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Keynesianism Redux

by Murray N. Rothbard

One of the ironic but unfortunately enduring legacies of eight years of Reaganism has been the resurrection of Keynesianism. From the late 1930s until the early 1970s, Keynesianism rode high in the economics profession and in the corridors of power in Washington, promising that, so long as Keynesian economists continued at the helm, the blessings of modern macroeconomics would surely bring us permanent prosperity without inflation. Then something happened on the way to Eden: the mighty inflationary recession of 1973-74.

Keynesian doctrine is, despite its algebraic and geometric jargon, breathtakingly simple at its core: recessions are caused by underspending in the economy, inflation is caused by overspending. Of the two major categories of spending, consumption is passive and determined, almost robotically, by income; hopes for the proper amount of spending, therefore, rest on investment, but private investors, while active and decidedly nonrobotic, are erratic and volatile, unreliably dependent on fluctuations in what Keynes called their "animal spirits."

Fortunately for all of us, there is another group in the economy that is just as active and decisive as investors, but who are also—if guided by Keynesian economists—scientific and rational, able to act in the interests of all: Big Daddy government. When investors and consumers underspend, government can and should step in and increase social spending via deficits, thereby lifting the economy out of recession. When private animal spirits get too wild, government is supposed to step in and reduce private spending by what the Keynesians revealingly call "sopping up excess purchasing power" (that's ours).

In strict theory, by the way, the Keynesians could just as well have called for lowering government spending during inflationary booms rather than sopping up our spending. But the very idea of cutting government budgets (and I mean actual cut-cuts, *not* cuts in the rate of increase) is nowadays just as

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The Truth About Economic Forecasting

by Graeme B. Littler

Astrologers, palmists, and crystal-ball gazers are scorned while professional economists are heralded for their scientific achievements. Yet the academics are no less mystical in trying to predict the direction of interest rates, economic growth, and the stock market.

Forty years ago, Thomas Dewey was defeated by Harry Truman, stunning the political experts and journalists who

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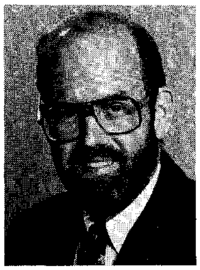

From the President

by Llewellyn H. Rockwell, Jr.

The Regulatory Attack on the Market

Ever since the October stock-market crash, government officials have demanded more control over the securities industry. As usual, their claim has been bolstered by "disinterested" scientific analysis by economists.

In its study, the Securities and Exchange Commission blamed stock-index futures, and advocated higher margin requirements and more regulatory powers for itself. The New York Stock Exchange's study condemned futures, especially portfolio-insurance programs, and also advocated higher margins on stock-index futures and more enforcement authority for the SEC.

President Reagan's commission, headed by now-Treasury Secretary Nicholas Brady, implicated portfolio insurance, mutual fund redemptions, computers, and unchecked price swings. It urged that the Federal Reserve be given supra-regulatory powers over stocks, futures, and options, and that price controls ("circuit-breaker mechanisms") be instituted in case of massive market movements.

In accord with these domestic developments, Great Britain's Wilton Park Group—composed of regulators from the ten major industrialized countries—has called for global standards on insider trading, market shutdowns, and margin requirements, plus increased sharing of confidential financial information. In April, the U.S. orchestrated an agreement between the Japanese market and the Chicago Board of Trade, and in September, between the London market and the Commodity Futures Trading Commission.

As SEC Chairman David Ruder notes: "I find myself voting more clearly for intervention...into all kinds of activities."

Except for 1934, when it banned all new stock issues at the behest of old-line firms and began to cartelize the securities industry, the SEC has never been more interventionist. As we know from economic theory, as well as the history of similar activities, such intervention will undermine the economic functions of the stock and futures markets.

In the academic world, most economists believe that the financial markets as a collective entity are all-knowing—not only about present events but also about the future. The markets discount everything, so there can be no profits or losses through better or poorer forecasting, only through good or bad luck. The markets are a giant gambling casino, with no real economic function.

