Of course, we know, labor theory is ridiculous, but somehow there's exploitation anyway.

But that's really of course the guts of the economic aspect of Marxism, as was essentially demolished by Böhm-Bawerk. Of course, by the way, the famous story here, a true story, in volume two of *Capital*, by this time Marx had died and Engels was engaged in this great work of coming out, getting Marx's old notes together and into a book form, and in volume two of *Capital* in the preface, Engels teasingly and childishly organized a game.

"Let's see how Marx is going to solve a great problem. The great problem, of course, is this." In volume one of *Capital*, if profits come from exploitation of workers and [unintelligible] are reduced, then of course there's capital investment, how is it [unintelligible] really about the same in the market?

What's the story here? Why isn't it true that the profit rate on say a heavily capitalized industry is much lower than a profit rate in ditch digging, which would be very high? And he said, "Listen, in volume three Marx will solve this great problem." So Engels offered a contest. "Let's everybody get to it and see how Marx solved it, see if they predict how Marx solved it."

A lot of people engage in this contest. Of course, there was no prize at the end. But anyway, they came out with, how could you solve this insoluble problem? In other words, you either have the labor theory of value, either you give that up or you give up the idea that profit rates are equalized on the market.

Marx didn't give up either one. Anyway, nobody solved it, supposedly. It comes out of the alleged solution, which Böhm-Bawerk then

[unintelligible] patiently, point by point, and shows that Marx essentially gave up, implicitly gave up the labor theory of value. Obviously, he had to admit that profits tend to be equalized on the market, and therefore the labor theory of value is shot.

And of course, Marx doesn't admit, but he points out he has to admit it, etc. The interesting thing is the reaction, I think many Marxists gave up the thing altogether. Akile L'Oria, kind of a sweet reaction to all this—L'Oria was an Italian Marxist, didn't have to wait for Böhm-Bawerk's critique.

He realized immediately that when he read volume three, the whole thing was shot, and he was very bitter because he had previously said that *Capital* was the greatest book of all time, it's the fulcrum of all life or whatever. When volume three came out, L'Oria said that, "This is the Russian campaign of Marx," an analogy—of course, Napoleon's Russian campaign. This is the end, it's suicide, he's had it, Marxism is finished.

The other Marxists who were trying to remain Marxists to this day, what they did is essentially change [unintelligible] terms of the debate. They said, "Well, Marx didn't mean... When he talked about value, he didn't mean prices, he didn't mean influence [unintelligible] pricing. That's something else, he had some kind of mystical embodiment of value. It has nothing to do with the price system."

Of course, Marx thought it had something to do with the price system. This is typical, of course, Marxist reaction to criticism. When predictions are made, when Marx makes a prediction—for example, the workers are going to get worse and worse off until they finally revolt—they're obviously not getting worse and worse off, and Marxists' reaction, "Well, Marx didn't mean worse off; he meant relatively worse off than wealthier people."

You shift the terms of the debate. You'll never be wrong from non-falsifiable proposition. So the Marxist reaction was—those who continued to be Marxists—“Well, Marx didn't mean... He meant value in some sort of mystical sense. The values were embodied by labor, and it had nothing to do with prices.”

But Marx, I don't think, meant that. But this is a fallback position. This is the position of [Futferdeng], for example, the so-called refutation of Böhm-Bawerk. Mises tells the story about Otto Bauer, who was the leading Austrian Marxist for many years, a friend of Mises, at least for a while.

And Bauer enrolled in Böhm-Bawerk's seminar for a few years, in order to refute it. He wanted to refute Böhm-Bawerk's refutation of Marx. It'd be the definitive refuta... He never did it, and he admitted to Mises one time, “Is this it? There's no refutation.” The labor theory of value was shot.

And one interesting thing is, as sort of a footnote to this saga, is that the most highly praised recent book on Marxism, this is by Thomas Sowell, on Marxism, also takes the Marxist line of Böhm-Bawerk, “You don't understand Marx; he meant something else.” It's a strange book. The Sowell book is essentially a pro-Marxist book, which has been billed by propagandists as the definitive critique of Marxism. I leave that for your... It's kind of an interesting saga.

There's also a charming, a couple of charming points by Alexander Grey, who's my favorite humorous economic writer, history of economic thought. He's going through all that stuff, this marvelous book about socialist tradition—he's going through all the socialists. He talks about the attempts of various Marxists to try to explain why Marx didn't mean value, what did he really mean when he talked about value?

He takes off on GDH Cole's book, which is called *What Marx Really Meant* and tries to explain this, etc. So here's a charming quote from Grey. This is his critique of Cole: "The identity of value in embodied labor was surely something Marx thought he had proved, and which therefore required proof in the opening pages of *Capital*. If the [unintelligible] value of labor is a matter of definition," as the neo-Marxists said, an assumption, "at least we know the meaning Marx attaches to value. In that case, the pretended proof in the opening chapter is mere eyewash, since one states but does not prove definitions."

So if the whole thing is simply a definition, "It's value because I say it is," why does he go through the whole book? "Also, in that case," he adds, "It is to be feared the whole of *Capital*, resting on an arbitrary definition, which implies the conclusion to be reached, is an example of wandering vainly in a circle, even more than the most critical critics have thought possible. If, on the other hand, the identity of value and labor is a matter of proof and not a definition, we still have to grope the meaning Marx attaches to the word 'value.'"

To conclude with Grey on Marx's value theory, "To witness Böhm-Bawerk or Mr. Joseph," HWB Joseph wrote a book the labor theory of value and Marx, "To witness Böhm-Bawerk or Joseph carving up Marx is but a pedestrian pleasure. These are but pedestrian writers, who are so pedestrian as to clutch at the plain meaning of words, not realizing that what Marx really meant," Cole, "has no necessary connection with what Marx undeniably said.

"To witness Marx surrounded by his friends is, however, a joy of an apparently different order. But it's fairly clear that none of them really knows what Marx really meant, and even a considerable doubt as to what he was talking about. There are hints that Marx himself did not know what he was doing." [laughs]

“In particular, there’s no one to tell us what Marx thought he meant by value.” I think that’s, in a sense, the last word on Marx, because I think—that’s a whole other saga—the entire Marxian canon is essentially a prophetic religious movement of a weird kind. What I’m advocating here, essentially back to Böhm-Bawerk, put that on a sloganeering term, because Böhm-Bawerk has been denigrated, he essentially fulfilled the Mengerian mission, and applied Mengerian Austrian economics to capital and interest, and successfully so, I think.

And then Feder of course, we’ll add him to the arrow here, and Mises. So I think that’s basically what I want to say in the lecture. I’ll wrap it up now and call for questions. Thank you. [applause]

Female Voice:

My question is that Böhm-Bawerk and Mises had different approaches in dealing with government and bureaucracy. In fact, Mises essentially was somewhat tolerant of it.

Rothbard:

Tolerant of bureaucracy? I don’t think so. Böhm-Bawerk, as I said on Böhm-Bawerk, he’s not a pure academic. Menger too was a civil servant and a member of parliament. Böhm-Bawerk was Minister of Finance, I think Menger was Minister of Commerce for a few years. Böhm-Bawerk was Minister of Finance several times. He sort of alternated his seminar, his professorship and Minister of Finance.

He was the one responsible for going to the gold standard. And generally a free market type. He didn’t engage in political economic analysis as much as Mises did, but basically I think in the same area. By the way, another Böhm-Bawerkian mystery is, there’s no biography of Menger, no biography of Böhm-Bawerk—another research project—nothing.

Böhm-Bawerk died fairly young, died immediately after World War One broke out. The story is he might’ve committed suic... [unintelligible] very

depressed, [unintelligible] the war meant the end of Western Civilization as far as he was concerned.

And there was also a story he might've committed suicide as a result of that. That's the whole question about—the whole world's falling apart, and it was falling apart, classical liberalism and peaceful world, peaceful Europe, so forth and so on. I think they're really fairly similar, [unintelligible] Böhm-Bawerk. Böhm-Bawerk doesn't have much time for any [unintelligible] except his three-volume work, and in different editions of and different various journal articles.

So, basically he too was wrapped up in statesmanship. I'm not sure what his theory of bureaucracy was. I don't know if Böhm-Bawerk—there must be Böhm-Bawerk papers somewhere. I'm not sure where they are. Something to be explored.

Male Voice: A couple things about Menger—Hayek mentions in his *Introduction To The Principles* that Menger was an activist in the liberal party. Maybe that'll help give us an indication of his policy.

Rothbard: I'm not sure. I guess liberalism is many things—could be laissez-faire liberals, and could be some sort of moderate. I'm not sure. [Schweissler] claimed he was a hardcore laissez-faire liberal.

Male Voice: In a book called *The Gold Standard* edited by [unintelligible], that brings out Menger's position on the gold standard. [unintelligible] because it limited the expansion of the state.

Rothbard: I thought it was probably true.

Male Voice: --some statist [unintelligible] in his book on money, he was evidently somewhat of a mixed bag in that.

- Rothbard:** [unintelligible] The fellow who wrote in the Mary Smith book on Menger's political theory, political views, keeps talking about the Austrian political theorist, E-O-T-V-O-S, with three umlauts. I'm not sure how you pronounce it. But he sounded pretty statist to me, but I'm not... Anybody know anything about [Eotvos]?
- Male Voice:** He believed that the Austrian Empire should maintain its traditional [unintelligible] local control over things, and [unintelligible] a lot. It's sort of a [unintelligible] actually, he was very influential, but he didn't have any particular views on economics. He was more suggesting that it was desirable to maintain the customs of the old regime [unintelligible] like the Austrian Empire, didn't have a democratic [unintelligible] very much against [unintelligible].
- Male Voice:** Remember that [unintelligible] in Vienna, that Munger and Rudolf had co-authored anonymous political pamphlets.
- Rothbard:** That's right.
- Male Voice:** It was very hardcore anti-statist and laissez-faire, that Rudolf got exiled to Budapest for.
- Rothbard:** That's right, my God.
- Male Voice:** [unintelligible] papers.
- Rothbard:** Yeah. And he wrote it anonymously. All right. The hidden Menger, that's great.
- Male Voice:** I want to say a few words about [unintelligible] and how it is that he got [unintelligible] someone argues that he's not an Austrian [unintelligible].
- Rothbard:** Well, he was a Fabian socialist. [Wichstein] was also a Fabian, although he certainly doesn't write like one. He writes like a hardcore market

person. And he also used, perhaps the first one to use the idea of the [unintelligible] the idea that since you have a diminishing marginal utility of money, that somehow the means that you should have a progressive income tax to maximize general social utility.

I think the origin of that. I'm not sure how he [unintelligible] or whatever. Then of course there's no biography of him either. Mises in his recollection is very bitter about Wieser, and didn't consider he was [unintelligible] value much at all. As a matter of fact, when Hayek was first introducing himself to Mises, he had had a letter of recommendation from Wieser, which almost killed Hayek's chances with Mises. Not quite, but probably not considered a positive recommendation.

So I'm not sure. I've read Wieser's *Social Economics*, didn't think much of it. I didn't see much in there of much value.

Male Voice:

There's a section in volume two of Böhm-Bawerk's work, a section called "The Law of Costs," in which he elaborates on the cost projection view of price determination, and he says that it's possible to reconcile this with the demand utility approach. So you reconcile the backward, looking toward the past, price determination, with the looking toward the future view.

Rothbard:

Well, the costs look into the future; the costs are the expected productivity of the factor to the consumers. In other words, the costs are also a subjective concept. When people pay for a factor of production, they think [unintelligible] bring certain value to the entrepreneur, based on what consumers will pay for it, how much will be produced and what consumers will pay for it.

Male Voice:

I didn't think he was using that [unintelligible] of cost. I think he was using the classical version of cost as monetary outlay. And I'm not quite sure how he's able to tie them together.

- Rothbard:** Well, I'm basically thinking he used this version of cost. I realize that was developed more over time, but I think he was basically an opportunity cost Austrian. And certainly Jebins, to the extent he wrote about it, was. Yeah?
- Male Voice:** Larry White says that Böhm-Bawerk was just simply not a praxiologist, and that Mises' work and methodology was to some extent a repudiation of his mentor. Do you think that's much ado about nothing?
- Rothbard:** Why didn't Mises ever say it? Mises was not reluctant to talk about what his views were. There's nothing in Mises to think he repudiated Böhm-Bawerk, quite the opposite. He always hailed him as his predecessor.
- Male Voice:** The whole style of Böhm-Bawerk's presentation is clearly [unintelligible]-logical. It's kind of logical deduction, reading his book—he starts from scratch and then builds [unintelligible] ridiculous to think that there's any kind of principal difference between the two, even though Böhm-Bawerk did not like [unintelligible] Marx in various places, but there's no indication—
- Rothbard:** There's a beautiful book, Böhm-Bawerk. Actually, one of the problems with Böhm-Bawerk—I realize the Smart translation is the first edition. The Zenholtz translation is the third edition. I don't know German that well, but I know Smart was a much better writer in English. Böhm-Bawerk in the Smart edition is a great writer, it flows beautifully. So I don't know if that's Smart himself, who was himself a good writer or whatever.
- But I would recommend reading that to get the flow of Böhm-Bawerk, a step by step [unintelligible] puts together. The Zenholtz translation is kind of choppy and wooden. As a matter of fact, when I told Engol Catter about this, who of course read most translation and all the rest of it, the original, he said he felt the Smart translation was better, period.

- Male Voice:** Can you briefly explain the difference between Menger, Böhm-Bawerk and Mises and Lochmann's notion of capital, and how Lochmann's notion of capital and the structure of production leads to a nihilist view?
- Rothbard:** Well, Lochmann's book, *Capital And Its Structure*, is a basically Böhm-Bawerk-Misesian book. It's the early Lochmann, Lochmann I. That's a fine book, I'm all for it. It talks about how the stock market fits into all this. Shares of titles to capital fit into the whole structure of allocating resources in the best manner, etc. That's a great book, it's an essentially Böhm-Bawerk-Misesian book.
- What happened was Lochmann, sometime after that, discovered [Chaquel] and nihilism and became a Chaquelian. That's Lochmann II. There's not much you can say about that, except it's institutionalist. It's nihilist and institutionalist. There are no economic laws, you can't predict the future, you don't know what's going on, it's all sort of chaotic, or kaleidic, as Lochmann put it.
- That's about it. It's kind of a boring thing, in a sense. Even if it were true, it'd be boring. It's, of course, false, but it's really about all you can say, that everything is kaleidic and [unintelligible] wipe out all of economics. I don't see much—I think that Böhm-Bawerk definitely, he's more in the Misesian, praxiological tradition than Menger in the sense of step by step analysis, and everything flowing logically.
- Male Voice:** Earlier, you said that Böhm-Bawerk was unfair to [unintelligible]. Would you say something similar to that about his treatment of Cassell and the notion of waiting and all that?
- Rothbard:** I don't know. I didn't really focus on it. I know Cassell is sort of [aggregate of this type], kind of a Fischer type. And also he didn't have the array view of, you know, the price index view, etc. He might've been.

As I say, he has this idea that everybody before him has to be demolished, and once in a while demolishes something unfairly.

It might be. The only thing, he didn't know that with John Rae, but of course John Rae was discovered after he wrote his first edition. In 1903 or whatever, he came out with this edition, then he hailed John Rae as a great predecessor. Although by that time he sort of established a strategy for [responding].

So it might be [unintelligible]. You'd have to go back and check it.

Male Voice: If the paper favorable to Turgo is still in Hayek's basement, how is it known that Böhm-Bawerk was so favorable in the beginning—

Rothbard: Because it exposes what he said. Hayek reported this, then he hails Turgo as a predecessor of his own work. He's certainly a Turgo [unintelligible]. The marvelous English translation of *The Law of Turgo's Economics Works* by Gronavagen, he's got that in there, reporting this from Hayek.

So I could see Hayek disgorge this, or his estate or whatever, and get this, get it translated or whatever; it'd be fascinating.

Male Voice: [unintelligible] anything else on Menger and Böhm-Bawerk. I think you're being a little unfair to Tom Sowell's book about Marxism. I think that Sowell's point about Marx and labor, the definition of that, in fact, I think Tom states specifically in his book that Marx did not give a labor theory of value, he gave a labor definition of value, and this is a bit of controversy.

And given that Marx is, in many cases, not sufficiently coherent to be termed right or wrong, I think that you are being a little bit unfair—

Rothbard: I think I'm being not unfair enough, because he says that these other guys never mention, never cite Marx directly, Samuels and so forth. And he said, "Marx never has a labor theory, doesn't mention the word 'labor theory of value,'" and of course he did, and there's a review [unintelligible] Ramsey Steel in the International Philosophical Quarterly, points that out. [unintelligible] in this points out it's right in there and quotes it. So I think that's—he does other things like that too, very arrogant.

It's better to be arrogant when you're justified. It's very bad to be arrogant when it's not justified at all. I think that's [unintelligible] with Sowell. I think the Conway book is infinitely better as an introduction to Marx than Sowell is. I think what happened with Sowell, if you read the Sowell book carefully, you'll find that the citations, almost all of them are from before 1963.

