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Dictatorships

For sixty years, American foreign policy has been set on a course of global intervention, ostensibly on behalf of "making the world safe for democracy", and of securing and expanding the "free world." Now, sixty years later, the world — and the United States — manifestly far less free than when we began to launch our global Crusades; and dictatorships abound everywhere. Surely, at the very least, we must have been doing something wrong. Indeed, that wrong is the very policy of global intervention itself.

Three burgeoning dictatorships have been much in the news recently, and they provide instructive lessons for libertarians and for Americans generally. The most dramatic, of course, is the brutal takeover of India by Mrs. Indira Gandhi, jailing thousands of political opponents and imposing a drastic censorship on the press. Ever since World War II, the New York Times and the rest of the Establishment press have trumpeted the glories and virtues of India as the "world's largest democracy"; massive amounts of foreign aid have been pumped into India by the U.S. on the strength of this rosy view of the Indian subcontinent. At the very least, the Establishment press, standing there with egg on its face, will have to mute its paeans to Indian "democracy" in the future. Predictably, American press reaction has been far more in sorrow than in anger, and replete with pitiful hopes that Mrs. Gandhi will revert to democracy soon.

But Indian "democracy", let alone Indian liberty, has been a sham and a mockery from the beginning. Even in political form, India has suffered from its inception under the one-party rule of the Congress party, with other opposing political groupings shunted to the periphery to preserve democratic camouflage. More important, the Indian polity is one of the most thoroughly rotten in the world: a collectivist mass of statist activities, controls, subsidies, taxes, and monopolies, all superimposed upon a frozen caste system that governs in the rural villages in which most Indians continue to live. Considering this unholy mess, the savaging of the opposition by Mrs. Gandhi comes, not as a sudden and inexplicable act, as Americans tend to see it, but as merely the last link in a chain of statist despotism fastened upon that blighted land. When we discard the myths propagated by the American Establishment, we see that, rather than a source of wonder, Mrs. Gandhi's takeover becomes all too explicable.

Portugal is another country in the news — as a land slipping rapidly into a military-Communist dictatorship, or rather, into a military despotism employing Communist ideology and the Communist Party as its only political ally. Once again, the American press has reacted to the dramatic events without asking the crucial question: How come? For here was Portugal, governed for fifty years by the fascist military dictatorship of Salazar (and, then, his successors.) So seemingly efficient was Salazar in suppressing dissent that the Birch Society, in its annual "scoreboard" of nations, regularly adjudged Portugal as somewhere around zero percent "Communist". Much American aid had been poured

into the Salazarean regime. And yet, scarcely more than a year after the bloodless Spinola "revolution of the roses", here in Portugal, of all places, going Communist!

But it is precisely here that an important lesson lies. Far from being a "bulwark" against each other, we should realize that fascist and communist dictatorships are not only similar but easily transformed one into the other. Right-wing and left-wing military dictatorships are readily convertible; for each of them build up the collectivist institutions of statist rule, of big government domination of the economy and of society, of militarist and police repression of their subjects. And so, Salazarean fascist corporatism, with its network of monopolies, restrictions, and controls, its military rule, its apparatus of police terror, can be easily transformed into Communist military rule. The institutions of statism are there; and all that is needed is a reshuffling of the power elites and ruling groups at the top. In this way, the centrist collectivism of the Weimar Republic smoothly paved the way for Hitler's National Socialism; and the Nazi occupation of Europe, in turn, paved the way for the near takeover by Communist-led Resistance forces after World War II. The important lesson is that it doesn't really matter who controls the statist and collectivist institutions of Big Government; the important point is the existence of these institutions themselves.

Another crucial, and corollary, point is the non-existence, in these countries, of any classical liberal (let alone libertarian) tradition of ideology or of activist political movements. Classical liberal thought and opinion has been non-existent in India; and the same is true for Portugal. Whatever such movement might have arisen was stamped out in advance by a half-century of Salazarean repression. Portugal, too, is an anomaly within Western Europe. A Backward and still semi-feudal land, Portugal has never really joined the Industrial Revolution, nor has it has any tradition of classical liberal thought or activism. Joined to this was a special Portuguese problem: already dominant in a backward land, the Portuguese military had been swollen and overblown in order to fight an endless and losing colonial war to keep its possessions in Africa. The Portuguese army suffered from an aggravated and triple source of resentment: the losing counter-guerrilla war in Africa; the spectre of obsolescence and unemployment as Portugal liquidates its colonies in Africa and brings the troops back home; and relative loss of income and status to the emerging middle class who had begun to develop in the last decade or so with the beginnings of economic development. In France, the resentful army in Africa turned rightward after its losing war in Algeria; but the Portuguese army scarcely had that option, since it was impossible to become more rightist than Salazar. Furthermore, the imposition of a fully military-Communist regime promised a hefty increase in jobs and status for the now obsolescent and over-expanded army; in short, the Portuguese army could now turn its "imperial" power inward, upon its own economy and society. And as usual under fascist repression, only the disciplined Communist party managed to

(Continued on page 2)

DICTATORSHIPS— (Continued from page 1)

retain its underground cadres, and so could function as civilian allies. And so the Portuguese army went Left.

Whether military-Communism will succeed in ruling Portugal is still open to question. For the Portuguese Communist Party, headed by the hard-line fanatic Alvaro Cunhal, rests within the rather broad spectrum of world Communist opinion somewhere on the near-lunatic fringe. Cunhal almost makes Stalin look like Tolstoyan pacifist. And so, they might just blow it. But, at any rate, the crucial point is to see the interpenetrability of despotism, right and left, and the hopelessness of liberty in a land where no movement exists on behalf of even classical liberalism, let alone libertarianism.

In seeming contrast to Portugal's left-wing military dictatorship, Chile's right-wing military despotism was born, in the fall of 1973, in a revolutionary coup against Allende's Marxist regime. Part of that overthrow was a genuine popular revolution — especially, the revolt of the self-employed truckers and other middle-class groups against the statism and runaway inflation suffered under Allende. But the major faction that engineered the coup — the armed forces, with the help, it now turns out, of the CIA — simply proceeded to continue all the worst features of the old regime, and to add to it a systematic use of massive torture against dissidents and political prisoners. After nearly two years in office, Chile still suffers from nationalization and controls — and from a staggering runaway inflation rate of nearly 400% per year. Unemployment ranges from 13 to over 26%, the armed forces enjoy nearly half the national budget, and foreign investments have not really materialized. Moreover, military officers are in charge of all high schools and colleges, the teaching of all "conflictive subjects" is prohibited, and a compulsory nightly curfew is still in effect.

