



The Mises Seminar

Sydney, Australia

25th-26th November, 2011



Economics.org.au



Macquarie University
Libertarian League



Economics.org.au



Dear friend,

The Mises Seminar, named after Ludwig von Mises, is the first of its kind in Australia. Our aim is to bring together a collection of world-class speakers dedicated to exploring the foundations of a free society.

In recent years, and especially after the Global Financial Crisis, governments around the world have taken measures purportedly aimed at staving off recession. They have carelessly spent billions of dollars of taxpayer money, and their central banks have ‘stimulated’ the economy with low interest rates. In truth, these measures are not what will save the economy.

Nevertheless, governments persist in bad policies and seek advice from establishment intellectuals who failed to predict the financial crisis. Yet there is an alternative: ‘Austrian’ free-market economics, a school of thought to which this seminar is sympathetic. Greatly assisted by their epistemological insights, Austrians such as Peter Schiff and Ron Paul foresaw the housing bubble and collapse years before the crisis eventuated. Even earlier, Mises predicted the Great Depression of the 1930s and the Soviet Union’s decline. Others predicted the breakdown of the Bretton Woods system. In fact, many of the major financial events of the 20th century were known to Austrians beforehand.

To solve our economic problems, it is time that we started paying attention to the people that have a coherent theory of how we got into this mess in the first place. Many economists we are taught to revere, such as Fed Chairman Ben Bernanke or RBA Governor Glen Stevens, saw little fundamentally wrong with the economy prior to 2008; amazingly they did not see the harm caused by artificially low interest rates. Can we really expect solutions from such clueless analysts?

Mises was not just an economist, he was also a philosopher. Thus this seminar brings together individuals committed to the philosophy of libertarianism. The ethical framework of libertarianism is used by the speakers to defend freedom against government tyranny. If only these lessons were more widely known, perhaps we would live in a more peaceful and prosperous nation.

Thank you for choosing to attend the Mises Seminar. We hope that you take away something of value, and with luck, this will be the first in a series of many seminars.

ORGANIZING COMMITTEE

Benjamin Marks
Dr Bulukani Mlalazi
Michael Conaghan
Samuel Marks
Sukrit Sabhlok
Dr Washington Sanchez

LOCATION/OTHER DETAILS

Why is it called the "Mises Seminar"?

The Mises Seminar is named in honour of Ludwig von Mises, perhaps the most gifted economist and philosopher of the 20th century. Mises, who correctly predicted the onset of the Great Depression of the 1930s as well as the failure of Soviet-style central planning, was a prolific author who spawned a global movement dedicated to carrying on his tradition. One of his students, F.A. Hayek, went on to receive the Nobel Prize in Economics. Another of his students, Murray Rothbard, extended Mises' ideas and founded what is now the modern libertarian movement. A living proponent of Mises' ideas is Congressman Ron Paul, who is currently running for the office of President of the United States. Henry Hazlitt wrote about Mises, "His outstanding quality was moral courage, the ability to stand alone, and an almost fanatical intellectual honesty and candor that refused to deviate or compromise an inch."



What does the ticket price include?

The price for the seminar includes all food and drinks for the day (lunch and snacks). The price for the dinner includes a delicious meal. You may also receive a showbag.

Where is the venue located?

The Mises Seminar venue is the Union, Universities and Schools Club (UUSC), located at 25 Bent Street, Sydney. The UUSC is two blocks from Circular Quay, two blocks from Centrepont Tower, two blocks from the Royal Botanic Gardens, two blocks from NSW State Parliament and two blocks from the RBA Building at Martin Place.

Is there a dress code?

Yes. This is a prestigious and exclusive venue, and the clubs compulsory dress code reflects that. Ties and blazers for men, and the equivalent for women. No denim is allowed.

Are there places of accommodation nearby?

Next door is the Sydney Sofitel Wentworth Hotel. Other hotels within a two block radius include the InterContinental Sydney, the Sir Stamford Circular Quay, and the Sydney Harbour Marriot Hotel at Circular Quay. For student budgets, probably the closest suitable accommodation, especially if you share with a few other attendees, is the Sydney Harbour Hostel at The Rocks, which is an easy short 10 minute walk from the UUSC. Other hostels can be found through Hostels.com, Wotif.com, HostelBookers.com and HostelWorld.com. If you choose to stay somewhere else in Sydney, you should still find it easy to get to the venue, either by bus, train (Circular Quay or Martin Place station) or ferry. The website www.131500.info is helpful when using public transport in Sydney.

Where can I find out more?

To find out more about the speakers or anything else, join our facebook group or event. We also publish a journal (*Journal of Peace, Prosperity & Freedom*) and have an online radio show (the Mises Seminar podcast). Email us at ssabhlok@mises.com or ring 0414 34 35 37.

MISES SEMINAR SCHEDULE

25-26th November, 2011

Lecture blocks include 5-10 minutes for questions.

Friday, 25 November

Registration begins at 6:30 p.m.

7 - 7:05 p.m.	WELCOMING REMARKS <i>Washington Sanchez</i> “The Mises Seminar and its Goals”
7:05 - 7:55 p.m.	KEYNOTE ADDRESS <i>Hans-Hermann Hoppe</i> “The State - The Errors of Classical Liberalism”
7:55 - 8:10 p.m.	BREAK
8:10 - 8:55 p.m.	<i>Hans-Hermann Hoppe</i> “Society without State: Private Law Society”
8:55 - 9:10 p.m.	OPEN FORUM
9:10 - 10 p.m.	PANEL: AUSTRALIAN LIBERTARIAN POLITICS <i>Moderator: Benjamin Marks</i> <i>David Hart, Mark Tier, Nev Kennard, Viv Forbes & Ron Manners</i> “On the Worker’s Party”

Saturday, 26 November

Registration begins at 8:30 a.m.

9 - 9:40 a.m.	<i>Mark Tier</i> “Smoker's Rights are Human Rights are Property Rights: How to persecute an unpopular minority to subvert the rule of law, increase the power of the state, and replace the impartial arbiter of human rights with the whims of politicians and bureaucrats”
9:40 - 10:25 a.m.	<i>Steven Kates</i> “The English Classical Tradition and Austrian Economics: Where they are the Same and Where they Differ”
10:25 - 10:40 a.m.	BREAK
10:40 - 11:30 a.m.	<i>Hans-Hermann Hoppe</i> “Politics, Money, and Banking”

11:30 - 11:45 a.m.	OPEN FORUM
11:45 - 12:30 p.m.	Andrew Dahdal “Is Fiat Paper Money Unconstitutional?”
12:30 - 1:15 p.m.	LUNCHEON
1:15 - 2 p.m.	LUNCHEON ADDRESS Chris Leithner “The Evil Princes of Martin Place: The Panic of 2008 and Why We Should End the RBA”
2 - 2:45 p.m.	Ben O’Neill “Natural Law and the Liberal (Libertarian) Society”
2:45 - 3:15 p.m.	Viv Forbes “My Libertarian Journey”
3:15 - 3:30 p.m.	BREAK
3:30 - 4 p.m.	Ron Manners “Heroic Misadventures”
4 - 4: 30 p.m.	David Hart [It’s a Surprise!]
4:30 - 5 p.m.	Sarah Correa “The War in Afghanistan”
5 - 5:30 p.m.	CLOSING ADDRESS Neville Kennard “My Journey to Anarchy”
5:30 - 6:30 p.m.	RECEPTION

RECOMMENDED READINGS

The extracts below are ‘compulsory’ in the sense that you will gain the most from the seminar if you put in the effort to read them. The following are optional readings:

- Stephan Kinsella, 'What Libertarianism Is', <<http://mises.org/daily/3660>>
- Hans-Hermann Hoppe, 'Chapter 2: On Praxeology and the Praxeological Foundation of Epistemology', <<http://mises.org/books/esam.pdf>>
- Robert Murphy, 'The Possibility of Private Law', <<http://mises.org/daily/1874>>
- Robert Murphy, 'The Chicago School versus the Austrian School', <<http://mises.org/daily/5390>>

AUSTRIAN ECONOMICS

Jonathan Catalan, 'A Primer on Austrian Economics', <<http://mises.org/daily/4390>>

The jurisdiction of economics extends far beyond the study of production and consumption of goods and services. The science of economics consists of the study of human action, interaction, and cooperation. Even if you accept the mainstream division of micro- and macroeconomics, at the most basic levels economics deals with how market agents make decisions and how these decisions affect interactions between individuals. Even the broadest of market trends, usually condemned to the realm of "macroeconomics," boils down to interactions between individual market agents.

How individuals interact in tandem, forming the economic system as studied in modern macroeconomics, is simply fascinating. Even the most complex economies, such as today's global market, are made up of individual human actors, each seemingly unaware of the others' intentions and goals. Economics is the science that studies these individual agents of the market and how they coordinate through the price mechanism to create, not just what the mainstream considers "the market," but society as a whole, all without the necessity of a central planner or authority. The fact that human civilization is the product of billions of individuals, each acting to accomplish certain self-serving ends, is truly mind blowing.

What economists call "political economy," or modern economics, did not come into being until the mid-18th century. Since then the study of economics has not been one of linear progress; neither has it been free of controversy. Even before the birth of political economy, the study of economics was done by competing schools of thought; for example, the French mercantilists and the French liberals. Following the Smithian movement and despite the development of Marxism in the mid-19th century, economics was largely unified by the marginal revolution. However, the marginal revolution was followed by the birth of several distinct schools of economic thought. Some of the most well-known include the Neoclassical, Austrian, and Keynesian Schools, which interestingly all enjoy the same foundations in the marginal revolution.

