

FREEMarket

PUBLISHED 11 TIMES PER YEAR BY THE LUDWIG VON MISES INSTITUTE

THE TROUBLE WITH KEYNES

Murray N. Rothbard

Murray N. Rothbard (1926–1995) was dean of the Austrian School. This article, which appeared in National Review in 1959, is the introduction to the new Mises Institute edition of Hazlitt's Failure of the "New Economics."

For most people, economics has ever been the “dismal science,” to be passed over quickly for more amusing sport. And yet, a glance at the world today will show that we pass over economics at our peril. The influence of economic ideas on human history, especially political history, has been momentous; how different would be the lives of all of us if Karl Marx had never lived and spun his fatal vision!

In the twentieth century, the most influential economist has been John Maynard Keynes, who swept the world of economics like an avalanche in 1936 with his *General Theory of Employment, Interest, and Money*, his teachings quickly becoming a new, entrenched economic orthodoxy.

Henry Hazlitt, in this vitally important and desperately needed book [*The Failure of the "New Economics,"* Mises Institute 2007], throws down the challenge in a detailed, thoroughgoing refutation of the *General Theory*. Anyone tempted to scoff at this debate as simply a tempest in an abstract academic teapot, unrelated to the current practical world, might ponder such statements as these, which can be found, unquestioned and unchallenged, in almost any news magazine or newspaper column:

- “We need no longer worry about a depression, because now government knows how to cure it—with deficit spending and ‘built-in’ stabilizers.”
- “The government’s X billion dollars of military spending is a useful prop to the economy.”
- “Business will improve in the next quarter because government intends to grant more contracts and run a larger deficit.”
- “To check the threat to inflation, the government should impose high taxation to sop up excess purchasing power.”
- “The government’s main economic duty is to stabilize the economy and ensure full employment.”
- “In contrast to the capitalism of the nineteenth century, which emphasized thrift and production, our modern capitalism depends for its prosperity on consumer demand.”

These are the common coin of the land, to such an extent that they are now virtually “non-controversial,” accepted by both political parties. And yet, they are not ➡

primeval truths, but mischievous fallacies, every one of them introduced into the modern world by Lord Keynes and his disciples.

How was the Keynesian Revolution accomplished? How was this mare's nest of discredited Mercantilist fallacies put over? In the first place, by intellectual intimidation. The old fallacies were dressed up by Keynes in such a wilderness of unclear writing and pretentious jargon, in such a bewildering morass of strange concepts, that the Keynesian disciples claimed to be the only ones able to understand the Master.

And they trumpeted Youth on their side. The older economists were cowed by newer lights who arrogantly proclaimed that no one over 35 was competent to understand the New Economics. Paul A. Samuelson has written of his joy at being under 35 when this New Revelation was announced to the world. And as their Master they had an eminent, aristocratic Englishman—witty, charming, and thoroughly irresponsible.

In their conquest, the Keynesians were aided by two other factors. For one thing, the world, inclined ever more toward statism, was looking for an economic theory which would at last make government spending and inflation respectable, while making private thrift and *laissez-faire* capitalism anathema in their ancient home—among economists. Secondly, the “neo-classical” economic theory taught at Cambridge (Keynes's home) and also in America, did have important gaps: in failing to integrate monetary theory and general economics, and in lacking an adequate theory of the business cycle. For these reasons, the conquest was absurdly easy.

But the real *trahison des clercs* came, not so much from Keynes and the Keynesians, nor from the older neo-classical economists, as from those economists who knew better, and who capitulated, for one reason or another, to the new orthodoxy. These were the economists trained in the “Austrian School,” headed in this century by Ludwig von Mises who had brilliantly filled in the gaps of the older tradition and had shown that the causes and the remedies of the business cycle and unemployment were almost exactly the opposite of what Keynes was to preach.

This Misesian theory, which revealed the depression to be the inevitable burden imposed on the economy by the preceding inflationary boom, and unemployment to be caused by excessive union-imposed and government-imposed wage rates, was beginning to get a hearing in Britain and even in America just before the *General Theory* was published. But when the Keynesian sweep occurred, the bulk of the economists in Britain and the United States, who had been trained in the Austrian tradition, surrendered to the newly reigning fashion without a fight.

