

AUSTRIAN ECONOMICS

NEWSLETTER
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He has written for the *Duke Environmental Law & Policy Forum*, the *Quarterly Journal of Austrian Economics*, *Chalcedon Report*, and the *Free Market*, among other outlets.

He will deliver the first Lou Church Memorial Lecture at the Austrian Scholars Conference 9. His email address is terrelltd@wofford.edu.

An Interview with Timothy D. Terrell

THE VOCATION OF ECONOMICS

AEN: What drew you to economics?

TERRELL: I was an engineering major with a minor in economics. In high school, I had done a paper on fiat money. A friend of the family introduced me to a number of readings. I was amazed at the money-creation process and how it works. The idea that the Fed could create money out of thin air was shocking and abhorrent to me. I wanted to learn more, and then I discovered that economics was about much more than just money. I eventually took up economics full time, and diversified my fields of specialization.

AEN: On the money question, you have looked into online money substitutes.

TERRELL: I was once more excited and optimistic about this than I am currently. It once seemed that the demand for payment systems, combined with speed and accessibility, would provide a perfect setting for the emergence of alternatives to government-approved monies. But any attempt to create a new money runs directly into the problem of Mises's regression theorem.

For something to become money, it needs to have pre-established exchange ratios with other goods in a barter setting. So long as we have existing monies, all conceivable currency alternatives are going

to be priced in terms of dollars or some other currency. One can't just invent a new money out of thin air that is priced in terms of its weight alone. Too many online entrepreneurs have tried to do this without success.

AEN: Rothbard made this point in an argument against Hayek's monetary reform plan.

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TERRELL: In fact, it was Rothbard who got me to see that the people's attachment to the dollar is very intense, and that there is no recent

history of gold or any other commodity being used in exchange in terms of anything but existing monies. What that means is that any online gold currency will be piggybacking on the dollar. To divorce the quantity of gold from some unit that people are accustomed to is improbable, perhaps even impossible. Some of these electronic money advocates are trying to bypass the hurdle of getting the dollar back on a sound foundation. I wish them well but I doubt anything will come of it.

It's great to have an efficient means to transfer funds or maintain privacy. Online technology can help in that regard. Paypal.com is a good example. But let's not confuse this with fundamental currency reform. It is not going to become a free-standing currency, much less replace the dollar. Indeed, I'm not aware of a single currency in the online world that is independently viable without a connection to pre-existing currencies. All the ones I know of work through a money changer operation, that changes the so-called currency into actual currency—and the money changers take a large slice off the top.

AEN: The call for fundamental reform raises an old issue. Those charged with managing the transition have the least incentive to reform.

TERRELL: The opportunities for radical monetary reform come rarely. Sometimes the time arrives when the currency has taken a serious dive,

when confidence is utterly lost, and people begin to trade in another currency. I have a student from Bosnia, who said that during the monetary crisis there, everyone was trading in German Marks. At that point, when the need becomes obvious, monetary authorities need some means of shoring up confidence, and gold or some other commodity foundation becomes a possibility.

The advantage of commodity money over a pure currency board, based on some other nation's currency, is that it grants a country some measure of political independence. Some countries have adopted currency boards based on the dollar, and for a while that is probably better than what they had. But over the long run, I get concerned about what would happen if the U.S. currency faced a serious inflation. These countries have very little control over that. Whoever is managing the ratio between the dollar and their currency is going to change that ratio.

AEN: What does Austrian theory contribute to our understanding of environmental economics?

TERRELL: Murray Rothbard's article "Law, Property Rights, and Air Pollution" was extremely helpful to me, as was the Block-Demsetz exchange in the *Review of Austrian Economics* and the *Quarterly Journal of Austrian Economics* some years ago. Most graduate schools present policy choice as being either command-and-control regulation or some sort of

marketable pollution permit system. Both involve a central government trying to decide how much pollution is appropriate—as though it can determine the costs and benefits to polluters and victims.

I can see some advantages in allowing markets in pollution permits, but there were some unsettling problems. In the twentieth century, regulations and permit trading systems were replacing an older system based on common law that generally worked. That older system tended to use court injunctions and private negotiation based on an understanding of homesteaded property rights. The government is still in the position of deciding how many permits will be allowed, and permits do nothing to protect the rights of individual pollution victims.