The more accurate Austrian view sees securities markets as efficient, but also imperfect, functioning as they do in a world of uncertainty. Within the division of labor, there *are* more successful forecasters, and one function of the markets is to convey financial assets from the less efficient in this area to the more efficient. That the far-seeing profit while others do not serves an extraordinarily important economic purpose; it is not the Wall-Street equivalent of Caesar's Palace.

The markets also must coordinate complex price relationships among the many stages of production over time. It is a job that no regulator can perform, no matter what his intentions or how many computers he has.

The price system is like a communications network that transmits signals about possible profits and losses. Through this network, producers learn from consumers about how they value the various goods and services available, and therefore how best to make use of the available capital, land, and labor.

These signals also affect the perceived outlook for company profits, and therefore stock prices. Entrepreneurs respond to the signals by trying to outcompete their rivals in better meeting consumer demand, and thereby reap higher profits. But this communications network can only be sensitive to consumer desires, and therefore transmit undistorted signals, when it is free and open.

Prices—especially in the stock and futures markets—must be allowed to reflect real market conditions. Higher stock prices, for example, signal that more capital can be raised for a particular industry or firm, and that its output can be expanded. Lower stock prices show us the less desired industries and firms, and lead to the shifting of resources into more productive endeavors.

Consumers can change their subjective valuations of goods and services because of their expectations about the future, their preference for a new product over an old, or simply

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changing tastes. Regardless, economic efficiency requires a price system that can accurately reflect these adjustments in changes of value on the markets.

Only the unhampered market allows entrepreneurs efficiently to meet and even anticipate consumer preferences. In the frozen world of government econometric models, all possible economic data, present and future, is known. There is no experimentation, creativity, or discovery. All consumer prices are determined by the costs of production—rather than supply and demand—and the prices of capital are "given." It is not surprising that these models show no ill effects from regulation.

In the real markets, the prices that consumers are willing to pay determine every price through the many stages of production. This "imputation" process, which enables entrepreneurs to build the long-term production processes characteristic of an advanced economy, cannot take place efficiently when there are regulatory barriers.

As in the rest of the economy, economic freedom in the stock and futures market is essential for productivity, efficiency, and innovation. More regulation can cause only discoordination and stagnation, as the desires of regulators take precedence over the buying public.

Circuit-breaker mechanisms, for example, temporarily block this flow of information. Radical price corrections, such as the one on October 19th, are just as necessary as small ones. Since they are almost always caused by Federal Reserve credit manipulation, these radical swings ("clusters of errors," as F.A. Hayek termed them) are unnatural phenomena. But that is only more reason why the markets must be allowed to adjust.

Higher margin requirements in the futures markets will make trading stock index-futures prohibitively expensive and thus reduce competition.

All the current attempts to add to the already elaborate regulatory apparatus are no service to the economy. Rather than erecting new barriers, a realistic understanding of markets instead requires elimination of all the present ones. ■

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unthinkable, as, for example, adhering to a Jeffersonian strict construction of the Constitution of the United States, and for similar reasons.

Originally, Keynesians vowed that they, too, were in favor of a "balanced budget," just as much as the fuddy-duddy reactionaries who opposed them. It's just that *they* were not, like the fuddy-duddies, tied to the *year* as an accounting period; they would balance the budget, too, but over the business cycle. Thus, if there are four years of recession followed by four years of boom, the federal deficits during the recession would be compensated for by the surpluses piled up during the boom; over the eight years of cycle, it would all balance out.

Evidently, the "cyclically balanced budget" was the first Keynesian concept to be poured down the Orwellian memory hole, as it became clear that there weren't going to *be* any surpluses, just smaller or larger deficits. A subtle but important corrective came into Keynesianism: *larger* deficits during recessions, *smaller* ones during booms.