So it's pretty clear that this is a collection of his notes written when he was a Marxist, Sowell, and just simply put together, and he added on an anti-Stalinist chapter, and that's about it. I think that's the inception of the book, his annual book, [unintelligible] last year.

Male Voice: With the modern Marxists, they attempted to defend his labor theory of value or reject it. It seems like there's a big problem—if you defend it, then predictably, they say very silly things. But if they reject it, then [unintelligible] everything collapses.

Rothbard: They say they tend to reject it.

Male Voice: [unintelligible]

Rothbard: I don't know, beats me.

Male Voice: [unintelligible]

- Rothbard:** Yeah. Class struggle.
- Male Voice:** --revolution of mankind through the stages of feudalism, socialism and all the rest of it. [unintelligible] but to my knowledge, there's hardly any Marxist who will defend his labor theory of value, even though they all recognize that that is the core of Marxism.
- Male Voice:** There was one at NYU, I can't think of his name—
- Rothbard:** Becker.
- Male Voice:** He [unintelligible] defended the labor theory of value.
- Rothbard:** They're very few and far between.
- Male Voice:** But I can't remember what he said, it's hard to remember.
- Rothbard:** Yeah, basically they fall back on general sociology or whatever. Alienation, of course, is a big one. The labor theory of value gets shunted to the side somewhere. But it's interesting, because Marxism tends to flourish not in economics, but in other, softer disciplines—language or sociology, all these benighted areas, where it flourishes. But economics is really fairly free of it.
- Male Voice:** [unintelligible]
- Rothbard:** Is it?
- Male Voice:** I think that's an imaginary model.
- Rothbard:** But even in the communist countries, the leading forces giving up Marxism are economists—Yugoslavia, Hungary, etc. [unintelligible] forefront of abandoning the whole damn thing, and going on to some sort of market.

- Male Voice:** [unintelligible] economists who [unintelligible] Marxists. I mean not Marxist in the sense that that is the philosophy that they use as their guideline or whatever. You'll find it amongst sociologists, political scientists, German/English literature. You name it, you got it. But in economics, meeting a Marxist is a rare occasion.
- Rothbard:** [unintelligible] to defend it. And something about the discipline of economics, I think it's a conservatizing influence in general. You can't eat your cake and have it at the same time, a self-discipline.
- Male Voice:** [unintelligible]
- Rothbard:** Yeah, that too.
- Male Voice:** While we're on the topic [unintelligible] tell us a little bit about—you just finished your work on Marx. Give us a little précis of your view of Marx.
- Rothbard:** Okay, thank you. What happened is I set out to write a short book on the history of economic thought, and it's gotten longer and longer and longer, because I can't leave out good guys, I can't leave out bad guys, and I find more and more good guys and bad guys all over the place. In the case of Marx, I thought, "Well, everybody knows about Marx's labor theory of value," and bingo, I found out there's a lot more to it, and I had to ply my way through Hegel, which is not something I'd wish on my worst foes.
- At any rate, what I think the essence of Marxism, it's worse than you might think. In other words, the whole thing's really a religious doctrine. It comes from, it starts off with Christian heresy and actually a neo-Platonic movement—Christian heresies in the early Christian period. It came along as sort of an underground movement, the basis of which—there are two aspects of it—one is creatology, the science of how the universe was created, or why did God create the universe?

This might seem to many here an esoteric topic. But it's something like praxiology—theology I find very interesting. Something like praxiology—one slip and you've had it. One slip in your deductive chain, you make one slip somewhere in the early premises, you're sort of finished. You're going after bizarre deviations.

So what happens, the Orthodox Christian view, which is a safe view, by the way, in all these areas, far as I can see. The Orthodox Christian view is God created the universe out of love for his creatures, and there's no political implications or sociological implications from this. The heretical view was that God created the universe because God was dissatisfied, was lonely or whatever, imperfect.

So you start off with that viewpoint, which starts with say [Plotinus], and as the old Platonist goes down, is that you start with God and man are unified. How man and God could be unified before creation, I don't know, don't ask me to explain this; I can only report it. So God and man are together in one cosmic blob, but unfulfilled, imperfect.

Then God creates the universe as an act of desperation in trying to fulfill God's functions or soul or whatever. And then you have creation. Creation becomes, then, as heretical Christian heresy view, an act of evil, because what you have is you split the original unity of man and God. Before that, man, God and nature, before creation, were unified. That was the great thing about it.

Then with the creation of universe, everything got split into atoms, individuals and species and all the rest of it. So man, the collective, capital M, of course, the species is now cut off from nature and cut off from God. And individual men are cut off from each other because they're really part of a collective blob.

So at this point the bad thing about it is, this is where the concept of alienation comes in. Alienation is not mean, psychological disturbance because you don't like what's going on or something. Alienation is a fundamental act of creation, creation itself. Man, God and nature are alienated from each other. So then what happens is a determined process by which God fulfills himself in some way, man fulfills himself, and species development, and finally, as an ultimate act, the final end of the universe, eschatology, the last days, where man and God rejoin each other in a great blob again, this time at a higher level. The return.

Whatever you want to say about this, it's very collectivist, because the individual means nothing, the individual person is nothing, just a cell in this great collective organism. So when you say man is progressing, it means the species is progressing toward this higher level of ultimate reunion with God.

What happens as things develop, after the Christian period, the Middle Ages, etc., this gets pantheized with Hegel. The entire Romantic period is a pantheization of this. God drops out as a supernatural being or whatever, and what you're left with is collective man, the species, then fulfilling, finding out that man and God are really the same thing. And that's the ultimate consciousness. You wind up with a cosmic blob. This time God has dropped out. Man and God are the same thing, you have a sort of pantheistic thing where all is one. This is the end of history, the end of the universe.

And the entire Romantic period, by the way, is saturated with this crap. There's a wonderful book by MH Abram, which I recommend to everybody called *Natural Supernaturalism*, which analyzes all the Romantic literature and philosophy—basically, Wordsworth and Coleridge and Hegel and Schleiermacher and Schlegel and Schiller, and

all these people, mostly German and English, and they all have this viewpoint, more or less, down to DH Lawrence, by the way.

You have a species development winding up with the end of alienation, and everything's great and perfect, it's the end of history, man is reintegrated with nature and God and the rest of it. So what you have with Marx is an atheist version of this pantheism. Hegel was a pantheist. Hegel, of course, believed that he himself was the final culmination, he was the ultimate God person because he invented the theory, and this makes him the world-historical figure.

And Marx atheized it. Instead of talking about God at all, you just have a collective species blob, man with a capital M. So what you have as the final eschatology of course is the communist system, where everything is integrated—all individuals are joined together in a collective blob, which is he calls the end of history.

It's an atheized version of a pantheized version of original Christian heresy or neo-Platonic heresy. And you have the apocalyptic final conflict where, all these things, there's a final conflict of good and evil, where good triumphs over evil, and it puts an end to history. All these things, I wouldn't say it makes sense out of Marx, but you understand what maybe he was talking about. He was involved in this kind of, a prophet of this doctrine.

You look at his so-called early poems, even more interesting. Early poems does not mean he was a kid of 12; he was a graduate student. I figure if you're a graduate student, you're responsible for your own product, right? He wrote these very interesting poems which have been translated, most of them. It's really hair-raising, because essentially he sets forth his program.

It's before he knew about the labor theory of value. This was his ultimate vision of the world. His vision of the world was, and he said it explicitly was, he hates the universe because God created it, and it means God is a greater person than he is. Therefore his goal is to destroy the universe. This of course fits in with the rest of his program.

So anyway, it's a fascinating study. How could I leave this stuff out, right? The book keeps growing and growing. [unintelligible] diversion of the Marxian vision. And this is of course accepted—he becomes a communist, and then he looks around for—in other words, he becomes a communist, communist is the final goal; how do you bring it about?

If you have religion, you have the Second Coming, the Messiah comes and you have the mechanism. Of course, Marx couldn't talk about a messiah. So you have to have some inevitable law of history that determines the final outcome. For the rest of his life, he's searching for the economic forces, how does this work? Why does capitalism inevitably lead to communism in a final apocalyptic moment, when the working class takes over?

He's trying to find the mechanism. So the last 30 years of his life or whatever, he's trying to figure out how it must work. But the goal of communism was established from very early, [unintelligible] and the rest of us spin out how a Messianic age is going to take place without the messiah. It's difficult to do it. I could see try [unintelligible] whatever you want to call it, and flopped.

Anyways, sort of a capsule view of it.

Female Voice: [unintelligible] leads to communism?

Rothbard: This is Marx's view, yeah. By the way, some good books on this—the Tucker book is the best book, it's extremely difficult reading. It's Robert

C. Tucker, it's called *Philosophy and Myth in Karl Marx*, and it's almost as difficult reading as Marx himself, or Hegel, but it's worth it, and he really got most of this in there.

Other books, Bruce Maslisch book, it's a paperback called *The Meaning of Karl Marx*. It's quite good. I was surprised because Maslisch is usually a Freudian historian. This time he played it straight, talked about the religious prophetic. [unintelligible] his own stuff, which is pretty good on all this, analyzing it, and more or less transcends the ideas of early Marx and then late Marx. There's one Marx, one bad guy. Starting out with this communism as a destruction eschatology and trying to figure out how to work it.

Interestingly enough, the idea there were two Marxes—the humanist type said, “Yes, the early Marx is great because the early Marx talks about freedom and alienation, then he gets bad because he talks about labor theory of value and economics—too rational.” This is the New Left Marxist.

Then you have the Stalinists like [Altusay], who say, “No, no, the early Marx is crazy; the late Marx is great because he talked about economics.” And of course, there's only one Marx, it's all different aspects of the same galoot.

Male Voice: Doesn't Sol in his book uphold this young Marx/old Marx?

Rothbard: I think so. He doesn't talk about the philosophic aspect much at all. I think he does, yeah.

Male Voice: Where did Sol go wrong? What are the claims that Sol made that—

Rothbard: He thinks that Böhm-Bawerk did not refute Marxian—that Böhm-Bawerk didn't understand Marx, and that Marx didn't talk about prices and things

like that. He doesn't really deal with much of any of this. But Conway, on the other hand, is quite good. Not perfect, but I think he deals with most of the problems. Not so much the religion aspect, but...

Male Voice: [unintelligible] as far as David Ramsey Steele—

Rothbard: It's a short review. Steele, he has...

Male Voice: [unintelligible]

Rothbard: International Philosophical Quarterly. Let's see what the issue was. It's June 1986, the International Philosophical Quarterly. It could be longer, it's a short review, even though he really spears him. What Sol said was that Marx nowhere refers to a theory of value, despite numerous and [unintelligible] interpretive literature to the contrary. Steele points out that, "There it is," he cited the exact quotes. That's just one feature of it. I'm sure Steele, if necessary, can work out a whole thing there, because he's got a lot to say about the Sol book. [Betton Lars].

Male Voice: David wasn't a Marxist.

Rothbard: Yeah, sure.

Male Voice: Before Marx became a Hegelian, what was he doing? I understand he was a fairly big classical economist.

Rothbard: He wasn't interested in economics. His first real poem is about destroying the universe, that was the first step, and then he became Hegelian. Economics really comes in much later, when he's trying to figure out, as I say, what the path is toward the allegedly inevitable communism.

Male Voice: I heard, I can't remember where, a number of times that *Capital* was really written by Hegel, and Marx is—

Rothbard: Written by Hegel?

Male Voice: And that Marx's name on it...

Rothbard: You mean Engels. Yeah, I don't know about that. Well, I don't know. It's interesting. Gary North has written a second edition of his book on Marxism—*Marxism, Religion and Evolution*, it's called, right? Gary thinks Engels really did most of the work. He was the theorist, and he revered Marx because Marx got a Ph.D., and Engels didn't. Sort of early case of Ph.D.-it is.

I'm not sure about that. It's interesting speculation. There's various views on it. Engels really was a real theorist. Other people think he was the bad guy, a view of the '50s, that Engel was a "Stalinist." I'm not really sure. It needs more investigation, if one of you is interested in investigating it.

Because the two were very close. When Marx was alive, he read everything Engels wrote, and whatever, so it's sort of like a joint product. Also, there's a tendency to whitewash Marx by saying Engels was a bad guy. For example, the dialectical materialism question. It's a part of Marxism that Marxists don't like to talk about, because the idea of dialectical materialism applies to all of life—the cells negates the cell and all that sort of stuff. It doesn't sit well with most people.

So the theory is, well, Engels is the guy who's interested in Darwin and biology and things like that, and Marx wasn't. It turns out Marx was just as interested. So I don't know, yeah, it's an interesting area of speculation.

Male Voice: Marx sent his work—he asked Darwin if he would be [unintelligible] him. But Darwin never replied. [unintelligible] at least he didn't agree. So Marx [unintelligible].

Male Voice: --economics from his father-in-law?

Rothbard: [unintelligible]? I don't think so.

Male Voice: [unintelligible] He liked his father, Paul, very much. I remember, he had a very close relationship, and that was an explanation why, in spite of the effect [unintelligible] the family of Marx's wife was actually opposed to the marriage. The only of the family who was in favor of the marriage of Marx to [unintelligible] was his father-in-law.

All the rest of them hated the fact that they were [unintelligible] family and all the rest of it, and Marx wasn't. And Marx, until the end of his life, was very proud of the fact that he had married a person from nobility.

Rothbard: His wife had a great calling card—Baroness von Nussbaum.

Male Voice: That's also why he made tremendous efforts to hide that he also had [unintelligible] kids, because [unintelligible] wife from nobility, that's not the sort of thing you do.

Rothbard: By the way, the Gary North book is very interesting. One of the contributions of the book, it's the only place I've seen the standard of living indexes of what Marx was living on, what the purchasing power was. It turns out Marx generally was living a very high income level, supplied to him mostly by Engels, of course, and by his other benefactors. He was always bitching about a shortage of money, always borrowing and never paying back and so forth. But he lived apparently quite a high income level, went through it like water, then accused everybody else of having a money fetish.

Male Voice: Why is it so hard to bury him once and for all?

Rothbard: Like I say, I think it's a religious movement, and it's a true believer kind of thing. [unintelligible] penetrate a rational argument, that's basically it.

That does happen, of course. People get converted out of Marxism quite frequently. But I guess a good spot to end the session. Thank you very much. [applause]

end of transcript.

Mises and Austrian Economics

Murray N. Rothbard

The fifth in a series of six lectures on The History of Economic Thought.

Transcribed and Donated – Thomas Topp

Rothbard:

It's going to be difficult to explain all of Austrian economics and Mises' role in a short period of time, but I will try my best. In the first place, about Austrian economics, contrary to many impressions, it has nothing to do with Austria. I know nothing about the economics of Austria. Doesn't mean it's not a viable subject—I don't know much about it.

Also, there are very few Austrians left in Austria. [laughter] They're all here. Austrian economics began in the University of Vienna with Carl Menger. The early Austrians were indeed located in Austria, and then the doctrine permeated outward.

The essence of Austrian economics, it's based on—in contrast to all other schools, including alleged free market schools of economics—Austrian economics is based on an analysis of individual action. In other words, individuals doing things, having purposes and goals, and pursuing them. This immediately sets us apart from all the other schools of economics, who deal with aggregates, groups, classes, wholes of one sort or another, without focusing on the individual first and building up from there.

I could easily make this about five hours instead of 45 minutes, so I'm going to try to truncate this. Austrian economics basically builds on an earlier tradition, a French and Italian, especially French continental tradition, really beginning with the Spanish scholastics in the 16th century, and then proceeding on in France with Kantalon and Turgo in the 18th century.

This was buried for various reasons. This knowledge was lost to economic thought and superseded by the British classical school, by Smith and Ricardo and their followers. So this immediately starts a new history of thought, because most economists I think still think that

economics began out of the forehead of Adam Smith in 1776, he sort of created it like Athena springing from the brow of Zeus.

Actually, economics not only predated Smith by several centuries, but also was much better than Smith. In other words, Smith represents a decline. At any rate, the British classical school—Smith, Ricardo, etc., John Stuart Mill—focused on aggregates and groups and classes rather than the individual, number one.

Basically, you sum up the classical school, several key fallacies, and this was dominant until Menger came around in 1871. One, that value, economic value, price was determined by the cost of production, the cost of production embodied in some fashion in the product, and specifically by the quantity of labor hours embodied in it.

And we can pretty well see almost automatically, if we look at this thing in a clear-eyed fashion, there's something wrong with it, because I could work... There's a movie, a charming movie, a great Z movie that came out about 20 years ago, I forget the title, but the essence of it was some great inventor somewhere in the west of England, totally isolated, and he kept inventing great things, like a radio and television and all that, except it had already been invented 20 years before, and he didn't know about it.