It was not simply the shock of the Great Depression, by the way, that drowned out the Austrian theory, for that theory had been gaining acceptance precisely as an explanation for the Depression.

This, then, was the critical betrayal of the intellectuals: that Henry Hazlitt's magnificent *The Failure of the “New Economics”* was not written 20 years ago by one of those “Austrian” economists—by a Lionel Robbins or a Gottfried von Haberler. If this had been

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Editor: Jeffrey A. Tucker. Contributing editors: Thomas J. DiLorenzo,
Jeffrey M. Herbener, Robert Higgs, Mark Thornton.

Publisher: Llewellyn H. Rockwell, Jr.

The *Free Market* is published 11 times a year.

Note: the views expressed in the *Free Market* are not necessarily those of the Ludwig von Mises Institute.

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done, the whole history of our time would have been different.

But there is no use in crying over spilt milk. This is a great book, the best and most thorough exercise in economic demolition since Böhm-Bawerk (himself one of the founders of the “Austrian School”) exploded Marx’s labor theory of value.

Keynes’s *General Theory* is here ridiculed chapter by chapter, line by line, with due account taken of the latest theoretical developments. The complete refutation of a vast network of fallacy can only be accomplished by someone thoroughly grounded in a sound positive theory. Henry Hazlitt has that groundwork. An “Austrian” follower of Ludwig von Mises, he is uniquely qualified for this task, and performs it surpassingly well.

It is no exaggeration to say that this is by far the best book on economics published since Mises’s great *Human*

Action in 1949. Mises’s work set forth the completed structure of the modern “Austrian” theory. Hazlitt’s fine critique of Keynes, based on these principles, is a worthy complement to *Human Action*.

Henry Hazlitt, a renowned economic journalist, is a better economist than a whole host of sterile academicians, and, in contrast to many of them, he is distinguished by courage: the courage to remain an “Austrian” in the teeth of the Keynesian holocaust, alongside Mises and F.A. Hayek.

On its merits, this book should conquer the economics profession as rapidly as did Keynes. But whether the currently fashionable economists read and digest this book or not is, in the long run, immaterial; it will be read, and it will destroy the Keynesian System. At the very least, there is now a new generation under 35, to bring this message to fruition. ■

THE PAULIAN FOREIGN POLICY DOCTRINE

Llewellyn H. Rockwell, Jr.

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Ron Paul has always believed that foreign and domestic policy should be conducted according to the same principles. Government should be restrained from intervening at home or abroad because its actions fail to achieve their stated aims, create more harm than good, shrink the liberty of the people, and violate rights.

Does that proposition seem radical? Outlandish or far-flung? Once you hear it stated, it makes perfect sense that there is no sharp distinction between the principles of domestic and foreign policy. They are part of the same analytical fabric. What would be inconsistent

would be to favor activist government at home but restraint abroad, or the reverse: restraint at home and activism abroad. Government unleashed behaves in its own interests, and will not restrict itself in any area of life. It must be curbed in all areas of life lest freedom suffer.

If you recognize the line of thinking in this set of beliefs, it might be because you have read the Federalist Papers, the writings of Thomas Jefferson or George Washington or James Madison, or examined the philosophical origins of the American Revolution. Or you might have followed the debates that took place in the presidential election of

1800, in which this view emerged triumphant. Or perhaps you read the writings of the free traders prior to the Civil War, or the opponents of the War on Spain, or those who warned of entering World War I.

Or perhaps you have read the speeches and books against FDR's New Deal: the same group warned of the devastating consequences of World War II. Or maybe, in more recent history, you understood the animating principles behind the Republican takeover of Congress in 1994: a generation had turned away from all forms of foreign and domestic "nation building."

Not only does this Paulian view have a precedent in American history; it sums up the very core of what is distinctive about the American contribution to political ideas. The proposition was and is that people are better able to manage their lives than government can manage them. Under conditions of liberty, the result is prosperity and orderly civilization. Under government control, the result is relative poverty and unpredictable chaos. The proof is in the news every day.