Of the three above-mentioned major intellectual movements, the Austrian School is probably the smallest and least known. Despite this, it has become one of the fastest growing schools of thought in the past decade. And its ranks have swollen since the financial crisis of 2007. This growth is impressive enough as to prompt responses to the Austrian School from intellectual opponents who are usually ambivalent. All of this should be evidence enough that the Austrian School merits a closer look.

There are some basic questions that most "beginners" ask when first delving into Austrian theory. What is Austrian economics? Who are these Austrian economists? Why is Austrian economics relevant in today's world? These are all questions worthy of a response, and this is what the present essay sets out to do. The present essay also serves as a bibliography of sorts, as one can further investigate into the topics proposed by following the sources suggested.

What is Austrian Economics?

The Austrian School of thought has offered economic science a wide variety of unique insights. It is unrealistic to provide a detailed account of *all* Austrian theory within the limits of an introduction. Nevertheless, there are some key theories that the Austrians have become known for, providing a solid foundation for further investigation into Austrian economics.

The unique keystone to Austrian theory is the concept of *praxeology*. Praxeology is the science of human action, under which the broader subject of political economy is categorized. The employed methodology of praxeology is known as *a priorism*, which is based on the ideas

- a. that the fundamental axioms and premises of economics are absolutely true;
- b. that the theorems and conclusions deduced by the laws of logic from these postulates are therefore absolutely true.

Praxeology recognizes the fundamental axiom that is human action. Human action is purposeful and aims at completing ends through deliberately chosen means. Human action differentiates itself from instinctual reaction, such as a human's reaction to biological stimuli, in the sense that the latter is subconscious while human action is entirely conscious. Apart from the axiom of human action there are also several subsidiary axioms, including the facts that man values leisure over work and individuals vary — no one individual is the same as another.

From the axiom of human action, praxeology seeks to develop theory through logical deduction. Modeled, the axiom of human action is represented by A; if A implies B, and A is accepted as true, then B must also be true. That B must be true if implied by A is *independent of experience* (or *a priori*), proven through logic. As such, Mises denies the usefulness of historical experience in the study of economics, given that through praxeology any theories developed would be apodictic. It follows that praxeology makes empirical validation or falsification not only superfluous but, as Mises holds, almost useless.

Praxeology and *a priori* reasoning lead to the important concept of time preference. This is the notion that, *ceteris paribus*, individuals prefer present satisfaction to future satisfaction, under the condition that the utility of future satisfaction is the same or less, ordinally speaking. As such, humans choose certain time-consuming actions because they expect the end to have greater utility than any other end closer in time. In the broader sense, the idea of time preference becomes clearer once it is understood that capital accumulation, or savings, comes about as a result of changes in time preference. Individuals save as a means of garnering greater satisfaction at some point in the future.

While praxeology could be the subject of an entire book — and a complete understanding of praxeological science as developed to date would certainly be useful — for the purposes of a primer only the basic idea of what praxeology consists of is necessary. Praxeology is the

science of rational human action, and its *a priori* methodology makes Austrian theory valid independent of experience. It follows that the following major Austrian insights are products of reason and not empiricism.

Non-neutrality of Money

One of the most important Austrian positions is the belief in the non-neutrality of money. The mainstream believes in the long-run neutrality, or *superneutrality*, of money. This belief maintains that changes in the money supply only cause proportional and permanent changes to prices, while leaving the "real economy" — investment, production, and employment — unchanged. While money may change the underlying economy in the short-run, it is believed that nevertheless these will adjust proportionally to changes in the money supply over the medium term or long run. It is exactly this belief in the superneutrality of money that led to the development of the mechanistic quantity theory of money, or $MV=PT$.

Austrians expressly reject the notion of the superneutrality of money. The Austrian rejection bases itself on the idea that the purchasing power of money is decided only upon the moment of an exchange. In other words, the price of a good relative to a medium of exchange is decided during individual exchanges, depending on the amount of money following that particular good during that particular period of time. Therefore, a change in the supply of money will not affect all prices proportionally; rather it influences only certain prices, depending on what the new money is spent on.

Austrian Business-Cycle Theory

Believing in the non-neutrality of money is an important step towards understanding the Austrian business-cycle theory. The Austrian theory of the trade cycle is perhaps their most well-known contribution to economics, at least for the mainstream. This is especially true when considering that the principal reason for the rise in popularity of Austrian economics after the recession of 2007 was their explanation of the causes of the recession — and their predictions of the recession prior to the crash.

Important to understanding the underlying premises behind the theory of the trade cycle is the recognition of the relationship between the supply of money and the rate of interest. This relationship is explicitly rejected by John Maynard Keynes. Keynes suggests that the main contributing factor behind the rate of interest is society's so-called liquidity preference, or the preference of the consumer to hold money in liquid form or surrender it to an investor by saving it in nonliquid forms (such as a time deposit).

Unlike Keynes, Mises recognized the demand for money as time neutral. Keynes conflated the concepts of money and capital, not realizing that to hold money (or to hold a medium of exchange) did not translate into a reduction in the supply of capital on the market. As opposed to Keynes, Mises believed that a decrease in the supply of money-chasing loanable

capital would simply manifest itself in the structure of production as a change in the prices of capital goods.

The rate of interest on a good, or what Mises called the *originary interest*, is that established by the ratio of the value of future goods discounted against the value of present goods. As explained by Jesús Huerta de Soto, "the term 'interest rate' [denotes] the market price of present goods in relation to future goods."

Money relates to the rate of interest in the sense that as a medium of exchange money can be used to acquire a certain amount of goods. Instead of bartering actual capital on the market, money allows for a complex series of exchanges to take place, without one individual having to directly satisfy another by offering the other the *exact* good in demand. As such, the lending and borrowing of money follows the same praxeological laws as other goods. Like any other goods on the market, as price decreases demand increases. As the supply of money on the market increases the cost of borrowing, or the rate of interest, decreases and the quantity demanded of loanable funds increases. This tends to catalyze investment.

Austrians distinguish between a rise in the supply of loanable funds as a result of an increase in savings and the rise resulting from an increase in the supply of money. The latter is what leads to the business cycle. Providing a complete understanding of the Austrian business-cycle theory would require a deeper foray into Austrian capital theory, which unfortunately is something outside the scope of the present essay. Regardless, using what has been established thus far, the business-cycle theory can be explained as one that predicts discoordination in the market resulting from an artificial decrease in the cost to borrow money. This decrease in the rate of interest is artificial in the sense that it came as a result, not of an increase in loanable funds through an increase in savings, but an increase in loanable funds through an increase in the supply of money.

Given that a decrease in the market rate of interest will lead to an increase in the quantity demanded of loanable funds, this leads to an increase in investment. Investment leads to the lengthening of the structure of production in the hope of producing future goods.

Discoordination is caused by the fact that, given that the supply of money was increased artificially, consumers have not generally sacrificed present consumption for future consumption. Thus, existing capital is divided between continued production of consumer goods, for present consumption, and capital goods, which will be used to finance projects dedicated towards satisfying future consumption. This discoordination leads to widespread malinvestment, and when this discoordination is revealed it leads to an inevitable bust. Thus, Austrians hold that business cycles are caused by intertemporal discoordination, caused by artificial increases in the supply of loanable funds without an equal fall in present consumption.

Socialist Calculation Problem

While business-cycle theory is perhaps what the Austrians are currently most well known for, there is a myriad of other concepts the Austrians introduced or expanded upon. One such insight is that of the socialist calculation problem.

There is no objection amongst economists that given the existence of scarcity, the market is in need of a rationing device. Most economists, except those in extreme favor of centralized rationing, will also agree with the notion that *price* is the best rationing device of the market. While price hardly acts as a measure of value, due to the fact that no object has an *objective* value, it nevertheless serves as a useful tool to coordinate production by serving as a conveyor of information between different market agents and a method by which an individual can decide whether or not a particular action is economical.

In a socialistic economy, where prices are absent, this coordination would simply not exist. There would be no host of individual agents communicating through the price mechanism and allocating resources by means of subjective ratiocination. As a result, all meaningful economic activity would come to a halt. Complex programs would be impossible to complete economically, since without a price mechanism there would be no way for a central planner to distribute resources according to their most economical use. Thus, socialist economies are bound to fail.

These key Austrian positions have been explained in an effort to offer the reader an introduction. Understanding the basics of Austrian methodology, monetary and capital theory, and finally Mises's calculation problem, the reader can now fully plunge into a wider and deeper body of Austrian theory.

A Brief History of the Austrian School

Adam Smith is generally considered the father of political economy, and between Smith and the marginal revolution it is traditionally believed that there was a linear progression in the science of economics. Schumpeter's *History of Economic Analysis* suggested otherwise, and since then there has been a wealth of revisionism looking to correct economists' view on the Smithian movement. From an Austrian perspective, Smith did much to damage economic theory. Not only was much of Smithian theory erroneous — including his monetary and value theories — but also *The Wealth of Nations* effectively blotted out a rich tradition of economics prior to the Scottish enlightenment, including the School of Salamanca and the French liberals. It was left to the marginalists of the late 19th century to "rediscover" much of the pre-Smithian tradition.

The marginalist revolution was spearheaded by William Stanley Jevons, Léon Walras, and Carl Menger through the concept of *marginal utility*. It was Carl Menger who founded the Austrian School, expounding his ideas in two major economic works: *Principles of Economics* and *Investigations into the Method of the Social Sciences with Special Reference*

to *Economics*. While Carl Menger laid the foundations for Austrian theory, his greatest influence was his support of an individualistic approach to economics, or what is called *methodological individualism*. This would ultimately lead to Mises's development of praxeology. In fact, Mises alludes to the importance of Menger's methodology by describing what was called the *Methodenstreit* (dispute on method) between Menger and Gustav Schmoller of the German Historical School (and others). While Menger's methodology did not recognize economic logic as all derived from the same axiom, one can certainly find the roots of the schism between *a priori* reasoning and empiricism in Menger.