As Professor Petras writes, even the New York bankers (especially the First National City Bank), the leading backers of the Chilean junta, have become disgusted and are unwilling to pour more good money after bad. As Petras writes, for the New York bankers, "the problem is the disintegrating state of the Chilean economy and the frightening spectacle

of a 400 per cent inflation rate." Chilean Finance Minister Jorge Cauas discovered at his meeting on May 8th with the bankers, that the latter are no longer satisfied with the new regime's shifting of all the blame on Allende for the present crisis. For "U.S. bankers want to know how promises of cutbacks in public spending, credits and public employment can take place when the junta promises at the same time to reduce unemployment by financing massive public works programs." (James Petras, "The Chilean Junta Besieged," *The Nation*, June 28, 1975, pp. 784ff.)

The final irony is that Cauas is an avowed disciple of Milton Friedman and the Chicago School, and has been busy using Friedmanite rhetoric as a cloak for the galloping statism and inflationism of the dictatorial regime. Thus, once again (as in Friedman's misguided endorsement of the indexing policy of the Brazilian dictatorship), Friedmanism is being used as a free-market cloak for state despotism. Such is the tragedy that must result when "free-market" economists attempt to influence the State from above, and to become efficiency experts for despotism. (See Frank Maurovich, in the *San Francisco Sunday Examiner & Chronicle*, July 13, 1975).

Again, the major lesson of the Chilean tragedy should be clear. Once again, a right-wing dictatorship has simply taken over the pernicious institutions created by a previous left-wing dictatorship. Right and left are brothers under the skin. Once again, massive U.S. foreign aid (supplemented this time by CIA) has only succeeded in strengthening the yoke of despotism upon a foreign land. And, finally, once again we see the absurdity of expecting victories for liberty in a land where no libertarians or classical liberals exist.

The lessons of India, Portugal, and Chile, in short, are the same lessons as those offered by the debacle of American policy in Southeast Asia. The United States must cease its interventions and meddling in foreign lands; interventionism is not only immoral and aggressive; it **doesn't work**. We must regain liberty at home, end all interventions in other countries, and return to the historic, forgotten "foreign policy" of serving as an example and a beacon-light of liberty to the rest of the suffering and stifled world.

The Division of Labor And The Libertarian Movement

By Tom Palmer*

The Libertarian movement has grown to the point where there must either be a division of labor or a slow disintegration. That division is between the libertarian theorist, and what I choose to call the libertarian technician. Many libertarians fail to realize this basic truth, leaving them in the disastrous position of not practicing what they preach. There seems to be a constant striving on the part of these scholastic "purists" for the ideal "well rounded" libertarian who knows everything about anything, while at the same time scolding those who don't fit their notion of the ubermensch.

We libertarians have a sound intellectual background and foundation we have the cause of truth, liberty and justice. But these do us no good unless they are promoted professionally. Don Ernsberger, writing in the *SIL News*, has made an especially unrealistic remark reflecting this dysfunctional strategy. Commenting on the small number of cadre members who attended the last Libertarian Scholars Conference, he petulantly asked "Where are the envelope stuffers now?" (referring to the Tuccille campaign). "Where are the petition circulators and literature distributors?" Obviously, they were elsewhere, pursuing their own utility . . . doing what they enjoyed. With all due respect to the notable scholarship of Professor Liggio, not all libertarians are interested in the history of French anarchism. While a greater turnout would certainly have been cause of rejoicing, it is ridiculous to chide those who have no interest for not showing up. The envelope stuffers have shown their dedication to liberty, and should be thanked for their useful contribution, rather than the recipients of a backhanded attack.

Our movement has reached the point where we bid fair to become a mass movement against the state. Obviously, not every convert to the

cause of liberty will be interested in reading **Human Action** or **The Theory of Money and Credit**. As pleasant as the thought of Professor Von Mises' works standing among the top ten best sellers is, I'm not holding my breath.

We must learn to market our ideas, and to do so professionally. The Libertarian Party is a good vehicle, and an excellent training ground. There is no better way to learn how to market a product than actually to do so.

A little boning up beforehand helps, however. Several excellent books are available, and I suggest that the present or potential promoter of freedom check them out. They include **How to be Heard: Making the Media Work For You** by Ted Klein and Fred Danzig, **You Can Make The Difference** by Lee and Ann Edwards, and **How To Win An Election** by Steven Shadegg. Of these, the first is by far the best and most professional.

Classes at colleges and universities are often offered in public relations, and are generally worth taking. That, plus a good deal of common sense and experience are the ingredients of professionalism and success.

Don't get the wrong idea, now. I'm not advocating that anyone halt the glorious and rewarding scholarship that marks our movement. Rather, I'm arguing that not to apply the principle of division of labor to ourselves is fatal. It ignores a basic fact of reality and tenet of libertarian individualism, that people are different.

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Fanfani's Fall

By Leonard P. Liggio

Amintore Fanfani's leadership of the Italian Christian Democratic Party abruptly but at long last has come to an end. Fanfani's career began in the 1930's when he wrote a book on Christian and socialist corporatism which paralleled the New Deal. American New Dealers saw him as one of the hopes of the post-New Order Italy, and with the defeat of Italy in World War II, Americans pushed Fanfani's career. At the end of the Fascist regime in Italy, it was feared that the only successors would be the Communist party and its Socialist party ally. But, this was forestalled when the general secretary of the Communist Party of the Soviet Union ordered Gian Carlo Paccetta, leading Italian Communist advocate of armed struggle who has seized control of the administration of Milan and Lombardy, to turn power over to General Mark Clark. The Soviet Communist Party wished to respect the war-time agreements that western Europe would be the Anglo-American sphere and Eastern Europe the Soviet's sphere. For over thirty years, the Italian Communist Party has been a strong minority in Italian politics, and with its alliance with the Italian Socialist party almost has a majority. In fact, in the recent provincial elections which contributed to Fanfani's final fall, the Communist party gained control over half a dozen regional administrations in central and northern Italy — expanding the Red Belt that it dominates under the recently instituted Italian decentralization. In cities like Bologna, where the Communists had control for thirty years, the climate for business-expansion is very favorable. Not only is there not any corruption, but the Communists pride themselves on creating an atmosphere for business investment. In fact, many of the leading businessmen have become important members of the Communist party, enjoying the added dividend of no-strike pledges from the Communist-dominated unions (Christian unions tend to have a policy of refusing no-strike pledges, which is inconvenient for business planning). The Communist party has many kinds of organizations for various sectors of the economy-cooperatives for farmers and small businessmen and shopkeepers, etc.