How unusual, how incredibly strange, that Ron Paul, who has stood for these principles his entire public life, is criticized by some as a radical, outside the mainstream, and influenced by experimental ideas that are marginal at best. And why is he treated this way? Because he takes the ideas of Washington and Jefferson seriously, just as seriously as he takes the idea of freedom itself, and he does so in times when faith in Leviathan remains the dominant political ideology.

Ideology is such a powerful force that it has propped up policy inconsistency for more than a century. The Left has a massive agenda for the state at home, and yet complains bitterly, with shock and dismay, that the same tools are used to start wars and build imperial structures abroad. The Right claims to want to restrain government at home (at least in some ways) while whooping it up for war and global reconstruction abroad.

It doesn't take a game-theory genius to predict how this conflict works itself out in the long run. The Left and the Right agree to disagree on intellectual grounds but otherwise engage in a dangerous *quid pro quo*. They turn a blind eye to the government they don't like so long as they get the government they do like.

It's one thing for the Left to grudgingly support international intervention. It makes some sense for a group that believes that government is omniscient enough to bring about fairness, justice, and equality at home to do the same for people abroad. In fact, I've never been able to make much sense out of left-wing antiwar activism, simply because it cuts so much against the idea of socialism, which itself can be summed up as perpetual war on the liberty and property of the people.

What strikes me as ridiculous is the right-wing view that the same government that is incompetent and dangerous domestically—at least in economic and social affairs—has some sort of Midas touch internationally such that it can bring freedom, democracy, and justice to any land its troops deign to invade. Not that the right wing is principled enough to pursue its domestic views, but I'm speaking here of its campaign rhetoric and higher-level critique of government that you find in their periodicals and books. The precise critique of government that they offer for the welfare state and regulatory measures—that they are expensive, counterproductive, and hobble human energies—applies many times over to international interventions.

But the Right always seems to have an excuse for its inconsistency. In the early fifties, many on the Right said that the usual principle of nonintervention had to give way to the fight against communism because this was a uniquely evil threat facing the world. We have to put up with a "totalitarian bureaucracy" within our shores (words used by

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News from the Institute

The Mises University

For 21 years, the Mises University has been the world's leading training ground for Austrians headed toward a career in academia. Its method and approach has been perfected, and it remains the most popular economics program for free-market minded students from around the country and the world. We long ago had to cap attendance, so get your application in early. This year's program runs from July 29–August 4. To apply, see mises.org/events. ■

Houston Here We Come

We've all enjoyed the regional programs begun last year. Selected faculty come to cities to put on one-day seminars in political economy. This is our second year to come to Houston, Texas. The program, which we've called the Mises Circle, is on April 14, 2007. It features Ron Paul, Walter Block, Jörg Guido Hülsmann, and Lew Rockwell. They invite you to join them for a working lunch and discussion of important issues. For more information see mises.org/events. ■

The Supporters Summit 2007

This is the 25th anniversary of the Mises Institute, and we are planning a special conference in New York to celebrate. We'll be releasing the definitive biography of Mises himself. It's a once-in-a-lifetime opportunity, so please make your plans to come. The dates are October 12–13. For more information see mises.org/events. ■

Study Economics Online

Robert Murphy, author of the *Study Guide to Man, Economy, and State*, is the headmaster of the Mises.org Online Classroom, where tuition runs \$150 per month to study economics. You can enroll for the full 18-month program, and obtain your certificate of completion. For more information, see mises.org/classroom. ■

The Panic That Wasn't

The first great business cycle in US history occurred in 1819, and Murray Rothbard wrote the great book on it. It was his doctoral dissertation. He explained how it started and how it ended peacefully because there was no central banking planning apparatus around to fix it. Rothbard's *Panic of 1819* has been long out of print, though still in very high demand from historians. The Mises Institute is addressing the problem with a fabulous new edition. Here we have a chronicle of how to handle a business cycle. Our complete book and merchandise catalog is available online at mises.org/store. ■

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W.F. Buckley) for the duration in order to beat back the great threat abroad. And so Leviathan grew and grew, and never more than under Republican presidents. Then one day, communism went away, the regimes having collapsed from self-imposed deprivation and ideological change.