Menger influenced two important economists. These were brothers-in-law Eugen von Böhm-Bawerk and Friedrich von Wieser. Böhm-Bawerk considerably developed Austrian capital theory, expounded over two important volumes — *Capital and Interest* and *The Positive Theory of Capital*. Perhaps his greatest contributions to capital theory were his concepts of *time-preference* and *roundaboutness*. Böhm-Bawerk also wrote a devastating criticism of Marxism and Marxian economics, *Karl Marx and the Close of his System*. Friedrich von Wieser made great strides in the socialist-calculation debate and would also become widely known for his development of the concept of *opportunity cost*.

Ludwig von Mises did not become immediately acquainted with Menger's economics. Mises read Menger's *Principles* only after Menger had retired from the University of Vienna. Jörg Guido Hülsmann believes that Mises became fully aware of Menger after being exposed to Friedrich Wieser, who gave a series of lectures at the university and attempted to expand on Menger's theories on money. Both Menger's book and Wieser's lectures impacted Mises's later writings on money, in many ways providing the basis of Mises's beliefs. While Menger did not immediately persuade Mises to embrace liberalism, it did cause a fundamental shift in the way Mises critically viewed the legitimacy of government intervention. It was this critical approach to theory that slowly converted Mises into the great liberal economist of *Human Action*, written over forty years after his first encounter with Menger and the Austrian School.

While *Human Action* can be considered the peak of Mises's intellectual career, it was not long after reading Menger that Mises published his first major theoretical work. This was *The Theory of Money and Credit*, published in 1912. It was this book that propelled Mises to forefront of the study of economics, although Mises's success was interrupted by the eruption of the Great War in 1914. Also rather unfortunate was the fact that *The Theory of Money and Credit* was not translated into English until the 1930s. Ultimately, Mises's views on money were drowned out by the views of figures such as Fisher and Marshall. Regardless, after the Great War Mises continued theorizing and developed Austrian methodology (what he would refer to as praxeology), he elucidated the socialist calculation problem, and prepared his great treatise, *Human Action*. The wide scope of Mises's contributions to Austrian theory, and the depths to which he pursued these topics, makes him the most important Austrian economist — and, to an Austrian, the most important economist of the 20th century.

Apart from directly contributing to the renaissance of Austrian thought, Mises also influenced many other economists, including Friedrich Hayek. Hayek contributed greatly by

popularizing Austrian theory. During his stint at the London School of Economics, Hayek enjoyed widespread support of his beliefs, including from Lionel Robbins. Hayek was also awarded the Nobel Memorial Prize in Economic Sciences, a major stimulant in the resurgence of the Austrian School during the last two decades of the 20th century.

Hayek also contributed greatly to the Austrian theoretical corpus. This includes his work on the Austrian business-cycle theory, for which he would be awarded the Nobel Memorial Prize, and his writings that further developed capital theory. Hayek also revisited the calculation problem and was a renowned political scientist. Today, he is probably most well-known for *Road to Serfdom*, where he warned that all "middle of the road" policies would eventually lead to socialism and tyranny.

After Hayek came a host of new Austrians. Many of them were not Austrians of the same ilk as Mises, but were nevertheless greatly influenced by Austrian methodology and theory. The post-Hayek generation of economists includes Israel Kirzner and Murray Rothbard, the latter of which heavily influenced the Austrian School by merging the school's classical-liberal ethical foundations with anarchism. Although the Austrian School had already become much more than a school of economics, Rothbard fully broadened the scope to cover ethics and political science. The state of modern "Austrianism" owes much to Rothbard, even if many Austrians disagree with Rothbard's conclusions.

Today, the Austrian School has grown to include an even larger body of professional economists, and a previously inconceivable body of followers and students. There is no doubt that great strides will be made in theory, throughout the multitude of fields that now completely fall within the scope of the school.

Relevance

Apart from the school's valuable insight in academics, how is the Austrian School relevant to current events? What makes Austrian theory important to the common man?

The answer to these questions can be deduced praxeologically, beginning with the axiom of human action. If we accept society as merely a web of purposeful interactions between individuals, then we begin to realize the potential distortions caused by exogenous factors — namely government through regulation. As a value-free science, praxeology cannot tell you whether or not government intervention is good or bad but it can tell you the consequences of exogenous distortion of human action. "Austrian" ethics, on the other hand, do serve the purpose of deciding between "good" and "bad," but in the purest sense the Austrian School can at least enlighten the layman by suggesting what effects certain economic policies will have.

This idea that government distorts, for better or for worse, is important. In a world where government is an irrefutable reality, and where intellectually the concept of anarchism has not been accepted by the mainstream, Austrian economics becomes very relevant in the sense of

aiding individuals to judge the value of certain government programs. With an ongoing financial crisis and an impending greater crash, there is no better time to become aware of the consequences of interventionism.

It was the aim of the present essay to skim the surface of Austrian theory, in the hope that those interested will further explore Austrian thought. The message is not necessarily that one should uncompromisingly accept the views of the Austrian School, only that these insights are valuable and can add to whatever knowledge is already held by any given individual.

Nevertheless, the rigor of the Austrian method makes its methodology incomparable to that of any other school, which certainly makes the case for Austrian theory that much stronger.

Footnotes available online from <<http://mises.org/daily/4390>>.

Chris Leithner, Introduction to ‘The Evil Princes of Martin Place’, <<http://www.la.org.au/ipaper/260311/introductory-chapter-evil-princes-martin-place>>

This book answers two simple questions. What caused the “Global Financial Crisis” (GFC) that erupted in mid-2007? What will be the consequences of the actions undertaken by governments to combat it? I show that the more things change, the more they stay the same: the GFC is merely the latest in a long series of economic and financial crises that have punctuated the history of the past 250 or so years. Like its predecessors, three of which we will analyse in detail, poor policies – in particular, the existence of legal tender laws, fractional reserve banking and central banking – are the GFC’s ultimate causes. The intervention of government, in other words – and not the free market – causes financial and economic crises. Accordingly, the disappearance of crises necessitates the repeal of pernicious laws and the abolition of damaging practices.

Why Are Central Banks Revered Rather Than Reviled?

The central bank is the most visible and powerful manifestation of these pernicious laws and damaging practices. Unfortunately, for far too long central bankers have been revered as architects of financial stability rather than reviled as agents of monetary chaos. According to its web site (dated 6 November 2009), the Federal Reserve System

is the central bank of the United States. It was founded by Congress in 1913 to provide the nation with a safer, more flexible, and more stable monetary and financial system. Over the years, its role in banking and the economy has expanded. Today, the Federal Reserve’s duties fall into four general areas: conducting the nation’s monetary policy by influencing the monetary and credit conditions in the economy in pursuit of maximum employment, stable prices, and moderate long-term interest rates ...

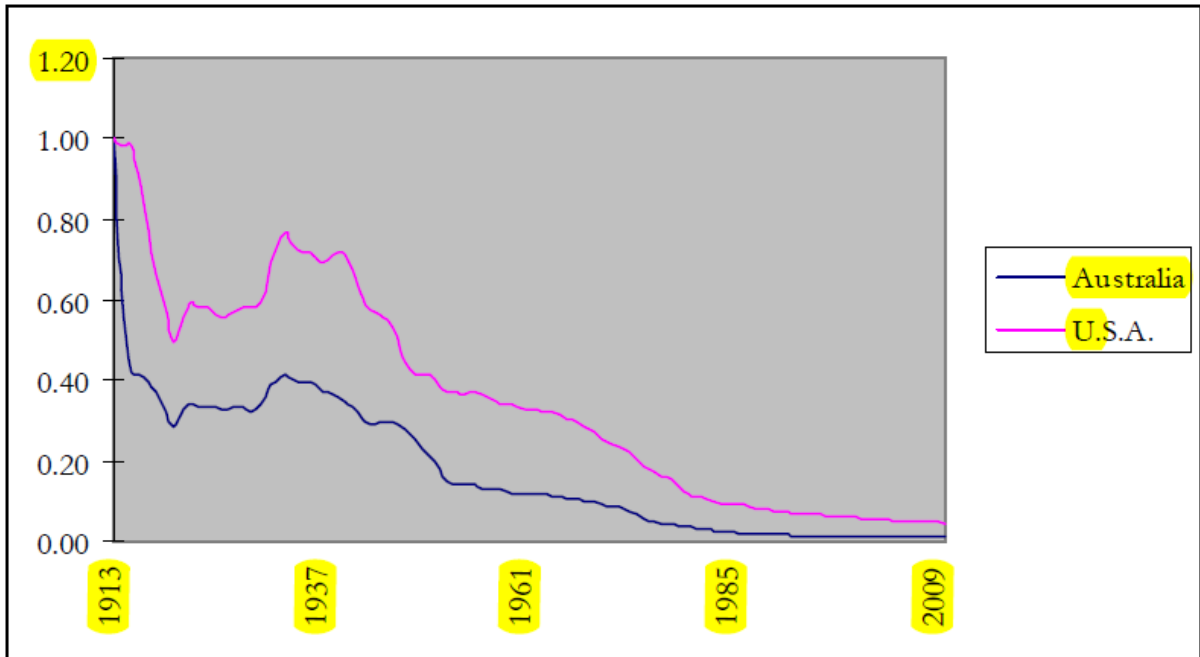
Similarly, the *Reserve Bank Act 1959* states:

It is the duty of the Reserve Bank Board ... to ensure ... that the powers of the Bank ... are exercised in such a manner as, in the opinion of the Reserve Bank Board, will best contribute to: the stability of the currency of Australia; the maintenance of full employment in Australia; and the economic prosperity and welfare of the people of Australia.