Walter Block helped me see one of the fundamental problems with the Coase Theorem. It assumes that the value of the disputed property (for example, the grain alongside the spark-spewing railroad) is readily appreciated by others besides the owner, and is thus marketable. But it might not be. The Austrian idea of subjective value is critical here.

AEN: You are giving the Lou Church Memorial Lecture on Religion and Economics at the Austrian Scholars Conference. What will be your topic?

TERRELL: I'll be examining the evangelical environmental movement. Many people were astounded at the recent campaign against SUVs and the slogan, "What would Jesus drive?" They were arguing that

government needed to regulate as an outgrowth of Biblical thinking.

But that absurdity is only the beginning. So many people who are statisticians now are statisticians for overtly religious reasons. They say stewardship over creation means that the state has to save the environment from the market. Reforming the religious underpinnings of this movement will go a long way toward refuting them. Pointing to scientific studies will only go so far among people who believe they have a moral duty to fight for higher fuel economy standards.

Religious environmentalism is seeping into areas where previously there had been conservatism and opposition to government intervention. The environmentalists saw that this was a market niche. They make up little sermon notes and get them into the hands of naïve pastors. Suddenly you start hearing left-liberal political slogans in prayers at church.

Now, I'm all for taking care of the environment. But these people have attached to it this enormous agenda for regulation. Not only is this morally questionable, but it will not accomplish their goals. If you think that government can clean up the environment, one just needs to look at the experience of Eastern Europe, which shows how socialism (which is nothing but massive regulation) leads to filth.

AEN: Part of the battle must be to convince people that economists have something to say on the subject.

TERRELL: Yes, there is this tendency to treat economics as a secular discipline that deals only with financial

matters. In fact, economics impacts on the whole of life and the structure of society. This is a message I try to get across in the classroom. Let's say that our priority is to behave morally. In order to do so, we need information about the world around us. We need to know the needs of

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others, what production processes are available, what processes consume the fewest resources to achieve a given result. To gather that information, you have to have a freely functioning market economy.

AEN: What do you suppose attracts Christians to statism?

TERRELL: Given the extent to which the state is the enemy of the

faith, from King Herod's Slaughter of Innocents to the present day, it is hard to understand. When Mises writes about the politics of Christianity in his book *Socialism*, he regards their bias as largely socialistic. It is still the same. The high-profile groups advocate statism.

A free society is going to have strong families as a bulwark against the state. I think most libertarians would agree.

The question is whether there is something about Christianity that lends itself to being interpreted in a socialistic way, or is socialism such a draw that it even proves appealing to Christians who should naturally oppose it? I think it is the latter. Of course people point to examples from Acts when people liberally share their goods. But this is just charity at work in times of crisis, not

central planning or nationalization of the means of production.

There was a respect for property rights in the early Church. How can one understand the commandment against theft unless you understand the place of property rights? At the same time, I believe that God is the ultimate owner, and our freedom to use our property is a derivative right. Yet even here, to say that the uses of property can be managed by institutions does not mean that the state must be the manager.

AEN: You have emphasized the family as a social institution. Do you mean to contrast a family focus with individualism?

TERRELL: I do believe that some individualists have neglected the family as a necessary and beneficial institution. A few libertarians seem to think that no social institution can have any legitimate authority over an individual without that individual's consent. There are authorities outside ourselves whether the individual approves of it or not. Most societies acknowledge this.

As a father of three, I have authority over my children, for example. There are times when my children don't approve of my authority but they are still not going to play in the street. Of course I also want to see the jurisdictional boundaries preserved between the individual, family, church, and state. There are important freedoms the individual enjoys that these other spheres of authority cannot legitimately infringe. But the true friend of liberty will understand that the individual thrives as part of a family. A free society is going to

have strong families as a bulwark against the state. I think most libertarians would agree.

AEN: For that matter, all business firms have structures of authority.

TERRELL: This is slightly different. It is an example of government by contract. You agree to certain conditions in exchange for which you receive a salary or wage. That's completely voluntary. Contracts can restrain one's choice rather severely, as anyone who works in a large corporation or lives in a subdivision knows.

But these institutions are still part of the structure of a free society; indeed, they are integral to it. Libertarianism does not mean: do whatever you want. It means the society can manage itself without intrusive state intervention, that society constitutes a working out of exchange relationships and voluntary interaction. It means that private institutions should be the primary structures of authority, insuring that people keep their promises and live peacefully.

