SEPTEMBER • 2017

# LMR

## BUILDING THE 10%

## PULSE ON THE MARKET

Kneeing Trump

Another ObamaCare Fix?

Hurricanes and Price Controls

Fed Plan a Go

## LIBERAL, LIBERTARIAN, AND THE BUSINESS CYCLE

*by L. Carlos Lara*

## IS REAL ESTATE IN A BUBBLE?

*by Robert P. Murphy*

## THE FOUNDATIONS OF PROSPERITY AND FREEDOM

*Interview with Richard Ebeling*

## THIS MONTH'S FEATURES



## IN EVERY ISSUE

# ABOUT LARA & MURPHY

L. CARLOS LARA is CEO of United Services and Trust Corporation, a consulting firm specializing in in business advisory services with a primary focus on working with companies in financial crisis. His background in capital formation and business rehabilitation makes him a regular speaker at credit and business conferences.

In 2010 he co-authored the highly acclaimed book, *How Privatized Banking Really Works* with economist Robert P. Murphy.

He is a co-creator of the IBC Practitioner Program for financial professionals and sits on the board of the Nelson Nash Institute.

ROBERT P. MURPHY is Research Assistant Professor with the Free Market Institute at Texas Tech University. He is co-author of *How Privatized Banking Really Works*. He is the author of *Choice: Cooperation, Enterprise, and Human Action* (Independent Institute 2015) and co-host with Tom Woods of the popular podcast Contra Krugman.

Murphy has a Ph.D. in economics from New York University. After spending three years teaching at Hillsdale College, he went into the financial sector working for Laffer Associates. With Nelson Nash, Carlos Lara, and David Stearns, Murphy is co-developer of the IBC Practitioner Program.

**LMR Editor in Chief: L. Carlos Lara**
**LMR Executive Director: Dr. Robert P. Murphy**

Managing Editor: Anne B. Lara
Design Director: Stephanie Long

Customer Service: www.**usatrustonline.com**
Comments: **LMRinfo@usatrustonline.com**
Advertising: **LMRads@usatrustonline.com**

> *"Most governments and political parties are eager to restrict the sphere of private initiative and free enterprise."*
>
> *—Mises*

It does seem like everything that is considered to be wrong with this world is somehow charged to *capitalism*. The more time we spend assessing the mood swings of the Western nations and those outside of their boundaries, the more we see the reality of this.

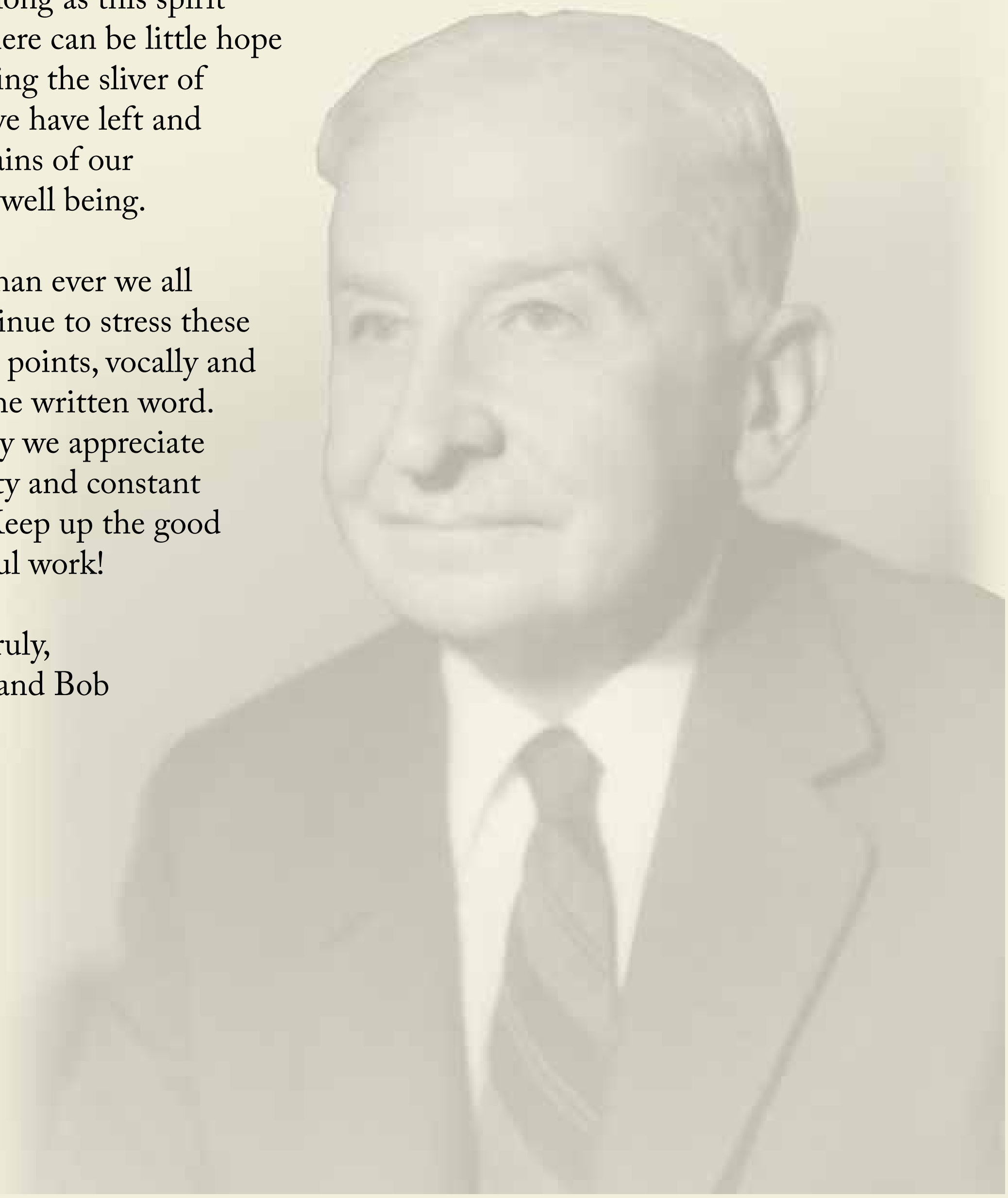
In underscoring this point, Mises claimed that everything from the spread of atheism to the survival of Christianity is blamed on capitalism. It is blamed for being the real source of poverty and to it being the root of all materialism. Even racism, greed, licentiousness, imperialism—you name it and it's on this list of offences. Capitalism is somehow always the scapegoat.

Part, if not the entire problem is that behind capitalism are big and small businesses and behind these businesses is man and his nature, which is not always principled. Still, man inherently knows that in a world outside the Garden of Eden he must produce in order to consume. In the end all capitalists are producers of goods—the chief aim of business.

Although capitalism is the economic system of our Western civilization, all Western nations are guided by anti-capitalistic ideas. Yet the evidence is clear that in spite of this worldwide antagonism against capitalism it continues to improve the standard of living of man by providing more, higher quality, and less expensive goods.

This should be common sense, yet we are amazed at how this fact is blatantly ignored. Government and its bureaucrats actually believe they are omnipotent and can easily duplicate and exceed what capitalism is able to do for any economy. The truth is that government can produce nothing.

Nevertheless, the religion of this age is the belief that government is the embodiment of all that is good and that, therefore, it should be the guardian that provides for all our needs and protects us from all harm. As long as this spirit prevails there can be little hope of preserving the sliver of freedom we have left and what remains of our economic well being.



More than ever we all must continue to stress these important points, vocally and through the written word. This is why we appreciate your loyalty and constant support. Keep up the good and faithful work!

Yours truly,
Carlos and Bob


KNEEING TRUMP

## THE AMAZING CONTROVERSY OVER NFL PROTESTS

Following the football games of September 24 and 25, the nation was plunged into controversy over—of all things!—NFL players refusing to participate in the national anthem. What started out as Colin Kaepernick's protests under the Obama Administration, were suddenly embraced by (for example) the entire Dallas Cowboys after President Trump weighed in heavily *against* the protests.

One might be tempted to say Trump and other critics of Kaepernick had fallen into his trap. The whole *point* of such a protest is to have it be noticed and discussed; if people had simply ignored him from Day One, then he would have failed in provoking a national discussion about police brutality and the other issues motivating the protesting players.

However, even though Donald Trump is no expert on trade theory, he is certainly adept at reading and influencing public opinion. What better way to get the press to drop coverage of "RussiaGate" than to get the whole country riled up over kneeling football players?

Before leaving this topic, a plea for precision: Too many people are conflating the terms "free speech" and "First Amendment." The First Amendment to the Constitution is part of the Bill of Rights. It constrains *the federal government.* If, say, a Nascar team fires its driver because he was insufficiently patriotic, that has nothing to do with the First Amendment.

Now it's true that we get into murkier waters when *the president of the United States* weighs in strongly on a topic, and suggests that a company fire some of its employees for behavior he dislikes. Even if the president officially says he is merely "voicing his personal opinion," because he has so much arbitrary power it's hard to draw a clean line between personal views and government policy. Yet notice that even here, many of the loudest critics have not behaved consistently. They are not outraged at the fact that the president is voicing an opinion on a hot button topic per se; in fact they were even more outraged when they felt Trump didn't "pick a side" strongly enough during the Charlottesville disaster.

Americans had better learn to start getting along with each other and not tear each other apart over relatively minor "offenses," whether athletes taking a knee or having Ann Coulter visit a college campus. If the economy crashes again as we fear it will, things are going to get much uglier.

# PULSE ON THE MARKET

### Another ObamaCare Fix?

## GRAHAM-CASSIDY PROVOKES MORE OUTRAGE

As of this writing, the Graham-Cassidy bill to revamp the Affordable Care Act (ACA, aka ObamaCare) seems dead in the water, because of insufficient support. (However, it's only *mostly dead,* to quote from *The Princess Bride.*)

The bill would have repealed the individual mandate, meaning people would no longer be fined merely for failing to buy health insurance. On that score, it was a major advance in individual liberty.

However, it was less clear whether the bill would roll back the "guarantees" for coverage that the ACA possessed. Supporters claimed it maintained such coverage, because the states had to show that they had methods in place for helping people with pre-existing conditions. Yet critics argued that the bill would let too many people slip through the cracks.

Ironically, to the extent that Graham-Cassidy *would have* maintained "universal" coverage, it would have been a farce. Believe it or not, people like Paul Krugman are right when they criticize Republicans for living in fantasy land: Given the current structure of our health care system, any legislation that forced health insurers to provide coverage to everybody, while not insisting that everybody buy health insurance, would be unworkable. It would lead to a death spiral where only sick people would sign up, thus bankrupting the insurers.