Fifteen years ago the continued strength of the Communist party in the midst of the Italian economic miracle caused the Kennedy administration to suggest a new approach to Italian politics. The "Opening to the Left" was the answer: To detach the Socialist party from the Communist party and to make the former a partner in the government. Fanfani was the Christian Democratic leader chosen for that role over the other major candidate Aldo Moro. Moro was more moderate than Fanfani on domestic issues, but was less committed to NATO and America policy Communist participation in the coalition. Fanfani's strong commitment to socialist philosophy, plus his support for NATO and America policy generally caused him to get the nod. His leadership as premier or foreign minister, however, did not bring the desired results. Instead, his policies led to inflation and a temporary setback to Italy's economic miracle. Inflation meant increased support for the Communist party. The recent crisis of energy resources increased the pressure on Italy's economy.

Energy resources have been an important determinant on Italy's policies in the twentieth century. Italy entered World War I against its allies Germany and Austria, and on the side of England and France, on the promise of participation in the Allies' control of energy resources. (The entry into the war caused the creation of the Italian Communist Party in protest.) The failure of the Allies to live up to their promises led to the rise of Fascism. In the 1930's Britain attempted to gain Italy's support by allowing Italy to seek development of oil resources in East Africa. But, when Britain reneged, and formed an opposition to Italy in the League of Nations, Italy was forced to ally itself with Germany, creating the foundations for World War II. The irony of the situation was that Italy already possessed a colony — Libya — under which was a reservoir of oil, yet unknown. In the 1950's, under Enrico Mattei, Italy was able to develop access to oil resources outside of the market-dominating Seven Sisters of the international oil industry. Italy gained an independent position and very good relations with the Islamic world before the mysterious death of Mattei who, as a power in the Christian Democratic Party, favored a coalition with the Communist party. Italy's tradition and increasing good relations with the Islamic world are the most likely barrier to Italy's continued role in NATO.

Naples is the headquarters for the U.S. Sixth fleet, with its transports filled with thousands of American marines ready to repeat the assault on Tripoli, as well as the Southern command of NATO. Naples gives that command control of the western Mediterranean (west of Sicily) and easy access to the larger eastern Mediterranean. But, since the major objective of any American military operation in the Mediterranean is the Islamic world: Turkish; Arab or Iranian, Italy's access to oil and its economic miracle will require a government willing to wish the Sixth fleet farewell and send it back to its rightful location — Norfolk, Virginia. It is most unlikely that Italy will withdraw from NATO. Although there are strong forces in the Christian Democratic, Republican and Socialist parties favoring Italy's withdrawing from NATO, there is one party which, whatever its public statements, will not push for withdrawal: the Italian Communist party. The Italian Communist party, like its sister, the French Communist party, is the heir to the nationalism created by the French Revolution (Italy was second to France in the effect of the French Revolution and the emergence of a heroic, middle-class Jacobin tradition against church and state). In Italy, the Communists are the Italian nationalists which the Christian Democrats are the admitted agents of two internationalisms — the Vatican and the U.S. States Department. Millions vote Communist as the only viable and committed alternative to Vatican-State Department dominance of Italy. One of the issues on which the Communist Party of Italy, and the Vatican and State Department, differ is relations with the Soviet Union. The Italian Communist party is much less pro-Soviet than the current Vatican and State Department lines. The Italian Communist party in its domestic policy, such as pro-business and pro-consumer attitudes and its organizational policy of more democratic and less hierarchical approaches, differs greatly with the Soviet Union. But, since the vicious Soviet invasion of Czechoslovakia, which received the blessing of the United States, the Italian Communist party (like the Chinese Communist party which opened a dialogue with the United States to protect itself from a similar fate) is anxious to have diplomatic space in which to move. The Italian Communist party, if it entered into a coalition government, would not push for withdrawal from NATO. Unlike the right-wing French regimes of De Gaulle, Pompidou and Giscard, which have received unbroken foreign policy support by the Communists against the US-backed centrist parties, which have *de facto* thrown out NATO, the Italian Communists would prefer a NATO presence in Naples to remind Soviet hardliners not to interfere with the bourgeois Communists of Italy. (The alternative explanation that the Italian Communist party is taking these positions due to the large secret funds paid to it by American oil companies seems as likely as explaining current American culture on the basis of the large non-secret funds paid to the Public Broadcasting System in America.)

Fanfani's recent removal by the national committee of the Italian Christian Democratic Party was due to his own steadfastness in his guiding concepts which permitted the Communists to make larger gains. Fanfani insisted on committing the Christian Democrats to repeal of the recently enacted liberal divorce law. The majority of voters supported the parties, led energetically by the Communists, who championed liberal divorce laws. At the same time, Italy was faced with an inflation caused by the economic policies which Fanfani had advocated. While the so-called free enterprise Liberal party spent all its energies supporting United States foreign policy, the small, Republican party demanded an end to inflation and forced the Christian Democrats to throw out their inflationary wing and appoint last year a new cabinet devoted to fighting inflation, headed by Aldo Moro. In ousting Fanfani, the factions now dominate in the Christian Democratic party gave a vote of confidence to Aldo Moro's premiership, encouraging his policies of fighting inflation, increasing good will with the Islamic world, and working to gain a coalition with the Communists on the basis of sound money and anti-inflation. As the president of the Bank of Italy, Guido Carli, has emphasized, Italy's anti-inflation battle is a battle against the United States' exporting its inflation to the rest of the free world and making countries like Italy bear the burden of the effects of America's unsound monetary policies, deficit spending and Keynesianism. Fanfani's downfall is another defeat for the overseas agents of American Keynesian imperialism. ■

The Second Austrian Conference

By Richard Ebeling*

The world economic crisis has brought a parallel crisis in economic theory. The "noble experiment" of socialist central planning has failed. Having rediscovered the Miracle of Market, eastern European economists are writing tracts on the efficiency of the Price System. The Keynesian Revolution that promised an end to the "vicious" boom-bust cycle has produced the worst of both worlds: simultaneous inflation and recession.