It's high time that somebody finally blew the whistle and pointed an accusing finger: the Federal Reserve System ("Fed") and the Reserve Bank of Australia (RBA) – like all other central banks – have failed utterly, completely and miserably to achieve these objectives. (Indeed, Chapter 8 will demonstrate that their achievement is, as a practical matter, simply impossible.) As an example, consider "stable prices" and "the stability of the currency." Figure 1 plots the purchasing power (PP) of the \$A and \$US since the formation of the Fed and RBA in 1913.¹ Within a decade of the Fed's birth, the purchasing power of the American currency halved: the basket of consumer goods and services that cost \$US1 in December 1913 cost exactly twice as much in March 1920. PP subsequently rose from \$US0.50 to \$US0.78 by the nadir of the Great Depression in 1933. Since then, however, its slide has been unrelenting – to a derisory \$US0.0454 in July 2010. The consumer goods and services that cost \$US1.00 at the beginning of 1913 thus cost \$US22.02 in mid-2010. That's a total rise of consumer prices of no less than 2,102% during the past 97 years. Who in his right mind calls that success? The U.S. has enjoyed many things since 1913, but a stable (in terms of its PP) currency simply hasn't been among them.

¹ "Purchasing power" means the quantity of goods and services that a unit of currency can purchase at a given point in time. The greater the quantity, the greater the currency's purchasing power. The origin of the RBA is difficult to specify. One candidate of its genesis is the Commonwealth Bank Act 1911; others are Commonwealth Bank Acts of 1924 and 1945. (Before the passage of the Reserve Bank Act 1959, the Commonwealth Bank undertook many of the actions which came to be associated with central banks.) In 1960, Sir John Phillips, the RBA's inaugural Deputy Governor and its second governor, remarked "the Reserve Bank, though a new institution ... really has its roots spread back over the last forty-seven years or so ..." For convenience, I'll date the RBA's birth to coincide with that of the Fed in 1913. For a short history of the RBA's origins and evolution, see Selwyn Cornish, *The Evolution of Central Banking in Australia* (Reserve Bank of Australia, 2009), Chaps. 1-2.

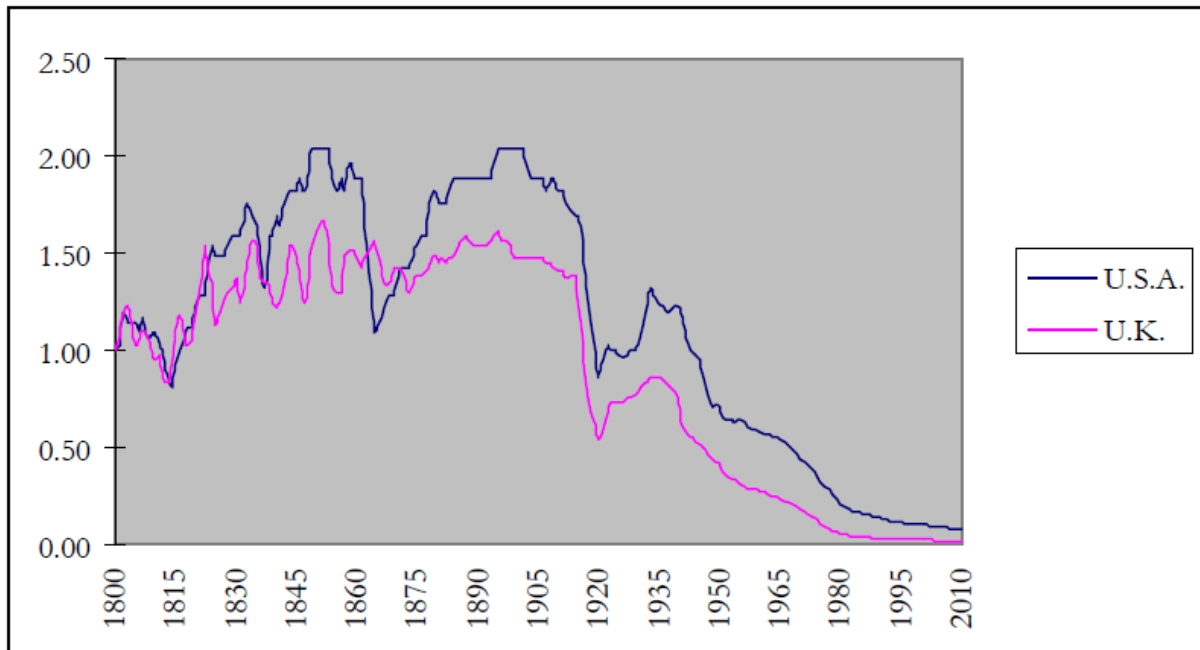
Figure 1: Only a Crazy Partisan of the State Could Call This “Success” - The Federal Reserve, RBA and the Currency’s Purchasing Power, 1913-2010²



The RBA has trashed the \$A’s purchasing power even more thoroughly. The basket of consumer goods and services that cost the equivalent of \$1.00 in 1913 cost more than three times as much (\$3.49) in 1920; as a result, the PP of the \$A plummeted to \$A0.29. As in America, so too in Australia: PP subsequently rose – indeed, doubled – to \$A0.41 in 1933. Since then, however, and as in the U.S., its slide has been unremitting – to a derisory \$A0.0097 in 2010. In other words, the consumer goods and services that cost \$A1.00 at the beginning of 1913 cost \$A102.98 in mid-2010. That’s a total rise of consumer prices of almost 5,000%! The Federal Reserve took 68 years – from 1913 to 1981 – to crush the PP of the \$US from \$1.00 to \$US0.10. The RBA needed only 55 years. What about the era of allegedly “low inflation” since the early 1990s? The \$A has lost half of its PP since 1988; and it has lost one-fifth since 2004. Since the Great Depression, Australia has enjoyed many things; but at no time since then has it enjoyed anything that by any reasonable standard could be called “stable prices.” As we’ll see in subsequent chapters, most of the conventional wisdom and mainstream propoganda about central banks and monetary affairs is at best misleading and at worst flatly incorrect.

² Sources of data: U.S. Bureau of Labor Statistics (<http://www.bls.gov/cpi/>) and Reserve Bank of Australia (<http://www.rba.gov.au/calculator/annualPreDecimal.html>).

Figure 2: The Free Market Begets Stability and Central Banks Produce Chaos; the PP of the \$US and £, 1800-2010³



It's vital to understand that there's more than correlation at work here: this book will demonstrate that central banks such as the Fed and RBA have caused the destruction of their respective currencies' purchasing power. (This fact is closely related to another, which we will also describe and substantiate: far from smoothing the ups and downs of the business cycle, as the mainstream relentlessly asserts, central banks have exacerbated them.) As an initial point of corroboration, Figure 2 plots the PP of the U.S. dollar and British pound since 1800 – that is, during the approximately 100 years before and the approximately 100 years after the advent of modern central banking in these two countries. It shows that before (a) the abandonment of the classical gold standard during the First World War and (b) the creation of central banks with interventionist mandates (such as the Fed in 1913 and the Bank of England's policy since the First World War), the purchasing power of the \$US and £ remained relatively stable. The American Civil War – during which the U.S. abandoned the gold standard – provides the major exception to this stability. Since the Great Depression, however, these currencies' PP has inexorably fallen and cumulatively collapsed. In other words, under the relatively “free market” situation – namely the classical gold standard – that prevailed before the rise of modern central banks and their interventionist monetary policies, currencies didn't just retain their purchasing power over long periods of time: it rose appreciably.

³ Source of data: American figures before 1971 come from U.S. Bureau of the Census, Historical Statistics of the United States, Colonial Times to 1970, Bicentennial Edition (Washington, DC: Government Printing Office, 1975), series E135; figures since 1970 come from U.S. Bureau of Labor Statistics; and British figures come from the Bank of England's “inflation calculator” (<http://www.bankofengland.co.uk/education/inflation/calculator/flash/index.htm>). See also Jim O'Donoghue, et al., “Consumer Price Inflation since 1750” (Office for National Statistics, Economic Trends, March 2004).

...

There's a pattern here, which subsequent chapters will corroborate. So – ironically – does research conducted under the Fed's imprimatur! A study by two economists at the Federal Reserve Bank of Minneapolis concluded that “commodity money” standards (namely a classical gold standard, which subsequent chapters will define and describe) consistently outperform “fiat” standards. Analysing data over many decades and from a large number of countries, Arthur Rolnick and Warren Weber found that “every country in our sample experienced a higher rate of inflation in the period during which it was operating under a fiat standard than in the period during which it was operating under a commodity [i.e., gold] standard.”⁴ Other members of the establishment are more forthright. According to Benn Steil and Manuel Hinds of the Council of Foreign Relations, “the imposition of national [fiat] monies remains one of the most potent tools available to governments to extract wealth from their populations and to exercise political control over them.” Mainstream economists have long recognised – and some have overtly celebrated – this brute fact. In *The Economic Consequences of the Peace* (Harcourt, Brace & Howe, 1919, p. 236), for example, John Maynard Keynes gloated

there is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose.

