The Free Market

February 1987 • The Ludwig von Mises Institute

The Homeless and the Hungry and the . . .

by Murray N. Rothbard

Winter is here, and for the last few years this seasonal event has meant the sudden discovery of a brand-new category of the pitiable: the "homeless."

A vast propaganda effort has discovered the homeless and abjured us to do something about it—inevitably to pour millions of tax-dollars onto the problem. There is now even a union of homeless lobbying for federal aid. Not so long ago there was another, apparently entirely different category: the "hungry," for whom rock stars were making records and we were all clasping hands across America. And what has now happened to the Hungry? Have they all become well fed, and so rest content, while the Homeless are held up for our titillation? Or have they too organized a nion of the Hungry?

And what of next year? Are we to be confronted with a new category, the "unclothed," or perhaps the "ill-shod"? And how about the "thirsty"? Or the candy-deprived? How many more millions are standing in line, waiting to be trotted out for consideration?

Do the Establishment liberals engaged in this operation really believe, by the way, that these are all ironclad separate categories? Do they envision, for example, a mass of hungry living in plush houses, or a legion of the homeless who are living it up every night at Lutece?

Surely not; surely there are not a half-dozen or so different sets of the ill-served. Doesn't the Establishment realize that all these seemingly unconnected problems: housing, food, clothing, transportation, etc. are all wrapped up in One Big Problem: lack of money? If this were recognized, the problem would be simplified, the causal connections would be far clearer, and the number of afflicted millions greatly reduced: to poverty, period.

Why aren't these connections recognized, as even Franklin Roosevelt did in the famous passage of his second inaugural where he saw "one-third of a nation ill-housed, ll-clad, and ill-nourished?" Presumably, FDR saw considerable overlap between these three deprivations. I think the Establishment treats these problems separately for several reasons, none of them admirable.

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In the words of Margit von Mises: "Two very good friends, Larry Fertig and Lu." (See story on p. 5.)

Institute Scholar Wins Lublin Award

Three years ago, the Mises Institute sponsored a major academic conference on the gold standard on Capitol Hill. Inflationists opposed such a meeting, and true to their fears, it has had continuing effect for the hard-money position, especially through the conference volume, *The Gold Standard: An Austrian Perspective.*

One of the papers delivered at the conference and published in the book was Professor Joseph Salerno's "Gold and the International Monetary System: The Contribution of Michael A. Heilperin." Dr. Salerno, an adjunct scholar of the Institute, teaches economics at Pace University in New York, and his paper recently won a $1,000 award from the Lublin School of Business.

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Investor's Hotline Interviews Lew Rockwell

Joe Bradley of *Investor's Hotline* (10616 Beaver Dam Road, Hunt Valley, MD 21030) recently interviewed Lew Rockwell of the Mises Institute. This is adapted from their talk:

Q: Could you synthesize, for the sake of our listeners, those aspects of Ludwig von Mises' writings which you think would be most relevant for investors.

A: Ludwig von Mises was the first to demonstrate 1) that government planning or any sort of intervention in the economy is always harmful, and therefore that we should seek laissez-faire, the complete separation of state and economy; and 2) that a central bank like the Federal Reserve inevitably—through inflation—causes the business cycle of booms and busts. Marxists and Keynesians claim the business cycle is endemic to capitalism. But Mises proved the opposite, and the need to strive for a gold standard and the abolition of the central bank if we want sound money, prosperity, and individual liberty.

Q: Why is it that his writings are not as well known as they should be in the universities and the establishment financial community?

A: In many universities, economics is taught by Keynesians, Marxists, or some other variety of interventionists. Most academic economists believe the government should be running the economy, and they should be running the government. But Mises showed that we are always better off when individuals make their own decisions. He is also unfashionable on some campuses because he was such a strong activist for individual freedom.

Q: For a majority of people to accept and adopt this basic philosophy, is it going to have to be an idea whose "time has come"? Or can it be effectively marketed and sold to be adopted?

A: Although this is still a small movement, we've made tremendous progress. F.A. Hayek, the Nobel laureate who was Mises' student, says that we are twenty years ahead of where he thought we would be in the universities, and among journalists and others who influence public opinion. Murray N. Rothbard, Mises' great American student, concurs.

Q: In the seventies, Jimmy Carter and his administration were considered the epitome of big government. Ronald Reagan was elected because people wanted to change that. Could you cite the Reagan pluses and minuses in economic and political freedom?