In the midst of the long-range consequences of short-range policies, economists have begun groping for a new theoretical paradigm to explain the facts. The "groping process" has resulted in renewed interest in the Austrian School of Economics. Founded by Carl Menger and Bohm-Bawerk in the latter nineteenth century, it has been developed in the twentieth by Ludwig von Mises and Friedrich von Hayek. It has emphasized micro-economic analysis within a dynamic framework.

To feed this interest the Institute for Humane Studies (Menlo Park, Calif.) sponsored a Conference on Austrian Economics in June, 1974 at South Royalton, Vermont. The lectures, on the foundations and implications on Austrian analysis, were given by Professors Rothbard, Kirzner, and Ludwig M. Lachmann, with informal presentations given by other Conference participants (see Richard M. Ebeling, "Austrian Economics of the Rise," *Libertarian Forum*, Oct., 1974).

Because of the enthusiastic response following the Vermont Conference, the Institute for Humane Studies, in conjunction with the University of Hartford, Connecticut, sponsored a Symposium on Austrian Economics during the week of June 22-28, 1975. Rather than having a series of lectures by the "senior" Austrian theorists again, the format was one of papers by "young" Austrians. The informal lectures at Vermont were so impressive that it was decided to ask some of the up and coming "Austrians" to deliver what came to a total of fifteen papers during the week at Hartford. Commentators on the papers included

Professors Friedrich von Hayek, Murray Rothbard, Israel M. Kirzner, Emil Kauder, Leland Yeager, Percy Greaves, W. H. Hutt, D. T. Armentano and Lawrence Moss.

The week began with an opening evening banquet with a keynote address by Friedrich von Hayek. Professor Hayek gave his reflections and memories of the Austrian School. The founding of the School by Menger and the intellectual atmosphere of Vienna in the late nineteenth century; what it was like to study in the seminar of Friedrich von Wieser; and the turbulent years of the inter-war period. He recalled that 40 years ago he would have hesitated to label himself an Austrian Economist. He and his fellow Viennese theorists took pride in the fact that what had been an "Austrian" tradition was swiftly becoming part of the standard economic orthodoxy.

But the Austrians, looking out from Vienna, were so thrilled by the seemingly "Austrian" twist that theory was taking in general, failed to notice that other trends were starting to develop, as well. In fact, Hayek confessed that "though I was publicly involved in the controversies of the day with Keynes, for a very long time I did not realize that the main difference between Keynes and myself was not over particular points of theory, but very really and ultimately over different approaches. Keynes had marked, in effect, as far as the public was concerned, a transition from microeconomics, with its methodological individualistic roots, to a macroeconomics which looks for the forces behind events among observed causal connections between statistical magnitudes. It was just this development, very much to my regret and against all my wishes, which has justified that we now again revive the name of Austrian Economics . . . I'm sure . . . that it will prosper and succeed."

The papers at the Symposium covered topics as far ranging as methodology, the history of Austrian Economics, the theory of competition, international economics, problems concerning the trade cycle and Austrian analysis applied to contemporary problems. Space, obviously, does not permit discussion of all the papers or the commentaries and debates that followed their presentation. Instead, the present writer will offer an overview using some of the papers that seemed to catch the flavor and relevance of the contemporary Austrian revival.

John Blundell, a student at the London School of Economics, discussed some interpretations of "Carl Menger and the Founding of the Austrian School of Economics." What is most striking, suggested Blundell, was the wide discrepancies in views over why and how the Austrian School came about. Some, such as Schumpeter, have seen Menger as an original thinker groping for "new principles of knowledge" to refute the already half discarded carcass of Classical Economic Thought. While Spiegel, on the other hand, sees the influence of Kant. His conclusion was that the Kantian notion of the human mind "creating" the forms of the external world made the environment ripe for a subjective theory of value. And, further, Spiegel wondered about the political motivations. The possibility of Menger developing a universal theory of human action so as to offer an intellectual foundation that would "fortify the multinational empire of the Hapsburgs." Perhaps the most interesting charge that Mr. Blundell discussed was the accusation that Austrianism was meant to be a counter weight to a rising Socialism. For as Blundell pointed out, Menger was a Reformist Liberal who was often concerned about the "poor girl" who "has often only the choice between becoming a prostitute or a seamstress." While Wieser believed that "In view of the helplessness of the individual, the slogan of the liberal school, 'laissez faire', becomes almost a mockery," and that protective legislation was needed for workers and securing the public interests. While Philippovich was a socialist who founded the "Vienna Fabians." And Emil Sax presented the first argument for progressive income tax based on marginal utility theory.

In the twentieth century, the Austrian tradition had been carried forward by Ludwig von Mises and Friedrich von Hayek. Indeed, Hayek, during his 19 year stay at the London School of Economics beginning in

(Continued on page 5)

From The Old Curmudgeon

Parody is difficult in the modern world, for it is hard to reduce to absurdity ideas and movements which are continually skirting the edge of absurdity in the first place. So it is with "women's liberation" and the quota system. In many cases, all we can do is to report the facts, and that is enough.

Thus: a committee of generals reported recently (*New York Times*, July 14) that women are discriminated against in the Army, and that this practice must stop forthwith. In what way? Because, "looks, figure and personality are considered when female personnel are nominated for assignment to high level staff." The committee, the General Officers' Steering Committee on Equal Opportunity, pontificated that this practice "discriminates against the individual who is not as physically attractive as others. Physical attributes are less important than proficiency."