More specifically, we will see that welfare and warfare – and the vast amounts of inflation required to finance them – inevitably weaken and eventually destroy the currency's purchasing power. The inflation that necessarily underpins what we will call the welfare-warfare state enriches the privileged few; it also foments the financial crisis on Wall Street that becomes the economic crisis on Main Street. Conversely, soundly-based money, low and falling government expenditure, as well as the reductions of taxation and inflation, augment the currency's purchasing power – and also encourage peace at home and abroad, soundly-based growth and prosperity.

Today, the Australian and American dollars, British pound, etc., buy vastly fewer goods and services than they once did; at the same time, wages in these and most other Western countries have risen – but at a relatively sluggish pace since the 1970s. The result is that – subject to a critical caveat – standards of living rose at a rather robust pace in the three decades after the Second World War, but at a significantly slower pace since the 1970s. What's the caveat? In recent times families have been obliged to take drastic action to protect their standards of living. During the 19th century, women (whether single or married) undertook paid work because economic necessity obliged them to do so. By the 1950s, however, relatively few married women worked outside the home. Prosperity had advanced to a point where a single income often sufficed to provide a family with a middle class

⁴ Arthur Rolnick and Warren Weber, “Money, Inflation, and Output Under Fiat and Commodity Standards,” *Federal Reserve Bank of Minneapolis Quarterly Review*, Vol. 22, No. 2 (Spring 1998), pp. 11–17; see also *Journal of Political Economy*, Vol. 105, No. 6 (December 1997), pp. 1308–1314.

standard of living. That reality didn't last long. The campaign waged since the 1970s to convince women that they are economically equal to men – and have, therefore, every right to join their husbands in the workplace, thereby creating a society in which, by the 1980s, most middle-class homes earned two paycheques – has served as a cover with which to mask the eroding standard of living over the last 50 years. Today's middle-class Americans, Australians, Britons, etc., live much better than their parents or grandparents did because they enjoy the benefits of myriad and momentous technological advances and because both partners must work. Most families could not service the mortgage, periodically buy a new car and regularly take holidays, etc., on one income. In the 1950s, membership of the middle class often required only one salary; today, it usually requires two.

Why hasn't this de facto erosion of living standards angered people? They've maintained a material standard of living that exceeds their forebears' because technological advances, a more advanced division of labour and a vastly heavier load of debt play such important roles in their lives. They know something that academics and politicians apparently don't: the re-entry of women into the paid workforce is usually not some advanced and noble achievement of equality; as it was before the 1950s, it's once again a brute economic necessity. It's an essential feature of modern society because it's an inevitable consequence of the central bank's gradual destruction of the dollar's purchasing power. The middle class, in short, has been fleeced. Many of its members know it, but don't quite know how. If a woman wishes to work outside the home, bless her and more power to her, but let's not pretend that it's a moral breakthrough. And let's reject outright the nonsense that it's a consequence of allegedly enlightened attitudes and a benefit of the modern welfare state. Instead, let's identify it for what it is: a consequence of misguided monetary institutions and poor monetary policies.

In this book we will reason to the conclusion that there's only one sensible thing to do with central banks such as the Reserve Bank of Australia: abolish them and consign them to the dustbin of history. The mainstream will shriek in horror at this "radical" conclusion. The real question (which, of course, they refuse to ask) is: why not rid ourselves of an institution that has almost completely destroyed the currency's purchasing power and has exacerbated the cycle of boom and bust – particularly when free market arrangements have shown that money need not lose its purchasing power, and that they can actually increase it significantly over long stretches of time?

LIBERTARIANISM

Murray Rothbard, 'The Anatomy of the State',

<http://www.lewrockwell.com/rothbard/rothbard62.html>

What the State Is Not

The State is almost universally considered an institution of social service. Some theorists venerate the State as the apotheosis of society; others regard it as an amiable, though often inefficient, organization for achieving social ends; but almost all regard it as a necessary means for achieving the goals of mankind, a means to be ranged against the "private sector" and often winning in this competition of resources. With the rise of democracy, the identification of the State with society has been redoubled, until it is common to hear sentiments expressed which violate virtually every tenet of reason and common sense such as, "we are the government." The useful collective term "we" has enabled an ideological camouflage to be thrown over the reality of political life. If "we are the government," then anything a government does to an individual is not only just and untyrannical but also "voluntary" on the part of the individual concerned. If the government has incurred a huge public debt which must be paid by taxing one group for the benefit of another, this reality of burden is obscured by saying that "we owe it to ourselves"; if the government conscripts a man, or throws him into jail for dissident opinion, then he is "doing it to himself" and, therefore, nothing untoward has occurred. Under this reasoning, any Jews murdered by the Nazi government were not murdered; instead, they must have "committed suicide," since they were the government (which was democratically chosen), and, therefore, anything the government did to them was voluntary on their part. One would not think it necessary to belabor this point, and yet the overwhelming bulk of the people hold this fallacy to a greater or lesser degree.

We must, therefore, emphasize that "we" are not the government; the government is not "us." The government does not in any accurate sense "represent" the majority of the people. But, even if it did, even if 70 percent of the people decided to murder the remaining 30 percent, this would still be murder and would not be voluntary suicide on the part of the slaughtered minority. No organicist metaphor, no irrelevant bromide that "we are all part of one another," must be permitted to obscure this basic fact.

If, then, the State is not "us," if it is not "the human family" getting together to decide mutual problems, if it is not a lodge meeting or country club, what is it? Briefly, the State is that organization in society which attempts to maintain a monopoly of the use of force and violence in a given territorial area; in particular, it is the only organization in society that obtains its revenue not by voluntary contribution or payment for services rendered but by coercion. While other individuals or institutions obtain their income by production of goods and services and by the peaceful and voluntary sale of these goods and services to others, the State obtains its revenue by the use of compulsion; that is, by the use and the threat of the jailhouse and the bayonet. Having used force and violence to obtain its revenue, the State generally goes on to regulate and dictate the other actions of its individual subjects. One

would think that simple observation of all States through history and over the globe would be proof enough of this assertion; but the miasma of myth has lain so long over State activity that elaboration is necessary.

What the State Is

Man is born naked into the world, and needing to use his mind to learn how to take the resources given him by nature, and to transform them (for example, by investment in "capital") into shapes and forms and places where the resources can be used for the satisfaction of his wants and the advancement of his standard of living. The only way by which man can do this is by the use of his mind and energy to transform resources ("production") and to exchange these products for products created by others. Man has found that, through the process of voluntary, mutual exchange, the productivity and hence the living standards of all participants in exchange may increase enormously. The only "natural" course for man to survive and to attain wealth, therefore, is by using his mind and energy to engage in the production-and-exchange process. He does this, first, by finding natural resources, and then by transforming them (by "mixing his labor" with them, as Locke puts it), to make them his individual property, and then by exchanging this property for the similarly obtained property of others. The social path dictated by the requirements of man's nature, therefore, is the path of "property rights" and the "free market" of gift or exchange of such rights. Through this path, men have learned how to avoid the "jungle" methods of fighting over scarce resources so that A can only acquire them at the expense of B and, instead, to multiply those resources enormously in peaceful and harmonious production and exchange.

The great German sociologist Franz Oppenheimer pointed out that there are two mutually exclusive ways of acquiring wealth; one, the above way of production and exchange, he called the "economic means." The other way is simpler in that it does not require productivity; it is the way of seizure of another's goods or services by the use of force and violence. This is the method of one-sided confiscation, of theft of the property of others. This is the method which Oppenheimer termed "the political means" to wealth. It should be clear that the peaceful use of reason and energy in production is the "natural" path for man: the means for his survival and prosperity on this earth. It should be equally clear that the coercive, exploitative means is contrary to natural law; it is parasitic, for instead of adding to production, it subtracts from it. The "political means" siphons production off to a parasitic and destructive individual or group; and this siphoning not only subtracts from the number producing, but also lowers the producer's incentive to produce beyond his own subsistence. In the long run, the robber destroys his own subsistence by dwindling or eliminating the source of his own supply. But not only that; even in the short run, the predator is acting contrary to his own true nature as a man.

We are now in a position to answer more fully the question: what is the State? The State, in the words of Oppenheimer, is the "organization of the political means"; it is the systematization of the predatory process over a given territory.^[4] For crime, at best, is sporadic and uncertain; the parasitism is ephemeral, and the coercive, parasitic lifeline may be cut off at any time by the resistance of the victims. The State provides a legal, orderly,

systematic channel for the predation of private property; it renders certain, secure, and relatively "peaceful" the lifeline of the parasitic caste in society. Since production must always precede predation, the free market is anterior to the State. The State has never been created by a "social contract"; it has always been born in conquest and exploitation. The classic paradigm was a conquering tribe pausing in its time-honored method of looting and murdering a conquered tribe, to realize that the time-span of plunder would be longer and more secure, and the situation more pleasant, if the conquered tribe were allowed to live and produce, with the conquerors settling among them as rulers exacting a steady annual tribute. One method of the birth of a State may be illustrated as follows: in the hills of southern "Ruritania," a bandit group manages to obtain physical control over the territory, and finally the bandit chieftain proclaims himself "King of the sovereign and independent government of South Ruritania"; and, if he and his men have the force to maintain this rule for a while, lo and behold! a new State has joined the "family of nations," and the former bandit leaders have been transformed into the lawful nobility of the realm.

How the State Preserves Itself

Once a State has been established, the problem of the ruling group or "caste" is how to maintain their rule. While force is their modus operandi, their basic and long-run problem is ideological. For in order to continue in office, any government (not simply a "democratic" government) must have the support of the majority of its subjects. This support, it must be noted, need not be active enthusiasm; it may well be passive resignation as if to an inevitable law of nature. But support in the sense of acceptance of some sort it must be; else the minority of State rulers would eventually be outweighed by the active resistance of the majority of the public. Since predation must be supported out of the surplus of production, it is necessarily true that the class constituting the State – the full-time bureaucracy (and nobility) – must be a rather small minority in the land, although it may, of course, purchase allies among important groups in the population. Therefore, the chief task of the rulers is always to secure the active or resigned acceptance of the majority of the citizens.