A: The talk we hear coming out of Washington is great: free markets, free trade, getting government off our back, lower taxes, etc. Unfortunately, the reality is exactly the opposite. Ronald Reagan has doubled the federal budget, doubled the deficit, added 250,000 bureaucrats to the federal payroll, increased regulation, raised trade barriers, and vastly increased government snooping. And his tax reform is terrible too.

Q: What do you think is going to come out of this tax bill?

A: I'm concerned that the tax bill involved huge increases in the budget and power of the IRS; that it's a "tax-simplification" law 1,600 pages long; and that it's a tax increase that will especially hurt small business—the backbone of our economy. It will increase taxes for the first two years, and then allegedly decrease them for three years, so that after five years we get "revenue neutrality." But, since the evil day the income tax amendment was ratified, we've had a major new tax bill every 18 months on average.

Q: But aren't tax rates supposed to be lower for 1987?

A: Some of the tax rates will be lower in the second half of '87, but the deductions are smashed right away. There is a $55 billion tax increase in the first year. The key factor is always what we pay, not the rate. It's far better for an entrepreneur to pay 50% on a $35,000 adjusted gross income than 28% on a $100,000 one.

Q: Is the faulty perception deliberate?

A: Always assume that Washington is lying, and you will almost always be right. We can absolutely expect higher rates, higher taxes, and fewer deductions or "loopholes" in 1987 and 1988. I have always liked Ludwig von Mises comment that the word "loophole" implies the government owns all of our income and anything we get to keep is through a loophole. In fact, a loophole allows people to keep some of their own money. Just as an individual has no right to seize our property, neither does a group of (particularly awful) individuals called the government. We need to focus on lower (not "reformed") taxes, for moral

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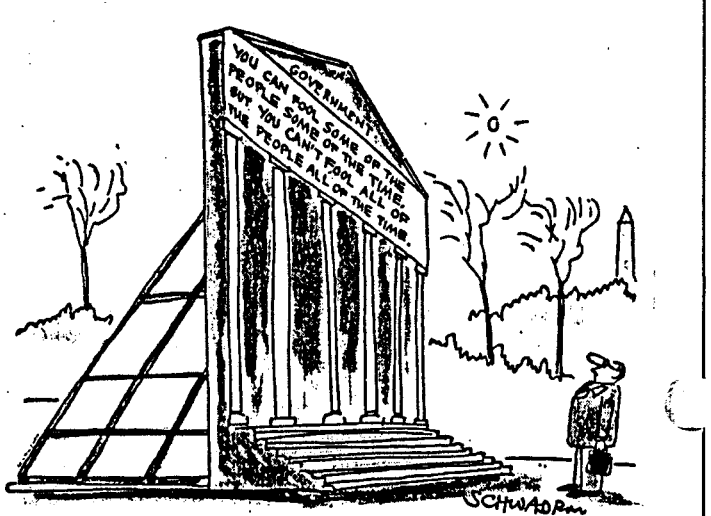

and economic reasons. We must not give more money to the spendthrifts already wasting a trillion dollars a year, nd running a $260 billion deficit.

Q: Lew, what about these deficits?

A: I remember how the stock market reacted when Gramm-Rudman was passed. Everybody relaxed. In fact, Gramm-Rudman was designed to fool us. It manipulates statistics to hide the truth, and addresses only the official deficit, not the off-budget deficit. There is a tremendous amount of spending not included in the official deficit. The important figure is the national debt increase. The real deficit this year will be $250 to $260 billion. And this may have stock-market significance, because it's going to show that Gramm-Rudman isn't making any difference.

Q: You think no action will be taken as regards Gramm-Rudman? Nobody's going to say: "This proves you guys are liars, nobody is going to trust you on anything"?

A: I'd like to think so, but probably not. And Gramm-Rudman worked in covering up their fantastic increase—that same day—in the national debt to more than $2 trillion.

Q: How do we play this as investors? Since we've apparently licked the affects of inflation for the short term, everyone assumes the problem has gone away, which, of course, it hasn't. How long can we continue to postpone some type of reckoning?

A: It was postponed in the 1920s for eight years. As Murray Rothbard has demonstrated, there was a lot of monetary inflation that didn't show up in price inflation. In some ways, this is more dangerous. It means even more malinvestments are being created, which have to be liquidated in a downturn.

Q: Don Hoppe says that things are worse today than in the 1920s. Why are we able to make the same mistake as in the 20s, but on a much greater scale, and still get away with it?