OK, so what is supposed to be done about this vile practice? How are we going to stamp out the natural tendency of army officers to select attractive instead of ugly females? Are we to set up a board to judge the physical attractiveness of each female, and are we to set up a quota system to insure that ugly females are promoted in proportion to their number in the . . . army? the population as a whole? Fixed numbers for various selected categories: beautiful, pretty, plain, and ugly, or what? And how are the standards going to be selected? And who is going to apply them? Are we going to have official representatives of the uglies, the plains, etc.? How about righting past wrongs by deliberately hiring only ugly females until the balance is redressed? The possibilities stagger the imagination. Are we to raise the cry, at long last, that "Ugly is Beautiful"? Or, shall we, once and for all, adopt the "solution" to this terrible discrimination envisioned by L. P. Hartley decades ago in his penetrating and prophetic(?) novel, *Facial Justice*: namely, to have compulsory plastic surgery on all females so as to make both ugly and beautiful girls uniformly plain, so that pro-beautyism will be stamped out forevermore? □

Austrian Conference—

(Continued from page 4)

1931, not only saw the "great drama" of economic theory unfold, but was a central figure.

Gerald O'Driscoll, in his excellent paper, "Hayek and Keynes: A Retrospective Assessment," discussed and contrasted the differences between the two main center stage actors of the years of high theory. The central error in Keynes' approach was the attempt to analyze dynamic economic problems in a static equilibrium framework that implied the existence of stable macroeconomic relationships. The emphasis and search for aggregate relationships between such magnitudes as investment and consumption, investment and income, and consumption and income resulted in the total neglect of the microeconomic foundations of economic activity and, in particular, microeconomic relationships involving production decisions. The difficulty of Keynes' analysis was multiplied by the ambiguity and contradictions in his use of concepts and his inability to distinguish between changes on the firm level as opposed to the economy as a whole.

The differences between Keynes and Hayek, are crystalized in their theories of investment. For Keynes, the effect of a lowering of the money rate of interest is to change the rate at which the prospective yield of fixed capital is capitalized. The result being that capital goods, seen merely as substitutes for each other, will have succeeding small marginal yields because they merely repeat the work of existing capital.

But for Hayek, the investment process is not such a simple matter. Rather, as O'Driscoll observes, the rate of interest and capitalization are not cause and effect, but are, instead, both the result of the relative scarcity of "means" for investment. And that the scarce means are not an aggregate sum that can be represented as a simplistic downward sloping Marginal Efficiency of Capital curve.

Instead, investment goods are seen as a complementary pattern of interrelated stages of production involved in a dynamic process over time. Thus, changes in the rate of interest (which is supposed to be a reflection of consumer preference for consumption and savings, i.e., consumption in the future) will effect not only the value of new capital, but existing capital as well. Thus, the profitability for investment arising from changes in the interest rate will effect the choice of utilizing different forms of investment structures. The stages of production will become longer and more roundabout and will form a completed tapestry of a capital structure only if the resources needed to complete and sustain the more complex capital patterns are available. In Hayek's words, from his 'Reflections on the Pure Theory of Money of Mr. J. M. Keynes, *Economica*, Feb., 1932, "It seems never to have occurred to him (Keynes) that the artificial stimulus to investment, which makes it exceed current savings, may cause a dis-equilibrium in the real structure of production which, sooner or later, must lead to a reaction."

The general theme of errors from investment decisions was discussed further by John B. Egger in his paper, "Information and Unemployment in the Trade Cycle." In a state of equilibrium the idea of unemployment becomes meaningless, for it represents a state of affairs in which human plans have been made compatible through a meshing of the "means" chosen by a multitude of individual actors in the economy as a whole. The ex post situation is identical with the ex ante expectations in a state of equilibrium.

In the Austrian framework, however, the market process is seen not as a movement from one equilibrium state to another, but instead, as an on going discovery procedure. Individuals, having decided on ends to pursue, decide on what appear as appropriate means. But since in the market economy one's own goals depend on the actions and intentions of others, the entire process is a "fluid" system where adjustments must be constantly made. The adjustments are in response to both the changing plans of one's own shifting value scale and in response to information about the actions of others that. The acquisition of knowledge requires revision in one's own plans and expectations where the activities of others effect the achieving of one's own goals. The fact that information about incorrect expectations will be learned by market participants and that this will almost always result in modification of plans means that the system will always have some amount of "slack," or unemployment, that represents the adjusting for erroneous past decisions.

The unemployment experienced during the trade cycle, Mr. Egger emphasized, is a symptom of a cluster or multiplication of errors and wrong expectations caused by faulty information in earlier periods of the cycle. Credit expansion through the banking system transmits market information signals that result in entrepreneurs rearranging production plans around capital intensive investments; labor invests in "human capital" skills which are found to be misdirected once the malinvestments of the "boom" become visible in the readjustment period brought about by the Ricardo Effect. The artificial stimulus of investment has brought about a series of "false prices" throughout the system. Expectations and plans have been drawn up by market actors that cannot be fulfilled. The period of unemployment and idleness of resources is the time when the errors are sorted out and plans begin realigning around the "real" economic facts.

In the theory of investment, as well as all other market activities, the Austrians, beginning with Menger, emphasized the importance of the concept of time. This was taken up by Rogar W. Garrison in his paper "Reflections on Misesian Time Preference." The essence of the Misesian theory is that time preference permeates all choices and actions of individuals. Every action implies a preferring of satisfaction of "felt uneasiness" in the nearer future than in the more distant future. But this preference should be seen in a slightly different light than the choosing of goods and services. While with goods, the act of choice implies a preference for more units of goods over less units of a goods, the choice of action in time is an either-or proposition. In Mises' words, action "can never be affected at the same instant; they can only follow one another in more or less rapid succession." Thus, each action is not one of a "marginal" preference for now over later, but one of the present over the future as such.

Mr. Garrison, after considering some of the earlier time preference theorists, contrasted Mises' conception with that of Frank Knight. In the Knightian framework, a uniform or "base line" of consumption is postulated with this starting point referred to as zero time preference. If an individual consumes below this level, this shows negative time preference and consumption above this level demonstrates positive time preference. But as Garrison observes, this is a meaningless concept for it arbitrarily establishes a level of "uniform" consumption which is somehow viewed as 'normal;' deviations from this norm then determines whether time preference is high or low.

Garrison draws the analogy of measuring temperature. Under the Kelvin scale, a relationship is established between temperature and molecular motion. When molecular motion is non-existent, the point is defined as zero. Likewise, in the Misesian presentation of time preference the choice of non-action demonstrates zero time preference and all action by the individual shows a positive time preference for achieving a goal now rather than waiting for some future date. While under the Fahrenheit standard, an arbitrary point was chosen to designate zero and to measure changes in temperature. In Knight's system, a "uniform pattern of consumption" is likewise arbitrarily chosen to measure changes in time preference. Thus, while Mises' method of basing time preference on the actions of men is grounded on the nature of human beings in the real world, Knight devises an artificial standard that bears little relationship to actual economic phenomena, and human action in general.