Of course, one method of securing support is through the creation of vested economic interests. Therefore, the King alone cannot rule; he must have a sizable group of followers who enjoy the prerequisites of rule, for example, the members of the State apparatus, such as the full-time bureaucracy or the established nobility. But this still secures only a minority of eager supporters, and even the essential purchasing of support by subsidies and other grants of privilege still does not obtain the consent of the majority. For this essential acceptance, the majority must be persuaded by ideology that their government is good, wise and, at least, inevitable, and certainly better than other conceivable alternatives. Promoting this ideology among the people is the vital social task of the "intellectuals." For the masses of men do not create their own ideas, or indeed think through these ideas independently; they follow passively the ideas adopted and disseminated by the body of intellectuals. The intellectuals are, therefore, the "opinion-molders" in society. And since it is precisely a molding of opinion that the State most desperately needs, the basis for age-old alliance between the State and the intellectuals becomes clear.

It is evident that the State needs the intellectuals; it is not so evident why intellectuals need the State. Put simply, we may state that the intellectual's livelihood in the free market is never too secure; for the intellectual must depend on the values and choices of the masses of his fellow men, and it is precisely characteristic of the masses that they are generally uninterested in intellectual matters. The State, on the other hand, is willing to offer the intellectuals a secure and permanent berth in the State apparatus; and thus a secure income and the panoply of prestige. For the intellectuals will be handsomely rewarded for the important function they perform for the State rulers, of which group they now become a part.

The alliance between the State and the intellectuals was symbolized in the eager desire of professors at the University of Berlin in the nineteenth century to form the "intellectual bodyguard of the House of Hohenzollern." In the present day, let us note the revealing comment of an eminent Marxist scholar concerning Professor Wittfogel's critical study of ancient Oriental despotism: "The civilization which Professor Wittfogel is so bitterly attacking was one which could make poets and scholars into officials." Of innumerable examples, we may cite the recent development of the "science" of strategy, in the service of the government's main violence-wielding arm, the military. A venerable institution, furthermore, is the official or "court" historian, dedicated to purveying the rulers' views of their own and their predecessors' actions.

Many and varied have been the arguments by which the State and its intellectuals have induced their subjects to support their rule. Basically, the strands of argument may be summed up as follows: (a) the State rulers are great and wise men (they "rule by divine right," they are the "aristocracy" of men, they are the "scientific experts"), much greater and wiser than the good but rather simple subjects, and (b) rule by the extent government is inevitable, absolutely necessary, and far better, than the indescribable evils that would ensue upon its downfall. The union of Church and State was one of the oldest and most successful of these ideological devices. The ruler was either anointed by God or, in the case of the absolute rule of many Oriental despotisms, was himself God; hence, any resistance to his rule would be blasphemy. The States' priestcraft performed the basic intellectual function of obtaining popular support and even worship for the rulers.

Another successful device was to instill fear of any alternative systems of rule or nonrule. The present rulers, it was maintained, supply to the citizens an essential service for which they should be most grateful: protection against sporadic criminals and marauders. For the State, to preserve its own monopoly of predation, did indeed see to it that private and unsystematic crime was kept to a minimum; the State has always been jealous of its own preserve. Especially has the State been successful in recent centuries in instilling fear of other State rulers. Since the land area of the globe has been parceled out among particular States, one of the basic doctrines of the State was to identify itself with the territory it governed. Since most men tend to love their homeland, the identification of that land and its people with the State was a means of making natural patriotism work to the State's advantage. If "Ruritania" was being attacked by "Walldavia," the first task of the State and its intellectuals was to convince the people of Ruritania that the attack was really upon them and not simply upon the ruling caste. In this way, a war between rulers was converted into a war between

peoples, with each people coming to the defense of its rulers in the erroneous belief that the rulers were defending them. This device of "nationalism" has only been successful, in Western civilization, in recent centuries; it was not too long ago that the mass of subjects regarded wars as irrelevant battles between various sets of nobles.

Many and subtle are the ideological weapons that the State has wielded through the centuries. One excellent weapon has been tradition. The longer that the rule of a State has been able to preserve itself, the more powerful this weapon; for then, the X Dynasty or the Y State has the seeming weight of centuries of tradition behind it. Worship of one's ancestors, then, becomes a none too subtle means of worship of one's ancient rulers. The greatest danger to the State is independent intellectual criticism; there is no better way to stifle that criticism than to attack any isolated voice, any raiser of new doubts, as a profane violator of the wisdom of his ancestors. Another potent ideological force is to deprecate the individual and exalt the collectivity of society. For since any given rule implies majority acceptance, any ideological danger to that rule can only start from one or a few independently-thinking individuals. The new idea, much less the new critical idea, must needs begin as a small minority opinion; therefore, the State must nip the view in the bud by ridiculing any view that defies the opinions of the mass. "Listen only to your brothers" or "adjust to society" thus become ideological weapons for crushing individual dissent. By such measures, the masses will never learn of the nonexistence of their Emperor's clothes. It is also important for the State to make its rule seem inevitable; even if its reign is disliked, it will then be met with passive resignation, as witness the familiar coupling of "death and taxes." One method is to induce historiographical determinism, as opposed to individual freedom of will. If the X Dynasty rules us, this is because the Inexorable Laws of History (or the Divine Will, or the Absolute, or the Material Productive Forces) have so decreed and nothing any puny individuals may do can change this inevitable decree. It is also important for the State to inculcate in its subjects an aversion to any "conspiracy theory of history"; for a search for "conspiracies" means a search for motives and an attribution of responsibility for historical misdeeds. If, however, any tyranny imposed by the State, or venality, or aggressive war, was caused not by the State rulers but by mysterious and arcane "social forces," or by the imperfect state of the world or, if in some way, everyone was responsible ("We Are All Murderers," proclaims one slogan), then there is no point to the people becoming indignant or rising up against such misdeeds. Furthermore, an attack on "conspiracy theories" means that the subjects will become more gullible in believing the "general welfare" reasons that are always put forth by the State for engaging in any of its despotic actions. A "conspiracy theory" can unsettle the system by causing the public to doubt the State's ideological propaganda.

Another tried and true method for bending subjects to the State's will is inducing guilt. Any increase in private well-being can be attacked as "unconscionable greed," "materialism," or "excessive affluence," profit-making can be attacked as "exploitation" and "usury," mutually beneficial exchanges denounced as "selfishness," and somehow with the conclusion always being drawn that more resources should be siphoned from the private to the "public sector." The induced guilt makes the public more ready to do just that. For while individual persons tend to indulge in "selfish greed," the failure of the State's rulers to engage in exchanges is

supposed to signify their devotion to higher and nobler causes – parasitic predation being apparently morally and esthetically lofty as compared to peaceful and productive work.

In the present more secular age, the divine right of the State has been supplemented by the invocation of a new god, Science. State rule is now proclaimed as being ultrascientific, as constituting planning by experts. But while "reason" is invoked more than in previous centuries, this is not the true reason of the individual and his exercise of free will; it is still collectivist and determinist, still implying holistic aggregates and coercive manipulation of passive subjects by their rulers.

The increasing use of scientific jargon has permitted the State's intellectuals to weave obscurantist apologia for State rule that would have only met with derision by the populace of a simpler age. A robber who justified his theft by saying that he really helped his victims, by his spending giving a boost to retail trade, would find few converts; but when this theory is clothed in Keynesian equations and impressive references to the "multiplier effect," it unfortunately carries more conviction. And so the assault on common sense proceeds, each age performing the task in its own ways.

Thus, ideological support being vital to the State, it must unceasingly try to impress the public with its "legitimacy," to distinguish its activities from those of mere brigands. The unremitting determination of its assaults on common sense is no accident, for as Mencken vividly maintained:

The average man, whatever his errors otherwise, at least sees clearly that government is something lying outside him and outside the generality of his fellow men – that it is a separate, independent, and hostile power, only partly under his control, and capable of doing him great harm. Is it a fact of no significance that robbing the government is everywhere regarded as a crime of less magnitude than robbing an individual, or even a corporation? . . . What lies behind all this, I believe, is a deep sense of the fundamental antagonism between the government and the people it governs. It is apprehended, not as a committee of citizens chosen to carry on the communal business of the whole population, but as a separate and autonomous corporation, mainly devoted to exploiting the population for the benefit of its own members. . . . When a private citizen is robbed, a worthy man is deprived of the fruits of his industry and thrift; when the government is robbed, the worst that happens is that certain rogues and loafers have less money to play with than they had before. The notion that they have earned that money is never entertained; to most sensible men it would seem ludicrous.

How the State Transcends Its Limits

As Bertrand de Jouvenel has sagely pointed out, through the centuries men have formed concepts designed to check and limit the exercise of State rule; and, one after another, the State, using its intellectual allies, has been able to transform these concepts into intellectual rubber stamps of legitimacy and virtue to attach to its decrees and actions. Originally, in Western Europe, the concept of divine sovereignty held that the kings may rule only

according to divine law; the kings turned the concept into a rubber stamp of divine approval for any of the kings' actions. The concept of parliamentary democracy began as a popular check upon absolute monarchical rule; it ended with parliament being the essential part of the State and its every act totally sovereign. As de Jouvenel concludes:

Many writers on theories of sovereignty have worked out one . . . of these restrictive devices. But in the end every single such theory has, sooner or later, lost its original purpose, and come to act merely as a springboard to Power, by providing it with the powerful aid of an invisible sovereign with whom it could in time successfully identify itself.