A: Partly it's the leadership of President Reagan. In economics, our subjective perceptions are all important. Too many people believe the president's words and ignore his actions.

Another point: Professors Murray Rothbard and Joe Salerno, with Congressman Ron Paul, did an Austrian economics monetary analysis at the suggestion of the Mises Institute. What they showed was that from 1979 to 1982 there was an actual decrease in the money supply. In other words, a real deflation. This is why we had a depression in those years, and it's also the reason it's taken longer for price inflation to return, despite the heavy monetary inflation. So it is a combination of the early 80s depression, the deflation, and people's mistaken feelings of optimism about President Reagan.

Q: Is there anything other than a change in perception that would cause the market to reverse?

A: Well, I think a real-world event will be the trigger of the reversal. Perhaps a Third-World default. Perhaps President Reagan leaving office.

Q: Are you saying, from an investor's standpoint, the trends that we're in could continue for years? Essentially we're an accident waiting to happen?

A: Yes, if something inevitable can be called an accident. But I think we are going to see it happen by the time President Reagan leaves office.

Q: The deflationists say that the monetary expansion is just going into the securities market, and that the overall trend, if we look back ten years from now, will be a massive decline in prices, and eventually a true deflation, because the marketplace will not accept the money that the Fed may want to offer.

A: I don't agree. We face inflation not deflation. Given the power of the banking establishment, and the Fed's virtually unlimited power to create liquidity in any fashion it chooses, there is no limit on inflation as there was in the 1930s when we were still on an international gold standard. The Fed and the banks and the politicians are terrified of 30s-style deflation, and that's why they are willing to inflate, buy assets, make loans, guarantee loans, whatever they have to do to prevent a 30s-style depression. The oil price decrease is wonderful, but it is not deflation. It is a result of the breakup of the oil cartel, which was kept in power so long by the U.S. government's energy regulations and price controls.

Q: Since 1982, as you mentioned, the monetary expansion has been rather heavy, and we have not seen any of the effects of inflation. Are the stock market and the bond market soaking up the effects of the monetary expansion? Is this why the normal Friedman 18-month lag has not evidenced itself?

A: The Friedman lag is a myth. Mises showed that while we know inflation causes higher prices, there is no direct one-to-one connection. That's why prices can go up faster or slower than they "should" according to Fed statistics. But even so, we are now seeing prices going up at rates which are historically high. When Nixon imposed price and wage controls, the CPI was going up at 4.2%. More important, we are also experiencing the unseen effects of inflation. There is a lot of investment going on right now, through borrowing, that will turn out to have been badly mistaken. Then we will see the worst effects of inflation: broken lives, people thrown out of work, companies bankrupted. And the blame can be laid right at the door of Paul Volcker and his friends in the Administration, the Congress, and the banks.

Q: So you don't give Volcker the A+ rating that most people give him?

A: Well, he and Jimmy Carter, not Reagan, did enact the disinflationary policy in October 1979. I would give Volcker good marks only in contrast to the Reagan appointees to the Fed, who are radical inflationists in contrast to Volcker's more "moderate" money destruction.

Q: Back in 1979, when inflation was still roaring, many financial analysts were saying that we had to inflate or die. Do you think we could adopt a restrictive policy again if people start to flee to hard assets.

A: Yes. I think once people again flee paper assets, and they will, the Fed will again act. How is the question. We will have a much more inflation-oriented Fed Board than in 1979. The Reagan appointees believe in deficits and inflation.

Q: You give almost no chance to some type of smooth landing?

A: In theory it's possible. But it's not going to happen. What a tragedy that Reagan didn't mean what he said about cutting the government. Only Ron Paul urged really cutting the budget or at least freezing it at the Carter level. Instead, the first Reagan budget included a big increase in spending and a $100-billion deficit. And it's been all downhill from there.

Q: Are you saying that the stock market has been going up because monetary expansion has been going into that area thanks to the perception that Reagan is doing something?

A: Yes, although there is a lot of real economic growth going on in some sectors of the economy. Despite the mess in Washington, the American people are still immensely productive.

Q: I wonder if we could sum up all of this for investors. What do you think is the best way to position yourself as an investor?

A: 1) Be as liquid as possible. Aside from a first mortgage on your home, stay debt-free. 2) Have 25% of your assets in gold bullion coins and U.S. semi-numismatics that you own outright and physically hold. 3) Buy equities only in debt-free, cash-rich companies. 4) Have your liquid funds in very short-term instruments. 5) Avoid long-term CDs and bonds, especially junks and municipals.