In an extremely interesting paper Joseph T. Salerno presented "The International Adjustment Process: An Austrian View." Mr. Salerno first discussed the development of currency and exchange theories of the Classical economist and the different methods by which the older economists tried to explain the movement of money across borders and the "natural" tendencies that existed for self-correction; also the movement of the world economy toward equalization of the value of money internationally and the equilibrating of prices for all commodities that are the "same."

The Austrian contributions to the theory of international exchange not only clarified the many correct conclusions in Classical analysis, but integrated the problem into the subjective theory of value. Mr. Salerno elaborated on the Misesian theory of the purchasing power of money. There is no single market for money, and, therefore, no single price. Rather, money exists in a "state of barter" with every other goods and service, with a "unique set of exchange rates existing between money and all other commodities" at any moment in time. There tends to be an

(Continued on page 6)

Austrian Conference —

(Continued from page 5)

equality of purchasing power in the sense that relative prices adjust to reflect the particular value of different goods in relation to changes in the amount of the money commodity. There does not exist an aggregate purchasing power represented by a price level. When it is said that the standard of living is higher or lower in one country than another it is a failure to see the value of goods in the subjective sense. Coffee in Brazil is not "cheaper" than in New York. Because of the spatial component, they are not the same goods. Brazilian coffee is a production good that needs to be combined with the complementary transportation factors before it become the "same" consumer good in a New York supermarket.

For Mises, the movement of money is the cause, not the effect, of trade imbalances. Each individual determines the marginal utility of money on his value scale and appropriately adjusts his cash balances, either increasing or decreasing it, in relation to other goods; the same applies to any increases in the quantity of money. Individuals first getting the new money either hold or spend it, based on the marginal value of the units to them. If this process passes over borders, then the international adjustment process "is nothing more nor less than the market process which effects the distribution of money among market participants in accordance with its marginal utility."

If we realize that what is causing changes in trade balances is not a mere shifting of goods and services from country "A" to country "B", but a dynamic microeconomic process our insight becomes that much clearer in comprehending catallactic phenomena. Mr. Salerno, using Hayek's *Monetary Nationalism and International Stability* as a starting point, brilliantly emphasized that the process begins with individuals in country "A" changing the level of their cash balances. An array of particular prices decline. Individuals in country "B", facing lower imported goods prices, in turn, adjust their cash balances in relation to the marginal value of money units. Money flows to country "A" which is received by particular individuals as income and which, again, results in changes in purchasing power and cash balances. This then tends, eventually, to reverse the process. But as individual incomes are effected, the process may work back and forth innumerable times. Also, while it may seem that the country getting the initial amount of additional goods because of lower import prices is the one better off, it may in fact be the one that suffers the most loss of income during the process.

Perhaps the most original, as well as path-breaking, work in the Austrian framework was offered in two papers by John Hagel, "From Laissez Faire to Zwangswirtschaft: The Dynamics of Intervention," and Walter E. Grinder, "The Austrian Theory of the Business Cycle: Reflections on Some Socio-Economic Effects."

Mr. Hagel presented a clear and closely reasoned analysis of the steps by which the economic system moves from a relatively free spontaneous Catallaxy (market order) to the overall planning of Single Economy (state control). Once the market order has been tampered with, the destabilizing effects of interventionist programs move the system further towards a regressive collectivist program. The first part of the process sees the change from a "pure market system" to "political capitalism." Political capitalism has three substages: the first stage being sporadic interventions represented by subsidies, state contracts and local monopolies; the second stage develops into a program for "rationalization" and "stabilization" of the economy and takes the form of regulatory agencies and government-assisted cartellization; in the third sub-stage of political capitalism, there emerges a "cohesive ruling class capable of defining its own interests within the context of a broader system of political intervention." Finally, the stage of all-round planning, Zwangswirtschaft (compulsory economy), is reached. All the problems discussed by Mises and Hayek in reference to central planning and economic calculation now come to the fore.

The mainspring of the growing intervention, Mr. Hagel pointed out, was war and inflation. War acts as a "pump priming" device to stimulate "effective demand" in times of recession brought on by previous interventions. The banking system becomes a vital link in the interventionist program since it facilitates the expenditure activities of the government.

It is the banking link in the interventionist program that Mr. Grinder discussed in his paper. Since Austrian monetary theory emphasizes the fact that increases of the medium of exchange do not effect all individuals and all places at the same time, but rather changes the economic position of some people before others, we can see the method by which class stratification is developed.

When the Federal Reserve System finances the government deficits, the State, itself, becomes the first gainer because it is able to obtain access to resources that previously had been beyond its reach. The Banking System is the second major gainer because of the profit opportunities from additional loans from expansion of fiduciary media. The third group of gainers are the contractors of government projects. Further "gainers" from monetary expansion become hard to pinpoint without study of the particular cases in point, but obviously those firms who are able to borrow funds at the artificially lower interest rates obtain, at least temporarily, "forced savings." The Banking System is the focal point for control of all major economic activities, both during the "crank-up" and "crack-up" phases of the trade cycle process. This segment of the economy, whose destiny is bound up with the perpetuation of interventionism, becomes the nucleus of the Statist class structure. And their position as one of the biggest net gainers from monetary manipulation means their interest and future becomes more and more tightly bound up with the maintenance and growth of political capitalism, right into the eventual establishment of Fascism and Zwangswirtschaft.

The other papers at the Symposium included Professor Armentano's presentation of "Competition and Monopoly Theory: Some Austrian Perspectives," Gary North's "Three Critiques of Bureaucracy: Mises, Weber and the Counter Culture," and J. Huston McCullough's interpretation of "The Austrian Theory of the Marginal Use." An additional problem was discussed in Sudha R. Shenoy's paper, "The English Disease: An Austrian Analysis," about the distortion in the capital structure caused by government interventionist programs in Great Britain since the Second World War.

During the evenings, a series of informal lectures were given by three of the senior commentators. Professor Kirzner shared "Some Thoughts on Austrianism in Contemporary Economics." He discussed the recent revival of interest in the Austrian tradition, particularly in the works of Sir John Hicks and Erich Streissler (professor of economics at the University of Vienna). While seeing this as a favorable sign, Kirzner was not sure that the implications of Austrian analysis had been completely grasped in much of this recent work.