Considered in isolation, the "block grant" approach of Graham-Cassidy is preferable to the top-down central planning of the ACA. However, the elephant in the room is the fact that both ObamaCare and Graham-Cassidy (if it were to pass) would still ultimately lead to a collapsing system, giving rise to calls for Single Payer.

For a comprehensive history of health care and health insurance in the United States, as well as ideas on how your family can secede from the bureaucratic mess, check out the book Robert Murphy co-authored with ER doctor Doug McGuff: *The Primal Prescription.*


Hurricanes and Price Controls

## NATURAL AND MANMADE DISASTERS

Hurricanes have been battering certain regions of the United States, and as of this writing the territory of Puerto Rico is still utterly devastated and without power. In addition to the fury of nature, hapless Americans are suffering from the scourge of economic ignorance. Specifically, political officials in Texas and Florida have warned businesses to avoid "price gouging" in the wake of the hurricanes.

It's times like these that inform free-market economists what a terrible job we've done in educating the public. Market prices communicate *information* about relative scarcities. A high price of, say, bottled water or gasoline is a signal that performs a definite social function. The high price tells suppliers in neighboring regions to ship more of those goods into the storm-wracked area, and it also encourages the local community to engage in conservation.

For example, after Houston flooded, the last thing in the world you want to happen is that the first 10 families to the store clean out the shelves by loading their SUVs up with bottled water and flashlights. A high price makes people more selective, and they end up leaving units on the shelves for the families who come in later.

Likewise, many gasoline stations in Florida ran empty as people fled. A higher price at the pump, though "outrageous," would have encouraged a more equitable distribution of the available gasoline among the fleeing motorists. People who already had half a tank would have gotten on the interstate and checked to see if prices were more reasonable 50 miles north. This is exactly the behavior we *want* to see, when millions of people on the coast are trying to flee inland.


### Fed Plan a Go

## FED HOLDS RATES, BUT PLANS ON SELLING ASSETS

The September 20 statement by the Federal Reserve held the fed funds target rate at 1 to 1¼ percent, citing relatively modest (price) inflation, but said that it expected to raise rates over time. Even so, the Fed reiterated its plan to begin its "balance sheet normalization program" in October, as it had described in detail in its June 2017 addendum.

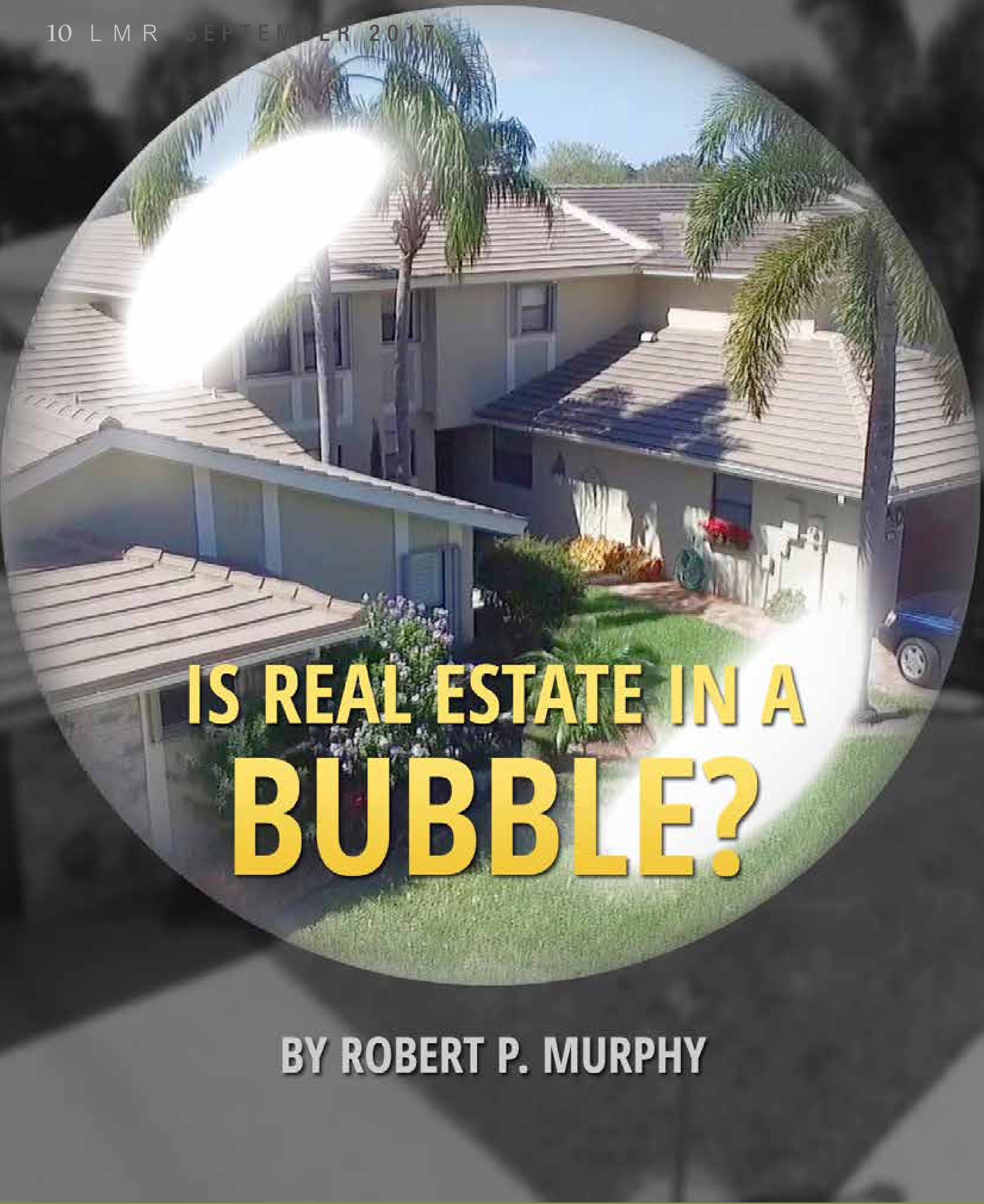
The actual language (given here: https://www.federalreserve.gov/newsevents/pressreleases/monetary20170614c.htm) describing the balance sheet normalization program is somewhat complicated. Basically, starting in October 2017, the Fed will *not* fully reinvest the proceeds from maturing Treasuries and mortgage-backed securities. Rather, each month the Fed will only roll over the principal on such assets once the amount of money coming in exceeds a certain threshold, which itself will rise over time.

In practice, the Fed will allow its holdings of Treasuries to shrink by a maximum of $6 billion per month through the end of 2017, while its holdings of mortgage-backed securities will shrink by a maximum of $4 billion per month. The maximum caps will grow gradually, maxing out by the end of 2018 at $30 billion monthly for Treasuries and $20 billion monthly for MBS.

The end goal of the plan is to reduce *"the quantity of reserve balances, over time, to a level appreciably below that seen in recent years but larger than before the financial crisis."*

For years, as the Fed was accumulating its vast stockpile of Treasuries and mortgage-backed securities, we have been warning that our central bankers were playing with fire and would not be able to "unwind" these programs in a graceful manner. It looks like the world is about to find out one way or the other.

If you have not done so, we urge you to watch our video on the coming financial storms, available here: https://lara-murphy.com/video0916/. There may still be plenty of time to take action, if you agree with our bleak assessment. Don't let fear and disgust paralyze you.



# IS REAL ESTATE IN A BUBBLE?

BY ROBERT P. MURPHY

**Long-time readers know that Carlos** and I have been warning since the beginning that the Fed's actions after the financial crisis were merely setting us up for another giant crash. In particular, I showed over the years how closely the S&P 500 index tracked the Fed's balance sheet.

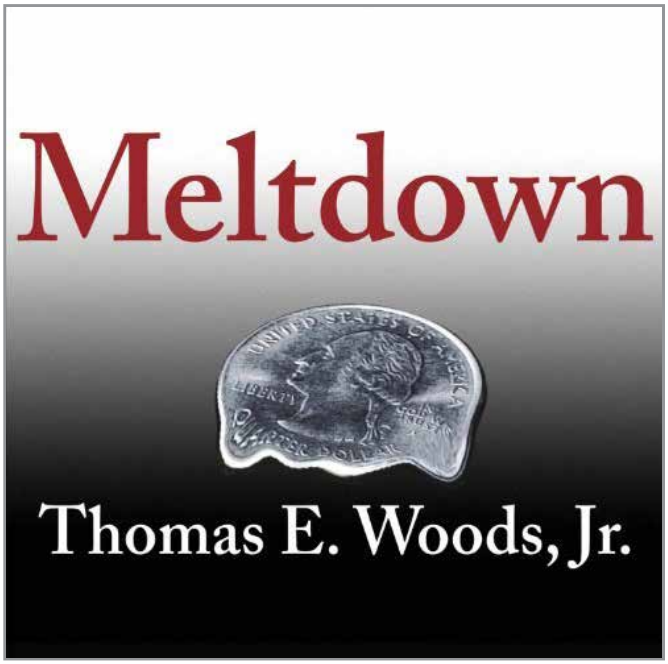
In this article I will switch to a different asset: real estate. Although there are many time-honored reasons for the cash-rich investor to seriously consider this asset class, I see some serious warning signs and feel I need to alert ***LMR*** readers to the potential dangers. After all, it was a giant real estate bubble that was the proximate cause of the last financial crisis. Unfortunately, it looks like history may be repeating itself yet again.

## Austrians Predicted the Previous Housing Bubble in Real-Time

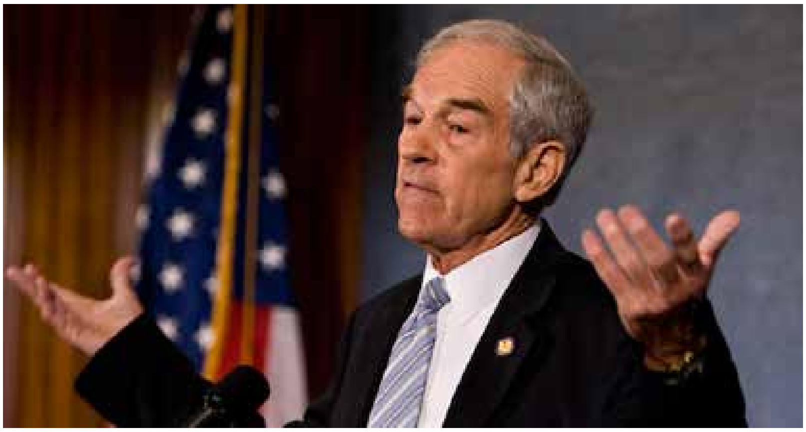
After the housing bubble burst and the financial crisis struck in the fall of 2008, everybody rushed to explain why the events fit into his or her prior political narrative. Leftists of course blamed the ostensible "deregulation" that occurred (ironically) under the Clinton Administration, while right-wingers tended to blame the Community Reinvestment Act, as well as Fannie Mae and Freddie Mac.