But the real slayer of Keynesianism came with the double-digit inflationary recession of 1973-74, followed soon by the even more intense inflationary recessions of 1979-80 and 1981-82. For if the government were supposed to step on the spending accelerator during recessions, and step on the brakes during booms, what in blazes is it going to do if there is a steep recession (with unemployment and bankruptcies) *and* a sharp inflation *at the same time*? What can Keynesianism say? Step on both accelerator and brake at the same time? The stark fact of inflationary recession violates the fundamental assumptions of Keynesian theory and the crucial program of Keynesian policy. Since 1973-74, Keynesianism has been intellectually finished, dead from the neck up.

But very often the corpse refuses to lie down, particularly an elite which would have to give up their power positions in the

Murray Rothbard

Shorn of its intellectual groundwork, Keynesianism has become the pure economics of power.

academy and in government. One crucial law of politics or sociology is: *no one ever resigns*. And so, the Keynesians have clung to their power positions as tightly as possible, never resigning, although a bit less addicted to grandiose promises.

A bit chastened, they now only promise to do the best they can, and to keep the system going. Essentially, then, shorn of its intellectual groundwork, Keynesianism has become the pure economics of power, committed only to keeping the Establishment-system going, making marginal adjustments, babying things along through yet one more election, and hoping that by tinkering with the controls, shifting rapidly back and forth between accelerator and brake, *something* will work, at least to preserve their cushy positions for a few more years.

Amidst the intellectual confusion, however, a few dominant tendencies, legacies from their glory days, remain among Keynesians: (1) a penchant for continuing deficits, (2) a devotion to fiat paper money and at least moderate inflation, (3) adherence to increased government spending, and (4) an eternal fondness for higher taxes, to lower deficits a wee bit, but more importantly, to inflict some bracing pain on the greedy,

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selfish, and short-sighted American public.

The Reagan Administration has managed to institutionalize these goodies, seemingly permanently on the American scene. Deficits are far greater and apparently forever; the difference now is that formerly free-market Reaganomists are out-Keynesianing their liberal forebears in coming up with ever more ingenious apologetics for huge deficits. The only dispute now is *within* the Keynesian camp, with the allegedly "conservative" supply-siders enthusiastically joining Keynesians in devotion to inflation and cheap money, and differing only on their call for moderate tax cuts as against tax increases.

The triumph of Keynesianism within the Reagan Administration stems from the rapid demise of the monetarists, the main competitors to the Keynesians within respectable academia. Having made a series of disastrously bad predictions, they who kept trumpeting that "science is prediction," the monetarists have retreated in confusion, trying desperately to figure out what went wrong and which of the many "M"s they should fasten on as being the money supply. The collapse of monetarism was symbolized by Keynesian James Baker's takeover as Secretary of the Treasury from monetarist-sympathizer Donald Regan. With Keynesians dominant during the second Reagan term, the transition to a Keynesian Bush team—Bush having always had strong Keynesian leanings—will be so smooth as to be almost invisible.

Perhaps it is understandable that an Administration and a campaign that has reduced important issues to sound bites and TV images should also be responsible for the restoration to dominance of an intellectually bankrupt economic creed, the very same creed that brought us the political economics of every Administration since the second term of Franklin D. Roosevelt.

It is no accident that the same Administration that managed to combine the rhetoric of "getting government off our back" with the reality of enormously escalating Big Government, should also bring back a failed and statist Keynesianism in the name of prosperity and free enterprise. ■

Economic Forecasting...from page 1

were certain Dewey was going to win. While questions about "scientific" polling techniques naturally arose, one journalist focused on the heart of the matter. In his November 22, 1948, column in *Newsweek*, Henry Hazlitt said the "upset" reflected the pitfalls of forecasting man's future. As Hazlitt explained: "The economic future, like the political future, will be determined by future human behavior and decisions. That is why it is uncertain. And in spite of the enormous and constantly growing literature on business cycles, business forecasting will never, any more than opinion polls, become an exact science."