So he was a great inventor; it's just he invented the wheel or whatever too late. But he must've put in 100,000 labor-hours in these inventions. How many did he sell? Obviously, zero. So the economic value would not obviously depend on his quantity of labor hours. What the classical school had to do was dismiss as unimportant a whole group of economic goods, and not able to explain their value—namely, known and reproducible objects, goods that are not being produced anymore, like Rembrandts.

Rembrandt put in a certain number of labor hours, I suppose, but the price of Rembrandts keeps fluctuating since then, not in accordance with somebody's input, one hopes. Otherwise, it'd be forgery. So what determines the value of Rembrandts? Well, they couldn't figure it out; they just had to leave it aside as unimportant.

They couldn't deal with consumers either, because a consumer that came up against a famous value paradox, which the history of economic thought always tells about, that Smith was buffaloeed by the value paradox. The curious thing was he solved it himself about 20 years before, so it's a very odd kind of situation.

At any rate, in *The Wealth of Nations* he sets forth the value paradox, it's a terrible thing, he can't understand it. On the one hand, there's diamonds, let's say; on the other hand there's bread or water, you could use either one of the two. And bread is the staff of life, it's philosophically extremely important, very necessary, and yet it's very cheap on the market. In other words, its economic value is zilch. It's cheap, not zero. Water, its economic value used to be zero.

And on the other hand, you have diamonds, which are mere frippery, a luxury item and so forth and so on. Adam Smith, being a good Calvinist, said they have zero value, diamonds, and yet they're very expensive, they have very high economic value, so he couldn't figure that out, the value paradox.

Here's bread, which is extremely useful, yet has very low economic value, and diamonds, which are useless or almost useless and have very high economic value. And he concluded economics can't solve this. Just split the thing, value in use and value in exchange, there's no way to solve it, and we have to deal with exchange value, and forget about use value.

You see right away this sets up the conditions for a whole bunch of left wing thought in the late 19th, early 20th century. It's still going, I suppose. The separation between value for use and value for, I mean production for use and production for profit. It immediately sets that up somehow as a big distinction.

He said, "Therefore we can't deal with consumers, we can't deal with non-reproducible goods; we have to deal with producible, reproducible goods," and again, we talk about, since you can't talk about consumers, value must come from something inherent in the object—namely, labor hours.

Another reason he used labor hours is that at the time he and Ricardo were trying to measure value all the time, because science meant measurement in those days for these people. And so therefore, how do you measure value, how do you measure changes? He's looking for some hard quantity, and he concluded labor hours was about the best thing they could get to.

So that was one big fallacy, one big dominant fallacy in economic thought when Menger started to write. Another big fallacy is that they said, since couldn't deal with individuals at all, they're dealing with classes, they had a separate thing called distribution, theory of distribution, trying to figure out—this is Ricardo particularly—who decides how much of the national output goes to wages, how much goes to profits, how much goes to landlords?

The way he set it up was a class struggle between these three mighty groups. In other words, the good is produced somewhere, they produce it, then they fight for who gets the different shares of income. Laborers get messed up here. Labor's at the dirty end of the stick, because wages are determined by the iron law of wages, the Malthusian iron law,

down at the subsistence level, as we all know. We're sitting here living at subsistence level at the Anaheim Hilton.

Everybody gets the lowest possible wages, so that takes care of the workers, and capitalists and landlords fight it out for the rest of it, with usually landlords winning out, because they get an increasing share of, this unproductive group of people get an increasing share of income. This obviously led, this analysis seems to me led logically straight away to Marx and Henry George, two different sets of thinkers, but each focusing on different aspects of it—

Marx focusing on the alleged surplus value going to the capitalists as against the workers, and somehow capitalism conspiring to keep the wages down at the subsistence level. On the other hand, Henry George focusing on the evil, unproductive landlords, getting an increasing share of a natural product, they should be expropriated.

Now, of course, Smith and Ricardo did not believe they should be expropriated, they didn't think in those terms. It seems to me it's pretty logical that if you're looking, if you're interested in justice, then only economic analysis, you'll wind up with either, if you're a Ricardian, you'll wind up with either a Marxist or a Georgist.

Some people of course take both paths—Marxo-Georgists. So the second big dominant force in British classical economics. The third thing is asking how could they be so wrong? How could they focus on this unreal situation, labor hours? By the way, the labor theory of value—I think I should backtrack slightly on that—this is pure speculation, but I think it's probably true that it's not accident, only in Scotland did the labor theory of value originate. Nobody on the continent, nobody in France, Italy, none of the Spanish scholastics ever thought in terms of—they said

labor comes from consumers, consumer demand, and they didn't talk in terms of labor value.

It seems to be not an accident, because Scotland of course was the classical home of Calvinism, and Calvinist doctrine is that labor is a key thing. Everybody is doomed to work, and consumer enjoyment by the way is evil, and as Adam Smith said, diamonds are useless. The only reason you consume anything is to allow you to keep working, because of God's commandment to suffer, keep suffering.

So this sort of Calvinist attitude leads pretty quickly, I think, to a labor theory of value. So that's two big fallacious aspects of the British classical school—labor theory of value or cost theory of value, one. Two, classes or aggregate class struggle over shares of income.

And the third thing is they focused totally on nonexistent, unreal, long-run equilibrium. This is done right now by modern microeconomics, and macroeconomics, for that matter. Current neoclassical economics focuses solely on—the reason [unintelligible] mentioned before, they don't talk about entrepreneurs.

It's very simple why they don't talk about entrepreneurs—they don't talk about entrepreneurs because entrepreneurs deal with change and uncertainty. You make a profit if you can forecast better than the next guy. You make losses if you can't forecast. In long-run equilibrium you don't have to forecast anything; nothing ever changes.

Since nothing ever changes, everybody has perfect knowledge, as they call it, perfect knowledge, everybody's in perfect competition, there's no uncertainty, no risk, no profits, there are no losses. So the entrepreneur then becomes a pain in the neck. It's messing up your neat mathematical system.

And this, again, stems from the British classical school. They didn't have mathematical diagrams or anything, but they had the essence, Ricardo in particular, focusing only on long-run equilibrium. As a result of three, the fourth thing, which goes along with this, is again, Ricardo's contribution to economic thought, "contribution," is to separate, divide totally the macro from the micro sphere.

We're all familiar with that, those of us who take current economics. Is micro the first term or, whatever, second term? Micro, you learn about supply and demand or whatever, and then suddenly you leap into macro and nobody talks about supply and demand, they all talk about growth curves and velocity and all that, totally different.

And this whole split starts with Ricardo also. So with Ricardo, the quantity of money only determines the general price level. Increase the money supply, prices go up. Has no impact on production, on profits, on interest, on relative prices or anything else. It's like two hermetically sealed spheres.

There's the microsphere where things are going on, it's fairly understandable, supply and demand, prices and all that. Then there's the macro sphere, totally cut off from the micro, where you have money and prices bouncing up and down with no relationship between the two.

Within that kind of British classical school dominance—by the way, now it turns out not everybody was Ricardian from 1819 until 1871. The British themselves began to peck away at Ricardianism shortly after he died. By 1830 there were no Ricardians left. But what happened was that John Stuart Mill resurrected Ricardianism with his famous *Principles* in 1848. He had such tremendous moral authority in the public, he was so revered, almost anything he said was accepted as gospel truth.

So he restored Ricardianism, he placed it at a dominant pedestal, and he did it because he was brainwashed by his father, who was a [unintelligible] and so forth and so on. Better not get into that can of worms at this point. At any rate, it was an atmosphere that Carl Menger, the founder of Austrian economics, writes in his great, path-breaking, magnificent book, *Principles of Economics* in 1871...

What he does, he builds on the earlier continental tradition, but essentially he develops this whole path-breaking system. What is it? To sum it up, the Austrian system is created by Menger and a student, Böhm-Bawerk, at the University of Vienna. Essentially, it's based on methodological individualism. In other words, focusing on the individual first, the individual's actions. The idea is the individual has a purpose, has goals that he or she wants to pursue; in order to pursue these goals, you have to use resources or means to pursue them, and it takes time to do all this, etc.

You start with Crusoe and you work on up to different individuals and exchanges, and building up a whole economic analysis from the individual. It hadn't really been done before; it'd been done partially, but it had never been done systematically, as Menger did it, and as Böhm-Bawerk did develop it even further, especially in capital theory and entrepreneurial theory.

So looking at it that way, you realize that the purpose for production is consumption. The idea that the reason why the inventor worked 200,000 labor hours is that he hopes that somebody will buy it. And so value is conferred by the consumers, by the demand of consumers, and goes backward from the subject of valuations of consumers down through to the factors of production, the people who receive income.

So you have, in other words, a demand theory or a consumer demand theory of value, the subjective value theory, instead of the cost of production doctrine. And that would of course immediately explain why Rembrandts might be \$2 million now, \$1 million ten years ago, because consumers are paying more for it. They're willing to pay more for it now than they were before.

The valuations are higher, either because of general inflation, they have more money, or because Rembrandts are now preferred more to other art than they were ten years ago. And secondly, focusing on the individual action, we can see that individuals make their valuations in marginal units. This is the so-called marginal revolution.

In other words, take the bread-diamond paradox, which Menger and the other marginalists solved—namely, nobody's confronted in real life—see, we're looking at real life action—nobody's confronted with a choice of all the bread in the world versus all the diamonds in the world. In other words, if the Angel Gabriel came down to us tonight and captured worldwide television and said, "People of earth, listen—you're now confronted with a choice between all the bread in the world from now on forever, and all the diamonds in the world. You're going to lose one of them, one set," probably most of us would vote for bread.

But the point is we're not confronted with that kind of choice—yet. We're confronted with individual choices like should we buy a loaf of bread or a five-karat diamond or something like that? And in these marginal units, then we realize that supply becomes a major focus—in other words, the more abundant, if bread is very abundant, the [unintelligible] the bread is not going to be worth much, because it's super-abundant.

On the other hand, if diamonds are very rare, each individual diamond is going to be worth a lot. In other words, these valuations take place in

units, in so-called marginal units, in loaves of bread or pounds of butter or whatever. If you look at it that way, you'll see why water might be priced very highly in the desert, and worth not that much in a very high-water area.

So this solved the value paradox. It had been solved before in the continental [unintelligible] before, but this is a much better, meatier and fuller explanation. Another thing that Austrianism focused on is that economics is not really a qualitative subject; it's not really a subject where you can make correlations and qualitative measurements and that sort of stuff, because value is subjective and can't be measured.

How much do I prefer...? I prefer, for example, Wonder Bread to Tasty Bread. How much? Who knows? It'd be pointless for me to say I prefer it 3.8 times as much as a loaf of Tasty Bread. And everybody's got different—you certainly can't add up people's subjective preferences. Preferences are ordinal. Rankings [unintelligible].

But for Wonder Bread or Tasty Bread, etc. So by looking at this, we can look at any Austrian book, you can almost tell an Austrian book by looking at it and thumbing through it. There's no math in there, almost none. And one of the reasons is because it's not really a mathematical subject. It's really a philosophic subject.

On the distribution front—I said the British classical school talk in terms of a class struggle between different classes of income receivers. Again, the Austrians focus on each individual, the individual factor owner, the individual laborer, individual capitalist, etc. By doing that, they're able to explain individual factor prices, which the classicists never even talked about.

And it's pointed out that the free market, through competitive action, entrepreneurial action, tends to impute to each individual factor how

much his productive share of a product—so-called marginal product or marginal value product. Each factor tends on the market to earn its marginal value of product, its contribution to the goods being produced.

So there's no longer any split between production on the one hand and distribution on the other. John Stuart Mill said the theory of production is all worked out, and it's totally separate from the theory of distribution. This of course leads very quickly to a socialist position because you say, "Sure, we're in favor of production, we'll allow people to produce, then we'll grab the income and divide it. Equal shares, more to people six feet tall," whatever theory of distribution you've got.

With Austrian economics, you realize that there's no separate process called distribution; distribution comes right out of production. People earn what they contribute to production. It's very simple then. And also, Böhm-Bawerk pointed out for the first time, and Frank Feder, the American Austrian developed it, clarified it—first, long-term profit is determined or comes from time preference.

This is something, by the way, the poor anti-usury people could never figure out—the Catholic theologians—who tended to be in favor of the free market, but they couldn't figure out what their justification for interest is, interest on a pure loan. They could understand about risk, they understood about uncertainty and all that; they just didn't understand about, why should people be able to charge three percent or eight percent or whatever on a pure loan?

And the answer is the people prefer a good right now to waiting for it or the present expectation of a good coming in a year from now, 10 years from now, or 100 years from now. Everybody's got a time premium rate on present goods immediately available, and a discount to the future. That determines the rate of interest.

Also, Böhm-Bawerk pointed out, and Menger too, that—by the way, modern economics still has not learned, capital takes time, production takes time. Capital is a time structure. Some goods are very close to consumers, like producing Wonder Bread, where the retailer is very close to the consumer.

On the other hand, machinery, the iron ore that goes into making the machinery that produces Wonder Bread is way up the structure, takes a lot of time to get to the earlier phase of production or a higher order of production. So we have then production taking time. We have capital, not as a homogeneous lump, which modern economics still tends to say, just add more capital, as if it's somehow a blob out there.

Capital is a latticework, it's a network, a structure which all has to fit in together. And by the way, only the free market can fit it in. Only entrepreneurs, the profit and loss test, profit and loss, incentive, and free price system can do the fitting. One of the problems with socialism, for example, is they can make some stuff, but they can't fit it together.

Often in Russia you have a situation where the bristles, you have a toothbrush shortage all of a sudden. Why is there a toothbrush shortage? The bristles are in Omsk and the handles are in Tunka, and they never fit the bristles together with the handle. In the free market you never have this problem. Everything fits because there's a constant feedback mechanism, so to speak, of profit and loss and a free price system.

And Böhm-Bawerk pointed out that the capitalist entrepreneur—again, we focus on the entrepreneur, Austrians—in other words, the equilibrium is a tendency, it's never reached. It's a goal. It's an ever-changing goal and you never reach it. So Austrians focus on the process, the real world process by which the economy tends to move toward equilibrium,

and thereby of course we have the whole world of risk and uncertainty and change, which is the real world, which equilibrium economics doesn't talk about.

So therefore the entrepreneur becomes a key figure in the whole process, the profit and loss system, the incentive to make profits and to avoid losses. So the capitalist entrepreneur in Austrian theory earns a two-part routine. One as an entrepreneur by forecasting better than the next guy, and you're able to forecast the future, forecast what demand will be for its product, what costs will be.

And also, too, as a capitalist, saving up money, and then paying workers right now in advance of the production and sale, for which the workers, in a sense, pay him a discount. They pay him the interest return. And happy to do it, because they don't have to wait five years for payroll.

So these are the two basic functions of a capitalist entrepreneur. Entrepreneurship and capital saving and investment. In this atmosphere, I'm trying to briefly sketch out Austrian economics before von Mises. Menger, Böhm-Bawerk, Feder. Ludwig von Mises is born in 1881. He's a brilliant young student of Böhm-Bawerk's famous seminar at the University of Vienna. Essentially, what he saw was that the Austrians had already fixed up these classical errors—the four big British classical errors—value, distribution, and equilibrium. But the one thing they hadn't done yet, the main thing they hadn't done yet was to heal the micro-macro split.

In other words, the Austrians still only talked about micro; they weren't able to extend Austrian economics to the theory of money. So that was Mises' first great accomplishment, and his magnificent first book, *Theory of Money and Credit* came out in 1912, and it's still the best thing ever written on money.

What he did was he healed the split, this artificial split. He applied the marginal utility theory of Austrian economics to money, integrated it. He made micro and macro one whole beautiful integrated system of economic analysis. He pointed out, for example, when you get to money, you don't use M and V, you don't forget about supply and demand.

The purchasing power of money, in other words, the value of money can be decided on the same basis as individual goods and services, namely supply and demand. An increase of the supply of money lowers its value, just as in cases of bubble gum and coffee. An increase of demand for money raises its value, just like any other good.

However, there's a big difference, and in this he applies some of the Ricardian currency school insights. The big difference between money on the one hand and other goods on the other hand is that other goods are necessary to production. In other words, specific quantities.

For example, other things being equal, if you increase resources or increase the supply of goods and services, people's standard of living go up. That's a good thing, so to speak, to have more, to find new resources, to find a new oil strike or to increase productivity. But in the sphere of money it's very different.

The only real use of money is exchange. You don't eat money, to put it bluntly. And once you have enough money to become money on the market, you don't need any more. In other words, any supply of money which is arrived at on the market is optimal. You don't need any more money coming in.

So the only thing an increase in the money supply does, then, the only social effect is to dilute the purchasing power of each existing, preexisting dollar, gold ounce or mark or whatever the currency unit is.

So any increase in the money—whereas increase in goods and services is good, it increases the standard of living, an increase in capital equipment is good, increases future standard of living—an increase in the money supply is pointless, because all it does is dilute the purchasing power of the original, of the existing unit.

There's no social utility whatsoever. Under the gold standard it does because the increase of gold supply is a non-monetary function. In other words, you can use more gold for jewelry, watches, teeth, and that sort of stuff. But under paper money, of course, there's no social function whatsoever. It simply dilutes the purchasing power of the dollar.