AEN: Your writing indicates a general interest in the economics of technology. What common fallacies are in the literature that you deal with?

TERRELL: It's extremely common to hear calls for more government regulation because of some supposed inability of the consumer to make good decisions about product quality or safety. Just today I read that the National Highway Traffic Safety Administration wants to regulate SUVs because they tend to roll over. These would-be technology czars fail

to consider the tradeoffs that consumers are making.

Maybe SUV buyers are willing to accept the greater rollover risk in exchange for increased safety in frontal collisions, more interior space, greater towing capacity, or some nonquantifiable benefit like visual appeal. These regulators are fully aware of the tradeoffs and they have decided that they know the correct combination of vehicle attributes for everyone. What arrogance! Get ready to say goodbye to your convertible. Maybe the government will decide next that you don't really need the open air.

At the root of this is a rejection of the idea of subjective value. Without an understanding of subjective value, there is the hope that society could be planned by centralized committees of engineers and scientists who observe the objective, physical characteristics of goods, who hover over statistics and conduct risk studies.

This is not a new idea. If you look at groups like the Technocrats of the 1930s, or the followers of Saint-Simon in the nineteenth century, it's there in undiluted form. But it is a chimera. It can never succeed because value depends on how the good contributes to achieving the plans, the goals of the individual. Those plans differ from person to person and cannot be directly observed.

AEN: You once worked for the U.S. Department of Agriculture.

TERRELL: When I entered college I started studying engineering, and a family friend found summer work for me at the regional engineering

office of what was then called the Soil Conservation Service. I didn't realize at the time that this was a leftover from FDR's disastrous agricultural policies of the New Deal, or my conscience might have tormented me too much. Some people there were clearly just going through the motions until retirement.

One day I was assigned to a fellow who liked to drive around in his government truck to see his friends. We did actual work for only an hour or two that day. Most of the people I worked with closely were pretty hard workers, but of course they could not know if they were making the best use of their skills. Their list of projects, and the way they carried them out, was not informed by the profits and losses of a free market.

AEN: In this recessionary environment, your defense of the right to fire workers takes on new meaning. Why is this right even questioned?

TERRELL: The entrepreneur is thought of as having some sort of undue power over employees and customers. So firing an employee is suspect. But, as Mises pointed out, the entrepreneur is not the ultimate authority. The successful entrepreneur is one who serves the customer's expressed desires most effectively. It is the customer who sends the message, through the price system, that the entrepreneur has made an error that requires someone to be fired. Maybe the firm has too many employees on the payroll, or has workers who are not being tasked efficiently, or who are using up more company resources than they are producing.

Many people do not understand how the freedom to fire employees helps the very people who might be fired. Not only can firms produce more efficiently, allowing prices to be lower, but it means that businesses are more willing to hire in the first

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place. The employer is taking less of a risk. Knowing you can get rid of a bad hiring choice without a legal fight means you'll be more likely to add an additional employee to the payroll.

By the way, I don't really like to use the term "worker" when we really mean "employee." It implies that the

capital owners and entrepreneurs are not “workers,” when of course they often put in more hours a week than anyone else in the business. To use this term “worker” is a linguistic holdover from Marxism, in my view.

AEN: Language is important to you, probably, because you write not only

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for the scholarly world but also for popular audiences. Why do you think both are important?

TERRELL: I think some of the most important people in the contest of

ideas are people outside academia. They are the business leaders, physicians, pastors, attorneys, and retired people with active minds. These are the people who can make a real difference. They have influence because they discuss issues of freedom with their friends and family, put pressure on schools to teach the virtues of liberty, and support organizations that oppose the deification of the state. I want my writing to reach this audience as well as those who are doing the teaching and the research.

AEN: In general, do you place a priority on teaching or research?

TERRELL: From the beginning of graduate school I have wanted to teach, and I am now at a college that strongly emphasizes teaching. I have bright students and I enjoy that. I still want to maintain a research agenda, however. I think my research has helped me become a better teacher.

This semester I have two sections of intermediate macroeconomics, and two sections of a senior seminar, a capstone course for economics majors. Here we read the Austrian economists. We also read the old utopian socialists, so they can see what Mises and Hayek were contending with. Of course we still see this mentality at work today, with people who believe that society ought to be run by boards of planners.