We know how well economists have done during the eighties: from the 1982 recession and the employment boom to the Crash of 1987, no major forecasting firm came close to predicting these turns in the market. And following the Crash, virtually every professional forecaster revised his economic forecasts downward, all because the historical data suggested that the stock market was a reliable barometer of future economic activity. Since then, the economy has continued to expand and the stock market has continued to muddle along.

After President Eisenhower's heart attack on September 24, 1955, the stock market experienced a massive drop. The stock market later recovered as the president recovered; like 1987, 1955 turned out to be one of the statistically best years in economic history.

Despite the sorrowful record, most economists remain die-hard advocates of forecasting. Most have spent years in college and graduate school learning the tools of their trade, and can't bring themselves to admit their own entrepreneurial errors. As one investment advisor put it: "No matter how many times they fail, their self-assurance never weakens. Their greatest (or only) talent is for speaking authoritatively."

Of their errors, the forecasters contend that it's only a matter of time before they master the techniques. Though that day will never arrive, economic forecasting remains an integral part of the economics mainstream. The original motto of the Econometric Society still holds sway: "Science is Prediction."

Whether one uses a ruler to extend an economic trend into the future, or a sophisticated econometric model with dozens of equations, the problem is still the same: there are no constant relations in human affairs.

Economics, unlike the natural sciences, deals with human actions, plans, motivations, preferences, and so on, none of which can be quantified. Even if it were possible to quantify these things, changing tastes (and all the factors that affect tastes) would make the data almost instantaneously useless to the forecaster. And then there are the millions of "unimaginable" things, like Eisenhower's heart attack, which constantly crop up, influencing people in unpredictable ways.

Economic statistics (i.e., history) do not imply anything about the future. Because data show the relation between price and supply to be one way for one period of time doesn't mean that it cannot change. As Mises pointed out, "external phenomena affect different people in different ways" and "the reactions of the same people to the same external events vary."

Some economic forecasters like to argue that economic forecasting is not unlike predicting the weather (and should also be equally difficult). Not only is the nature of these two problems entirely different, but one can reasonably expect that as scientific methods become more sophisticated, weather prediction could theoretically approach perfection. This is because there are constant relations among physical and chemical events. By experimenting in the laboratory, the natural scientist can know what these relations are with a high degree of precision. However, human society is not a controlled laboratory. This fact makes the forecaster's job of accurately predicting future events impossible.

Forecasters try to get around this problem by linking events in historical chains, and randomly guessing that if one variable reoccurs, then the others will necessarily follow. But this is a sophisticated version of the logical fallacy, *post hoc ergo propter hoc* (after this, therefore, because of this). This has led major forecasters to seriously study astrological patterns and to build mathematical models that correlate weather patterns with business cycles. Once the forecaster throws out economic logic, anything could have caused anything else, and all variables in the universe are open to study. One mainstream forecasting theory for investors, for example, is based on the rate at which rabbits multiply.

Does this mean we can know nothing about the future? No, the best forecasters are successful businessmen, whose entrepreneurial judgment allows them to anticipate consumer tastes and market conditions. As Murray N. Rothbard points out: "The pretensions of econometricians and other 'model-builders' that they can precisely forecast the economy will always flounder on the simply but devastating query: 'If you can forecast so well, why are you not doing so on the stock market, where accurate forecasting reaps such rich rewards?'" Forecasting gurus, instead, tend to disdain successful entrepreneurs.

The myth that economists can predict the future is not just harmless quackery, however. Central planners use the same theories to direct the economy. Yet by setting production goals with the data collected by the planners themselves, they destroy the very process that directs free-market production.

Central planners try to overcome uncertainty by substituting formulas for entrepreneurial judgment. They believe that they can replace the price system with commands, but they miss the whole purpose of individual action on the free market. As Ludwig von Mises said, they make "not the slightest reference to the fact that the main task of action is to provide for the events of an *uncertain* future." In that sense, central planners are no different from professional forecasters.