Mises goes into this and he shows basically that the more money, an increase in the money supply beyond the amount of gold available or silver available redistributes, destroys economic calculation, generally messes everything up. Messes up the production system. What happens is that it tax—the first receivers of money benefit at the expense of the late receivers. It's very much like counterfeiting. As a matter of fact, it is. The Fed essentially is a legalized monopoly counterfeiter. And the effect of the Fed increasing the money supply, or the Bank of England or any central bank, is almost the same as any counterfeiter.

You have a legalized counterfeiter pouring out money down here in Anaheim, you'll have the same sort of effect. An increase of income of people in Anaheim, first of the counterfeiters, next are the people the counterfeiters spend the money on, retailers in Anaheim, they're in great shape, they love counterfeiting. So then they begin to spend more, prices begin to go up.

Those of us who don't live in Anaheim or who have a fixed income, lose. So the inflation process is essentially a counterfeiting process, except it's

not people on the run from the Treasury Department; it is the treasury, it is the Federal Reserve doing it.

Mises also built on Carl Menger's classic article on how money originates, and expanded it to show that money has to originate in this way, and that namely, out of the free market, out of the voluntary actions of individuals trying to overcome the tremendous difficulties of barter. He shows that money has to originate that way.

Money cannot originate as a government edict or by some social compact where everybody gets together in one big convention and says, "Let's make that money." It can't work that way. It has to work out of a market commodity. Unfortunately, of course, then the government can take it over and mess it up.

But it has to originate as a valuable market commodity, such as gold or silver, which have always outcompeted all the other marketable commodities, once it's given a chance, if people know about gold and silver, if society knows about it, it will outcompete them. Also, Mises showed in his theory of money and credit that fractional reserve banking is essentially fraudulent, is essentially issuing fraudulent warehouse receipts to nonexistent gold or cash, creates this whole process.

And the ideal system would be 100% reserve banking. He believed, however, and I think it's true, under a genuine free banking system—in other words, if the banks were compelled to meet their contracts like everybody else is, forced to meet their contracts; if they say, "I'm going to give you gold on demand," if you don't give it to them, you go bankrupt—if that were true, we'd have a hard money, we'd have an approach to a 100% reserve system.

Unfortunately, of course, it's never worked that way because the banks are always being bailed out in one way or another. And also, he showed

in the theory of money and credit that the utility, he fixed up the marginal utility theory. He showed it's ordinal and can't be measured. Böhm-Bawerk was a little bit weak on that, and he showed you can't, since it's subjective, you can't mathematize it.

Right now micro textbooks, if you look at any micro textbook, they talk about utils, when they talk about utility theory, they say, "We have utils." Some things are worth five utils; other things are worth eight utils. What the heck is a util? It doesn't exist. But if you assume there's such a thing as a util and you can mathematize it and use calculus and have graphs and tangents and all that junk... It just doesn't work, because it's not true. It's not junk in mathematics; it is junk, however, in economics.

In addition to all that, which is an enormous contribution already, the theory of money and credit had the genesis—in a few pages he outlined what would become his theory of the business cycle, the Austrian theory of the business cycle, the Misesian theory of the business cycle. And during the 1920s he expanded on that, and a work which has been translated since then, called, *On The Manipulation of Money and Credit*.

Interestingly enough, what happened was most of, Böhm-Bawerk and most of his students of course rejected [unintelligible] application of money and business cycles, considered this unsound and so forth. So Mises was a pioneer, scorned even in Austria, even in that situation. The Austrian business cycle theory, which develops during the 1920s with FA Hayek as a famous major follower, but lots of other followers as well, basically what Mises did was he took his own money and banking theory, and what determines the prices, purchasing power of money, and he also took the currency school, the old Ricardian currency school insight, the famous model that if you increase the money supply, prices will go up, and then you have a deficit in the balance of payments

because prices will be too high, and imports will go up and exports will go down.

He realized, a tremendous insight, this is actually the business cycle theory—they never talk about such in the textbooks. It's not only a theory of money and a theory of international payment, but also a business cycle theory. A simple model, the banks pump in money, prices go up as euphoria, and if something happens they have to contract, and there's bankruptcies and liquidation.

It's a very simple model of a business cycle. He combined that, Mises, with Viksel's, Viksel was a Swedish Austrian, Swedish Böhm-Bawerk follower—combined that with Viksel's analysis of interest rates and how, if a banking rate falls below the natural rate of interest of the free market rate of interest, there'll be inflation.

He combined that and he wound up with an integrated, magnificent, path breaking theory of business cycle. Essentially, what it says is an increase in the supply of money and credit through the banking system, through central banking, not only causes inflation—everybody will admit that; at least all the neoclassicals will admit that—it also causes other disturbances.

It's not just what Milton Friedman called "The Helicopter Effect." Milton Friedman said we assume that everybody gets an proportionate increase in the money supply dropped by some magical government helicopter, so everybody gets a 30% increase in their cash—it doesn't work that way, of course; if it did work that way, there'd be no point to it.

The reason why—because we don't have [unintelligible] Angel Gabriel doubling everybody's money supply overnight to try to improve their lot. What we have is legalized counterfeiters in Washington or in London,

increasing their money supply first, and lending it out or spending it, and it ripples out to the rest of the society.

So they always have one leg up in this expropriation process. So at any rate, Mises showed that an increase in money and credit not only increases prices; it also disturbs, messes up the production system, the whole capital structure.

Because one of the problems with business cycle theory—there are two really basic problems which any business cycle theory has to explain. One is, how come entrepreneurs suddenly make severe losses? In other words, entrepreneurs are trained in forecasting, they tend to be great forecasters.

If they're lousy forecasters, they go out of business pretty quickly. So successful entrepreneurs tend to be good forecasters. How come all of a sudden it turns out that all of them or many of them or most of them go bankrupt? They didn't forecast successfully their costs would be much higher than the selling prices.

There's a sudden cluster of entrepreneurial error, and this doesn't usually happen. Usually, economists are trained, or Austrians are certainly trained, if something's really messed up in a system, you look to government; government must be messing things up somewhere, and sure enough, okay, this is...

So the second thing which has to be explained is how come there's a much greater fluctuation in capital goods than there is in consumer goods? In other words, there's a much bigger boom, let's say, in machine tools or construction, industrial raw materials than there is in retail sales.

Contrarily, when a depression or recession hits, a much bigger crash in machine tools, construction and that sort of thing, and then a higher order [goods] than there is say in retail goods. It should be just the opposite. If the Keynesians are right, it should be just the opposite. The first thing should be hit would be consumer goods; quite the contrary.

As a matter of fact, during the 1929-33 Depression, in fact all during the '30s retail sales were in pretty good shape, they only decline about 15-20%. It was other things, it was construction or machine tools, which declined 90%, 80-90-100%. Almost 100%. So that's the, you have to focus on and try to explain those two things.

Only the Austrian, only the Mises theory, only Mises' [unintelligible] theory explains these two problems—mainly, that an increase in supply of money and credit disturbs the production structure, messes up the interest rate because more money is pouring into business loans than would have by voluntary savings, and leads to overexpansion of capital goods—so-called higher order goods in particular—construction, raw materials, machine tools, that sort of thing, plant, basic plant—and the under-production of consumer goods.

So what you have then is a malinvestment in a whole bunch of capital goods. And the longer the boom continues, the worse the malinvestment gets. So what happens is costs are bid up too high for the supply of savings available, and as soon as the credit expansion stops or slows down significantly, the recession hits, because then these malinvestments are revealed, it's revealed now starkly to the people, the entrepreneurs, that they've overbid costs and wage rates too high, much too high for what they can sell to their buyers—not to the consumer so much, but to the other people down the capital goods structure.

What happens is that the recession, in the Austrian analysis, a recession is an unfortunate but necessary process by which the market returns, washes out the unsound investments, and returns to a proper balance capital goods and consumer goods. In other words, the labor, land and capital resources are shifted back to consumer goods, a certain amount, and out of these excessive capital goods.

The result is a recession, is a necessary liquidation process, and any government interference with a recession prolongs it and makes it permanent. It doesn't allow the recession process, adjustment process to work. Also, in particular, a key thing that has to happen is resources have to shift out of capital goods and into consumer goods.

This means that wage rates and capital goods prices have to fall so that, relative to consumer goods, so that people will shift, the resources will shift. To prop the wage rates up, which the New Deal did, of course, to prop them up, to prevent them from falling totally destroys the whole investment process and prolongs the Depression permanently, which is what happened in the 1930s.

This is essentially the capsule summary of the Austrian business cycle analysis. And also, by the way, it also explains our current stagflation. It's the only theory that explains inflationary recession, because in every business cycle, whether it was pre-World War Two or right now, capital goods prices are always going up higher than consumer goods prices in a boom, and consumer goods prices are always going up higher relative to capital goods prices in a recession, are still going [in].

Except in the good old days, that means before the New Deal period, during a recession everything would fall, there'd be a healthy deflation. In other words, prices would fall in general, money supply fell because the banks were in bad shape, so the whole money supply would go

down, prices would go down, but consumer goods prices would go down not as fast as capital goods prices. In other words, in retail sales, furniture will go down 20% in price, let's say.

In construction, cement would go down 50%. So consumer goods prices would be higher relative to capital goods prices than they were before, which is what you need in a recession. However, consumers loved it because the absolute prices in money terms were cheaper. Well, now that we have a Keynesian, monetarist or semi-Keynesian takeover since the 1930s, the money supply is never permitted to fall ever, ever again.

In other words, the Fed is always pumping more money into the system, sometimes a little less, sometimes a little more. As a result, during a recession we never have falling prices, ever. So this healthy mask of, the sugar-coating of the pill is now gone, so the consumers in a recession now are faced with two problems—one, unemployment and bankruptcies and all that, which they always were faced with, plus the cost of living keeps going up, because consumer goods prices are still going up relative to capital goods prices, except now they're both going up in absolute terms.

They're not going down because of healthy deflation. So at any rate, we now have a situation where we're getting the worst of both worlds every time there's a recession. You still get a big increase in the cost living, plus we get unemployment. This is the result of 50 years of fine tuning by our beloved economic experts in Washington.

To get back to Mises, Mises taught and developed his views at the University of Vienna, but he never had a paid post at the University of Vienna. He was discriminated against even in Austria. And then he worked for the Chamber of Commerce or Department of Commerce, I

guess it is in Austria, and his seminar, his very famous seminar was purely private. He held it in his offices at the Chamber of Commerce.

And his seminars attracted all the top young economists in Europe and philosophers and whatever. He converted very many of them. To just list a few, Hayek, Munkla, Pavel, Robbins, Bogelund, Schutz, and on and on. Even future British Prime Minister Gatskol was in Mises' seminar. He was a Labor Party Prime Minister, wasn't nearly as bad as the other Labor Party people, possibly because of a Misesian influence.

In addition to that, this tremendous intellectual force that Mises had, the so-called Mises kreis, which means Mises circle—by the way, it must've been a wonderful thing. They used to go out, every group of intellectuals in Vienna, they had their own café. There were 2,000 cafés. So each one had the psychoanalysts, the shrinks had their café, and the positivists had their café, and the Misesian had their café.

So after the Mises seminars were over, they all repaired to a café and talked and so forth over coffee and whatever, must've been great. Also, politically Mises singlehandedly stopped the Austrian inflation in the 1920s, stopped it from becoming hyperinflation. There was a big inflation, but it didn't get as bad as Germany, largely because of Mises' constant pressure by memos and political influence.

He later, in his notes and recollections, said maybe he shouldn't have done that, maybe it would've been better if the whole thing collapsed earlier. But anyway, he was quite depressed at that point, I'll mention in a minute. Another thing with Mises was that he warned about the Great Depression.

The 1920s was a period, essentially a Friedmanite period in many ways. A monetarist period. Benjamin Strong, the leader of the Federal Reserve Banks here, was putting into effect Irving Fischer's doctrine, which is

essentially pre-Friedmanite. And basically what it was was to keep the price level constant. That's the key thing. And the price level was indeed constant—wholesale prices remained the same all during the 1920s. So they figured, "There's no problem with inflation; what's everybody complaining about?"

By definition, if price level is constant, there's no problem. However, the Austrian position was, and still is, the price level is not the key thing, especially because in capitalist development, in free market capitalism, prices tend to fall, because you have tremendous increase and outpouring of business services, especially in productive goods. So prices tend to fall in a free and unhampered market, thereby spreading the advantages of capitalist development to everybody in the country.

We can see that now with specific things like computers and calculators. Calculators started off at \$500, and now there are much better ones at \$18. Or TV sets or personal computers. Tremendous fall in prices during a tremendous inflationary period, by the way. So what Mises pointed out was the fact that price level is constant is not such a great thing, but they should be falling, and the reason why it's not falling is because the Fed and all the central banks were inflating money and credit and propping it up and causing malinvestment, which will cause a recession, a big recession, even though prices haven't gone up.

He was laughed at, considered ridiculous. However, of course, the Depression, the crash proved him correct. He was doing that during the '20s, developing his business cycle theory. He did many other things during the '20s, unbelievable achievements, an unbelievable decade for Mises. Socialism arises, of course, in World War I, after World War I, or communism, really the same thing.

And everybody had to start analyzing socialism, socialist economy. Everybody realizes, then and now, by the way, that socialism has an incentive problem. That's clear to everybody. In other words, even socialists will admit this, "Yes, yes, we have an incentive problem." The incentive problem was summed up in a famous motto, "Under socialism who will take out the garbage?" It doesn't really work.

Or, "Who will go to Siberia?" Another way to put it. Who will go to Alaska? Who's going to develop the underdeveloped—who will schlep out to the underdeveloped region and build it up? Well, you can't use economic incentive under socialism, because either incomes are equal or else they're set by some government authority.

The good communists get higher incomes, whatever it is; it's certainly not set by marginal productivity. So who's going to go to Siberia and who's going to carry out the garbage? The socialist traditional answer is, of course, moral incentive. In other words, the creation of what's called the New Socialist Man. Everybody would be molded by socialist government, become totally altruistic and love the collective and do everything for the collective.

In other words, slave labor will carry out the garbage and go to Siberia. So even socialists recognize that this is a problem. But what Mises saw was something nobody else had seen. There's another problem, even deeper economic problem. Even if everybody had the incentive, even if everybody is brainwashed to be a New Socialist Man or Woman and go out there and work for the collective—"Whatever the collective does, I'll do it—I'll go to Siberia, I'll go to a salt mine, I don't care, as long as the state tells me, I'll do it."

How will the state decide what to tell them to do? That's the real problem in socialism. There's no way a socialist government can

calculate and try to figure out who do we send to Siberia, how many people? What price do we set? Who's going to carry out the garbage? How many people should carry out the garbage?

There's no way the socialist government can calculate—because, as Mises pointed out, there's no free price system, there's no private ownership of the means of production. By definition, there's no—and therefore there's no property titles, there's no free market in property titles, there's no way to set up a real price system.

There's no way a socialist government can calculate it, it's economic chaos. He pointed out in his famous article in 1920, which really upset the socialists in Europe—they tried to answer it all the 1920s and '30s—the famous calculation debate. And he also expanded this in his great book called *Socialism* a couple of years later, and he dealt with other aspects of socialists.

At any rate, when I was going to college too many years ago, the answer was that Oscar Alonga had already solved, there's no problem, because you have equations and all that, and government acts as if it's a market. As Mises already pointed out, this is nonsense. You can't—this so-called solution assumes perfect competition, perfect knowledge.

The socialist government has the perfect knowledge already, of course, and prices, which obviously they don't have—that's the whole point. And also, no socialist government has ever tried to put the Alonga solution into effect, never. As a matter of fact, what's happening is that socialist planning has broken down, Yugoslavia and Hungary have gone fairly rapidly toward a free price system, and even China in the direction of a price system—they realize that this doesn't work.

This is true in a situation where they still the world market and world prices, to which the socialist governments can refer, because they know

what the price of wheat is. In a world socialist government, they wouldn't know that, they'd be totally at a loss. So Mises pointed out, in other words, in addition to other problems, socialism can't work.

I can't calculate the modern economic system. Also during the 1920s, Mises put out a critique of interventionism which shows that interventionism doesn't work. In other words, price controls create shortages, taxes cripple savings and investment, inflation causes problems, as we've seen, protectionism is destructive.

And also he showed that interventionism tends to be cumulative, as we see all the time. In other words, interventionism—a government sets out to solve a problem—somebody goes and says, “There's a big problem. Too many people over 60 have hangnails, let's say, have a big hangnail gap.”

Create a multi-billion-dollar hangnail-solving federal funding. So the government investigates, pours billions of dollars, doesn't solve the hangnail problem, it creates other problems at the same time.

Whatever, too many side effects from anti-hangnail drugs or whatever it is. So every time the government intervenes, it doesn't solve the original problem, and creates two or three more problems, at which the government says, “We need to have more intervention to solve the two or three others,” or they can't just forget the whole thing.