Professor Leland Yeager, who in conversation said that the greatest influence on his own thinking about monetary theory had been from reading Ludwig von Mises' *The Theory of Money and Credit*, lectured on the disastrous consequences of government intervention in the economy. Using a Hayekian framework, he contrasted the spontaneous market order that utilized the millions of small bits of knowledge belonging to all market participants with the attempt by the government, through regulation and intervention, to organize market activities with the few minds (and, therefore, limited knowledge) of State planners.

The most interesting and controversial of the talks was the one given by Professor Murray Rothbard, "In Defense of Deflation." Rothbard explained that the Chicago School notion of a stable price level was a spurious concept and not an acceptable substitute for the present policy of perpetual inflation. Instead, the inflation should be stopped and a deflationary process be allowed to run its course. Deflation would bring about the necessary "smashing" of downwardly rigid wages and prices, so the appropriate resource allocations could occur to help bring about sound long-term economic activity. Also, the consumer would benefit from falling prices as productivity and purchasing power increased.

A lively debate ensued between Rothbard and Hayek about the establishment of a Gold Standard to guarantee that government did not manipulate the money supply. While agreeing that the Gold Standard was the long term solution, Hayek said that he thought it would soon collapse again if established at the present time, because no government would be willing to see the falling of prices within its boundaries that adherence to the Standard would probably require. Rothbard insisted that the Gold Standard was necessary now to "smash" the Central Bank System which is the engine of world inflation. Hayek replied that if Professor Rothbard was talking about an international Gold Standard that involved

(Continued on page 7)

Austrian Conference —

(Continued from page 6)

the elimination of the fractional reserve system, then he (Hayek) was for it completely. This was followed by a round of thunderous applause.

On the closing evening of the Symposium another banquet dinner was held. The sentiments of all participants were summed up in the dinner remarks of Sudha Shenoy, who has been nicknamed the Joan Robinson of the Vienna School. Addressing herself to Professor Hayek, she said that the new generation of Austrians "shall do all that is in our power to ensure that the economic mind of the age does move with relentless logic, with consistent consistency to the priori conclusions of the Austrian system . . . we shall always return to the charge against the forces of macro-darkness now threatening to overwhelm the world . . . I give you two toasts: to victory in the future, and to the last best legacy of Vienna to the world, Professor Hayek."

The momentum that has been built up from these two Austrian Conferences is picking up even more. Regional Austrian Conferences are being planned for New York, Virginia, southern California and London, England, by the end of 1975. Plus, another annual Austrian Conference is already in the works for either June or July, 1976.

The Institute for Humane Studies is also sponsoring a new series of Austrian Economic works. The volumes, which start appearing this summer, will include reprints of Rothbard's *America's Great Depression*, Kirzner's *The Economic Point of View, an Essay in the History of Economic Thought* and Menger's *Principles of Economics*. Also among the volumes will be the lectures by Rothbard, Kirzner and Lachmann given at the Vermont Austrian Conference and the papers delivered at a symposium in honor of Ludwig von Mises, held at the Southern Economics Association Convention in 1974, which was chaired by Fritz Machlup. Also, a number of new works including Gerald O'Driscoll's dissertation on *Economics as a Coordination Problem: The Contributions of Friedrich von Hayek*. Plus, translations of never-before-in-English works by Austrian economists. The series is being published by Sheed and Ward (Kansas City and New York) in both hardcover and paperback editions.

On the last day of the Symposium, the present writer interviewed Professors Hayek and Kirzner. Excerpts are printed here:

Ebeling: Professor Hayek, let me begin by congratulating you on receiving your Nobel Prize for economics. The new interest in the Austrian approach seems to have developed more or less as a result of human action rather than human design. Individuals have come to the Austrian tradition because of the unsatisfactory state of present economic activity. Do you think the time is right for successful presentation of the Misesian-Hayekian framework to the profession?

Hayek: Well, it looks like it, although I have really no explanation except the evident failure of what has been the predominant view of the past twenty-five years, but even this isn't an adequate explanation at the moment. Everybody seems to recognize that the Keynesian view has been wrong, because we have now got both inflation and unemployment. But the revival of interest in the Austrian tradition did start a little earlier than there was any evident external cause. It has been growing slowly, but with accelerating speed of the past three or four years.

E: In your banquet comments last Sunday night, you said that thirty years ago you would have resisted the use of the label "Austrianism" because the contributions of the school were basically being accepted but that with the rise of macro-economics it was now necessary to respond with a micro-economic counter-attack. If the term "Austrian Economics" is used to designate it, you have no objections. But there are those who work within the Austrian framework who feel that the orthodox micro-approach with its emphasis on perfect competition and comparative static models must be opposed as much as macro models. Do you agree?

H: I think you are right in this although this approach with emphasis on perfect competition is really in a sense through the influence of, at least, mathematical models which always tend a little toward macro-economics. Not necessarily through logical necessity but I think a great temptation for people who think in mathematical terms.

E: From the papers delivered and symposium discussions and personal

conversations with the attendants here at the conference, do you feel that this Austrian revival is a sound one?

H: Yes, it's certainly sound; it's very promising — maybe very important. You ask me why — I mean — you never know why the truth is ultimately recognized, but to me it seems that's what happened.

E: What do you see as the reason for the almost dogmatic refusal of the economics profession to even take under consideration different methodological approaches that might more successfully explain social phenomena?

H: Oh, very largely prejudices about what is "scientific", which have been spread, which are essentially the same which I described thirty years ago in *The Counter-Revolution of Science* which is still very much operative, but I don't think my description fits in exactly, but still is that belief that in order to be scientific, you have to measure.

E: Based on that answer, what do you think would be the most successful avenues for Austrians to explore and to try to influence the economics profession into different, more fruitful, directions?

H: To provide more plausible explanations for what is happening.

E: In America, the Chicago School of economic has received much attention and often presents the image of being a counterforce to Keynesianism; but a good number of Austrian School theorists feel that the Chicago economists use a methodological approach and a quantity theory of money that often fails to perceive the nature of the social sciences and the effects of monetary expansion on the economy. Would you please comment on how you see the differences between the Chicagoans and the Austrians on these two issues?