Fans of the Austrian School of economics acknowledged the role that government programs and regulations played in stimulating an unsustainable boom in housing, but they also stressed the role of the Federal Reserve. (If you want a great single resource on this, check out Tom Woods' NYT bestseller, *Meltdown*.) Sure, the Austrians argued, regulations could pressure banks into making mortgage loans to borrowers who shouldn't have gotten approved. But without a massive influx of new money into the credit markets, how could we explain a giant bubble in real estate?

To show that this isn't mere ex post tailoring of the narrative, consider the following quotation from Austrian economist Mark Thornton *made in 2004:*




***Fans of the Austrian School of economics acknowledged the role that government programs and regulations played in stimulating an unsustainable boom in housing, but they also stressed the role of the Federal Reserve.***



*There is something to be said for Austrian economists to speak up when they think the central bank has fueled a giant bubble.*

> **Signs of a "new era" in housing are everywhere.** Housing construction is taking place at record rates. New records for real estate prices are being set across the country, especially on the east and west coasts. Booming home prices and record low interest rates are allowing homeowners to refinance their mortgages, "extract equity" to increase their spending, and *lower* their monthly payment! As one loan officer explained to me: "It's almost too good to be true."
>
> **In fact, it is too good to be true.** What the prophets of the new housing paradigm don't discuss is that real estate markets have experienced similar cycles in the past and that periods described as new paradigms are often followed by periods of distress in real estate markets, including foreclosure sales, bankruptcy and bank failures.
>
> …
>
> Greenspan has indicated that interest rates could soon reverse their course, while longer-term interest rates have already moved higher. **Higher interest rates should trigger a reversal in the housing market and expose the fallacies of the new paradigm, including how the housing boom has helped cover up increases in price inflation. Unfortunately, this exposure will hurt homeowners and the larger problem could hit the American taxpayer, who could be forced to bailout the banks and government-sponsored mortgage guarantors** who have encouraged irresponsible lending practices. [Mark Thornton, 2004,[1] bold added.]

Now Thornton's quotation is my favorite, though there were many Austrians who sounded a warning while plenty of others were assuring Americans the situation was just fine. (For example, go to YouTube and look up, "Ben Bernanke Was Wrong" to see a compilation of his consistent errors from 2006 through 2008.) I myself was late to the party, but when I looked at the money supply and interest rate data for a client in the summer of 2007, I was convinced that the U.S. economy was headed for a crash.[2]

To be sure, Thornton and others gave a warning *ahead* of time, while the bubble was


still inflating. (It's weird to me that this is somehow taken as a problem with their position: Everybody can warn about a bubble *after* it pops.) So someone could have still made boatloads of money flipping houses in Las Vegas and Miami for a year after Thornton's article ran. Yet still, there is something to be said for Austrian economists to speak up when they think the central bank has fueled a giant bubble. This doesn't give investors a full blueprint for detailed, day-by-day action, but it certainly gives a broad context for the development of a *strategy* that is not vulnerable to a massive collapse that might occur suddenly in the near future.

## Evidence That the Fed Contributed to (Caused?) the Previous Housing Bubble

As the problems in the subprime housing market became undeniable, and especially in the wake of the broad financial crisis (which struck in September 2008), there was actually a window where *many* analysts—not just Austrians—entertained the idea that loose monetary policy had caused, or at least exacerbated, the housing bubble. In fact, this became such a serious viewpoint that even some free-market economists began pushing back against it!

*I wrote two articles for the Mises Institute website, making an empirical case for the connection between the housing bubble and Federal Reserve policy under Alan Greenspan.*

In that context, I wrote two articles for the Mises Institute website, making an empirical case for the connection between the housing bubble and Federal Reserve policy under Alan Greenspan. (For what it's worth, the first of these articles ran in April 2008, five months before the financial crisis.) In this section, let me just reprint some of my key findings. For a fuller exposition, see the articles themselves (linked in the endnotes[3]), and for a comprehensive exposition of Austrian business cycle theory, grab the book I co-authored with Carlos Lara, *How Privatized Banking Really Works.*

For example, Figure 1 shows the connection between the "monetary base"—a measure of "high-powered" money that the Fed directly controls—and the federal funds rate.

As Figure 1 indicates, the monetary base (blue line) grew at double-digit rates in 2001 and 2002, before its growth rate began gradually declining. This corresponded to the drop in the fed funds rate (black line) from 6.5 percent in 2001 down to 1 percent by June 2003.

More generally, looking at the whole time frame from 1985 through early 2008, Figure 1 shows that when the Fed cut the official target for the fed funds rate—what the press would describe as "the Fed cutting interest rates"—this was accompanied by a surge in monetary base growth. In other words, the blue line is at its highest when the black line

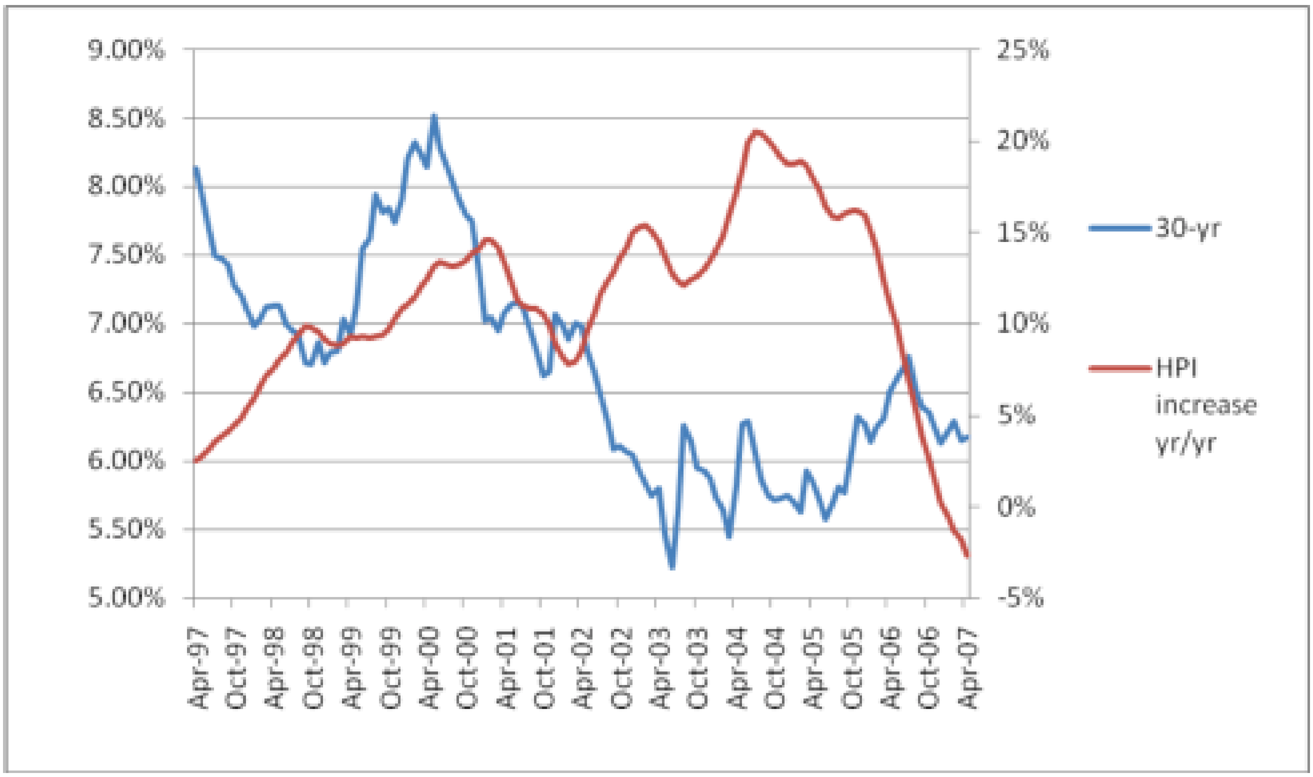
**Figure 1. Year/Year Growth in Monetary Base vs. Federal Funds Rate, Monthly**

is being cut, and the blue line drops when the black line goes up. This makes perfect sense: If the Fed wants to cut interest rates, it has to pump in more money. And going the other way, if the Fed wants to hike interest rates, it has to slow the injection of new money. (Note that the big spike and collapse in the blue line around 2000 was due to the "Y2K" scare, when the Fed flooded the markets with liquidity then sucked it right out after computers didn't blow up.)

The purpose of me going over these elementary facts is that some commentators, including Alan Greenspan himself, tried to argue that the Fed had nothing to do with low interest rates during the early to mid-2000s, and that instead they were due to a "glut" of Asian saving. But Figure 1 shows that that isn't the case; the Fed's target interest rate responded to the Fed's moves on monetary policy just like the textbooks describe. (Also notice that the "easy" money of the mid-1990s—with rapid base growth and low interest rates—coincides with the inflating of the tech stock bubble.)

Now that we've established that the Fed's monetary policies had something to do with the fall in short-term interest rates, let's look at what happened with 30-year mortgage rates. To save time, we'll also overlay the famous Case-Shiller Home Price Index (HPI) on top of the same graph.

**Figure 2. Conventional 30-Year Mortgage Rates (Blue, Left) vs. Year/Year Increase in Case-Shiller HPI (Red, Right), monthly data**



As Figure 2 shows, conventional mortgage rates plummeted, and then began rising, in a pattern similar to short-term rates (if we recall their behavior from Figure 1). The annual increase in home prices surged as mortgage rates dropped, and then collapsed as rates began tightening.

There is nothing mysterious about this: Standard accounting says that for a given monthly payment, a buyer can "afford more house" the lower mortgage rates go.