So interventionism is unstable, it has a cumulative effect. Either you go onward towards socialism or you go back to the free market. But Mises has already shown that socialism can't work. So socialism can't work, interventionism is unstable—you're left with only one viable option for the modern industrial world—laissez-faire capitalism.

So Mises then becomes an uncompromising, hardcore laissez-faire capitalist, pounding away day after day on this question, making himself very unpopular, as you might expect.

And there's a great book on liberalism, which came out in 1927, [unintelligible] which also shows in liberalism, the political and civil liberties aspect—that economic, private property rights, free market, civil liberties and international peace are all inextricably tied together. They're all tied together, which is something very few of us even know to this day.

So that's a book that everybody could read with tremendous profit. In addition to all this, in the 1920s—we're not through yet with Mises' accomplishments—he also sees as a challenge to Austrian economics on the methodological, philosophical front. The challenge was twofold, basically, and it's still there, by the way, the same two challenges.

On one hand, institutionalism, which Mises called anti-economics. The idea of economic theory is no good anyway—there's no such thing as economic theory. And essentially economics becomes only history, a record of what's going on. This is quite dominant in the United States in the 1920s, institutionalist approach.

And two, which has been the dominant neoclassical approach, logical positivism—the idea that economics has to be like physics, a quantitative, measurable science, where you deduce things, you have false axioms [unintelligible] but you do stuff from them to predict. The whole unfortunate econometrics, mechanistic approach which we're very familiar with now, where people are treated as they are stones and atoms.

Unfortunately, people are not stones and atoms; people have choices, they have consciousness, they choose, they have purposes and goals,

etc. So this whole neoclassical economics is totally off on the wrong track. So he thinks about this and he sets forth his views on praxiology, what he calls praxiology—the correct analysis, the Austrian analysis of individual action, where economics essentially deals with the logical implication of the fact that people act.

How do you know that people act? You just look at yourself and you look at other people. You see that they act, and they're not like stones and atoms, they have purposes. And with this knowledge, all economic theory is reduced. This is very unfashionable, it's even more unfashionable now than the free market is.

You see, Mises had a tough problem. He not only has to fight for laissez-faire capitalism, which is unfashionable enough; he also had to fight for a methodology which is totally out of fashion, has been, in the race to try to ape physics, try to imitate physics and math, and successive nuclear energy, that sort of thing.

So he sets forth, that's what his great book [unintelligible] *International Economy* in 1933, which has been translated later, follows this up with his *Theory And History*, his marvelous book he wrote in 1957, showing a difference between theory and history and what their different roles are.

Having done all this, as if he hadn't done enough yet, which is like 20 times as much as the average economist accomplishes in a lifetime, he now proceeds—he sets forth the proper methodology; it's now his task to do something with it. In other words, to construct a whole integrated system of economic thought based on the correct methodology, and he does it.

He does it with a magnificent crowning achievement, *National Economy*, which came out in 1940 in Geneva, which unfortunately was neglected—it was during the middle of a war anyway, so it was totally neglected.

And then expanded it and rewrote it in English and expanded it in *Human Action*, 1949, which is the great work, as far as I'm concerned, of the 20th century.

While he was doing this in the 1930s, things were happening with [unintelligible] economics, so to speak. In 1931, Mises' follower, Hayek, shifts from Vienna to the London School of Economics. He's brought there by Robbins, who had been at Mises' seminar, and he starts giving lectures and translating his book on Misesian capital and business cycle theory, and he wows everybody.

First of all, it's the middle of the Depression. The Depression hadn't been predicted by any orthodox economists. And he converts, Hayek manages to convert all the top young economists in England. Hicks, Lerner, Chandlor, Sir William Beveridge, who wasn't so young. But all these guys became Austrians at that point.

If you read some of the journal articles in England in the early '30s, they all sound like Mises, it was fantastic. [unintelligible] for years. And they accept the Misesian analysis of the Depression. The Depression came about because of Federal Reserve and Bank of England, etc., central bank credit expansion, and then was prolonged by New Deal intervention into the wage rates, and public works, etc.

Unfortunately, even Americans—in those days American thought, essentially we were followers of English. In other words, we looked at England as the center of economic thought. So with English economics becoming Hayekian, Americans began to pick up the ball. Alvin Hansen, who later became the top American Keynesian, was becoming sort of semi-Austrian, plus a few other people.

And suddenly, bingo, Keynes' *General Theory* comes out in 1936, and that's it. It sweeps everything in its path. And by the way, Keynesianism

did not win out by patiently refuting Austrian economics, it did not work that way. Aside from the fact it can't be refuted. They didn't even try doing it.

It was changes in pen lines, a change in fashion. Everybody forgets the old stuff and goes onto the new bandwagon. All these people, except Hayek, all the people Hayek had converted shifted to Keynesianism, which now was the big fashion, totally the opposite in almost every way of Austrian thought.

Hayek had repeatedly smashed, literally, Keynes' previous great work, *The Treatise On Money*, which came out in 1931. Hayek gave two long reviews in *Economica* showing the whole thing is hogwash.

It was so effective that Keynes had to go back to the drawing board and do something else. So when the *General Theory* came out, Hayek made a great strategic error. He said, "Why should I refute this? It'll be gone in a couple years also." So unfortunately he didn't do anything about it, and the rest is, unfortunately, history.

Historically, economists have always been the ones who oppose inflation and deficit spending. And here all of a sudden deficit spending becomes a great thing, becomes economically required. So of course all the governments loved it, and all the economists loved it, because then they could get cushy jobs in the establishment.

So while this is going on, poor Mises now is a refugee. He flees Vienna, which had become Nazi in the '30s, and goes to Geneva. And when Germany conquers Western Europe, he and his wife flee to the United States. It was sort of like the movie scenario. They would go just ahead of the German army.

In his *Notes and Recollections*, which is an autobiography he wrote during 1940—he was very depressed then, as you can imagine—he writes that he didn't think when he started off that his fate was to chronicle the decline of civilization or the end of civilization. And he also says something interesting there.

He says, “Menger [unintelligible] from economics, and Böhm-Bawerk committed suicide because of World War One. In other words, he figured World War One's the end, it's the finish, it's the end of all the ideals of liberalism, classical liberalism and international peace and free markets.

So in this state, Mises comes to the United States, he's penniless, he's about 60 years old or so. He starts writing in a new language, and he can't get an academic post. This is the eternal blot on academia. This is a situation where every Marxist and semi-Marxist and three-quarter Marxist was getting cushy top chairs at Harvard and Princeton and whatever, and Mises couldn't find an academic post, and he finally got one at NYU as a visiting professor with a salary paid for by outside businessmen and foundations. Same thing happened to Hayek. Hayek's salary at the University of Chicago was never paid for by Chicago; it was paid for by outside business groups.

As a result, Mises was scorned, the dean was against him, the dean advised people not to take his courses and things like that. He was in a fantastically miserable situation, and yet—and here's where I come into the picture; I get to know him at this point—when he started a seminar at NYU.

What was [unintelligible] about this? How did he act? It was magnificent, I couldn't believe it. He was cheerful, was never bitter, never said an unkind word about anything, any person, and very sweet,

was constantly trying to urge people to be productive. Any spark of productivity in any of us clunks was immediately nourished by Mises.

[unintelligible] far below the level of Hayek and [Harbul], etc. It didn't seem to bother him at all, just great. He tried to reestablish the seminar atmosphere of Vienna. We went out to Chiles Restaurant, I think it was afterward, and discussed things.

He was kindly, he was uncomplaining, was never bitter, and it was just a magnificent experience. I've told this story before, and I'll tell it again because I think it's classic about Mises: People were very intimidated. First of all, half the people didn't know anything, didn't care. They were just there to get their automatic B or A or something.

The rest of the people, those who were interested, outside auditors mostly, were too intimidated—"Here's this great man. What do we know? How can we say anything?" So he said, "Look, say anything you want, but whatever you say, however idiotic it is, it's already been said before you by some unknown economist." [laughter]

Of course, he was right. He'd tell these great anecdotes about his friend Max Weber and things like that. It was just marvelous. Being scorned, etc., and not having any followers at the beginning, he writes *Human Action*, this great crowning work. When *Human Action* came up, I was going to FEE at the time, which was Foundation For Economic Education, which was literally the only free market outfit in the country.

It's not like now, where every Tom, Dick and Harry says he's in favor of the free market. I hadn't met Mises yet. They said, "He's coming out with a new book." I said, "Oh, what's it about?" They said, "Everything." And sure enough, it's about everything. That's it. The whole ball of wax. I urge you to read it. More than urge you; it's magnificent.

But despite these conditions, despite the oppression under which he worked, there were many good people that emerged out of this Mises seminar. Professor Zenholtz, Israel Kirsner, Sylvester Pitro, Chrissy Graves, and many other people. Mises has inspired much of the current hard money movement.

So it's really all due to him. He died at the age of 92 in 1973 after a remarkably productive life, and a year later Hayek got the Nobel Prize, which sort of inspired other economists, "Who's this guy, Hayek? Why is he getting a Nobel Prize?" And it's interesting that he got the prize specifically for the Misesian work that he did in the 1930s, Misesian business cycle theory, which was swept away in the Keynesian revolution.

And since then there's been a notable Austrian revival, and I think it's all due to Mises, and it's just unfortunate he didn't live to see it. Thank you very much. [applause]

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Hayek and His Lamentable Contemporaries

Murray N. Rothbard

The sixth in a series of six lectures on The History of Economic Thought.

Transcribed and Donated – Thomas Topp

Rothbard:

It's pretty well agreed that we're now living in an economic crisis. It's also pretty well agreed that most economists, especially so-called establishment economists, don't know what to do about it. This is pretty unusual considering that up until about five years ago, the ruling economic establishment not only believed, but also trumpeted far and wide that they knew exactly what to do about all economic problems. Everything had been solved.

As a matter of fact, I think about five years ago the distinguished Keynesian economist Robert Solow of MIT wrote something to the effect the macroeconomic problems—macroeconomic meaning things like business cycles, inflation, recession, depression and so forth—that all macroeconomic problems have now been solved, and all macroeconomic theory has been taken care of.

Now, usually when somebody says that, that's the sort of beginning of the deluge. Sure enough, only a few years later the same economists have virtually thrown up their hands and say, "We don't know what's going on; we really don't know what to do."

This does mean, of course, that they've resigned their jobs in Washington, by the way, which leads me to my favorite story—anybody who's heard this, I apologize for repeating it: In the recession of 1958, which was the first recession where the phenomenon of the inflationary recession first began to appear, this was the first time when prices were still rising during a recession.

Here we had an authentic, officially authenticated and certified recession. And yet prices, instead of falling, which is what prices are supposed to be doing in a recession, instead of falling, prices were still going up. They weren't going up very much, but they were going up. Arthur Burns, who at that time had just resigned as head of the Council of Economic

Advisors in the Eisenhower Administration, was giving a lecture up at Fordham, which I happened to attend, giving the usual Keynesian policies, which I'll go into a little bit later, what to do about recessions.

Basically, when there's a recession, you pump spending into the system—you meaning the government—one, one pumps, the government pumps spending into the system, thereby lifting the economy upward. And when there's an inflation, the government takes money out or takes spending out of the system.

You work several variants or changes on this theme, and that's essentially the Keynesian or the establishment program. So Burns was going into explaining this policy, and during the question period, unfortunately I was a brash young fellow at that time, I said, "Well, Professor Burns, what do you do if—since what the government's supposed to be doing is pumping deficits during a recession, and take out spending or have higher taxes or surplus during a boom, what do you do if both are happening at the same time, as seems to be happening right now? In other words, what do you do is there's an inflation and a recession at the same time?"

His first reply was, "Well, there's no problem there because the recession will soon be over," and so forth. I said okay, and it was soon over in '58. But I said, "What happens, Professor Burns, if at some future date the same phenomenon would recur and intensify, we'll have a severe recession along with an accelerating inflation? What then would you recommend?"

And he stopped for a moment and he said, "Well, in that case we'd all have to resign." They haven't resigned. The rest, of course, is history. The phenomenon has arrived and it's with us right now, and nobody's

resigned. One of Rothbard's laws of political science, that nobody ever resigns from government unless your hand is caught directly in the till.

The Nobel Prize to Professor Hayek is very interesting because it comes in this context: It comes in a context where establishment economics doesn't know what's going on [unintelligible] really admit it. The unusual part of the Nobel Prize is that all the other Nobel Prizes which had been awarded by the Swedish Academy have gone to people who completely, economists who are completely in the opposite camp as Professor Hayek.

In other words, economists who are mathematical forecasters, and also left liberals, if you want to use that term, who believe in government planning of the economy. Now, for the first time the Hayek award goes directly and completely contrary to this tradition of the Nobel award, which surprised all of us enormously.

Perhaps a clue to why the Nobel Committee did this—presumably they were hedging their bets—was that any award, they said, they hailed, here's a Hayek quote, "His pioneering work in the theory of money and economic fluctuations." Well, they didn't say what this pioneering work was.

What I'd like to do tonight is to go into this and try to explain why I think not only was Professor Hayek's work pioneering, but it's also the only correct analysis of business cycles past, present and future. The only phenomenon of the business cycle really began approximately in the mid-18th century.

Before that, there was no real business cycle. Business would be going along in a certain sort of even pace, and then something would happen. Usually the government would mess things up, which they're accustomed to do. The king would decide to raise money fast by

confiscating all the gold of the merchants, and this of course would cause a severe depression.

It wasn't a business cycle sort of thing, wasn't any kind of mysterious boom-bust phenomenon. It was simply the king suddenly confiscated everybody's money and depression set in. So that was the sort of thing that happened until about the mid-18th century, when we began to have this peculiar phenomenon of boom-bust cycles, which appear not periodically, but recurrently.

In other words, the phenomenon of an inflation and prosperity and so forth—rising prices, usually, followed by a bank collapse and depression and unemployment, and then followed again by a recovery and then a boom and so forth. This is kind of a puzzling phenomenon because it didn't fit into the general economic theory.

So shortly after the phenomenon appeared, economists began to try to explain what was going on here. Why was there this recurring phenomenon? Not directly—well, clearly related to the king confiscating somebody's money. In other words, something else seemed to be going on here. Couldn't clearly pinpoint the cause.

As time went on, two groups of theories began to develop. Of course, there are a lot of different kinds of theories, but essentially they could be classified into two groups. One group which has been dominant generally, and certainly dominant up until, well, right now, up until the Austrian school revival.

Generally, the dominant school held that the recourse must be, since around the middle of the 18th century, at about the time business cycles first developed, the boom-bust cycle, at about that time also came the Industrial Revolution—industrialization and the modern capitalist economy first comes in at really that point.

So therefore these various economists concluded that the cause of the business cycle must somehow arrive deeply rooted within the free market industrial capitalist system. In other words, the blame, because usually it's considered blameworthy, a boom-bust cycle, the blame rests with free market capitalism.

Karl Marx is one of the first economists to propound this theory, and John Maynard Keynes, in his famous work in 1936, not only also has a similar view, establishing Keynesian orthodoxy, but also said very explicitly that before him, before Keynes wrote, that classical or free market economists had no theory of the business cycle, they had no explanation of the business cycle or for unemployment or depression, or they hadn't thought about it, they hadn't really given their attention to it. He was the first one to really do it, and he therefore understood that depression was caused by some virus of under spending in the private market economy, which was supposed to be made up by government spending.

In other words, if the cause of a depression, say, is deficiency of spending—obviously, a government is the *deus ex machina*, the god out of machine, because the government can come out of the system and spend more, they can print money—he didn't quite say that, but that's clearly the implication.

If you can print money, you're in a good position to engage in deficit spending. The cure, then, for—let me put it this way: The Keynesian vision of the economy was, which has been dominant up until the present—so this is not just an antiquarian kind of exercise—the picture was essentially this: Well, a free market economy can do very well when it handles so-called microeconomic problems.

It can clear the market, it can solve the problem of how much wheat to produce or how much brandy or whatever, and it can set the prices and production of these various areas. In the microeconomy the market works very well. However, in the macro, so-called macro economy, the free market doesn't work, the theory being that the free market can't provide the proper amount of total spending.

And so the Keynesian picture of the economy is essentially one where the free market economy, is essentially where the economy is like an automobile. You're driving down a very narrow sort of tightrope or ledge, with two abysses on either side. One is the abyss of unemployment, which occurs if there's too little spending; the other is the abyss of inflation, which occurs if there's too much spending.

The task of the government—the government is sort of the [papa] driver of the car. Obviously, if the economy is a car, you have to have somebody driving it. So the task of Big Brother government is to be at the steering wheel, fine-tuning the economy in such a way as to keep total spending perfectly and precisely attuned to the so-called full employment line, which is, the economy doesn't fall off on the one hand to the abyss of depression, on the other hand to the abyss of inflation.

So the task of government is to keep the economy on this line. The Keynesians came to the conclusion very early that they have the proper tools of doing this. They can pump spending in, as I said before, in case there's too little spending, and they can push the steering to the wheel, so to speak—they can take spending out if there's an inflation.