Don't expect unemployment among forecasters, however. Many have cushy jobs with the Congress, the White House, and virtually every agency of the U.S. government, and will happily issue predictions to no end.

In the Austrian view, on the other hand, economists have three functions: to further our understanding of the free market, to identify possible consequences of government policies, and to counter economic myths.

Economic forecasting has nothing to do with these objectives. In fact, by presenting itself as the only scientific dimension of economics, forecasting has helped discredit the whole discipline, and fueled an exodus of economists from the more mundane academic world to the arena of state control and coercion, to the detriment of every American. ■

What's in the *Review of Austrian Economics?*

by Jeffrey A. Tucker

The *Review of Austrian Economics* is a scholarly journal unlike any other. Edited by Murray N. Rothbard and Walter Block, sponsored by the Ludwig von Mises Institute, and published by Lexington Books, it stands out among economic scholarship as unusually literate and consistently interesting.

The editors have rooted the *RAE* in the tradition of Austrian economics, which emphasizes individual action, economic logic, and free markets. And they have also pushed the tradition forward to shed light on contemporary problems. The contributors explore every important area of economics: philosophical foundations, methodology, theory, history, economic literature, and public policy.

The editors dedicated the new issue—Volume III—to W.H. Hutt, one of this century's greatest economists, who died in 1988, and Morgan O. Reynolds opens the volume with a tribute to Hutt, surveying his career and his contributions to economic thought.

The Review of Austrian Economics *is a scholarly journal unlike any other. It stands out among economic scholarship as unusually literate and consistently interesting.*

RAE III also contains Professor Hutt's last scholarly article, "Trade Unions: The Private Use of Coercive Power." In it, Hutt argues that economists and the media largely overlook the coercive power of unions and the detrimental social effects of the strike-threat system.

On the philosophical foundations of economics, *RAE III* features a fascinating review essay by David Gordon on G.A. Wells's new book, *The Origins of Language*. Austrian economists have sometimes made an analogy between language and the market. F.A. Hayek, for example, asserts that both the market and language have evolved spontaneously and without design. In contrast, Wells's new book argues that language was both the product of human action *and* human design: the purposeful outgrowth of nonlinguistic behavior and the conscious desire for more complex communication. Gordon suggests that this new way of looking at language may imply that the market is more a product of conscious individual planning than Hayek suggested.

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The methodology of economics is frequently disputed, but the three articles on the subject in *RAE III* make profound contributions. Murray N. Rothbard argues that "discipline after discipline, from literature to political theory to philosophy to history, have been invaded by an arrogant band of hermeneuticians, and now even economics is under assault." He labels this intellectual trend a nihilistic, incomprehensible, collectivistic dead-end. Hans-Hermann Hoppe argues against similar trends toward "intellectual permissiveness" in his review essay of Donald McCloskey's *The Rhetoric of Economics*. Hoppe wants to replace empiricism and relativism with "extreme rationalism," a view Hoppe shares with Mises.

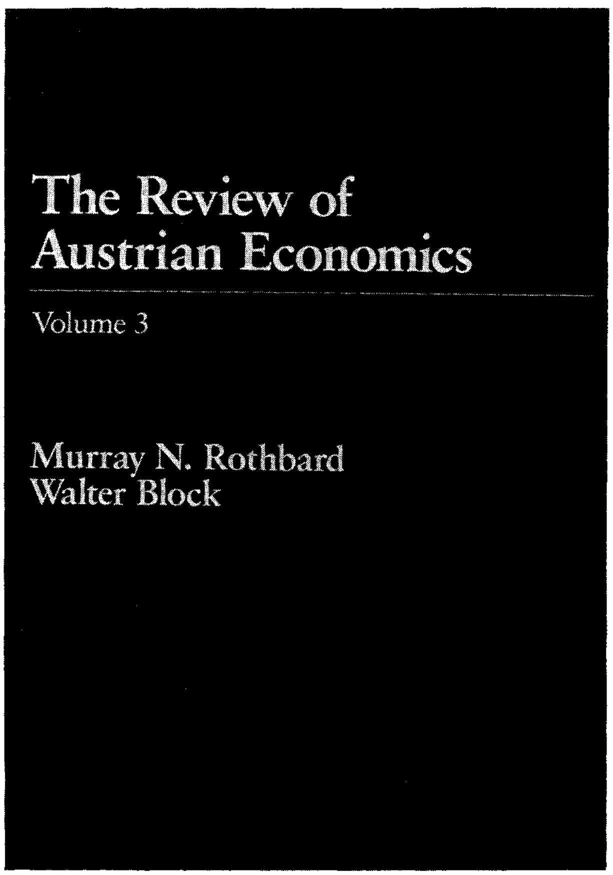
Also on methodology, J. Patrick Gunning defends Mises's method against criticisms recently leveled by Bruce Caldwell and others. In the process, Gunning gives us a compact and lucid presentation of Mises's method of doing economics, and of his careful distinction between theory and history.