Finally, to rebut the claim that mortgage rates hadn't been particularly low during the housing bubble years (!), I simply reproduced a chart of their history, going back (at the time I wrote) 37 years:

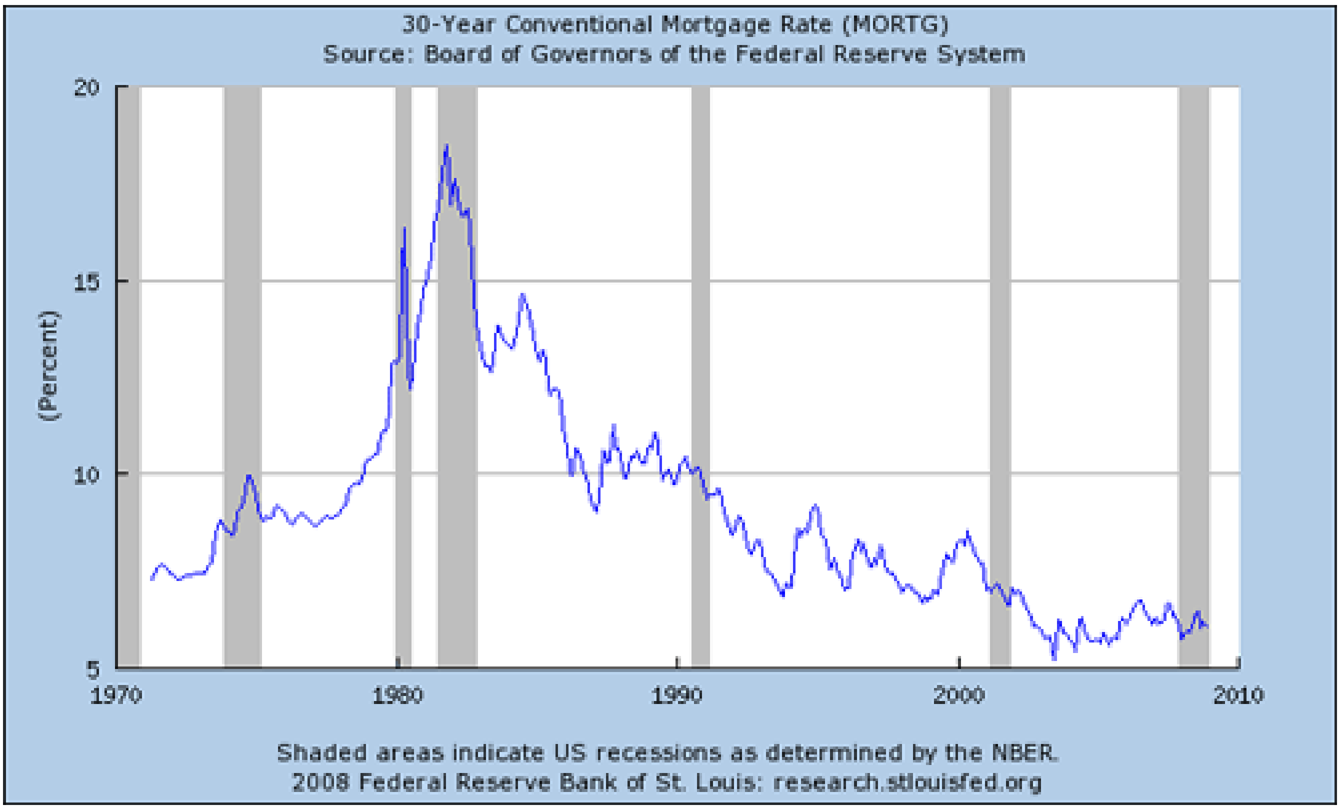
As Figure 3 demonstrates, (nominal) mortgage rates were lower in the early 2000s than they'd been in the entire history kept at the Federal Reserve database.

As these graphs indicate, there is a strong empirical case to buttress the Austrian accusation that the Federal Reserve under Alan Greenspan helped fuel the original housing bubble, which played a major role in the spawning the financial crisis of 2008.

## Will History Repeat Itself?

Here in the pages of the ***LMR***, we have repeated numerous times the evidence show-

**Figure 3. Conventional 30-Year Mortgage Rates**



ing how much more inflationary Ben Bernanke has been. Indeed, the Federal Reserve more than *doubled* its balance sheet in just a few months after the financial crisis struck. If Greenspan behaved recklessly by bringing the fed funds rate down to 1 percent and holding it there for a year, how much more distortionary was Bernanke's policy of bringing the fed funds rate to basically *zero* and holding it there for *seven* years?

**Figure 4. Federal Funds Rate Under Greenspan and Bernanke (Yellen)**


Note also that a superficial look at the national home price index certainly seems to indicate bubbly feelings:

**Figure 5. Case/Shiller Home Price Index**

Finally, note that we are definitely in a *tightening* phase of Fed policy.

**Figure 6. Federal Funds Rate (weekly)**


Unless the Fed drastically alters course—which I don't expect it to do, unless another crash occurs—it will continue raising short-term rates, and it will begin to unload its holdings of mortgage-backed securities. In a previous ***LMR*** Carlos explained[4] his theory that regulators would try to induce private institutions to snap up these mortgage-backed securities to avoid hurting the housing sector, but just because the feds have a plan doesn't mean it will *work.*

## Conclusion

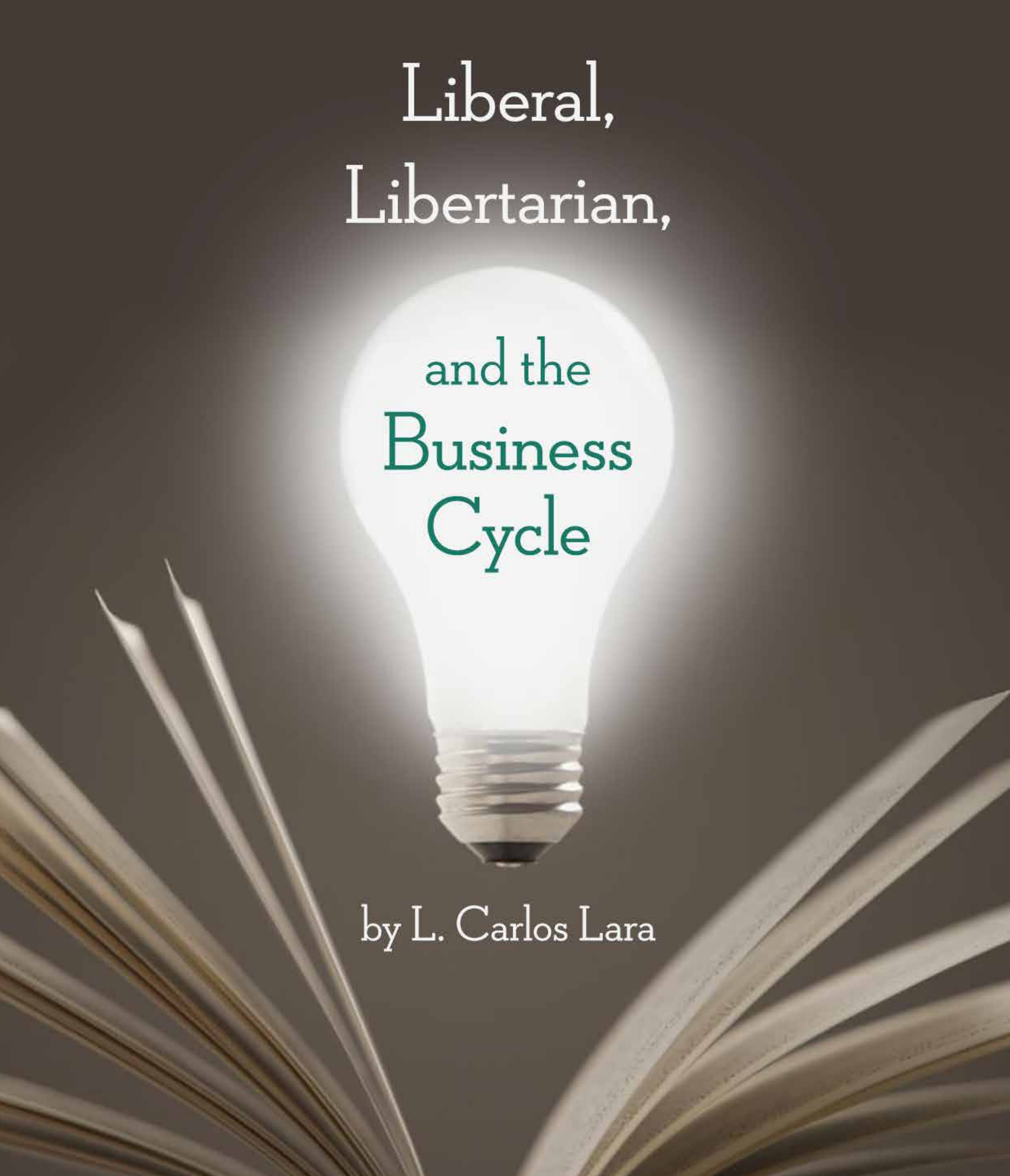
I realize that there are many advantages to investing in real estate, particularly if one is cash-rich and can be choosy about which properties to pick up. Even so, I would strongly urge ***LMR*** readers to soberly assess their financial strategies to be sure they can withstand a massive collapse in real estate that would also occur with a big crash in the broader economy. It may be difficult to find renters, for example, if the unemployment rate shoots up to 13 percent.

*It may be difficult to find renters, for example, if the unemployment rate shoots up to 13 percent.*

Many Austrians used their understanding of the business cycle to predict the housing crash in real-time. For anyone who generally buys at least the "big picture" narrative that the Austrians use to explain the previous boom-bust cycle that Greenspan fostered, we must be honest and admit that what Bernanke has bequeathed to us is likely to be much, much worse. ◆◆◆


References

1. Mark Thornton, "Housing: Too Good to Be True," Mises Daily Article, June 4, 2004, available at: https://mises.org/library/housing-too-good-be-true.
2. My summer report is not publicly available, but I wrote a popular article based on it that was published a few months later. See Robert P. Murphy, "The Worst Recession in 25 Years?" Mises Daily Article, October 1, 2007, available at: https://mises.org/library/worst-recession-25-years.
3. The charts on the original housing bubble are taken from Robert P. Murphy, "Did the Fed Cause the Housing Bubble?" Mises Daily Article, April 14, 2008, available at: https://mises.org/library/did-fed-cause-housing-bubble, and Robert P. Murphy, "Evidence That the Fed Caused the Housing Boom," Mises Daily Article, December 15, 2008, available at: https://mises.org/library/evidence-fed-caused-housing-boom.
4. See Carlos Lara, "Warning: Market Volatility Ahead—and Soon!" Lara-Murphy Report, July 2017.



# Liberal, Libertarian, and the Business Cycle

by L. Carlos Lara

**What's in a word? Actually a great** deal. When it comes to the word *"liberal"* or the word *"libertarian"* it can be like opening Pandora's box. For this reason I am going to try to decipher and separate some of the widespread misunderstandings about these two political philosophies. At the same time I hope to end up explaining the relevancy of *Austrian Economics* in relation to these two philosophical views, and especially the *Austrian Business Cycle Theory (ABCT),* in simple to understand language.

## BACKGROUND

The last ten years have convinced me that there is a great deal of confusion here. These two expressions, *liberal* and *libertarian,* often get co-mingled in conversations and many people think they understand their true meaning when in fact they really don't. Consequently, when this lack of understanding gets compounded it leads to gross misrepresentations and faulty stereotyping. When the term Austrian economics gets dragged into the discussion, as it often does, its own definition suffers and is misunderstood as well. At that point we wind up with a jumbled mess and this is what I want to try to untangle.