Q: Anything else you want to say?

A: Just that I'm a great admirer of what you've done, not only in helping people with their investments, but also in defending the free market and sound money. So I appreciate the chance to talk to your subscribers. ■

Special Price on the New Austrian Economics Journal

Lexington Books is selling the massive new hardbound *Review of Austrian Economics* to libraries and universities for $30. But it is available through the Institute to Members at only $19, a 30⅔% savings, which includes postage and handling. If you would like a copy of this historic first issue, just check RAE on the enclosed form, and send it with $19 plus any tax deductible contribution to help the Institute bring out future issues.

Rothbard's Stunning Seminars

by Pat Walker

Since man first tried to understand the "hows" and "whys" of the exchange process, some deduced logical, coherent explanations of the way the world works; others did not. Many of the latter stumbled on the first step: they asked the wrong questions.

Thousands of books have been written to try to untangle the web of economics' complex and diverse history, but most bring no advancement in the process of sorting out the various and conflicting perspectives of hundreds of economists. Joseph Schumpeter's *History of Economic Analysis* has traditionally been considered the greatest book.

Two years ago the Mises Institute's Murray N. Rothbard began his own history of economic thought commissioned by investment editor and Austrian economist Mark Skousen. Dr. Skousen, an adjunct scholar of the Institute, is thus responsible for the second great milestone in the field, which will surpass even Schumpeter.

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A Rothbard Seminar

Rothbard . . . continued from page 1

For one reason, it magnifies the hardship, making it appear like many sets of people suffering from grave economic ailments. Which means that more taxpayer money is supposed to be funneled into a far greater number of liberal social workers.

But there is more. By stressing particular, specific problems, the inference comes that the taxpayer must quickly provide each of a number of goodies: food, housing, clothing, counseling, et al. in turn. And this means far greater subsidies to different sets of bureaucrats and special economic interests: e.g. construction companies, building trade unions, farmers, food distributors, clothing firms, etc. Food stamps, housing vouchers, public housing follow with seemingly crystal-clear logic.

It is also far easier to sentimentalize the issues and get the public's juices worked up by sobbing about the homeless, the foodless, etc. and calling for specific provision of these wants—far easier than talking about the "moneyless" and calling upon the public merely to supply do-re-mi to the poor. Money does not have nearly the sentimental value of home and hearth and Christmas dinner.

Not only that: but focusing on money is likely to lead the public to begin asking embarrassing questions. Such as: WHY are these people without money? And isn't there a danger that taxing A to supply B with money will greatly reduce the incentive for both A and B to continue working hard in order to acquire it? Doesn't parasitism gravely weaken the incentives to work among both the producer and the parasite class?

Further, If the poor are without money because they don't feel like working, won't automatic taxpayer provision of a permanent supply of funds weaken their willingness to work all the more, and create an ever greater supply of the idle looking for handouts? Or, if the poor are without money because they are disabled, won't a permanent dole reduce their incentive to invest in their own vocational rehabilitation and training, so that they will once again be productive members of society? And, in general, isn't it far better for all concerned (except, of course, the social workers) to have limited private funds for charity instead of imposing an unlimited burden on the hapless taxpayer?

Focusing on money, instead of searching for an ever-greater variety of people to be pitied and cosseted, would itself tend to clear the air and the mind and go a long way toward a solution of the problem. ■

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

Lawrence Fertig, 1898-1986

The free market lost one of its great champions when Lawrence Fertig died in December.

An extraordinary entrepreneur, he founded—as a penniless young man—an advertising firm which eventually grew to more than 100 employees. But his real love was always liberty.

After graduating from New York University summa cum laude, he earned his MS at Columbia; his extensive study of economics eventually led to a nationally syndicated newspaper column, and his eloquent book, *Prosperity Through Freedom.*

A trustee of New York University, Mr. Fertig was able to arrange a visiting professorship for Ludwig von Mises, and to help raise the necessary funds, which made possible Mises' 33-year U.S. career as scholar, teacher, and activist.

As a businessman, writer, economist, and patron of liberty, Lawrence Fertig exemplified Misesian principles. And he was an early and strong supporter of the Mises Institute, and a member of its Entrepreneurs Council.

The Institute is honored to be the recipient of Mr. Fertig's largest educational bequest, and pledges to use it to advance the ideas he so productively promoted all his life.

Salerno . . . continued from page 1

In his paper, Professor Salerno discusses the monetary views of Michael Heilperin, a neglected 20th-century economist and champion of the gold standard.