In 1912, Mises theorized that credit expansion was the cause of the business cycle. Hayek then elaborated on his foundations to produce the Austrian theory of the business cycle. Today, the theory remains as timely as ever and *RAE III* contains several articles on the subject. The first is seminal: Roger Garrison's "The Austrian Theory of the Business Cycle in the Light of Modern Macroeconomics." Garrison introduces new distinctions, clears up old confusions, and defends the Austrian theory against its critics among the New Classicists, the Keynesians, and the Monetarists (with special reference to Leijonhufvud, Tullock, and Yeager). Garrison's defense rests on the observation that "the Austrians were and continue to be the *only* school to focus on the market for capital when theorizing about the business cycle." His appeal is for the "economics profession to put capital theory back into macroeconomics." This article also makes the theoretical case against the wave-theories of business cycles popular in some investment circles.

Also on business cycle theory is the exchange between Joseph Salerno and Gordon Tullock on Tullock's critique appearing in last year's RAE. Salerno says Tullock's critique is flawed because he misunderstands the theory; Tullock responds that if this is so, it is understandable since Austrians use the term "depression" in a peculiar way which judges its causes too restrictively. Another contribution on the topic by Mark Skousen looks at the present economy in light of Austrian business-cycle theory and concludes, contrary to Friedman, that "while the United States and other western countries may be depression-resistant, they are not depression-proof," since "the banking system is built on a volatile, destabilizing, inflationary policy coupled with a fragile fractional reserve system." Skousen theorizes that a Federal Reserve attempt to meet a sudden demand for cash could end in "economic collapse."

It is a common perception that the Reagan administration has not enforced antitrust statutes. Dominick Armentano argues in his contribution that "antitrust regulation in the middle of the 1980s is still very much alive and well." And economic logic has yet to purge the fallacious doctrines of antitrust from the economics profession, despite some positive trends in that direction. Armentano tackles the neoclassical theory of "predatory pricing" and shows that "predatory behavior cannot be logically distinguished from benign competitive behavior either by intent or by any price-cost rules." Government intervention "serves only to inhibit the discovery of consumer preferences" and reduce economic efficiency.

Austrians observe that other economists would have much more to say about human behavior if they wouldn't try to cram every action into a model built around restrictive equilibrium assumptions. Yet the large and growing literature on the economics of crime has failed to appreciate this insight. Samuel Cameron, in his contribution, "A Subjectivist Perspective on the Economics of Crime," wants these misguided economists to realize that crime doesn't fit into a market model of supply and demand. People don't enter and exit the market as the price dictates, entrepreneurial opportunities aren't exploited as in the market, and police don't respond to consumer demand the way market producers do. Cameron offers a tempered alternative that highlights individual valuations in the decision toward criminality.



Volume III of the hardbound Review of Austrian Economics *is available to Free Market* readers this month for the special price of $30, which includes postage and handling.