However, my main concern, as I have already stated, is for you, the reader, to be left with the understanding of why *Austrian Economics* is so relevant to our modern world and its own set of financial confusions. This concern was one of the main reasons why Bob and I were so motivated to *integrate* Austrian Economics with Nelson Nash's *Infinite Banking Concept (IBC)* in the book that he and I ultimately wrote in 2010—*How Privatized Banking Really Works.* We recognized that one of the primary strangleholds in the lives of average 21st century people is money related and that IBC provided the individual a way of escape. It was a message we felt needed to be spread before it became too late.

My main concern, as I have already stated, is for you, the reader, to be left with the understanding of why Austrian Economics is so relevant to our modern world.

Yet I sense that the confusion I speak of with regards to these two philosophical designations may be the last remaining obstacle that stands in the way. It needs to be removed for many people to finally break through to a thoroughly sound economic way of thinking that allows them to embrace our message. So my attempt in this article will be to make clear, in the plainest English that I am able to muster, the correct view of the first two confusing beliefs—*liberalism* and *libertarianism*—and then focus on making clear the more important one—*the Austrian Business Cycle Theory.*

Liberalism in a sense gave rise to libertarianism at a particular point in history.

## UNDERSTANDING HOW THE FIRST GAVE RISE TO THE SECOND

Using the Internet's most popular dictionary this is the brief introductory summation we find there about these two philosophies.

*"**Liberalism**[1] (from the Latin liberalis) is a political philosophy or worldview founded on the idea of liberty and equality. Liberals espouse a wide array of views depending on their understanding of these principles, but generally they support ideas such as freedom of speech, freedom of the press, freedom of religion, free markets, civil rights, democratic societies, secular governments, gender equality and international cooperation."*

*"**Libertarianism**[2] (Latin: libertas, "freedom") is a collection of political philosophies and movements that uphold liberty as a core principle. Libertarians seek to maximize political freedom and autonomy, emphasizing freedom of choice, voluntary association, individual judgment, and self-ownership."*

There is one other similar term that pops up in this mix of words from time to time and that is *"Libertinism* or *Libertine."*[3] However, this term can easily be dismissed because it is not a political philosophy at all and belongs in the realm of physical pleasures. This is more of an ethical or moral philosophy.

But the terms *liberalism* and *libertarianism* are somewhat in the same camp and from the two basic (incomplete) definitions I have listed above we can already see how the confusion may have sprouted. We will expand on these brief definitions as we move further into this article, but for now note that both definitions start out with the word *"free,"* or *"freedom"* (from the word *"liber"* in Latin).

The original term "liberal" and "liberalism," not the new American modern variety we have been highlighting, is quite a different and distinct political movement that emerged during the age of the Enlightenment in the 17th century.

It can also be said from these definitions that both philosophies are very similar in core principles and, as we will soon discover, liberalism in a sense gave rise to libertarianism at a particular point in history. This is something we often discover about words. Time and events have a way of changing their meanings. Not only do the meanings change, but philosophical terms especially can develop numerous branches or derivatives and sometimes even flip sides.

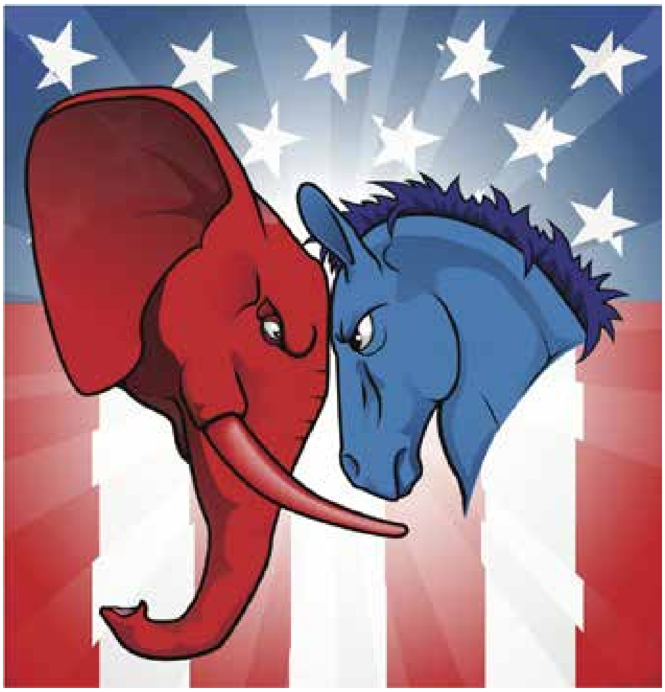
For example, did you know that today's Republicans are actually yesterday's Democrats?[4] Reasonably speaking this is true. At one time both Parties stood for just the opposite of what they stand for today. The conservative and progressive hats were switched. This change in political views started after the Civil War and continued changing for the next 135 years.

Today the Republican Party's generally accepted ideology is "American conservatism." This contrasts with the Democratic Party's more progressive platform commonly known as *"modern liberalism,"* which actually traces its history to the popular 1930s presidency of Franklin D. Roosevelt.[5] Here in the United States this is the point in time when the meaning of the word *liberal* fully changed from what it previously meant.

On a global scale, the word changed meanings when the definitive explanation of the worldwide Great Depression was given to British economist John Maynard Keynes.[6] This combined social, political, and economic change of views eventually led to strengthening of the popular demand for state controls over economic enterprises and affairs.

More specifically, this means a conscious move toward centralized planning embodied in today's U.S. monetary policy.

However, the original term *"liberal"* and *"liberalism,"* not the new American modern variety we have been highlighting, is quite a different and distinct political movement that emerged during the age of the *Enlightenment* in the 17th century. It became popular with philosophers and economists who



rejected *heredity privilege, state religion, absolute monarchy* and *the Divine Right of Kings.* These *liberals* argued for each man's right to life, liberty and property, which they believed government must always uphold.

Notable individuals who espoused this *liberal* philosophy were John Locke, Jean-Baptiste Say, Thomas Malthus, David Ricardo, and Adam Smith. The economists such as the famous Ludwig von Mises and others of the Austrian School also embraced this form of *"classical liberalism."* In short this was the great classical liberal movement that later came to be associated with *"laissez faire" capitalism*, which meant a policy of government non-interventionism with an emphasis on economic freedoms. It is a great irony of history that modern Americans use the term "liberal" to refer to, say, Elizabeth Warren or Jon Stewart, when Mises himself wrote an entire book praising *Liberalism.*

Leonard E. Read is a renowned free market advocate in the Austrian School tradition (a personal friend of Nelson Nash) and also the individual who established the first libertarian institution of its kind in the U.S. in 1946—*The Foundation for Economic Education* (FEE). In one of his famous books, *Castles in the Air,*[7] Read makes these interesting remarks about the terms *liberal* and *libertarian.* They are especially appropriate for this article's purpose and it also helps me arrive at the concluding point I am most trying to make about these two philosophies. Here's what he wrote.

*"There was a word that I always liked, the classical economists used it: 'liberal.' The word liberal really meant, in the classical sense, the liberalization of the individuals from the tyranny of the State. That word was expropriated by our opponents and it has now come to mean 'liberality' with other people's money. The word was taken over. And so I, more than anyone else, was responsible for introducing and publicizing and perhaps making worldwide the word 'libertarian.' I am sorry I ever did it. Why? Be-*

*cause the word libertarian has now been just as much expropriated as the word liberal."* [8]

Leonard Read actually stopped referring to himself as a libertarian because people would unknowingly associate him with everything from a pleasure-seeking *libertine* to a socialist, all due to the ignorance of the true meanings of these terms. And my point to all of this is simply this. Ultimately, this is the problem we all must face when associating with any political or philosophical label. We invariably increase the chances of being stereotyped incorrectly because their meanings tend to change with time. So we may want to think twice before applying one of these labels to ourselves. Hopefully these explanations on these two political philosophies will be helpful in your decision-making.

Continuing to paraphrase Leonard Read's additional thinking on this, he felt that liberty in the ideal form could only exist in the imagination for it has never truly existed and probably never will. On the other hand, brute force, or the extreme left, has and does exist; therefore it should always be labeled and exposed. This is why we, here at the ***LMR,*** often refer to any form of coercive ideology as being evil.

*"We call it communism, socialism, fascism, and so on. It is a masterminding scheme, the parts of which can be seen as can a blueprint. It is a discrete politico-economic mechanism and specific to the core. This is definitely nameable, as is a constitution, or any document, or thing, or person."* [9]

So naturally, I can't help but to agree with all of Read's final points and make it a good place to end this particular discussion. I leave the rest to your consideration. But now we move to the more relevant subject, the boom-bust business cycle as theorized by the Austrian School of Economics and its relevancy for today.

Leonard Read actually stopped referring to himself as a libertarian because people would unknowingly associate him with everything from a pleasure-seeking libertine to a socialist, all due to the ignorance of the true meanings of these terms.

## THE AUSTRIAN THEORY OF THE BUSINESS CYCLE

Readers of the ***LMR*** and our books, as well as listeners of our podcasts know that Bob and I are of the belief that the actions of Federal Reserve since the 2008 financial crisis have been ineffective and counterproductive. In essence, we feel the Fed has done nothing more than set us up for an even bigger and more painful crash when it arrives.


The theory in its simplest form suggests that the government manipulates credit expansions through its intervention into the banking sector.

But in addition to our merely making these predictions repeatedly in spoken word and print, what we really want is our audience's growth in understanding of the source of this insight and how to actually read the signs that tell this unpleasant story. By this we mean understanding the key components of the *Austrian Business Cycle Theory (ABCT)*.[10]

It should go without saying, but let's cover it briefly to make sure we understand, that the thinkers who influenced and developed the *Austrian Business Cycle Theory* were from Austria, but most modern proponents of the theory are American.

Although this is not meant to be the entire Austrian argument, the theory in its simplest form suggests that the government manipulates credit expansions through its intervention into the banking sector—in modern times through a central bank (in our case the Federal Reserve). It does so in order to increase credit and drive up demand (spending) throughout the economy, which in turn leads to asset bubbles and unsustainable business expansion. When these asset bubbles burst, or when it becomes apparent that the future demand will not be high enough to have warranted all the extra investment these businesses have made (malinvestments), they will invariably fail. This culminates in a painful recession complete with bankruptcies and unemployment.

One key insight in understanding the business cycle described in the theory is in the word *"manipulates."* Just to be clear, this is not a hidden maneuver on the part of the Fed, but at the same time it is clearly not a

Therefore in the Keynesian model, producing $75,000 in nails is exactly the same as producing a $75,000 construction crane.

natural rate of interest. In order to increase credit the central bank must lower the rate of interest and does, but according to the Austrian School, interest rates aren't simply the price of borrowing money inexpensively, or even increasing the money supply by printing it—they are signals.