This was essentially what we can call the established Keynesian orthodoxy of what the government's supposed to be doing and what causes recession. But this has clearly not worked, as is pretty evident by this time, even to Keynesians, who were desperately flailing around to try

to find some other explanation of why they have to go back to the old drawing board.

Because obviously what's happening now is that there's accelerated inflation, and at the same time there's a recession, and there's recurring recessions, which we're going through right now. And as Arthur Burns said, we all have to resign, except nobody does it.

That's one school of thought, one general area of thought, which locates the cause of the business cycle, the cause of depression, the cause of inflation, somewhere within the market economy, somewhere within the industrial capitalist system.

There is another group of economists, another tradition in economics which has been neglected until very recently, which says something very different. Actually, this was the view of Ricardo and the classical economists of the 19th century, in sort of rudimentary form.

Essentially, what the second group says is there's something else happening in the middle of the 18th century—not just the industrial revolution—but another institution which is directly the cause of the business cycle, and that is the banking system, or more precisely the fractional reserve banking system.

And even more precisely than that, the government involvement with the banking system through the central banks. The first simple model of this, the so-called monetary U business cycle, came about with Ricardo and the classical economists. Essentially, they had a very simple kind of U, but it was pretty good, considering that it was in 19th century economics.

Basically, what they said was that the government and the banking system, government promotes bank credit expansion, expansion [via] fractional reserve banking. Money and credit, the supply of money and

credit go up, this raises prices, creates a prosperity or a phony prosperity or a real prosperity, whatever variant they took on that.

This causes the inflationary boom part of the cycle, and then what happens is that the gold of banks in the country begin to lose gold to other countries, because as domestic prices go up and the foreign prices still remain the same, gold drains out to other countries, until finally the pressure gets really intense on the banks while the gold drains out and their bank credit is increased, and so the reserve ratio keeps dwindling, and finally they've got to stop expanding and contract in order to save themselves.

This contraction causes the recession part of the business cycle. And during the recession, the money supply falls, prices fall, and gold flows back into the country, and you start a recovery. And then after this happens, the banks are ready to start in again, start expanding again. This is very simple model of a business cycle, but it's pretty accurate as far as it goes.

It pinpoints, in my view, the basic cause of the business cycle is not embedded deep within the industrial capitalist free market economy, but within the banking system and the government-controlled banking system. Why is the government and the banking system always desirous of increasing the money supply? Well, it's fairly simple.

Any group which ceases control of the money supply—in other words, any group which has the only legalized... Let me put it this way: The government and its control of the banking system is the only institution in society which has the right to counterfeit—in other words, the right to increase the supply of money.

If the rest of us start counterfeiting, printing dollars, not only will you go to jail, but you'll go to jail very very swiftly and for a very long period of time.

Counterfeiter is always one of the most reviled criminals on the government books, because a private mugger will get off with a slap and a suspended sentence, perhaps, because he's only mugging individual citizens.

But the counterfeiter strikes at the root of the government's monopoly on the creation of money, which is much more important for the government than the mugger. So one of the first things that a government does early in the game is to seize control—in other words, acquire compulsory monopoly of the right to print money.

And my contention is if you have the right to print money, you're going to use it, if anything else, because you can print money, you can spend it, or you can print money and you can lend it out to favor the groups, politically favored groups. So the natural tendency of government and its controlled banking system is to inflate. There's no mystery about it. This what they always want to do anyway. There are certain checks on the process, such as the fact of losing gold when you're on the gold standard, losing gold abroad, runs on the banks before the FDIC came in in '33 to stop that.

But in the natural course of events there are basic market checks on this phenomenon which keep the process at least a little bit in hand. We've managed to eliminate most of those checks at this point, by the way. So here we have sort of the basic model, which places, as I say, the blame for the business cycle in the banking system, and I should say the government-controlled banking system.

The inflationary process of money creation. This, however, wasn't a totally satisfactory theory of the business cycle, it left out a lot of stuff. For one thing, it left out the problem—why is it, for example, that there's

always a greater boom and bust in the capital goods industries? The machine tools and industrial raw materials and construction.

And why is it that there's a much greater business cycle in that area than there is in consumer goods? Why is there a sudden collapse of business forecasting? Businessmen, after all, are sort of expert forecasters—they usually know what's going to happen fairly well. How come they've all suddenly collapsed at the crisis point when a recession or depression arrives? And so these various deficiencies meant there were certain gaps in the theory which have to be fleshed out.

Well, what happened was that Ludwig von Mises, the founder of the modern Austrian school, began with the so-called Austrian theory of business cycle in 1912, and published his theory of money and credit. But he built on the Ricardian foundation and the classical foundation, also added the insights of a Swedish economist, Knut Eckcel, on the key difference between the free market interest rate or so-called natural interest rate, and the loan rate of banks, and integrated this whole thing into a theory which, as far as I'm concerned, is the only theory which is integrated completely with regular economics, with so-called microeconomics.

Mises simply outlined this very briefly in 1912, and it was left to Fredrick Hayek in the late 1920s to spin the whole thing out in two beautiful books which I recommend, still recommend as the best books on the topic—still in print, I believe—*Prices And Production* and *The Monetary Theory of the Trade Cycle*. *The Monetary Theory of the Trade Cycle* sort of introduces this whole subject, sets the thing in perspective, and *Prices and Production* is more technical.

Both of these were written in the late '20s. But what Mises and Hayek did in the late '20s, and the thing which really struck the rest of the

economic, the world of economists, was that they more or less predicted the Great Depression. In other words, here you are in 1927 or '28, the whole world of establishment economics said there's going to be permanent prosperity.

There ain't gonna be no depressions no more, no more. And everybody said this. We were living in what the Coolidge-Hoover Administration called the New Era, and the reason was we had created this wonderful engine called the Federal Reserve system, and the Federal Reserve system was to keep everything on an even keel.

It was sort of a pre-Keynesian theory. The idea was that if prices fell, the Federal Reserve would pump money in; if prices rose, the Federal Reserve would take money out. As a result, there couldn't be a depression. In the meantime, all this euphoria was being engaged in among establishment economists. Mises and Hayek in Austria were saying, "No, no, there's going to be a depression because," well, because what?

Well, for one thing, [unintelligible] who was one of the classical economists, said that the cause of the business cycle was not industry or the market economy or industrialization, but the banking system, and the problem was not so much in the price level, not so much the fact that prices went up when money was pumped in, but that when an inflationary credit expansion was pumped into the system, it not only tended to raise prices, it did something even worse than that, in a sense.

It tended to distort the production system. In other words, it tended to cause an over-investment in things like construction and capital goods and industrial raw materials, and under-investment in consumer goods. And that the long this happened, part of this was wrapped up with the

fact that interest rates were pushed down artificially by the expanded bank credit.

And the longer this process continued, the longer the government kept pushing it, the more severe the recession would have to be. The idea being this: This is I think unique in the history of economic thought. [unintelligible] the recession, instead of being a terrible thing coming from a God-given blight or something—in other words, something like an earthquake or a plague, which has to be fought—the recession becomes not that, but a necessary medicine, which is the consequence of the real evil, which is the inflationary boom, which was created by government itself.

In other words, as the government and its banking system pumps in more credit to the economy, it not only raises prices; it also distorts production, it causes over-investment in all sorts of unsound investments and unsound machine tool and construction and so forth. And therefore it becomes more and more necessary to have a recession in order to shift the resources back into the healthy free market kind of economic system.

It's necessary to liquidate these unsound investments as fast as possible. And if the government tries to eliminate the recession by prolonging the agony—in other words, by stopping this process in all sorts of ways—all it will do is prolong the agony and lengthen and make the depression chronic instead of acute.

An example is Benjamin Anderson, the late economist of Chase National Bank at the time, called the last free market recession or last free market recovery was 1921. It was a very severe post-World War One depression. Prices fell very rapidly, unemployment went up very sharply. However, the depression, even though severe, since the government

didn't interfere with it, didn't try to help out the unemployed by unemployment relief, didn't try to shore up unsound investments through government lending operations, didn't try to create deficits to cure it, didn't try to engage in public works programs and so forth, they didn't do anything—and the result, the depression was over very very rapidly.

As a matter of fact, by the time the government figured they should do something about the depression, it was all over. In 1929, when the Hoover Administration came in, Hoover acted very very quickly, unfortunately, and engaged in all the New Deal programs, which we associate with Franklin Roosevelt, which were really begun by Herbert Hoover. And the whole business—government loans to unsound investments, keeping wage rates up, keeping prices up, deficit spending, cheap credit [unintelligible] measures, were really begun by Hoover.

Incidentally, in a recent interview, Rex [Tugow], the famous Franklin Roosevelt advisor, admitted that Hoover started the whole thing, but he couldn't say it at the time, couldn't admit it, there's a political fight. Well, as a result of the New Deal program, the Hoover-Roosevelt New Deal was instead of the recession being over in approximately nine or 12 months, as the 1921 recession was, it was over, it lingered for about 11 or 12 years, until World War Two got us out of it.

So the Mises-Hayek approach then is, the public policy that emerges from the Mises-Hayek position is virtually the direct opposite of the Keynesian policy. In other words, the Keynesian policy is if there's a recession, you pump spending in or you pump money in, and if there's an inflation you take money out.

The Austrian view is if there's an inflation, in the first place stop inflating, which means stop creating new money and credit through the government's controlled banking system. And if there's a recession,

don't do anything about it, and let it work itself out as quickly as possible. Now, obviously this is the direct opposite of the Keynesian prescription.

It's also pretty clear, it seems to me, which policy the government's going to adopt when any kind of a crisis emerges. You see, for example, every time there's a slight problem with liquidity, the cry goes up among business men, among bankers, etc., there's a liquidity crunch, and therefore government have to step in to create money to solve this liquidity crunch problem.

Well, liquidity crunch is precisely the Austrian retribution catching up with an inflationary boom. The government always exceeds the short-run pressure to ease the problem, thereby pumping more inflation. One of the differences about the '20s was, one of the reasons why the economists, most of the economists in the 1920s did not forecast the Depression was because in those days prices did not go up. The general price level remained about constant.

The official theory was if the price level remains constant, there can't be any problem with inflation. The Austrian view, however, was that in the normal course of events, prices don't remain constant, they fall. And we can see this—in other words, if you allow a capitalist economy to proceed unhampered, productivity goes up as new inventions, as mass production comes in, etc., prices will tend to fall.

We see that for example with TV sets, which cost about \$2,000 in 1948 for a really crummy set where you could hardly see anything. For this present situation, where a TV costs \$100 or something for a much better set, if you divide that by the price level, in real terms, of course the price of TV sets has fallen fantastically.

This sort of thing happens all over [unintelligible] in an unhampered system. During the 1920s, when you had an increase in productivity, the

tendency would've been for falling prices—the government and the banking system kept pumping new money into the system, thereby creating the whole boom-bust cycle even though prices did not go up.

And the Austrians, as I say, foresaw that. But what happened was, and Mises and Hayek had predicted the '29 Depression—so when the '29 Depression came, their prestige went up in economic circles. Also, fortunately for American economics, Hayek at that point left the University of Vienna and came to the London School of Economics. He started gathering around him the best minds among younger English economists.

And so from 1931 approximately until '35, '36, most English economists adopted this Austrian position, adopted the view that the cause of the business cycle was [unintelligible] expansion, distortion in production, the government should leave things alone, stop inflating and leave things alone, and so forth.

So John Hicks, who won the Nobel Prize last year, was an early Hayek student, and Alvin Hansen, and so forth and so on, a whole group of people who later shifted. The Austrian theory was adopted precisely because it was the only one that predicted and could also explain the Great Depression, and it began to be adopted also in the United States.

Just at that point comes the so-called Keynesian Revolution, where Keynes wrote his book in 1936, and the whole gang flip-flopped. What happens—this is very often true in the history of thought, by the way, not just in economics, but the social sciences generally—it wasn't that the Keynesians refuted the Austrian theory; the Austrian theory was just forgotten.

Nobody ever refuted it. They didn't talk about it. The fashion changes. It's something like ladies' hemlines, I guess. Fashion changes, and they

just stopped talking about the Austrians and they deal with a completely different set of items, and that was it. The Keynesian revolution was facilitated by the fact that Lord Keynes was extremely popular in English elite circles, so to speak, and English professors all knew each other in those days, it was a very tightly knit group.

He had a very charismatic personality, and so he swept the whole group with him. Also, one of the significant things about the Keynesian theory was, for the first time in the history of economic thought—there had been many differences among economists before that, but this was the first time that economists, official economists—professors and writers, etc.—actually advocated inflation and deficit spending.

Before that, economists almost unanimously advocated balanced budget, sound money, the gold standard, and so forth. And so in other words, here we have Keynes, he's advocating what governments would love to do anyway, because before that economists were sort of like the [unintelligible] bad boy or sort of the dour pessimist in the group. Governments would try to advocate all sorts of wild boondoggles and fancy schemes; economists would always say, "No, it's not going to work."

The economists are sort of the official wet blanket among intellectuals and statesmen and stuff. Here we have Keynesians, who are not wet blankets. They were very exuberant about the idea of government inflation, deficit spending and so forth. So their ideas were adopted with great enthusiasm by the official political establishment.

[unintelligible] Keynes said, in his book, when he was answering criticisms that in the long run his theories won't work, and one of his very famous statements was, "Well, who cares? Because in the long run

we're all dead." Well, the problem is, of course, that right now Keynes is dead and we're still alive.

In other words, we're living in the Keynesian long run and we're suffering from it. If you're interested in them solving the problems created by the Keynesian long run, which we're now living in, we have to return, it seems to me, to the so-called Austrian approach. What's happening is that as the Keynesian theory's becoming more and more discredited, younger professors and graduate students are more and more adopting and rediscovering the Austrian approach, which to those of us who are veteran Austrians, this is a real phenomenon.

At any rate, what happens in the 1920s is a bog settles on American economics—namely, institutionalism. I apologize to Pete [Betke] if he's here. I consider institutionals frankly as [dumb German historical] school types. The German historical school people [unintelligible] scholarship or background or anything, sort of a moronic version of the German...

--essentially say there is no economic law, there's no economic theory, there's only institutions, and we should study institutions. Dorfman, who was an institutionalist, tried to claim there were certain subtle differences within the German historical school, I could never really figure them out, they're distinctions without a difference.

So what you have then in the 1920s, almost no theory going on. Institutionalists like [unintelligible] Commons, who was Dealey's assistant at Wisconsin [unintelligible] idea and Dealey's interpreter and assistant, and post-millennial pietist, head of the, vice chair of the Institute For Christian Sociology, etc., and the only guy actually studying institution. Most institutionalists just gas around a lot and attack everybody else. They don't really do anything. Commons actually did a lot. He studied legal property rights and American labor history, which he's an excellent

labor historian. So at least he did something, so I have to honor him for that.

And of course Torstein Veblen, famous institutionalist and general pain in the neck. The only thing I can say about, I have no respect for Veblen whatsoever, I must say. All I can say is he kept pushing the distinction between production for profit and production for use, which we've already talked about.

That the terrible thing about capitalism, it produces for profit, it should be producing for use and favor the engineers taking over and running the society and producing for use. In other words, he knew no economics whatsoever, is the only thing you could say about it. Mencken called him a Marxist with dishwater, [unintelligible] water—in other words, a diluted Marxist.

I guess Marx was too systematic for him. Another thing about Veblen, he's sort of a Galbraith that couldn't write very well. [laughter] Galbraith [unintelligible] Veblen, Galbraith is a good writer and Veblen wasn't. Galbraith of course never acknowledges Veblen either. [unintelligible] conspicuous consumption and the affluent society, we're all too affluent, and all the rest of it. I don't think it's really worth discussing more than that.

Another interesting thing, the only interesting thing about Veblen, he didn't get along with the left liberals. Being extreme leftist, he only got along with right wingers. Kind of an odd duck. I've seen that happen in other places. [unintelligible] phenomenon. Eugene DiGenovese, a brilliant Marxist historian, probably the only scholarly Marxist historian around, has broken everybody on the left. The only person he talks to are right wingers.

So in the 1930s there was a vacuum in American economics. There's no theory at all, really, it's just [unintelligible] around, talking about institutions, or somebody else talking about institutions. And so bingo, when Keynes comes in, it sweeps the board. In other words, the path was open for a Keynesian revolution because there was no competing theory here.

This brings me to the Keynes stuff. Hayek—you probably all know this—Hayek was Mises' most famous and best student, got an appointment—Austrian academia—by the way, there's a great article out, just came out in HOPE, History of Political Economy, a long article by Aileen Carver, the wife of [unintelligible], about Austrian émigrés to the United States, Austrian economists.

It talks about all these people, Mises and all these people, it's a great [unintelligible]. Austrian economics was tightening up. Academic posts were and still are, in Europe, very scarce, so they started emigrating to the United States. And Hayek got an offer of a post in London, London School of Economics.