An example of an academic theory that has made inroads into the popular press is the "Efficient-Markets Hypothesis" of stocks, or EMH for short. EMH holds that prices of financial assets in securities markets contain all relevant information and that no individual can out-guess other traders. All strategies for picking stocks are equally bad, says EMH; the best one is "buy and hold." E.C. Pasour, Jr. shows that this theory is fatally flawed. Like other mainstream economic theories, it assumes that prices contain perfect information, it forgets the purpose of entrepreneurship, and it loses sight of the purpose of trading in the market. Pasour relies on Kirzner's theory of competition to carve out a place for a rational Austrian investment theory that resides between the EMH world of non-action and crystal-ball econometric predictions.

In true Misesian fashion, *RAE III* does not neglect the study of history. Ralph Raico's contribution shows why history is so necessary: it helps illustrate that economic theory has consequences in the real world. Within his review essay, Raico brings to mind Britain's forgotten World War I naval blockade against Germany, which resulted in the deaths of nearly a million civilians. The British effort was systematic, broke international law, and deepened German resentment toward the Allied powers, which helped spur nationalism. It also illustrates the horrible consequences of starvation and war that can result from violating the principles of free trade.

There is still more in *RAE III*. In Walter Block's analysis of the book edited in honor of Ludwig Lachmann, he reveals its heights (Garrison and Kirzner) and its depths (almost everyone

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The Mandated-Benefits Scheme

by Sheldon L. Richman

If there is a salutary side to the mammoth federal budget deficits of the Reagan years, it is that they have inhibited those who would otherwise be proposing big new spending programs. When the government is already $250 billion in the red, it's harder to make a case for spending billions more for some pork-barrel project or another.

In the old, pre-Big Deficit days, interventionists would think nothing of proposing that the government provide a variety of goodies to the allegedly suffering masses: health care, food stamps, and the like. But with the budget in such disarray, what's a social engineer to do? Never fear: those who lust after your paycheck are not so easily beaten. They have come up with a formula that must seem to them as potent as any witch doctor's magic chant: mandated benefits.

If we can't have the government pay for things outright, the reasoning goes, let's have it mandate that others—employers—provide them. Budget outlay: zero. Ingenious!

The first of these mandated benefits has already been enacted. With the blessing of President-elect George Bush, Congress ordered that businesses give 60-days' notice to unions before closing a plant or executing a big layoff. The next mandated benefit will likely be health insurance. A bill sponsored by Senator Edward Kennedy would require employers to provide health coverage to all employees working 17 ½ hours or more a week. This idea has been adopted in Massachusetts and was part of Michael Dukakis's late presidential campaign. Other mandatory benefits being talked about include parental leave.

Of course, just because a program doesn't cost the federal government anything does not mean it is free. Medical insurance is not found superabundant in nature; someone has to pay for it. The only question is who. The simplistic answer is that employers will pay. Let's trace this out: Assume that employers must pay $200 a month per employee to provide health insurance. Where does that money come from? Obviously it will come out of the workers' pay. Any expenses associated with a worker—Social Security, workman's compensation, unemployment insurance, medical benefits—are part of that worker's compensation package. Providing insurance on top of the workers' current pay would be to give them a raise. But if a raise were economically justified for all workers, the competitive labor market would already have bid wages up to the amount of the health-insurance premium.

Many people have trouble understanding this, but there is nowhere else for the money to come from. As the great economist W.H. Hutt wrote in *The Strike-Threat System*, worker benefits are "amenities which are purchased...*for* the worker out of his earnings, by a decision which he is unable *individually* to influence.... The partition of labor's remuneration between pecuniary and nonpecuniary forms is obviously independent of the factors which determine labor costs.... Fringe rights and benefits are an alternative to cash receipts...."

Employers could try to raise prices to recoup the added cost from consumers. But that is not a promising move. Presuming that consumers have no more money than before the law was passed, they won't be able to pay more for all that they buy. So they will cut their demand for products. That will cause firms to lay off employees or even go out of business. These workers will not only be without health insurance, they will also be without wages. Mandated benefits become mandated pauperism.