Low interest rates are signals that tell business owners and entrepreneurs that lenders are flush with money created by consumers who are putting off present consumption and saving their money.

For example, in an industry like home construction, which is a very capital-intensive business, a low interest rate can make it much more profitable. Consequently when the rate of interest is lowered, businesses of this type will expand operations causing this sector of the economy to develop into an asset bubble. Unfortunately, since the rate of interest is *manipulated*, it's really a false signal and consumer savings have not really accumulated. The vitality of the economy has been falsified and the demand anticipated by these business owners will not be there. Under these falsified circumstances, these businesses are unsustainable past the initial boom phase.

One other very important Austrian insight is that capital goods (the tangible assets of a business) are not *homogeneous*, meaning that the assets are all different. The Keynesian treatment of capital ignores this insight altogether. Therefore in the Keynesian model, producing $75,000 in nails is exactly the same as producing a $75,000 construction crane. Common sense tells us that this is a huge disparity in these assets that can't be ignored. For this reason the Austrian School argument is that if the economy is set up to create the wrong capital goods it leads to waste and painful consequences down the road.

When a crash does occur what should

government and the central bank do? The Austrian School says they should do NOTHING. You can expect that there will be a short-term business adjustment period where the unsustainable businesses and assets are liquidated, while unemployment rises temporarily, but only until new investment is redeployed toward feasible enterprises and the workforce can be reabsorbed.

Unfortunately, government and the central bank, going back since the Great Depression of the 1930s, have continued to use the Keynesian model by always attempting to head off the unavoidable recession by lowering the interest rates even further. They will even prop up failed businesses using taxpayer money, which the Austrians argue only puts off the inevitable and makes the recession drag on and become even more harsh when it finally strikes.

> These euphoric economic booms and disastrous busts that financially wipe out so many people don't just mysteriously happen– they are created.

## CONCLUSION

Hopefully, this article has cleared up a few misconceptions and you have been able to see the connections between the political and philosophical views mentioned as they integrate with economics.

My attempt at clarity for these often confusing terms hopefully sheds light on why things are the way they are. These euphoric economic booms and disastrous busts that financially wipe out so many people don't just mysteriously happen— they are created.

This is why Austrian Economics is extremely relevant in today's world and learning to understand the *Austrian Business Cycle Theory* is just as crucial as understanding what we mean by *privatized banking*. ◆◆◆

References

1. Liberalism, from Wikipedia the free encyclopedia, article, September 23, 2017, https://en.wikipedia.org/wiki/Liberalism
2. Libertarianism, from Wikipedia, the free encyclopedia, article, September 23, 2017, https://en.wikipedia.org/wiki/Libertarianism
3. Libertine, from Wikipedia, the free encyclopedia, article, September 23, 2017, https://en.wikipedia.org/wiki/Libertine
4. Is it True—that Democrats used to be the conservative party and Republicans used to be the progressive party? Quora, September 23, 2017, https://www.quora.com/Is-it-true-that-Democrats-used-to-be-the-conservative-party-and-Republicans-used-to-be-the-progressive-party-Im-sure-the-whole-truth-is-more-complex-than-two-parties-switching-their-main-ideologies-but-what-is-the-truth
5. History of Liberalism, from Wikipedia the free encyclopedia, article September 23, 2017, https://en.wikipedia.org/wiki/History_of_liberalism
6. Keynesian Economics, from Wikipedia the free encyclopedia, article September 23, 2017, https://en.wikipedia.org/wiki/Keynesian_economics
7. Castles in the Air, By Leonard E. Read, The Foundation for Public Education, Inc. Irvington on the Hudson, New York 10533, 1975 Chapter 2, Page 12
8. Castles in the Air
9. Castles in the Air
10. The Austrian Theory of the Business Cycle, by Roger W. Garrison, David Glasner, ed., Business Cycles and Depressions, New York: Garland Publishing Co., 1997, pp.23-27

# THE FOUNDATIONS OF PROSPERITY AND FREEDOM

## INTERVIEW WITH RICHARD EBELING

Dr. Richard M. Ebeling has been the BB&T Professor of Ethics and Free Enterprise Leadership at the Citadel in Charleston, South Carolina since 2014. He previously taught at Northwood University in Midland, Michigan (2009-2014), held the Ludwig von Mises Chair in Economics at Hillsdale College in Michigan (1988-2003), and served as the president of the Foundation for Economic Education (2003-2008). He is the author of *Austrian Economics and Public Policy* (2016), *Monetary Central Planning and the State* (2015), *Political Economy, Public Policy and Monetary Economics: Ludwig von Mises and the Austrian Tradition* (2010), and *Austrian Economics and the Political Economy of Freedom* (2003). He is also the editor of the three-volume, Selected Writings of Ludwig von Mises, published by Liberty Fund, which are based on Mises's "lost papers" that Dr. Ebeling and his wife, Anna, retrieved from a formerly secret KGB archive in Moscow, Russia in the 1990s. He also writes a weekly column on economic and public policy issues that appears every Monday on the website of the Future of Freedom Foundation (fff.org).

**Lara-Murphy Report:** How did you become interested in Austrian economics?

**Richard Ebeling:** I became interested in Austrian Economics when I was a teenager back in the 1960s, when I was about 16 years old. I was interested in politics and history starting when I was even younger, but I was uncertain about a lot of things including what should be the role of government in society.

I met two gentlemen who introduced me to the writings of Ayn Rand. I started with her nonfiction writings and then went on to read her famous novels – *The Fountainhead* and *Atlas Shrugged.* Her case for individual free-

"I began following up on some of the footnote references in her nonfiction collections of essays, The Virtue of Selfishness and, especially, Capitalism: the Unknown Ideal. This was how I first discovered the writings of Ludwig von Mises, Henry Hazlitt and a variety of other members of the Austrian School."

dom and the right for the individual to live peacefully and honestly for himself were very appealing to me. But there were all the practical questions that people would raise about how markets functioned and about "social problems" concerning the poor, etc.

So I began following up on some of the footnote references in her nonfiction collections of essays, *The Virtue of Selfishness* and, especially, *Capitalism: the Unknown Ideal.* This was how I first discovered the writings of Ludwig von Mises, Henry Hazlitt and a variety of other members of the Austrian School. Around the same time I came into contact with the Foundation for Economic Education (FEE),

"By the time I entered college I knew I wanted to major in economics but experienced a real shock and surprise when I found that all my economics professors were Keynesians, socialists, or even Stalinist Marxists!"

and began reading their monthly magazine, *The Freeman.* One of FEE's staff members, Bettina Bien Greaves, kindly answered questions that I sent through the mail – for younger readers, yes, there was a time when you would write a letter (often by hand), put it in an envelope, place a stamp on it, drop it in a mailbox, and wait days or maybe even weeks for the letter to get to the recipient and for them to reply to you. She shared with me a lot of literature that I was not really aware of, and that led me to read other "Austrians" like Friedrich A. Hayek, Israel Kirzner, and Murray Rothbard.

The result was that by the time I entered college I knew I wanted to major in economics but experienced a real shock and surprise when I found that all my economics professors were Keynesians, socialists, or even Stalinist Marxists! Since I had neither professors nor fellow students who were knowledgeable about or sympathetic to the Austrian School, or free market ideas in general, I basically learned Austrian Economics on my own by spending a lot of time in the university library.

I had the good fortune in 1972 to meet Floyd "Baldy" Harper, the founder of the Institute for Humane Studies, and some other people working with IHS. The upshot was that I was invited to attend the first organized Austrian Economics conference in June 1974 in South Royalton, Vermont. It was there that I had the opportunity to meet, "in the flesh," Israel Kirzner, Murray Rothbard, and Ludwig M. Lachmann (another notable "Austrian" who had studied with Hayek in the 1930s at the London School of Economics). Plus, there were about 40 young, mostly graduate students from around the United States who also had discovered the Austrian tradition.

"For a good part of those two summers Friedrich Hayek was there as a senior fellow, and it gave me what I consider one of the greatest intellectual opportunities I've ever had."

Then during the summers of 1975 and 1977, I was offered summer fellowships at the Institute for Humane Studies, when they were at that time headquartered in Menlo Park, California. For a good part of those two summers Friedrich Hayek was there as a senior fellow, and it gave me what I consider one of the greatest intellectual opportunities I've ever had, since I was able to have lengthy conversations with him several times a week.

These were the stepping-stones to my becoming an "Austrian" economist.

**LMR:** You've taught at more conventional liberal arts colleges, and now are at The Citadel. Do you have any observations on the different environments? For example, do you teach the same way or do you have different style/content now, compared to other teaching positions?

**RE:** To be honest, I have been very privileged to teach at institutions of higher learning that have all been sympathetic to the ideas and ideals of a free society and the market economy, especially Hillsdale College and Northwood University. I taught briefly for a year as a visiting professor at a college in Connecticut that had some economists on the faculty who were strongly market-oriented, but for the others, say, in the history or political science or sociology departments, they made the college a "poster-boy" for leftist politics and political correctness. It was like interacting with people from a different planet whose "logic" was different from normal human beings.

The Citadel, where I've been teaching since 2014, has a tradition of military training and structure. But it is actually a normal four-year college (that also has a graduate program) that is scholastically rated very highly. *U.S. News and World Report* has ranked it number one for the last six years for colleges in the South. And its engineering school is ranked among the top ten in the nation.

"Contrary to many people's impressions of the school, only about 20 percent or so of the graduating seniors go into the military. The large majority leaves the Citadel and pursues private sector professional careers or go on to graduate school."

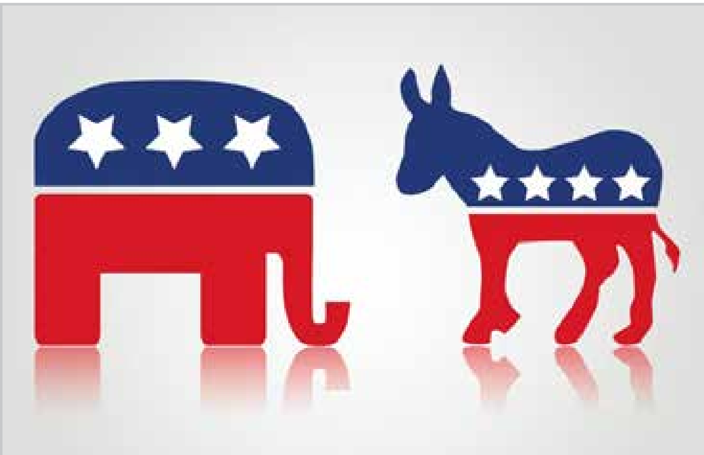
Contrary to many people's impressions of the school, only about 20 percent or so of the graduating seniors go into the military. The large majority leaves the Citadel and pursues private sector professional careers or go on to graduate school.