Lionel Robbins was a Misesian, and brought the knowledge, he was a professor at the London School, a young professor then, and brought Hayek over. He got a chair, and Hayek then hits the English system like a thunderbolt. Had never heard of Austrian economics. Marshallians—they had no capital theory, never applied anything to money and all the rest of it.

So this whole thing hit—Hayek's lectures—*Prices and Production* was originally a series of lectures, late book by Hayek. Originally lectures at London School. *Monetary Theory and the Trade Cycle*, which originally in German and then translated quickly. So Wellman started sponsoring

the translation of a whole bunch of stuff—several books by Hayek—and Hayek converts all the London School people like that.

Almost everybody that we now think of as Keynesians are originally Hayekians, money and business cycle in particular. Ada Lerner, John Hicks, Cal Lour, all the top English economists originally are young Hayekians.

And Keynes of course was a big shot intellectually. All the English intellectuals knew each other. In the United States nobody knows anybody else particularly, it's all very diffuse. There it's all London, Oxford and Cambridge, a small, restricted area, and Keynes was a glittering big shot for a long time.

First of all, he started out as a big shot mathematician writing, unfortunately, a bad book on the theory of probability, a book hailed in its time, and was also a big intellectual and a member of the Bloomsbury set, effete, artistic side of Bloomsbury, friend of Virginia Woolf and all these people, and then became advisor of the treasury in World War One, and [unintelligible] Versailles Treaty.

So he was very well-known as one of Marshall's top students at Cambridge. Marshall being at Cambridge was the heart of the English economic establishment. [Tagu] and Keynes were his two top students. Of course, Keynes had to destroy Tagu in order to destroy his dominance, which he did by [unintelligible] Robinson and other intellectual thugs of the time [unintelligible] upset [unintelligible] Robinson, of all people—disrupting classes and attacking him, and so on.

Keynes wrote his *Treatise On Money*, Keynes sort of waffled around. I think his best book was the *Tract on Monetary Reform*, in which he analyzed, I think great insight, analyzes hyper-inflation, runaway inflation

as the people taking back their resources from the government. In other words, government's printing money all the time and grabbing resources from the public, and hyperinflation is a method by which the public speeds up prices ahead of the increase in the [unintelligible] so they can at least keep some resources. Interesting insight.

Treatise On Money was supposed to be his big book of money, and Hayek destroyed it. It was one of the great demolition jobs in *Economica*, the London School of Economics... By the way, *Economica* is a marvelous publication. In the early and mid-'30s, was published at the London School, had a lot of Austrian stuff in it, Robbinsian stuff.

Robbins', by the way, *Essay On The Nature of Significance of Economic Science*, which was the big methodology book in English until Friedman's evil article on positivism. And Robbins, I have a disagreement with Curg on this—Curg tends to think that Robbins was really a modern positivist, but I think it's semi-Misesian, it's Mises diluted.

The first edition of Robbins' book is even more Misesian. The second edition, which is the one we know about, it's in the libraries, it cuts out reference to Mises and includes stuff about a difference curve, things like that. He's beginning to waffle. But basically it's Misesian. It's a border [unintelligible] Misesian book.

And Robbins has a very good article, critique of Marshall and so forth, and does a very good job on this whole thing, and translates *The Theory of Money and Credit* at long last in 1935. The first time, the first English translation, gets it translated. By the way, this is an interesting footnote on Keynes:

Keynes reviewed *The Theory of Money and Credit* in German when it came out. Keynes was the editor [unintelligible] Economic Journal, which was the big Cambridge publication, and says, "Well, it's an

interesting book, but there's nothing new in it." If there's anything you can say about *The Theory of Money and Credit*, that isn't it.

He then writes in his memoirs later that he didn't really know German very well. He knew enough German to read stuff he already knew, but he couldn't absorb any new ideas in German. Okay, so how did he have a goal to review books in German? Hayek demolished *The Treatise On Money* in two long, great articles in *Economica*, much of which applies to the *General Theory*, by the way, an attack on capital theory and so forth, alleged capital theory and the rest of it.

Keynes then goes back to the drawing board, essentially acknowledges that he's been smashed, and writes his new work, *The General Theory*. When Keynes' *General Theory*, Keynes being a big shot, it was reviewed by every journal and review. Go back and read the scholarly reviews. They're all totally negative.

[Kadula] attacked it, Weiner attacked it, Knight attacked it, they all attack it, all the big shots, including Alvin Hansen. The case of Alvin Hansen is interesting. Alvin Henry Hansen was a free market type, professor at University of Minnesota, wrote a semi-Austrian book called *Business Cycle Theory* about 1933. Not really Austrian, didn't really understand it, but pretty favorable.

He also wrote a book called *Economics in an Unbalanced World* or something like that in 1931, attacking the idea of public works to cure depression. Great free market right wing work. *The General Theory* came out, he attacked it, denounced it in reviews. I don't think there's any favorable review of it.

Two years later it swept everybody, everybody was converted to Keynesianism, including Hansen, who became the country's outstanding Keynesian. So what are the reasons for the sweeping of the board?

Samuelson—I forget now whether it's Samuelson's foundation who writes this—in the introduction he says, “And a wonderful world it was, to be in a world young enough to read Keynes' *General Theory* when it came out, and to be under 30,” because the mind is open to this great new revelation.

So why was this super-successful? I went to college or graduate school at a time just—Keynes' *General Theory* had just come—we were reading Keynes' *General Theory*. Nobody reads the *General Theory* now because we read Keynesian interpretations of it. This is before the Keynesians came out with equations. We actually had to read this stuff in the real thing, *General Theory*. Totally incomprehensible work. Keynes was a good writer when he wanted to be, when he was clear-headed, like in the book on the Versailles Treaty, *Economic Consequences of the Peace*, it's a very clearly written book.

When he was a muddled thinker, he became a muddled writer. So nobody could really understand—also, he contradicted himself on every page. For example, he'd say, “A key to my thought is that savings always equals investment, always always always equals investment.” A page later it says, “The key to my thought is that savings always differs from investment.”

Kind of muggy. If you're an average rational person, you say this is garbage and thrust it in the wastebasket, which the older economists did. So as a result, you had younger people saying, “Ah, we're the only ones who can understand the master,” sort of a culture situation. “All those over 30 are locked into the old paradigm, and we can understand it naturally, we've got this,” and the fact that he's very obscure makes it even more challenging.

They write two billion journal articles on it interpreting what he really thought. So this is one intellectual reason, plus the fact that Keynes was important in intellectual life in England and they all knew him. But the interesting thing is why do Hayekians shift over and Misesians? In other words, every Misesian, every Hayekian in England except Hayek and [Lockbonn]—partially—I think Lockbonn is really Keynesian.

Everybody except Hayek, by the end—by the early '30s everybody at London School, all the younger people in England, economists were Hayekian, Misesian and Hayekian.

By the end of the '30s they were all Keynesian, all had shifted over. Including, all the Misesians shifted over, partially shifted over. So if you read these people, Machel, for example, one of Machel's—the low point of Machel's intellectual career was his book on the multiplier, the foreign trade multiplier, came out in the '40s. Straight Keynesian analysis. But the thing about these people, Machel and Harboer and all these people sold out to Keynesianism or shifted over—there's always a Misesian strain there. All the good stuff is Misesian. Everything else is Keynes...

In other words, they were never quite pure Keynesian, they always had a slight drawback, holding back. Again, [unintelligible] attrition. He was always slightly apologetic about it, although it's true that we have assumptions here which aren't really true, etc., [unintelligible] Mises' student.

And same way with Morgenstern, with his critiques of GNP statistics and all that, was fantastic, within the framework, trailing clouds of Misesian glory, so to speak. So why did they all shift over? In the case of Hansen I think it's fairly clear, at least according to Wilford King, an old [unintelligible] I met in the '40s, who was the originator of income

statistics, unfortunately, in the United States, national income statistics—also a price [stable] inflationist.

I think he preferred [unintelligible] young Irving. So Wilford King was a free market person, laissez-faire person, except with money and stabilization. He taught, I think, in Minnesota, “Yes, yes, Hansen was a very good lad when he was in Minnesota. As soon as he got to Harvard, he changed,” that’s certainly part of the picture.

According to Schumpeter, has a very good, assiduous critique of Keynes and *The General Theory*, the reason for the big shift, in addition to the obscurantism and so forth, is the fact that this is what the government wanted. First of all, governments always want to incur deficits and spend more. That’s the essence of government, they’re always straining at the leash, and the only people with their finger in the dike, so to speak, holding us back, have been economists.

It’s always economists who are saying, “No, no, you shouldn’t increase the budget, shouldn’t have deficits, it’ll cause bad consequences later.” So all of a sudden you had economists saying, “No, the great thing is to have deficits; the more deficits, the better, the more spending, the better, it’s good. And the guys who say it’s bad are really reactionary old fuddy-duddies, they’re not into the new dispensation.”

And so of course the governments love Keynesianism, and Keynesians love the government. You had the marriage of intellectuals and government and the state. Keynesians then take their place in the planning structure. For example, I don’t know if you know this, but I remember a world where there was no Council of Economic Advisors, it was a magnificent world.

No planning, no rotten forecasts of the next five years, which are dead wrong. No positions for economists and that sort of stuff, it was great.

And then everybody became more or less Keynesian. Even Arthur Burns, who was my professor, claimed he wasn't a Keynesian; of course, really was.

So there was all intra-infighting within the Keynesian framework. By the way, I was around when the Keynesian [unintelligible] first started coming out, Moliani and all these people. My own view is that the current revisionist view is the Keynesians distorted Keynes. Keynes is a really great guy, and Keynesians are really the bad guys.

I don't believe it. I think Keynes was a Keynesian, insofar as he was anything at all. In other words, the equations are the only thing that made sense out of a mess, made sense out of these contradictions, and they made a certain sense. They're all wrong, but at least they're a coherent structure.

Keynes conveniently died early enough that he can't be challenged to whether he agrees with the Keynesian equations or not. Then there's also stories like Hayek said that, just before Keynes died, he wrote to Hayek and said, "The Keynesians are going too far," I don't really credit that too much. I don't credit letters like that.

It's a pleasantry more than anything else. So as far as I'm concerned, Keynes is a Keynesian until proven otherwise. As I say, justified deficits, etc. The best reputation of Keynes—this is kind of a sad story—by Henry Haslitz, who wrote a magnificent book, which nobody has ever read, as far as I know, called *Failure Of The New Economics*. Page by page, going through the entire *General Theory*, a mighty effort, and doing a hardcore Misesian critique all the way, step by step.

Nobody read it, nobody paid attention to it, much less refute it. It sunk without a trace. I guess for two reasons. One is Haslitz did not have a faculty position, didn't have a Ph.D. Therefore he was not an

“economist.” He was ruled out of the paradigm by the establishment. Secondly, of course, he was anti-Keynesian and Misesian, which is also bad.

It’s a great book. It’s very clearly written, which of course was a black mark against him too. Also he doesn’t deal with the neo-Keynesian equations. He deals with the actual *General Theory*. So I guess that’s another black mark. I don’t see why he has to deal with the equations, he’s got the whole thing there.

He also then followed up with a collection of criticisms of Keynes, of negative reviews full of critics of the new economics. So at any rate, not having a scholarly union card and all that, his book was totally ignored. [unintelligible] is another great case. Hud was also not a Keynesian, he was Edwin Canon’s student in the London School, and he’s very close to Austrianism, the Canon-Hud position, the London position, and Robbins was a student of Canon, it was very easy for him to become an Austrian.

All these guys, they all shifted over—Robbins, Hicks, the whole gang—to an amazing extent. They recanted. Very few people actually publicly recant. As far as I know, the only people who really did it are ex-communists who publicly repent. And Hicks and Robbins—Robbins wrote an excellent book called *The Great Depression*, a Misesian analysis of the 1929 Depression in 1934, and later in life he attacked the book as being a bad book, a terrible book, and nobody should read it.

This of course was his Misesian book. After he became a Keynesian and became a lord and a government planner. Hicks’ *Theory of Wages* was essentially Austrian, the first edition. He later repudiated it as being a terrible book, evil, and Austrian, so forth and so on. Later in life—Hicks is an interesting guy—in later life, he became a sort of semi-Austrian again.

He appeared at Austrian conferences, [unintelligible] situation, wrote a friendly story about Hayek. As Austrianism became recrudescent, reviving, in other words, Hicks is essentially the person who's finger is always to the wind, trying to figure out what the next trend is and hopping it.

So Austrianism was in vogue, he was an Austrian; when Keynes is in vogue, he's a Keynesian; when Austrian is coming back again, he becomes an Austrian again, in a very cautious way, of course. So I think the reason for the shift over, these people knew better—I mean after all, these people, Misesians and Hayekians knew about Keynes, knew the fallacies, and couldn't have been swept away in a young ecstasy like Samuelson.

The only explanation I could tell was sellout, the only explanation I've got for this, and usually it's a pretty fairly good explanation. One of my favorite phrases from that, a famous phrase in the Woodward-Bernstein book and movie on Watergate—if you remember, when Woodward can't figure out what's going on, all his leads are gone, he goes to Deep Throat and he says, "Deep Throat, I'm lost, I have to stop the investigation. Tell me what to do." And he says, "Follow the money."

And that revives the thing, and that's it. Looking at the money factor or the economic factor I think is important here. In other words, the guys who left the Misesian/Hayekian camp and became semi-Keynesians or Keynesians got posts at Harvard, Princeton, etc., and the others didn't. I'm not going to go into a critique of Keynesianism, I haven't got the time, and also it's a pretty vapid theory, filled with fallacies and riddled with it, so forth and so on.

My favorite critique is of the multiplier, maybe I'll quote myself here. I can demonstrate on Keynesian grounds that if you give me \$1,000,

there'll be a huge, like a two million multiplier, and the national income will go up by about \$2 trillion. The magic multiplier. What we have, as I said, there's been an Austrian revival since about '74.

I think actually in '73 we had the first Austrian conference ever since old Austria, the first United States Austrian conference with young Austrians in it. And in '74 Hayek got the Nobel Prize. It was an interesting thing. When he got the Nobel Prize all the economists said, "Who the hell is Hayek? Who's this guy who got the Nobel Prize?" The aim of every economist, objective.

"Who is he?" So they had to go back and find out what he was, at least, even for sociological purposes, and this created a Hayek boom, which is still on. One of my pet peeves—I wrote this in an article in the Quarterly Journal of Economics many years ago—is that government functions by statistics. If you cut the statistics out, government can't function at all.

You can't even pretend to plan, they won't know what's going on. In other words, the market provides information to entrepreneurs, businessmen or whatever, for the price system, etc. So businessmen don't really need much statistics. What they need is statistics they themselves generate, and qualitative knowledge of the market.

The whole overall statistics, all the stuff that's launched from the Department of Commerce, Department of Labor, etc., is all for government information, basically. In other words, for the government, the bureaucrats, the politicians to do anything, they have to have statistics. They don't have any real world knowledge except for statistics.

Therefore, if we cut the statistics off, they're helpless, they can't do anything. So as a laissez-faire person I've been advocating for many years, eliminating all appropriation for government statistics. Statistics in

general have been in the service of the state. In other words, the first statisticians in economics were German historical school people who realized you had to use it to plan, the government has to use it to plan.

19th century statisticians, that was their aim, “We have to gather statistics so the government can plan things. We have to know how much unemployment there is so the government can cure it,” etc. Richard Keeley, my old buddy, who I already mentioned, [unintelligible] government was a major instrument of redemption, of course was a big empiricist statistician type.

He himself didn’t gather statistics, he’s in favor of it. He said we need empirical data to “move the forces at work in society and to improve existing conditions.” Samuel Rubbels, who was the American delegate to the International Statistical Congress in Berlin in 1863, said that, “Statistics are the very eyes of the statesman, enabling him to survey and scan and have a clear and comprehensive version, the whole structure and economy of the body politic.”

It’s true. Of course, the converse of it, if you strip the government of statistics, they can’t do anything. They can’t even pretend to know anything, which is great. Cal Reit, one of the first commissioners of labor in the United States, who was a big statistician, was influenced as a student of Ernst Engol, the German Historical School member, the head of the Royal Statistical Bureau of Prussia, and a founder of Engol’s Law, whatever that is, [unintelligible] consumption.

Richard Eley was a former student of Engol. Henry Carter Adams was also a progressive economist along with Eley, and established the Statistical Bureau of the Interstate Commerce Commission to carry on Engol’s great work, believing, “That ever-increasing statistical activity by

the government is essential for the sake of controlling naturally monopolistic industries.”

And Irving Fischer, whose life was dedicated, even though fairly free market in many areas, his life was dedicated to stabilizing the price level from manipulation of money at the Federal Reserve—always working on making an index number to try to show what the scientific index number, solution to the index number problem, which of course there isn't.

There ain't no scientific index number. Those are things, the scientific index number—the cost of living, for example, because everybody's got a different buying pattern. In other words, I buy a lot of books. The cost of living index, which pinpoints the classic Dayton, Ohio housewife with two kids and the wife of a steel worker, they don't buy any books, except maybe a Reader's Digest summary or something.