Similarly with more specific doctrines: the "natural rights" of the individual enshrined in John Locke and the Bill of Rights, became a statist "right to a job"; utilitarianism turned from arguments for liberty to arguments against resisting the State's invasions of liberty, etc.

Certainly the most ambitious attempt to impose limits on the State has been the Bill of Rights and other restrictive parts of the American Constitution, in which written limits on government became the fundamental law to be interpreted by a judiciary supposedly independent of the other branches of government. All Americans are familiar with the process by which the construction of limits in the Constitution has been inexorably broadened over the last century. But few have been as keen as Professor Charles Black to see that the State has, in the process, largely transformed judicial review itself from a limiting device to yet another instrument for furnishing ideological legitimacy to the government's actions. For if a judicial decree of "unconstitutional" is a mighty check to government power, an implicit or explicit verdict of "constitutional" is a mighty weapon for fostering public acceptance of ever-greater government power.

Professor Black begins his analysis by pointing out the crucial necessity of "legitimacy" for any government to endure, this legitimation signifying basic majority acceptance of the government and its actions. Acceptance of legitimacy becomes a particular problem in a country such as the United States, where "substantive limitations are built into the theory on which the government rests." What is needed, adds Black, is a means by which the government can assure the public that its increasing powers are, indeed, "constitutional." And this, he concludes, has been the major historic function of judicial review.

Let Black illustrate the problem:

The supreme risk [to the government] is that of disaffection and a feeling of outrage widely disseminated throughout the population, and loss of moral authority by the government as such, however long it may be propped up by force or inertia or the lack of an appealing and immediately available alternative. Almost everybody living under a government of limited powers, must sooner or later be subjected to some governmental action which as a matter of private opinion he regards as outside the power of government or positively forbidden to government. A man is drafted, though he finds nothing in the Constitution about being drafted. . . . A farmer is told how much wheat he can raise; he believes, and he discovers that some respectable lawyers

believe with him, that the government has no more right to tell him how much wheat he can grow than it has to tell his daughter whom she can marry. A man goes to the federal penitentiary for saying what he wants to, and he paces his cell reciting . . . "Congress shall make no laws abridging the freedom of speech." . . . A businessman is told what he can ask, and must ask, for buttermilk.

The danger is real enough that each of these people (and who is not of their number?) will confront the concept of governmental limitation with the reality (as he sees it) of the flagrant overstepping of actual limits, and draw the obvious conclusion as to the status of his government with respect to legitimacy.

This danger is averted by the State's propounding the doctrine that one agency must have the ultimate decision on constitutionality and that this agency, in the last analysis, must be part of the federal government. For while the seeming independence of the federal judiciary has played a vital part in making its actions virtual Holy Writ for the bulk of the people, it is also and ever true that the judiciary is part and parcel of the government apparatus and appointed by the executive and legislative branches. Black admits that this means that the State has set itself up as a judge in its own cause, thus violating a basic juridical principle for aiming at just decisions. He brusquely denies the possibility of any alternative.

Black adds:

The problem, then, is to devise such governmental means of deciding as will [hopefully] reduce to a tolerable minimum the intensity of the objection that government is judge in its own cause. Having done this, you can only hope that this objection, though theoretically still tenable [*italics mine*], will practically lose enough of its force that the legitimating work of the deciding institution can win acceptance.

In the last analysis, Black finds the achievement of justice and legitimacy from the State's perpetual judging of its own cause as "something of a miracle."

Applying his thesis to the famous conflict between the Supreme Court and the New Deal, Professor Black keenly chides his fellow pro-New Deal colleagues for their shortsightedness in denouncing judicial obstruction:

[t]he standard version of the story of the New Deal and the Court, though accurate in its way, displaces the emphasis. . . . It concentrates on the difficulties; it almost forgets how the whole thing turned out. The upshot of the matter was [and this is what I like to emphasize] that after some twenty-four months of balking . . . the Supreme Court, without a single change in the law of its composition, or, indeed, in its actual manning, *placed the affirmative stamp of legitimacy on the New Deal, and on the whole new conception of government in America.*

In this way, the Supreme Court was able to put the quietus on the large body of Americans who had had strong constitutional objections to the New Deal:

Of course, not everyone was satisfied. The Bonnie Prince Charlie of constitutionally commanded laissez-faire still stirs the hearts of a few zealots in the Highlands of choleric unreality. But there is no longer any significant or dangerous public doubt as to the constitutional power of Congress to deal as it does with the national economy. . . . We had no means, other than the Supreme Court, for imparting legitimacy to the New Deal.

As Black recognizes, one major political theorist who recognized – and largely in advance – the glaring loophole in a constitutional limit on government of placing the ultimate interpreting power in the Supreme Court was John C. Calhoun. Calhoun was not content with the "miracle," but instead proceeded to a profound analysis of the constitutional problem. In his Disquisition, Calhoun demonstrated the inherent tendency of the State to break through the limits of such a constitution:

A written constitution certainly has many and considerable advantages, but it is a great mistake to suppose that the mere insertion of provisions to restrict and limit the power of the government, without investing those for whose protection they are inserted with the means of enforcing their observance [my italics] will be sufficient to prevent the major and dominant party from abusing its powers. Being the party in possession of the government, they will, from the same constitution of man which makes government necessary to protect society, be in favor of the powers granted by the constitution and opposed to the restrictions intended to limit them. . . . The minor or weaker party, on the contrary, would take the opposite direction and regard them [the restrictions] as essential to their protection against the dominant party. . . . But where there are no means by which they could compel the major party to observe the restrictions, the only resort left them would be a strict construction of the constitution. . . . To this the major party would oppose a liberal construction. . . . It would be construction against construction – the one to contract and the other to enlarge the powers of the government to the utmost. But of what possible avail could the strict construction of the minor party be, against the liberal construction of the major, when the one would have all the power of the government to carry its construction into effect and the other be deprived of all means of enforcing its construction? In a contest so unequal, the result would not be doubtful. The party in favor of the restrictions would be overpowered. . . . The end of the contest would be the subversion of the constitution . . . the restrictions would ultimately be annulled and the government be converted into one of unlimited powers.

One of the few political scientists who appreciated Calhoun's analysis of the Constitution was Professor J. Allen Smith. Smith noted that the Constitution was designed with checks and balances to limit any one governmental power and yet had then developed a Supreme Court with the monopoly of ultimate interpreting power. If the Federal Government was created to check invasions of individual liberty by the separate states, who was to check the Federal power? Smith maintained that implicit in the check-and-balance idea of the Constitution was the concomitant view that no one branch of government may be conceded the ultimate power of interpretation: "It was assumed by the people that the new government could not be

permitted to determine the limits of its own authority, since this would make it, and not the Constitution, supreme."

The solution advanced by Calhoun (and seconded, in this century, by such writers as Smith) was, of course, the famous doctrine of the "concurrent majority." If any substantial minority interest in the country, specifically a state government, believed that the Federal Government was exceeding its powers and encroaching on that minority, the minority would have the right to veto this exercise of power as unconstitutional. Applied to state governments, this theory implied the right of "nullification" of a Federal law or ruling within a state's jurisdiction.

In theory, the ensuing constitutional system would assure that the Federal Government check any state invasion of individual rights, while the states would check excessive Federal power over the individual. And yet, while limitations would undoubtedly be more effective than at present, there are many difficulties and problems in the Calhoun solution. If, indeed, a subordinate interest should rightfully have a veto over matters concerning it, then why stop with the states? Why not place veto power in counties, cities, wards? Furthermore, interests are not only sectional, they are also occupational, social, etc. What of bakers or taxi drivers or any other occupation? Should they not be permitted a veto power over their own lives? This brings us to the important point that the nullification theory confines its checks to agencies of government itself. Let us not forget that federal and state governments, and their respective branches, are still states, are still guided by their own state interests rather than by the interests of the private citizens. What is to prevent the Calhoun system from working in reverse, with states tyrannizing over their citizens and only vetoing the federal government when it tries to intervene to stop that state tyranny? Or for states to acquiesce in federal tyranny? What is to prevent federal and state governments from forming mutually profitable alliances for the joint exploitation of the citizenry? And even if the private occupational groupings were to be given some form of "functional" representation in government, what is to prevent them from using the State to gain subsidies and other special privileges for themselves or from imposing compulsory cartels on their own members?

In short, Calhoun does not push his pathbreaking theory on concurrence far enough: he does not push it down to the individual himself. If the individual, after all, is the one whose rights are to be protected, then a consistent theory of concurrence would imply veto power by every individual; that is, some form of "unanimity principle." When Calhoun wrote that it should be "impossible to put or to keep it [the government] in action without the concurrent consent of all," he was, perhaps unwittingly, implying just such a conclusion. But such speculation begins to take us away from our subject, for down this path lie political systems which could hardly be called "States" at all. For one thing, just as the right of nullification for a state logically implies its right of secession, so a right of individual nullification would imply the right of any individual to "secede" from the State under which he lives.