This way the students are exposed to the writings of the Austrians. Some economics students at Wofford go into business or to law school. But many go on to graduate school. Too many people receive Ph.D.s in economics today without ever having

COMING EVENTS

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heard of the Austrians. At least that will not be the case with our graduates. I feel very good about our program. The students leave with broad knowledge and great analytical skills.

AEN: How do you manage the trade-off between research and teaching?

TERRELL: When a young professor first arrives, he must spend most of the first years preparing courses and honing teaching skills. This is the number-one priority because most liberal arts schools place a premium on teaching. This is what the students and their parents are paying for. Knowledge is the good they are purchasing. They are not paying me to research.

Since I've been at Wofford, I've taught eight different courses. Each one requires massive amounts of attention to insure that the students get the best possible learning experience. Things will start to settle down a bit now. After the first or second round, one needs only to make marginal additions and improvements. That's when the research begins. But even in this first stage, I've continued to write!

I never want to get to the point where I would sacrifice teaching to do research. If I did that, I wouldn't be doing my job, and good minds would be lost. Austrians are good teachers, and we tend to thrive at liberal-arts colleges. I do not think it is a problem that we are not at the major research institutions. We are a minority school of thought, so this is to be expected. We are influencing minds in these smaller schools.

AEN: You have students you find promising?

TERRELL: Yes, certainly. I have students who are wild for the Austrians. I can spend time with them cultivating this interest. Even if they do not get Austrian economics in graduate school, they will keep up their interest and independent study. Sometimes just getting the names of the Austrians out there is enough.

I might not have the chance to do this if I were teaching sections of hundreds of students at a large state university, where teaching tends to be more canned. Teaching is often farmed out to teaching assistants, who do not have time to do a very good job. At Wofford, and at many similar schools, students get the genuine article.

There's another issue. When I do have time to do research, I won't feel the pressure to conform to the prejudices of the profession. I have supportive colleagues who tolerate dissent. If I mention Mises, I'm not immediately regarded as a freak. Scholars need this kind of intellectual freedom.

AEN: What Austrian economists made you an Austrian?

TERRELL: While I was an undergraduate at Clemson I was reading books on theology, apologetics, and ethics. I became interested in the work of the late Rousas J. Rushdoony, who believed very strongly in the morality of the free-market system. Rushdoony had been influenced by Cornelius Van Til, whose defense of Christianity pointed out that everyone has certain internal presuppositions that serve as starting points for deducing all we know.

Later, when I was introduced to the Austrian school, the idea of deducing from established axioms seemed familiar. Also in college I read some of Gary North's work, but it was not until I read Mises's *Theory and History* and ran across some issues of the

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Free Market that I realized the depth and scope of the Austrian School.

Late in my undergraduate career I took some courses from Don Boudreaux, one of the first Mises

Fellows. His interests in law and economics coincided with mine, and he encouraged me to learn more. While at Auburn working on my Ph.D., of course, I had contact with many Austrian scholars through the Mises Institute.

AEN: Where do you see your future research interests taking you?

TERRELL: I continue to have an interest in environmental regulation, and in regulation in general. I've also done some more work on the intersection of religion and economics. Bill Anderson and I have a paper under review that contends that the typical modern evangelical concept

of environmental stewardship is fundamentally flawed because it neglects the crucial information provided by prices. Complex decisions about how to allocate natural resources cannot possibly be made without looking at the appraisals of value reflected in the price system. It's just Mises's 80-some-year-old argument that economic calculation is impossible with socialism, but there are some areas where it still hasn't been understood.

AEN: Do you have opinions on the standing of Austrians in academia today?

TERRELL: My Austrian ideas and connections with the Mises Institute

were an asset when I was in the job market. I won't say that the Austrian label would have helped me at any school, because that is certainly not true. We still have a long way to go to achieve widespread acceptance of our ideas. But the schools in which I was most interested saw my Austrian ideas as a plus. There is a lot of inertia in academia because of the tenure system, but over time, I expect Austrian economists will have many more opportunities in the job market. I am continually impressed by the number of sharp students at Mises Institute conferences, and there is a growing network of professors around the world who can assist these students. **AEN**

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