The military culture of the Citadel emphasizes honesty, integrity, and character. Its motto is: "Duty, Honor, and Respect." Many young men and women come to the Citadel for the structure and discipline that are not present at other universities or colleges, so they can keep their "heads on straight" with their studies. Also contrary to a possible impression, most of the students are not "gung-ho" on foreign military intervention. Many of the students studying in the School of Business, where I teach, or in the political science department tend to be politically conservative or libertarian in their policy views.

Most have an interest in deepening their understanding and appreciation for how the free, competitive economy works in comparison to socialism or the interventionist-welfare state. As part of this, my students regularly read Mises, Hayek, Hazlitt, and Frederic Bastiat, among others.

So it is a very pleasant intellectual environment, especially when I add that my economist colleagues in the School of Business are all classical liberal/libertarians.

If I may, I might add that my wife, Anna, and I occasionally invite some "Cadets" (as the students are called) over for dinner at our home. She always finds it charmingly delightful when they politely say, "Yes, Ma'am," "No, Ma'am," or "May I hold your chair for you, Ma'am?" It is like visiting another world, when people were "ladies" and "gentlemen," and there were such odd notions as "good manners" and "proper etiquette."



"Traditionally, that is before the 1930s and 1940s, the Republican Party was the American political party of economic protectionism and the Democrat Party was generally free trade. But in the post-World War II period, the roles were somewhat reversed."

**LMR:** One of the major changes in the Trump era is the weakening of the standard "conservative Republican" support for free trade. What's your take on this development? Is this actually a conversion or were we naïve to think the rank and file of the GOP ever bought into the classical views of Adam Smith and Frederic Bastiat?

**RE:** That's an interesting question. Traditionally, that is before the 1930s and 1940s, the Republican Party was the American political party of economic protectionism and the Democrat Party was generally free trade. But in the post-World War II period, the roles were somewhat reversed, with the Republican Party and conservatives in general advocating the case for greater freedom of trade and the Democrats often more concerned with "protecting American jobs" from foreign competition.

But, in truth, neither major American political party has been unreservedly "free trade" as a matter of principle. Whether Republicans or Democrats have been in political power, they have always used trade negotiations and domestic policy to benefit different groups of special interests at the expense of American consumers, and various domestic and foreign producers.

All that President Trump has done, in my opinion, is to raise to a general policy goal what both Republicans and Democrats have been doing on a piecemeal pragmatic basis for decades. What is different is that Trump proudly calls for trade protectionism with bluster, arrogance, and in-your-face rudeness. He pompously declares that he knows where American private businessmen should invest and open factories; he knows which workers should be hired to do what types of work; and he knows what goods should be available to the American consuming public and sold to them at what prices.

"When thinking about Donald Trump we should recall Adam Smith's words in *The Wealth of Nations,* that nowhere is political power more dangerous 'as in the hands of a man who had folly and presumption to fancy himself fit to exercise it.'"

He encapsulates another instance of what Friedrich Hayek called, "the pretense of knowledge," that is, the hubris of the social engineer who knows how society should be organized and arranged better than the outcomes that would result if individuals were left free as consumers and producers to make their own best decisions in an open and competitive market economy.

Keep in mind that when President Trump speaks of lowering taxes or deregulating business, he does not argue for these things as a matter of principle so people might be left free to direct their own activities in a general environment of liberty. No, he presumes to know how to use the tax code and the regulatory process to manipulate investment and job creation to "Make America Great Again," as he defines greatness.

And he does so firm in his own arrogance – recall that during the presidential campaign in 2016 Trump said that he is the smartest person he knows, and really doesn't need advisors around him. When thinking about Donald Trump we should recall Adam Smith's words in *The Wealth of Nations,* that nowhere is political power more dangerous "as in the hands of a man who had folly and presumption to fancy himself fit to exercise it."

**LMR:** Much of your work involves entrepreneurship. This is an area where the Austrian School shines. Can you explain why?


"At the heart of the market process is the entrepreneur."

**RE:** The Austrian approach to economics is a view and a conception of the market as a dynamic and ever-changing process of creative improvement and competitive coordination. At the heart of the market process is the entrepreneur, or as the term means in its original French, "He who undertakes the enterprise."

"Production" does not just happen. There must be a human mind that imagines a good or service that might be manufactured and offered on the market to interested consumers. That human mind must conceive of ways of organizing the production process, employing the useful and useable factors of production (land, labor and capital), directing them through a time-consuming production process until finally the finished product can be offered to the buying public for sale at some point in the future.

But the future is uncertain. Who knows whether, in fact, at that point in the future when the product is finally presented to consumers if they will be interested and willing to purchase it, and at an anticipated price that would cover the expenditures that guiding mind had incurred to bring the production process to completion? That "imagining" and "guiding" mind is the entrepreneur in the market system of division of labor. Any profits may be his, if his expectations are correct, but so may be any losses suffered if his anticipations of that future turn out to be faulty.

Not long after the Nazi annexation of his native Austria in 1938, and the destruction of, especially, the Jewish members of the Austrian entrepreneurial and business community, Ludwig von Mises pointed out that, "An enterprise without entrepreneurial spirit and creativity, however, is nothing more than a pile of rubbish and old iron." And later, as the Second World War was drawing to a close and concern was now directed to the reconstruction of a postwar Europe, Mises emphasized, "The entrepreneurs will have to rebuild what the governments and the politicians have destroyed."

"Ludwig von Mises pointed out that, 'An enterprise without entrepreneurial spirit and creativity, however, is nothing more than a pile of rubbish and old iron.'"

As I mentioned, I learned about and studied Austrian Economics pretty much on my own as a teenager and then as an undergraduate in college. What a surprise it was for me to take my first economic courses and discover that little or nothing was said about the entrepreneur in the assigned textbooks or in the classroom lectures. The "mainstream" of the economics profession had built up a refined, even conceptually elegant, model of a market world of "perfect competition" in which market participants on both the demand- and supply-side were presumed to have "perfect knowledge" of all relevant market circumstances and conditions.

Well, if you assume that everyone in the market already knows everything there is to know, now and in the future, that might be of importance to any of their consumption or production decisions, then you preclude any uncertainty about what consumers may want in the future, how best to employ the factors of production and direct production processes over time, and worrying about suffering a loss or earning a profit, because mistakes can never and will never be made, and opportunities to earn profits will, from the start, have been competed away.

In other words, for the most part the mainstream of the economics profession analyzes how markets work with a "model" of the market that does away with any role and place for the enterprising entrepreneur as the Austrians conceive of him. Thus, not too surprisingly, much (but not all) of mainstream economic theory has been constructed with assumptions that preclude any understanding and appreciation of what business enterprisers really do or why what they do is important for markets to successful work. Equally not too surprisingly, this leads

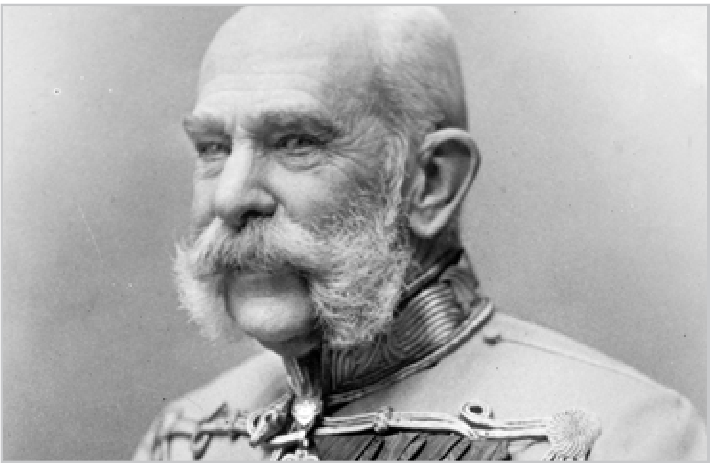
"I knew Fritz Machlup at New York University in the 1970s, and he told me that as far as he was concerned Mises had saved his life."

many economists to see supposed "market failures" and production or competitive "inefficiencies" that they believe needs fixing through government regulation and bureaucratic controls.

**LMR:** In light of recent events, it seems the 20th century battle between socialism and fascism is more relevant to American politics than many of us realized, with at least the most extreme members of particular movements literally embracing these terms. What did Ludwig von Mises do when he found himself—a Jewish classical liberal—in the midst of such chaos?

**RE:** Before the First World War, the old Austro-Hungarian Empire, in which Ludwig von Mises was born in 1881 and lived, was generally (classical) liberal and market-based. It certainly was not a libertarian utopia by any means, but compared to neighboring Imperial Germany and the Russian Empire, Austria-Hungary under Emperor Franz-Joseph was far more open and tolerant of ethnic and religious minority groups, including Jews. For instance, in Imperial Germany, Jews could not serve as officers in the Germany Army; in Austria-Hungary they could, and Mises served in the Austrian reserve army and eventually rose to the rank of captain during World War I, and indeed was three times decorated for bravery under fire fighting the Russian Army on the Eastern Front.

But, nonetheless, anti-Semitism was an underlying cultural and political attitude in the wider society in both Germany and Austria-Hungary. Mises, for instance, believed that he never received a position as a professor at the University of Vienna before or after the First World War, for which he was certainly qualified, due to his Jewish family background, as well as due to his staunchly laissez-faire, classical liberal views on social and economic policy issues at a time when socialist and nationalist ideas were on the rise.



"Compared to neighboring Imperial Germany and the Russian Empire, Austria-Hungary under Emperor Franz-Joseph was far more open and tolerant of ethnic and religious minority groups, including Jews."

Mises was not a religious Jew. Like many Jews in the Austria and the Germany of that time Mises was secular and cosmopolitan in his social and cultural outlook. But since others in German and Austrian society did classify and brand people based on their Jewish ancestry, Mises could not escape the anti-Semitism that was growing in Germany and Austria in the post-World War I era, and which culminated in the rise of Adolph Hitler and the Nazis to power in 1933.

It led Mises to do what he could to assist his former students, some of whom were Jewish, to find ways of leaving Austria after 1933. For instance, Mises arranged for his former student assistant, the later noted Austrian economist, Fritz Machlup, to obtain a Rockefeller Foundation traveling scholarship to go to the United States in 1933; Mises told Machlup not to return to Austria, if he could get a teaching position in America, which Machlup finally was able to obtain. I knew Fritz Machlup at New York University in the 1970s, and he told me that as far as he was concerned Mises had saved his life from likely being arrested, imprisoned, and killed at the hands of the Nazis following the German annexation of Austria in March 1938, if he had stayed in Vienna.