Thus, the State has invariably shown a striking talent for the expansion of its powers beyond any limits that might be imposed upon it. Since the State necessarily lives by the compulsory confiscation of private capital, and since its expansion necessarily involves ever-greater

incursions on private individuals and private enterprise, we must assert that the State is profoundly and inherently anticapitalist. In a sense, our position is the reverse of the Marxist dictum that the State is the "executive committee" of the ruling class in the present day, supposedly the capitalists. Instead, the State – the organization of the political means – constitutes, and is the source of, the "ruling class" (rather, ruling caste), and is in permanent opposition to genuinely private capital. We may, therefore, say with de Jouvenel:

Only those who know nothing of any time but their own, who are completely in the dark as to the manner of Power's behaving through thousands of years, would regard these proceedings [nationalization, the income tax, etc.] as the fruit of a particular set of doctrines. They are in fact the normal manifestations of Power, and differ not at all in their nature from Henry VIII's confiscation of the monasteries. The same principle is at work; the hunger for authority, the thirst for resources; and in all of these operations the same characteristics are present, including the rapid elevation of the dividers of the spoils. Whether it is Socialist or whether it is not, Power must always be at war with the capitalist authorities and despoil the capitalists of their accumulated wealth; in doing so it obeys the law of its nature.

What the State Fears

What the State fears above all, of course, is any fundamental threat to its own power and its own existence. The death of a State can come about in two major ways: (a) through conquest by another State, or (b) through revolutionary overthrow by its own subjects – in short, by war or revolution. War and revolution, as the two basic threats, invariably arouse in the State rulers their maximum efforts and maximum propaganda among the people. As stated above, any way must always be used to mobilize the people to come to the State's defense in the belief that they are defending themselves. The fallacy of the idea becomes evident when conscription is wielded against those who refuse to "defend" themselves and are, therefore, forced into joining the State's military band: needless to add, no "defense" is permitted them against this act of "their own" State.

In war, State power is pushed to its ultimate, and, under the slogans of "defense" and "emergency," it can impose a tyranny upon the public such as might be openly resisted in time of peace. War thus provides many benefits to a State, and indeed every modern war has brought to the warring peoples a permanent legacy of increased State burdens upon society. War, moreover, provides to a State tempting opportunities for conquest of land areas over which it may exercise its monopoly of force. Randolph Bourne was certainly correct when he wrote that "war is the health of the State," but to any particular State a war may spell either health or grave injury.

We may test the hypothesis that the State is largely interested in protecting itself rather than its subjects by asking: which category of crimes does the State pursue and punish most intensely – those against private citizens or those against itself? The gravest crimes in the State's lexicon are almost invariably not invasions of private person or property, but dangers to its own contentment, for example, treason, desertion of a soldier to the enemy, failure to

register for the draft, subversion and subversive conspiracy, assassination of rulers and such economic crimes against the State as counterfeiting its money or evasion of its income tax. Or compare the degree of zeal devoted to pursuing the man who assaults a policeman, with the attention that the State pays to the assault of an ordinary citizen. Yet, curiously, the State's openly assigned priority to its own defense against the public strikes few people as inconsistent with its presumed *raison d'être*.

How States Relate to One Another

Since the territorial area of the earth is divided among different States, inter-State relations must occupy much of a State's time and energy. The natural tendency of a State is to expand its power, and externally such expansion takes place by conquest of a territorial area. Unless a territory is stateless or uninhabited, any such expansion involves an inherent conflict of interest between one set of State rulers and another. Only one set of rulers can obtain a monopoly of coercion over any given territorial area at any one time: complete power over a territory by State X can only be obtained by the expulsion of State Y. War, while risky, will be an ever-present tendency of States, punctuated by periods of peace and by shifting alliances and coalitions between States.

We have seen that the "internal" or "domestic" attempt to limit the State, in the seventeenth through nineteenth centuries, reached its most notable form in constitutionalism. Its "external," or "foreign affairs," counterpart was the development of "international law," especially such forms as the "laws of war" and "neutrals' rights." Parts of international law were originally purely private, growing out of the need of merchants and traders everywhere to protect their property and adjudicate disputes. Examples are admiralty law and the law merchant. But even the governmental rules emerged voluntarily and were not imposed by any international super-State. The object of the "laws of war" was to limit inter-State destruction to the State apparatus itself, thereby preserving the innocent "civilian" public from the slaughter and devastation of war. The object of the development of neutrals' rights was to preserve private civilian international commerce, even with "enemy" countries, from seizure by one of the warring parties. The overriding aim, then, was to limit the extent of any war, and, particularly to limit its destructive impact on the private citizens of the neutral and even the warring countries.

The jurist F.J.P. Veale charmingly describes such "civilized warfare" as it briefly flourished in fifteenth-century Italy:

the rich burghers and merchants of medieval Italy were too busy making money and enjoying life to undertake the hardships and dangers of soldiering themselves. So they adopted the practice of hiring mercenaries to do their fighting for them, and, being thrifty, businesslike folk, they dismissed their mercenaries immediately after their services could be dispensed with. Wars were, therefore, fought by armies hired for each campaign. . . . For the first time, soldiering became a reasonable and comparatively harmless profession. The generals of that period maneuvered against each other, often with consummate skill, but when one had won the advantage, his

opponent generally either retreated or surrendered. It was a recognized rule that a town could only be sacked if it offered resistance: immunity could always be purchased by paying a ransom. . . . As one natural consequence, no town ever resisted, it being obvious that a government too weak to defend its citizens had forfeited their allegiance. Civilians had little to fear from the dangers of war which were the concern only of professional soldiers.

The well-nigh absolute separation of the private civilian from the State's wars in eighteenth-century Europe is highlighted by Nef:

Even postal communications were not successfully restricted for long in wartime. Letters circulated without censorship, with a freedom that astonishes the twentieth-century mind. . . . The subjects of two warring nations talked to each other if they met, and when they could not meet, corresponded, not as enemies but as friends. The modern notion hardly existed that . . . subjects of any enemy country are partly accountable for the belligerent acts of their rulers. Nor had the warring rulers any firm disposition to stop communications with subjects of the enemy. The old inquisitorial practices of espionage in connection with religious worship and belief were disappearing, and no comparable inquisition in connection with political or economic communications was even contemplated. Passports were originally created to provide safe conduct in time of war. During most of the eighteenth century it seldom occurred to Europeans to abandon their travels in a foreign country which their own was fighting.

And trade being increasingly recognized as beneficial to both parties; eighteenth-century warfare also counterbalances a considerable amount of "trading with the enemy."

How far States have transcended rules of civilized warfare in this century needs no elaboration here. In the modern era of total war, combined with the technology of total destruction, the very idea of keeping war limited to the State apparatus seems even more quaint and obsolete than the original Constitution of the United States.

When States are not at war, agreements are often necessary to keep frictions at a minimum. One doctrine that has gained curiously wide acceptance is the alleged "sanctity of treaties." This concept is treated as the counterpart of the "sanctity of contract." But a treaty and a genuine contract have nothing in common. A contract transfers, in a precise manner, titles to private property. Since a government does not, in any proper sense, "own" its territorial area, any agreements that it concludes do not confer titles to property. If, for example, Mr. Jones sells or gives his land to Mr. Smith, Jones's heir cannot legitimately descend upon Smith's heir and claim the land as rightfully his. The property title has already been transferred. Old Jones's contract is automatically binding upon young Jones, because the former had already transferred the property; young Jones, therefore, has no property claim. Young Jones can only claim that which he has inherited from old Jones, and old Jones can only bequeath property which he still owns. But if, at a certain date, the government of, say, Ruritania is coerced or

even bribed by the government of Waldavia into giving up some of its territory, it is absurd to claim that the governments or inhabitants of the two countries are forever barred from a claim to reunification of Ruritania on the grounds of the sanctity of a treaty. Neither the people nor the land of northwest Ruritania are owned by either of the two governments. As a corollary, one government can certainly not bind, by the dead hand of the past, a later government through treaty. A revolutionary government which overthrew the king of Ruritania could, similarly, hardly be called to account for the king's actions or debts, for a government is not, as is a child, a true "heir" to its predecessor's property.

History as a Race Between State Power and Social Power

Just as the two basic and mutually exclusive interrelations between men are peaceful cooperation or coercive exploitation, production or predation, so the history of mankind, particularly its economic history, may be considered as a contest between these two principles. On the one hand, there is creative productivity, peaceful exchange and cooperation; on the other, coercive dictation and predation over those social relations. Albert Jay Nock happily termed these contesting forces: "social power" and "State power." Social power is man's power over nature, his cooperative transformation of nature's resources and insight into nature's laws, for the benefit of all participating individuals. Social power is the power over nature, the living standards achieved by men in mutual exchange. State power, as we have seen, is the coercive and parasitic seizure of this production – a draining of the fruits of society for the benefit of nonproductive (actually antiproducer) rulers. While social power is over nature, State power is power over man. Through history, man's productive and creative forces have, time and again, carved out new ways of transforming nature for man's benefit. These have been the times when social power has spurred ahead of State power, and when the degree of State encroachment over society has considerably lessened. But always, after a greater or smaller time lag, the State has moved into these new areas, to cripple and confiscate social power once more. If the seventeenth through the nineteenth centuries were, in many countries of the West, times of accelerating social power, and a corollary increase in freedom, peace, and material welfare, the twentieth century has been primarily an age in which State power has been catching up – with a consequent reversion to slavery, war, and destruction.

In this century, the human race faces, once again, the virulent reign of the State – of the State now armed with the fruits of man's creative powers, confiscated and perverted to its own aims. The last few centuries were times when men tried to place constitutional and other limits on the State, only to find that such limits, as with all other attempts, have failed. Of all the numerous forms that governments have taken over the centuries, of all the concepts and institutions that have been tried, none has succeeded in keeping the State in check. The problem of the State is evidently as far from solution as ever. Perhaps new paths of inquiry must be explored, if the successful, final solution of the State question is ever to be attained.

Footnotes available from <<http://mises.org/pdf/anatomy.pdf>>