Thanks in part to the Mises Institute, the subject of monetary reform comes up often in policy circles in Washington. But one plan advocates a recycled Bretton Woods (the Keynes-run 1946 monetary pact which led to worldwide inflation, as Henry Hazlitt predicted at the time).

As Mises, Heilperin, Hazlitt, Rothbard, Salerno, and others point out, a real gold standard means no Federal Reserve and a dollar defined as a weight of gold. Only this system can prevent politicians and their beneficiaries from depreciating the dollar through inflation. Anything else is doomed to fail, just as the original Bretton Woods did. ■

This work, published by Lexington Books, is available to Members from the Institute for $14, a 50% discount from the publisher's price of $28. If you would like a copy, check "Gold" on the enclosed form and return it and $14, plus any tax-deductible contribution to the Institute, in the enclosed business-reply envelope.

Seminars . . . continued from page 4

Rothbard's work doesn't just cover Adam Smith to J.M. Keynes, the two economists who define the boundaries for most. Instead, he will cover, in-depth, the development of economic science from the ancient Greeks to the modern supply-siders, vastly lengthening the timetable considered relevant for economic thought. And, like his teacher Mises before him, Rothbard believes that economics must be conceived much more broadly than modern, blindered economists do. Rothbard views economics as part of what Mises dubbed praxeology, the science of human action. That's why history, moral philosophy, political philosophy, theology, and legal theory are included in Rothbard's comprehensive, Austrian view of economic thought.

In August 1986, Rothbard gave a seminar on the history of thought at the Ludwig von Mises Institute in Washington, D.C. For three intensive, fascinating days, students, professors, and business people listened as Rothbard, with his famed wit, eloquence, and scholarship, untangled the history of thought for them.

Last month, Rothbard presented another seminar with much new material on Mises, Turgot, Bohm-Bawerk, Menger, Smith, Marx, and Keynes, as well as the ancient Greeks, the medieval scholastics, the 18th-century physiocrats, the 19th-century liberals, and the statists of all times. Just as at the first seminar, everyone left enlightened—and amazed at Rothbard's breadth of knowledge.

These two seminars, the first of a continuing series, were historic and appropriate preludes to what will be another Rothbard *Magnum Opus*, certain to join the ranks of the greatest books on economics ever written. ■

If you would like to "attend" these seminars in your home or car, check "Rothbard Tapes" on the enclosed form and send $75 plus any contribution to help fund future seminars. You will receive 10 cassettes covering both seminars.

The Undefendable Economics Profession?

by Jeffrey A. Tucker

Dr. Walter Block of the Fraser Institute and the Mises Institute still stirs up controversy with his book *Defending the Undefendable*, but it looks like he's found something he cannot defend: the state of mainstream economics.

Dr. Block will conduct a roundtable seminar on "What's Wrong with the Economics Profession: The Austrian and the Libertarian Critiques," Monday, February 23, 1986, at the Mises Institute in Washington D.C. at 4:00 pm, and you're invited. It's sure to be stimulating and controversial. But true to form, Dr. Block won't avoid stepping on toes.

Dr. Walter Block

A student of Murray N. Rothbard, Walter Block received his Ph.D. from Columbia University in 1972, and has taught at the State University of New York at Stony Brook and Rutgers University. He is the author of five books and editor of six others, and senior fellow of the Mises Institute, as well as associate editor of its *Review of Austrian Economics*. Tapes of his presentation will be available from the Institute for $6.00 postpaid. ■

Jeff Tucker, a Mises Institute Fellow at George Mason University, is seeking to join the undefendable profession.

Austrian Economics Panels

Thanks to the sponsorship of James U. Blanchard III and Howard Ruff, and the generosity of the speakers involved, the Mises Institute was able to hold two special programs on Austrian economics.

The first discussion, which was written up in *Money* magazine, took place in November at Jim Blanchard's New Orleans Investment Conference, and featured Ron Paul, editor of *The Ron Paul Investment Letter*; Mark Skousen, editor of *Forecasts and Strategies*; Richard Band, editor of *Personal Finance*; Larry Reed, director of the Center for the Study of Market Alternatives; and Lew Rockwell, president of the Mises Institute.

The second took place last month at Howard Ruff's Anaheim Investment Conference, and featured Mark Skousen, Richard Band, Adrian Day, editor of *Adrian Day's Investment Analyst*, and Lew Rockwell. ■

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