Mises, himself, was offered his first full-time teaching position at the Graduate Institute of International Studies in Geneva, Switzerland in the autumn of 1934. He remained there, safe from his own likely arrest by the Nazis if he had remained in Vienna after 1938. He immigrated to the United States in the summer of 1940 (after a harrowing escape partly through German-occupied France), where he lived in New York City until the end of his life in 1973 at the age of 92.

"Mises considered socialism and fascism simply to be two competing variations on the same collectivist theme."

As a social philosopher and an economist, Mises considered socialism and fascism simply to be two competing variations on the same collectivist theme. For the Soviet socialists, the individual was reduced to being nothing more than a member of a "social class," of either the exploiting capitalists or the oppressed workers. For the Italian fascists, the individual was a cog in the wheel of the nation-state; it was Mussolini who coined the term, "totalitarianism": nothing outside the state, nothing above state, everything for the State. And for the German National Socialists (the Nazis) the individual was reduced to a biological tribe of "superior" or "inferior" races, with the Germans at the top and the Jews at the bottom.

As economic systems, both Soviet socialism and Italian and German fascism and National Socialism were impossible and unworkable systems of governmental central planning. The only difference being that the Soviets had nationalized all the means of production and placed everything under direct the control of a central planning agency; while the fascists and the Nazis often left private businesses nominally in the hands of their owners, but set up central planning agencies under which the government planners directed businessmen concerning what they could produce, how to produce it, and at what price they might sell that output and to whom, as well as fixing wages and work conditions for all those employed in all enterprises.

Mises was amazingly prescient in his understanding of where political and economic trends were leading in the interwar period. For instance, in the mid-1920s, Mises explained that the nationalist anti-Marxists in Germany were not anti-socialist; rather they were "national socialists" who criticized Marxists for not being the "right kind" of socialists. And he anticipated the trend of events that would

"Mises basically anticipated the infamous Nazi-Soviet Pact of August 1939 that set the stage for the start of the Second World War in Europe with the German invasion of Poland."

lead Hitler to power, when in 1926 Mises pointed out that a growing number of Germans were "setting their hopes on the coming of the 'strong man' – the tyrant who will think for them and care for them." Seven years later, in 1933, Hitler became the dictatorial "Fuhrer" ("Leader") of the German people.

And there is one other amazing insight that Mises demonstrated at this time. In 1925, he said that if the "national socialists" came to power in Germany they most likely would follow a course of action that would lead to another world war. But to whom could Germany turn as a possible ally in a war against all the other countries of Europe? Mises concluded: the Soviet Union. Said Mises: "Since Bolshevist Russia, like Czarist Russia, only knows force in dealing with other nations, it is already seeking the friendship of German nationalism. German Anti-Marxism and Russian Super-Marxism are not too far apart." Thus, Mises basically anticipated the infamous Nazi-Soviet Pact of August 1939 that set the stage for the start of the Second World War in Europe with the German invasion of Poland, and the division of Eastern Europe between Hitler and Stalin that soon followed.

It is always treacherous to claim to know what someone long since passed away would think about the political and economic trends of today. But I do not think that it is too much of an exaggeration to think that Ludwig von Mises would consider the radical and fanatical extremist groups on both the political "left" and "right" that have recently arisen in the United States are the almost inescapable results of the current counter-revolution against individualism, free markets, and limited government that is reflected in everything that goes on in the modern interventionist-welfare state.

Markets harmonize and coordinate the diverse and differing ends and goals of multitudes of people through the peaceful and competitive exchange processes of the marketplace. Political intervention divides individuals into groups pandering and demanding favors, privileges and various other forms of plunder through the regulatory and redistributive power of the State at everyone else's expense.

Just as volatile ingredients in many of the European interventionist states of the period between the two World Wars were racially charged nationalism and radical socialist class warfare, so today American progressive "identity politics" and a resurgent sympathy for amorphous forms of socialism are adding dangerous layers to the collectivist currents of our own time, along with the fringe racial nationalists who have the more focused attention of the mainstream media.

Mises emphasized throughout his life that a prosperous and free society can only arise and be maintained, in the long run, on the basis of political individualism and economic liberalism, that is, truly free market capitalism. We have seen over the last one hundred years where the roads to various collectivisms lead – tyranny, death, destruction and stagnation. We need to do all in our power to see that this history does not repeat itself here in America.


NOTE: MANY OF THESE EVENTS ARE OPEN TO THE PUBLIC. CONTACT US FOR FURTHER DETAILS.

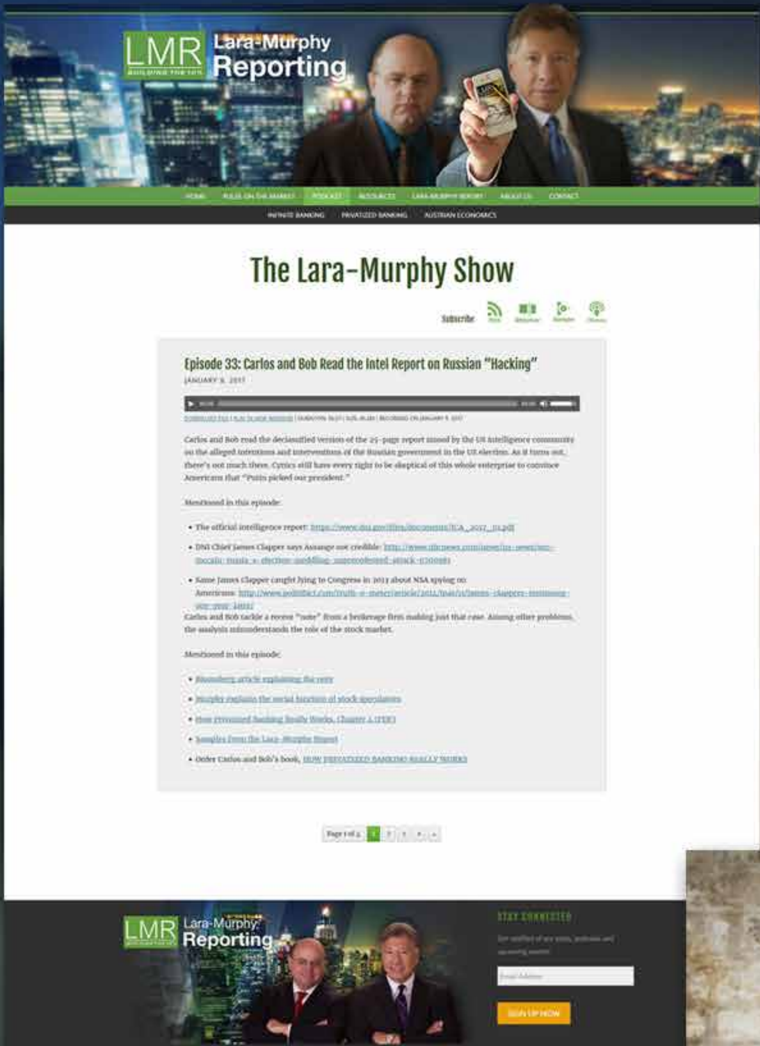
**OCTOBER 7, 2017**
**NEW YORK CITY, NY**

Murphy speaks at 35th Anniversary Gala for Mises Institute.

**OCTOBER 15-22, 2017**
**THE CARIBBEAN**

Murphy and Tom Woods host the "Contra Cruise."

SOME EVENTS MAY BE CLOSED TO GENERAL PUBLIC.
FOR MORE INFORMATION: LMREVENTS@USATRUSTONLINE.COM




**Get more insights and updates at**

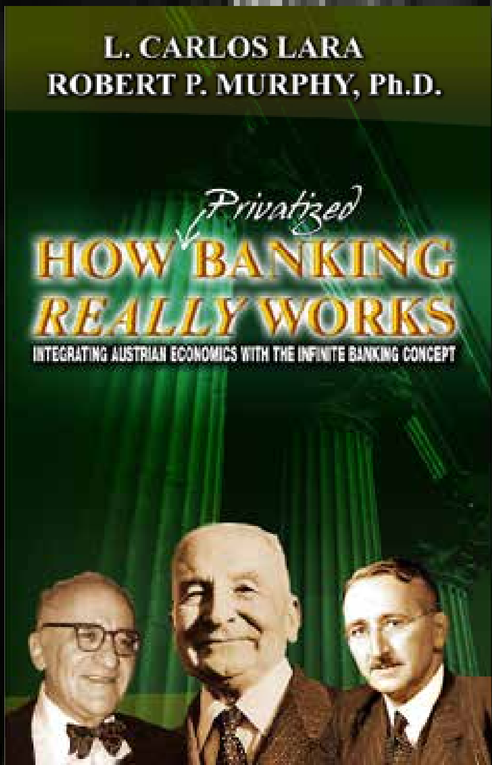
**lara-murphy.com**

**including our archive of popular podcast shows.**

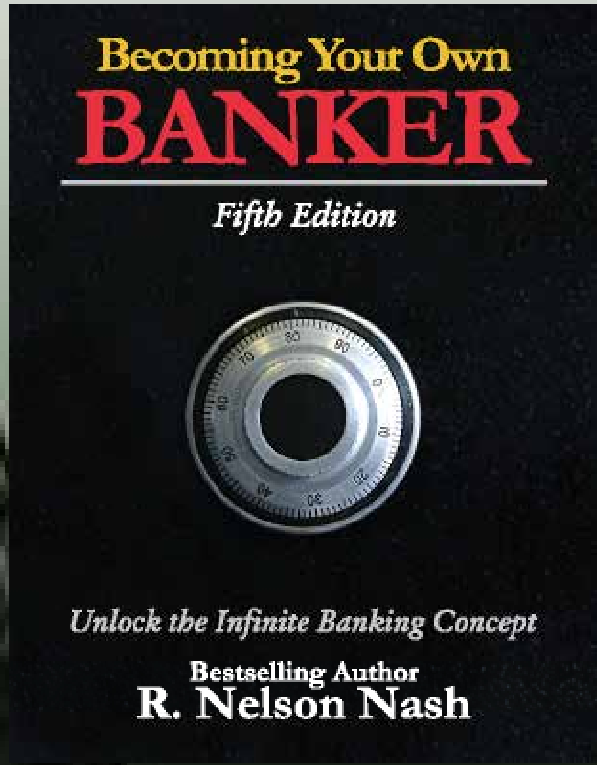

Go to lara-murphy.com/podcast or just click on the Podcast link

LMR BUILDING THE 10%

Lara-Murphy Reporting




+




# FUND YOUR OWN

# BAILOUT

If you don't like giving large sums of money to banks and mortgage companies to finance your cars, homes, boats, capital expenditures for business needs or any thing else you need to finance, then you are going to really like this alternative. The rebirth of ***PRIVATIZED BANKING*** is underway. You can take advantage of the years of experience that these three authors in these two books are offering you.

Go to **LARA-MURPHY.COM** to find these and other fine books.