A few years went by after 1990 when the Right was inching toward a Paulian consistency. Then 9-11 happened, and the great excuse for Leviathan again entered the picture. Never mind that, as Congressman Paul pointed out, the crime of 9-11 was motivated by retribution against ten years of killer US sanctions against Iraq, US troops on Muslim holy lands, and US subsidies for Palestinian occupation. No, the American Right bought into the same farce that led them to support the Cold War: Islamic fanaticism is a unique evil unlike anything we've ever seen, so we have to put up with Leviathan (again!) for the duration.

Well, Ron Paul didn't buy into it. He is unique in this respect, and this is especially notable since he has been under pressure from his own party at a time when his party has ruled the executive, judicial, and legislative branches. He stuck by his principles, and not merely as a pious gesture. His critique of the post 9-11 warfare state has been spot on in speech after speech. He foresaw the failure of the US invasion of Afghanistan. He never believed the nonsense about how US bombs would transform Iraq into a modern democracy. He never went along with the propaganda lies about weapons of mass destruction. Nowadays, we often hear politicians say that they have changed their minds on the Iraq War and that if they had known then what they know now, they never would have gone along. Well, hindsight is child's play in politics. What takes guts and insight is the ability to spot a hoax even as it is being perpetrated. In any case, they have no excuse for not knowing: Ron Paul told them!

The freedom to trade internationally is an essential principle. It means that consumers should not be penalized for buying from anyone, or selling to anyone, regardless of their residence. Nor should domestic suppliers be granted anything like a monopoly or subsidized treatment. Nor should trade be used as a weapon in the form of sanctions. Ron Paul has upheld these principles as well, which makes him an old-fashioned liberal in the manner of Cobden and Bright and the American Southern tradition. He has also rejected the mistake of many free traders who believe that a military arm is necessary to back the invisible hand of the marketplace. For Ron Paul, freedom is all of a piece.

Ron Paul's singular voice on foreign affairs has done so much to keep the flame of a consistent liberty burning in times when it might otherwise have been extinguished. He has drawn public attention to the ideas of the founders. He has alerted people to the dangers of empire. He has linked domestic and foreign affairs through libertarian analytics, even when others have been bamboozled by the lies or too intimidated to contradict them. He has told the truth, always. For this, every American, every citizen of the world, is deeply in his debt. In fact, I'm willing to predict that a hundred years from now and more, when all the current office holders are all but forgotten, Ron Paul's name will be remembered as a bright light in dark times.

We can't but be deeply grateful that Ron Paul's prophetic words have been collected in his new book, *A Foreign Policy of Freedom*. May it be widely distributed. May its lessons be absorbed by this and future generations. May this treatise stand as an example of how to fight for what is right even when everyone else is silent. May it always be regarded as proof that there were men of courage alive in the first decade of the third millennium. May public and intellectual opinion someday rise to its level of intellectual sophistication and moral valor. ■

You're invited - 2 June seminars!



■ June 4–8

The History of Political Philosophy: From Plato to Rothbard A Steven Berger–Kenneth Garschina Seminar with David Gordon

The world-renowned polymath and critic guides you through a history of the greatest thinkers, and evaluates them by their arguments for and against the idea of liberty.



■ June 11–15

Fundamentals of Economic Analysis: A Causal-Realist Approach A Seminar with Joseph Salerno and Peter Klein

Joseph Salerno and Peter Klein are writing a new textbook on Austrian economics for graduate students, and this is their seminar on their approach.

**For more information contact Pat Barnett (pat@mises.org),
phone 800-636-4737, or see Mises.org.**

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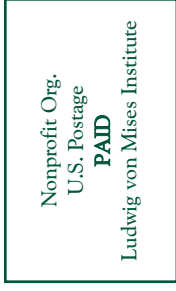
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July 29–August 4, 2007 • Auburn, Alabama
- MISES INSTITUTE SUPPORTERS SUMMIT AND 25TH ANNIVERSARY
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- AUSTRIAN SCHOLARS CONFERENCE 2008
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