Perhaps the interventionists think employers should pay for the benefits out of their profits. But what is the justification for the forced transfer of property from employers to employees? Moreover, when profits drop, so do investment, business expansion, and opportunities. Mandated benefits would channel investment from labor-intensive to capital-intensive industries and to countries that are more hospitable to business. All of this would hurt workers here.

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So the ingenious plan goes awry somewhere, and the interventionist mind can't understand why. A radio commentator who favors mandated benefits, after being confronted with these arguments, said in exasperation, "Why can't employers just treat it as a cost of doing business?" That's precisely what employers will do. To the interventionist a cost of doing business is a mere bookkeeping phenomenon without consequences. The interventionist thinks wages, and all other prices, are arbitrary inventions of businessmen. If businessmen don't want to provide these benefits, it's because they're stingy.

But wages are not arbitrary; they are set by the market. Along with the prices of all factors of production, wages are reflections of how badly consumers want the product or service in question versus all other products and services in the market. A firm cannot pay workers more than their contribution if it is to stay in business. If the law requires it, some workers will be paid more only at the expense of others who will be paid not at all.

The interventionist thinks wages, and all other prices, are arbitrary inventions of businessmen. If businessmen don't want to provide these benefits, it's because they're stingy.

The law will have distributed wealth not from business to labor, but from one set of workers to another. This is presumably not what the idealistic proponents of mandated benefits had in mind.

As we've seen, mandated benefits violate the freedom of choice of workers by dictating the form their compensation must take. If the law requires health insurance to be provided, the benefit will displace money income that the employees otherwise would have gotten. Some employees, however, prefer cash to insurance—for instance, young, healthy workers and those who already have coverage through parents or spouses. These people will be worse off, thanks to this "humanitarian" legislation. Mandating benefits is wrongheaded when you consider that workers already have the freedom to convert some of their wages into benefits. Ordinarily, employers would have no objection; on the contrary, they might prefer that workers spend their money on things aimed at keeping them healthy. The legislation removes the workers' choice.

Similarly, a mandated 60-days' notice for plant closings is an expense that will be made up one way or another: lower cas[illegible] salaries, fewer jobs, fewer plants, etc.

In a competitive labor market, some firms may choose to bear a portion of the extra burden in the hope of keeping their workers from being bid away. In this case, mandated benefits will reduce competition because the relative burden is greater for smaller firms than for big ones. Union pressure has already led many big firms to provide mandated benefits. It may be in their interest to have the government force smaller firms to bear similar costs to reduce the threat of competition.

Mandated benefits are a fraud perpetrated on the workers of America. The proponents never say outright that they believe workers are not good judges of how to spend their incomes and should have less choice in the matter. But that is what is implied by their proposals. As Hutt wrote, "When the magnitude and form of the noncash part of labor's remuneration are a matter of governmental decision, the danger of the politically weak being sacrificed is very real." ■

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else). In Block's breezy style, he teaches us a lesson in soun[illegible] economics with every exposure of a fallacy.

There are also exchanges among William Barnett II, Leland B. Yeager, and Richard H. Timberlake, Jr., on cost and the marginal utility of money. J. Patrick Gunning meticulously refutes Tyler Cowen's and Richard Fink's criticisms of Mises's theory of the Evenly Rotating Economy. And finally, Mark Skousen reviews the *New Palgrave* encyclopedia of economics and finds a Keynesian bias but an encouraging 50 contributions from free-market economists, including five from Murray Rothbard.

Look through the 262 pages of *RAE III* and you will notice a difference between Austrian economics and the other schools. Economic literature, not mathematical maneuvering, dominates its pages, in a form comprehensible to academics and nonacademics alike. Its content is of lasting value because it is rooted in reason and tradition, and not in the latest academic fad. Volume III of the *Review of Austrian Economics* is on its way to university libraries, scholars, students, and interested noneconomists around the world. The editors should be proud that *RAE* already occupies a permanent place in the history of economic thought. ■