H: Well, you see, we are fighting on the same front, but the quantity theory which the Chicago School has revised is a very crude statement of an elementary truth; but which is helpful for gross problems like stopping inflation but can become misleading in detail. Forty years ago, in *Prices and Production* you'll find this statement that while I think that the pure quantity theory to be oversimplified and often misleading, I pray that the public at large should never cease to believe in it, because only a simple explanation can persuade them that you must stop increasing the quantity of money. I rather regret that highly intelligent people like the Chicago School people do not use it merely as a means of proper explanation but are sometimes misled by it by taking it too literally.

E: And how do you view the difference — the methodological difference — between the Austrians and the Chicagoans, over such a thing as aggregate statistical studies?

H: Oh, it's the same point we discussed before, that you have of course there, by scientific prejudices, a commitment to quantitative methods and the belief that unless you have statistical confirmation, the thing can not be adopted. It's what I explained in my Nobel lecture, that sometimes the better theory's been rejected and the inferior theory adopted because the better theory cannot be demonstrated statistically and the inferior theory has some, if very inadequate, statistical confirmation.

E: It's well known that you are somewhat pessimistic about the economic and social future of Western Civilization. Do you see any optimism for thinking that the Austrians can be successful in changing the direction of the economics profession?

H: Well, this takes a long time, yes, I think if you think in terms of twenty or thirty years, certainly. When you say I'm pessimistic, I'm pessimistic of the next five or ten.

E: How do you feel about the renewed interest in your own earlier monetary and business cycle works?

H: Well, it's pleasant but surprising in a way — oh — why it should have become so completely forgotten after the first period of intense discussion is still a puzzle to me as I have been watching it; but particularly what puzzles me most is that so long as Keynes was alive there was still the realization there were two views. The moment he died his views became the only ones which were recognized, the others forgotten. Perhaps it was that his pupils were much more dogmatic than he.

E: Thank you very much, Professor Hayek.

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(Continued on page 8)

Austrian Conference —

(Continued from page 7)

Ebeling: Professor Kirzner, there have now been two conferences on Austrian Economics. In fact, these have been the first Austrian conferences since the Mises circle in Vienna. Is this a serious attempt to revive the Austrian approach?

Kirzner: Yes, I think these represent two very promising steps toward reviving the Austrian approach. These two conferences were called in response to a wide-spread interest that has evidenced itself among many young scholars, graduate students, young professors, in the works of the recent Austrians, in particular those of von Mises and Hayek and Rothbard; in fact the latest conference as I understand it was forced to turn away many interested participants. All this augurs very well indeed for the future growth of interest in Austrian economics.

E: There seem to be two developing Austrian schools in the world today. Are the people who've attended the conferences in Vermont and Connecticut here and the "European" variant developing with such people as Sir John Hicks and Eric Streissler of the University of Vienna — are they incompatible, and on what points do they differ?

K: It is certainly true that there is a very sharp difference between those of us who've been coming to the Vermont and Hartford conferences on the one hand and others who have in one way or another associated themselves with Austrian or neo-Austrian positions. I think, to put the matter very simplistically, that the American version — if one wishes to call it that — of the Austrian school stems, primarily, from the influence of Mises; while others who to one extent or another call themselves Austrians do so for a variety of reasons . . . For example, Sir John Hicks' Austrianism is based rather narrowly on the time structure of production introduced by Bohm-Bawerk. Streissler's view of Austrianism, again, is rather different from most other views of Austrianism. In Streissler's view any disaggregated work is essentially Austrian in character . . . I do not quite think that Hicks and Streissler constitute in any sense a well-knit group such as I think we see developing here in this country.

E: If this Austrian revival is a serious one, the important point then comes up as to what we can do to successfully get the methodology and theory across to the profession. What basically is the most strategic technique?

K: I think there's no secret here, there's no mysterious technique that has to be discovered. Straightforward intellectual steps are of course available to us. We have to show the profession that the Austrian approach is a fruitful, meaningful one. We can do this by pursuing the Austrian method to attack various economic problems, to elucidate difficult theoretical questions in economics, and by publishing our work, by having our work criticized, and having others see what we are doing. This is

the time-honored and I think a perfectly sufficient method of spreading our position.

E: You've now written four books and your latest one, *COMPETITION AND ENTREPRENEURSHIP*, was published by the University of Chicago Press. What feedback have you had, if any, about the interest this has sort of engendered in the Austrian approach?

K: I've been encouraged by the number of kind of reviews that have indicated interest and at least partial acceptance of the Austrian approach. I've been encouraged by the interest of individuals, undergraduates, graduates, and young professors who have written to me about the book and lead me to believe that it does fill a felt need in current theory. To the extent that this represents — is recognized as representing — an Austrian view, I think this can perhaps give some help in engendering a more receptive climate for Austrian views generally.

E: Now some have suggested that if the Austrians are to grow as a school of thought, and to be listened to and respected in the profession, it's necessary to have a graduate department and thus to have a focal point for training people in the Austrian approach similar to the way the monetarists have used the University of Chicago. Will this be a future requirement, and if so, how can it be done?

K: I myself have some reservations about the advisability of establishing a specific graduate school. I recognize that years ago there was in fact nowhere where a graduate student interested in Austrian economics could receive a decent hearing and was able to have his work listened to and appreciated on its merits. I think the atmosphere has changed and there are a number of graduate schools where even non-Austrians recognize the worth of the Austrian tradition and are prepared to encourage students to proceed. Of course wherever an opportunity exists for an Austrian economist to gain a position in a graduate school where graduate students can be exposed to Austrian views, this would be a desirable intellectual development. I'm not sure that the advantages of specifically Austrian department might not be offset significantly by a sort of narrow, sectarian image that such a graduate school might generate.

E: Finally, Professor Kirzner, are you optimistic over the future of the Austrian School?

K: Yes, I certainly am. New recent developments in the past five years have been enormously encouraging. Ten or fifteen years ago, the number of people who would give Mises a respectful hearing in the academic community was very very small. We have seen drastic changes in this regard and I have no question in my mind that this trend will continue and expand in a very healthy intellectual and academic fashion.

E: Thank you, Professor Kirzner. □

*Mr. Ebeling is a student of economics at Saramento State University.

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