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Book Review

Institutions in Crisis: European Perspectives on the Recession

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In the book *Institutions in Crisis: European Perspectives on the Recession* (2011), editor and author David Howden, Assistant Professor of Economics at St. Louis University, Madrid, Spain, has brought together highly important and relevant essays from distinguished authors, all of which are firmly anchored in the tradition of the Austrian School of Economics. In their analyses, the authors not only explain theoretically the causes of the current European economic and political crisis, but also point out, on the basis of sound economic theory and illustrative empirical data, what has to be changed economically and politically to get Europe off the road of capital consumption, impoverishment and misery and return it back on track for freedom and prosperity.

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The special focus on institutions—which can be defined as "humanly devised constrains that shape human interaction" (North, 2005, p. 3)—provides the adequate analytical perspective: understanding the development and change of institutions is of great importance in understanding the performance of economies. The common theme of all essays contained in the book is that government interventionism in the free market causes economic and social destruction, and that a return to the free market is the only economically viable way Europe has to escape full disaster. By addressing current European problems, the authors succeed in effectively demystifying the widely held view that government market interference is, and can be, beneficial to a productive commonweal. Be it monetary policy, the labor market, financial accounting, decisions on capital allocation, interference with market agents' handling of risk and uncertainty, agricultural policy, public sector spending, or rule-based policy making, the authors' analyses inescapably show that in all these fields government involvement has caused trouble on the grandest scale.

What the book thus brings skillfully to the forefront is what Ludwig von Mises (1881–1973), the dean of the Austrian School of Economics, indicated in a 1950 address: "Middle-of-the-Road Policy Leads to Socialism." In this, he echoed the insights he had already put forward in "Kritik des Interventionismus" in 1929. Noted Mises, "All that good government can do to improve the material well-being of the people is to establish and preserve an institutional order in which there are no obstacles to the progressing accumulation of new capital required for the improvement of technological methods of production. This is what capitalism did achieve in the past and will achieve in the future too if not sabotaged by a bad policy." (Mises, 1991 [1950], pp. 59–60)

Mises also unmistakably pointed out that interventionism is a form of societal order that, if not brought to a halt, will sooner or later end in outright socialism. "The middle-of-the-road policy is not an economic system that can last. It is a method for the realization of socialism by installments." (Mises, 1991 [1950], p. 66) In other words, interventionism transforms the free market order into socialism by successive steps, a process accelerated by the economic and monetary crises interventionism causes in the first place:

> The recurrence of periods of depression and mass unemployment has discredited capitalism in the opinion of injudicious people. Yet these events are not the outcome of the operation of the free market. They are on the contrary the result of well-intentioned but ill-advised government interference with the market. (Mises, 1991 [1950], p. 59)

Institutions in Crisis: European Perspectives on the Recession is a particularly important and instructive essay collection because the authors do not exhaust themselves in outlining pure Austrian economic theory, but actually concentrate on applying its lessons to the actually severe economic and political problems which have come to haunt Europe. This makes the book a particularly insightful reading for those trying to find answers to pressing questions—answers that mainstream economics fails to provide. The essays are accessible to those who have so far not come into contact with the Austrian School of Economics. At the same time, the book is also an invaluable reading to those who are well trained in Austrian economics, for it provides rich and up-to-date information and concise analyses of the major aspects of the European crisis at hand.

Particularly helpful is the thoughtful foreword to the book written by Jesús Huerta de Soto, Professor of Economics at the University Rey Juan Carlos, Madrid. Right at the start Prof. de Soto provides the reader with the essential information about the root cause of the European malaise: namely government interventionism in the field of monetary affairs: "… [A] situation where a general cluster of entrepreneurial errors occurs, much like the present situation, can only arise through a general disruption to the common bond between all market transactions: money." Indeed, after having gone through the essays, the reader becomes aware that the centralizing of monetary policy has clearly played the essential role for all the major undesirable developments in Europe.

It is important that the book gets the greatest public attention possible, as the root cause of the European crisis is actually increasingly being blamed on the free market system rather than ever-greater government interventionism. While nothing could be farther from the truth, such a misunderstanding and misinterpretation of the root cause of the malaise will almost certainly encourage more destructive interventionist policies, which would fore sure would make things worse, not better. A case in point is the drive towards more political and economic centralization in Europe—a development that would for sure breed even greater trouble. What is more, to put forward the correct diagnosis of the root cause of the European crisis is indispensable because most of the bitter consequences of today's interventionism will only show up at some point in the future—and this will make it all the more difficult for the superficial observer and layman to discern their true origin. The detailed explanations of the European policy failures analyzed in this book must therefore be seen as intellectually powerful contributions to help redirecting the European project to what most people presumably expect it to achieve: freedom and prosperity.

In this sense, the free market system, not interventionism (let alone any form of socialism) is the societal organization to embrace and support by the public at large. Mises reminds us succinctly of the reason for this truth:

> There is but one means available to improve the material conditions of mankind: to accelerate the growth of capital accumulated as against the growth in population. The greater the amount of capital invested per head of the worker, the more and the better goods can be produced and consumed. This is what capitalism, the much abused profit system, has brought about and brings about daily anew. Yet, most present-day governments and political parties are eager to destroy this system. (Mises, 1972, p. 4)

Institutions in Crisis: European Perspectives on the Recession is by all means a timely and highly convincing reminder of Mises's message.

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