So the book prices, which have been skyrocketing, as you all know, that never gets in the inflation index. My inflation index is very different from the Dayton, Ohio housewife index. That's not of course [unintelligible] stamp out. Fischer said in the bookmaking of index numbers, “Until this difficulty could be met, stabilization could scarcely be expected to become a reality.”

You can't stabilize the price level if you don't know what the price level is. Deprive them of that, boy, we have them. All these people—Carol Wright was a Bostonian, a Progressive reformer, Henry Carter Adams was the son of a New England pietist congregational preacher, a missionary [unintelligible] Iowa, who started out to study for the ministry to follow his alma mater, Andover Theological Seminary.

Irving Fischer—okay, we get to Irving Fischer, one of my pet peeves here, alleged greatest economist of the 20th century—was the son of a Rhode Island Congregationalist pietist preacher. Watch out for sons of

preachers, I guess. His parents are both of old Yankee stock, his mother a strict sabbatarian.

He was an inveterate reformer with a crusading spirit. He was an unbelievable prohibitionist. As a matter of fact, he wrote three books during the 1920s saying that Prohibition works, proving by statistics that Prohibition was good. He also believed in outlawing—get this—he was particularly enthusiastic about purging the world “of such iniquities of civilization as alcohol, tea, coffee, tobacco, refined sugar and bleached white flour,” which he wanted to outlaw. He was an early health nut. For those of us in the anti-health nut movement. [Laughter]

And of course, he loved Benjamin Strong because he was stabilizing price level. Then we have Wesley Clair Mitchell, institutionalist, founder of the National Bureau of Economic Research, and beloved figure. Student of Thorsten Veblen, and who also was dedicating himself—he wanted a lot of government statistics, especially during World War One, to be able to plan a system.

All these guys, by the way, loved World War One, they all took their spots in the collectivist planning system. As Dorfman, who was a friend and student of Mitchell, put it about Mitchell, that he was clearly the type of social scientist—paraphrasing something about Mitchell—said clearly the type of social invention most needed today is the one that offers definite techniques [unintelligible] the social system can be controlled and operated to the optimum advantage of its members—that’s Mitchell.

And Dorfman says, “To this end, Mitchell sought to extend, improve and refine the gathering and compilation of data. Mitchell believed that business cycle analysis might indicate the means to the achievement of orderly social control of business activity.” See, now all this time Mitchell was claiming to be a value-free scientist.

A value-free scientist gathering statistics, in order to do what? In order to be able to plan the system. That's allegedly value-free. Mitchell's wife and collaborator, Lucy Mitchell, in her memoirs, talking about herself and her husband, said that Mitchell envisions the great contribution the government can make to the understanding of economic and social problems.

If the statistical data gathered independently by various federal agencies were systematized and planned for the interrelationships among them could be studied. The idea of developing social statistics not merely as a record, but as a basis for planning emerged early in his own work. So he joined war collectivists in World War One.

At the end of World War One, an interesting event happened—namely, this is December 1918, one month after the armistice, the American Economic Association and American Statistical Association had a joint meeting. I don't think they've ever done that before or since. A joint [unintelligible] in Richmond, Virginia, fairly close to Washington, where they had been percolating during the war.

And they have a joint meeting with, presidential speeches by Fischer, because it's the American Economic Association, and Mitchell, the American Statistical Association. They're both very optimistic. Boy, they love the war, and they love the [unintelligible] war, which they think will be an extension of the war, which of course in a sense it was.

Fischer looks forward to an economic world reconstruction that will provide glorious opportunities for economists to satisfy their constructive impulses. Plan the world, right? Class struggle, Fischer noted, would surely be continuing over the distribution of the nation's wealth. But by devising a mechanism of what he called readjustment, the nation's economists could occupy an enviable role of impartial arbiters of a class

struggle. These disinterested social scientists making crucial decisions for the public good.

In other words, this is the role of the intellectuals, and Fischer and Mitchell saw themselves, and all these other guys did too. Everybody else is bound by their own class interests, all selfish and narrow and so forth and so on, businessmen, unions, etc.

We, the intellectuals, the planners levitate above the class struggle. We believe only in the truth, and therefore we're the ones who are divinely appointed or whatever to plan everything for society, make all the decisions on the basis of the national interest and the common good.

In those days they said that openly. This is before the science of public relations had advanced to a high art. Everybody was pretty out front with their position. That's why it's interesting to study this whole period. The engineers would say, "We're engineers, and society is complex, and therefore we should plan the whole world."

Economists should plan the whole world—of course, a squabble there about who should be the planners. What's interesting, Charles Steinman, the great inventor, General Electric's main inventor, General Electric being a Morgan firm, by the way, Steinman called himself a socialist.

He wanted rural socialism, and his view was that rural socialism should be planned and run by the corporations, obviously mostly General Electric, and that the top inspiration and guide for the [unintelligible] should be the great world inventors, obviously, namely himself.

In other words, he saw a General Electric world and him running it, was his idea of socialism. I guess it was socialism, a different form. And Mitchell proclaimed that the war led to the use of statistics, as the

president of the American Statistical Association, not only as a record of what happened, but also as a vital fact of planning what should be done, same thing as Lucy Mitchell said,

He also said that the war had shown that when the community desires to obtain a great goal within a short period, far-reaching social changes can be achieved. The need for scientific planning of social change has never been greater. The chance of making those changes in intelligent fashion has never been so good.

The peace, he said, will bring new problems, but it seems impossible the various countries will attempt to solve them without using the same sort of centralized directing now employed to kill our enemies abroad, for the new purpose of reconstructing their own life at home.

This is a constant theme from then on, for the rest of the century, the New Deal period and World War Two. We did such a wonderful job in World War One planning everything and running everything and [unintelligible] everything, why can't we do that for peace as well as war? Why can't we use these great means of collectivism for peaceful purposes?

Then he says in contrast to the quantitative physical sciences, he tells the statisticians, said Mitchell, the social sciences are still immature, speculative, filled with controversy and class struggle. But quantitative knowledge, in other words, statistics, could replace such struggle and conflict by commonly accepted precise knowledge, objective knowledge, inimitable to mathematical formulation and capable of forecasting group phenomena.

A statistician, Mitchell opined, is either right or wrong, and it's easy to demonstrate which. As a result, a precise knowledge of facts, Mitchell

envisioned, we can achieve intelligent experimenting and detailed planning while we're in agitation and class struggle.

Then he says to achieve these vital goals, economists and statisticians would provide of course the crucial elements, for we would have to be relying more and more on trained people to plan changes for us, to follow them up, to suggest alterations, namely for himself and his buddies.

So what you have is a naked grab for power. By the way, the Marxist Karl Mannheim, a German Marxist, was presented with a problem. If everybody's determined by their class interest, what about intellectuals? What about Marx, who was obviously a bourgeois type and so forth? Where do they fit in?

His answer was, "Intellectuals free float, they levitate above the class struggle." So everybody else is determined, but we're free. This is, by the way, the typical determinist argument. "All you guys are determined; I'm somehow broken through this, I have free will." There's some good material on all this.

There are two left wing books, one by Guy Alkan, Princeton University Press, I think it's called *The Invisible Hand of Planning*. It's about the 1920s and all these social scientists, their grab for power, and he quotes Mitchell and Fischer and so forth. First, what he's saying, he's attacking these centrists for selling out Marxism and Leninism or whatever, it really doesn't matter what the position of the author is, as long as he gets the right stuff.

James Gilbert wrote a book called *Designing the Industrial State*, came out about 20 years ago, about what he called collectivist intellectuals of the Progressive era and World War One. He's the one that talks about Steinman and General Electric socialism.

David Noble has a book, *America By Design*, which is in paperback, about scientists and the nationalization of science in World War One, how the scientists all grabbed for power in industry. Said, “Boy, World War One is great. We have government direction of science, we can channel science and research into different areas,” which required of course more funds. *Designing The Industrial State*.

A lot of good stuff on this, which is of course neglected by mainstream economists. There’s a lot of stuff to be done, a lot of research. This is tapping the surface of it. Manny wanted me to mention some overall reference to the history of economic thought. There’s no really good book on the history of economic thought [on extant], which his why I’m writing one.

The most inclusive book is by Henry W. Spiegel called *The Growth of Economic Thought*, something like that. The titles are all very similar. That’s a huge—it’s available in paperback and it’s huge, like 900 pages, and it’s got everything in it. Of course, he’s wrong about almost everything. But at least he’s got the facts.

The Development of Economic Thought or *Growth of Economic Thought*, something like that. Published by [unintelligible], so it’s widely available. He’s got a very good annotated bibliography, about 150 pages. It’s very comprehensive, and the best part of the book. He’s got all these people in there, got all the groups.

The really best book book is Alexander Grey, but it’s very short. Came out in 1931. It’s called *Development of Economic Thought*, it’s a similar title, and what he does is he only covers a few groups. He covers Smith, Ricardo, Marx, and he winds up with the Austrians, interestingly enough. Even though he wrote it in 1931, he ignored everybody, ignores Marshall and all the other stuff, goes right to the heart.

He's also a great writer, one of the great writers in economic thought. Witty, sardonic, and all the rest of it, perceptive. He demolishes people with two sentences, things like that. He also wrote a book called *The Socialist Tradition* on socialism, great on that. Great quip about, one of these crazy socialist books, one of these ten-volume books or something like that, impossibly written, he says, "It's the sort of book," he said, "you'd give as one of the six books that you'd take to a desert island."

Unfortunately, Grey's second edition, there's some guy named Thompson writing stuff about Keynes which is worthless. That's supposed to be in print, the Grey-Thompson book, but I understand now it's not in print, it's out of stock for three months. So this is where we stand.

You can get the older edition or you can get the newer edition, but they're both out of stock, but they're sometimes in stock. After that, it's sort of a swamp. The Schumpeter book is a great book, but it's very obscure, and it's also eccentric. Schumpeter's great on some things and bad on other stuff, and you can't predict which it's going to be at any moment.

Schumpeter's a very interesting economist. I didn't have time to go into his doctrine. It's the only business cycle theory worth talking about aside from Mises and Hayek, I think. And I think it's wrong, but it's very interesting. It's derived from the [Balrasian], in fact he was a Balrasian. Unfortunately, he was a Böhm-Bawerkian and shifted to Balras.

Probably the best tribute to another economist ever written was Schumpeter's obituary, memorial article on Böhm-Bawerk, magnificent, part of his *Ten Great Economists*, I think. So I think it's a very interesting endeavor and interesting writer, but basically wrong on stuff.

His original business cycle theory was so obviously wrong, he had to create new epicycles in his two-volume work on business cycles. He said there were several business cycles all going on at once and accumulating. He unfortunately was responsible for bringing the [Kongochev] wave into American thought, of which it has still not yet been purged.

He's an interesting writer. He didn't finish this book. It's unfair to some people [unintelligible], so I can't really recommend it as a key book, as an overview, but not too much else. Scott has a book, it's very old. There are certain specific things and specific writers, of course, but as an overall situation, that's about it.

Unfortunately, Eckelund and Abehr textbook is extremely Whiggish. In other words, the sort of thing that everybody is great—Austrians are great, Keynesians are great, they all contribute to the world outlook. So for an Austrian it's of course kind of loveable, because here I'm cited in Eckelund and Abehr favorably, but everybody else is cited favorably too.

The thing is I think that since Austrian economics is true, there's certainly a desire for truth on the part of people. The truth value people. Scholars are supposed to be even more of the value of truth. Doesn't always work, but in some cases it does. So you have this shining truth coming up, as being combated by other influences. I think the shining truth—also what then begins to happen is, eventually faulty theories begin to collapse.

So what happens is that for various reasons, theories begin to collapse. Take Keynesianism, for example, which was dominant for many years, and the government loved it and they loved it and everything's great. Keynesianism began to decline on the theoretical level when the equations were worked out. When Modigliani's equations were worked

out in econometrics, I think in '48, '50, they found out the whole thing rested on the assumption of wage rates being rigid downward; otherwise, nothing works.

But it's not supposed to be that. It's supposed to be all blamed on capitalism. Now we find out the rigid wage rates, now it has to be blamed on either government or unions. The whole political focus begins to shift. Then other things begin to pop up—the magic multiplier gets reduced to about one by the Keynesian statisticians.

The magic evaporates. And gradually, on the theoretical level, Keynesianism begins to lose out. Not replaced by anything particularly good, but at least the Keynesian paradigm's losing out. And then when the Keynesian political predictions flopped—in other words, Keynesian rests basically on the idea that either you have a recession or you have an inflation.

In a recession, you pump money in, you pump spending in in whatever proportion you're going to do it. When you have an inflation, you take money out or you take spending out. What do you do, however, when you have inflation and recession at the same time? As [unintelligible] would say, blank out—there's no answer.

And this of course began to appear after World War Two, especially in 1973 recession, we have a galloping inflation along with a recession, then they had to bug out. They had it. Keynesian as an intellectual force stopped. It doesn't mean that Keynesians stopped. The Marxists will say the ruling class, in this case, had lost their will to rule. They didn't know what the hell to do.

Do you inflate, do you deflate? What do you do? So they sort of hung in there, trying everything, and putting their foot ultimately on the accelerator and the brake, trying to hope that something works. And

basically that's what the Keynesians have been ever since. That's why the Friedmanites won out. The Friedmanites didn't win out because of high theory; they won out because Keynesianism was dead, basically.

So people said, "Hey, maybe the money supply is important. Maybe those jerks out there in Chicago are right." Friedmanism was tried. So that's a reality check on faulty theory—eventually it begins to come a cropper, both on theoretical grounds and on practical policy grounds, and things collapse.

So there's still Keynesians around, but they really have nothing to say particularly. They're sort of spinning wheels. And interestingly enough, what happened to the monetarists politically in the Reagan Administration—when the Reagan Administration first came in, there were four contending economic groups.

There were the old-fashioned conservatives, of which libertarians were sort of an extreme variant—of course, lost out within a year, all kicked out or left. Martin Anderson and people like that. They were out. Those were never the favorite—big budget cuts, big tax cuts, not inflating things, they were out very fast.

Then you have the monetarists and the supply siders and the right wing Keynesians contending for power. The monetarists were big at the beginning. Sprinkle comes shooting his mouth off, Secretary of the Treasury. They were in charge of the money supply. The Reagan Administration, what they did was they put the Keynesians in charge of the budget, and put the monetarists in charge of the money supply, and each one gets his own turf.

So the monetarists were running the Fed for a couple of years, even though Friedman kept saying it's not really monetarist, it's a lot of baloney. They have two percent off or one-tenth—really it was a

monetarist policy for several years. Total flop on monetarists' own terms. Since Friedman says that science is prediction. They kept making predictions, they kept flopping, outrageous flops.

So if you live by the sword, by the prediction sword, you're going to die by the prediction sword, and when prediction comes a cropper, you've had it. The monetarists were discredited, with a whole bunch of folding predictions, including a prediction that you can tamp inflation slowly, turn down inflation without having a recession, which of course any Austrian could've told them is impossible.

That was it. These few predictions, monetarism was now politically discredited, not so much in the economics profession; in politics. As a result, [unintelligible] been relegated to the Council of Economic Advisors, which is now Siberia—no influence, no power, and he's kept his mouth shut.

So what's happening is supply siders are really Keynesians anyway, become Keynesians, a lovely stew pot coalition of supply sider Keynesians and conservative Keynesians. By the way, it's another thing, supply siders are people who now take up a torch of Ada Lerner, saying [unintelligible] "Who cares about a deficit?"

They don't quite say, "We owe it to ourselves," that's really the next step. By the way, on supply side, I would recommend everybody to read, to understand supply side doctrine, Yuveniski's famous book, *The Way The World Works*, which came out just before the Reagan election, 1980, '79. The thing about the Yuveniski book, which was a bestseller, but I can't find anybody who's ever read it—Yuveniski book is very interesting, it's fascinating because he has a whole philosophy of history at work.

Philosophy of history is basically this: He's what you can call very kindly a right wing Hegelian. He says history is working out the will of the

masses. The will of the masses is always correct. The masses know the truth. So the function of the intellectual and the politician is not to enlighten the masses, because the masses know everything anyway, the masses are always right; it's to embody the collective will of the masses into institutions, into history.

History is a providential onward and upward march, by which the masses' collective will is embodied in history. So the two ends in life for Weneski, the two goals of history are, one, world government, and two, world pure democracy, because democracy, the more democratic, the better, because the masses can express their will faster.

As a matter of fact, he's the only person who's written in the last 50 years who loves World War One. Usually, the famous story is right wingers love the Cold War and liberals love World War Two. He loves World War One. Why World War One, the most destructive war, a pointless war? Because it got rid of the kings. He considered the kings absolute evil because they're not democratic.

He says that Hitler and Stalin, despite their various defects, were better than the kings, because they were at least democratic. I swear it's in there. I had to review the book for somebody, I had to read the damn thing. I don't consider it a scholarly contribution in the least. Thank you very much.

end of transcript.