

RELEVANCE AS A VIRTUE IN ECONOMICS

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In 1979 I entered Grove City College with three goals in mind: to play on the varsity basketball team, to prepare to be a high school basketball coach, and to marry my high-school sweetheart Rosemary, who was also attending Grove City. I achieved only one of these goals—marrying Rosemary only a few weeks after graduation in 1983. Injuries and other factors blocked my achievement of the first goal, and the discovery of economics redirected the second. I was a *convert* to economics. Many of the students who were serious about economics that I met at Grove City were already interested in the Austrian School of economics and free-market policy. But I was completely innocent of such things. I took economics because I had to in order to fulfill a requirement. By Christmas of 1979, I bought my father Milton Friedman's *Free to Choose* as his gift.

Dr. Hans Sennholz was my economics redeemer.¹ The summer before entering Grove City, I worked for a short stint digging pools. This was during the time of a gasoline shortage, and as the youngest member of the crew of workers, I was *entrusted* to siphon gasoline from one truck to another in the morning so we wouldn't have to wait in the long line before heading out to a job. During my first week of economics lectures, I learned why there were gasoline lines and why it was the fault of government policy. Economics was relevant to the life I was experiencing. I was hooked. The rest seemed to follow naturally. Economic competition was an activity where one businessman tried to defeat another by satisfying the customer better. Entrepreneurship represented the creative aspect of man in the market place. Frugality and prudence were virtues. Hard work and a sense of pride in one's work were to be expected of anyone hoping to make his mark in this world. As strange as this might sound to some, these lessons sunk in to me because they were analogous to the lessons that my coaches and my father had tried to get across to me.

Dr. Sennholz's lectures represented a transformative experience for me. As with any lasting conversion, my initial enthusiastic reaction was followed up by an extended period of critical study and slow adjustment of life's plans. I didn't get to play basketball, but I did play four years of varsity tennis, and I enjoyed an active

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¹Many faculty at Grove City College during the time I was there did not have Ph.D.s and were referred to as professor, while faculty who had their Ph.D. were referred to as Dr. Thus, the respect signaled by the reference to Dr. Sennholz. Twenty years removed, I still cannot imagine addressing Dr. Sennholz in any other manner.

social life with my fraternity throughout college. My career goals shifted from being a high-school basketball coach to becoming a lawyer that worked in the sports management field. It wasn't until the second half of my senior year that I decided that perhaps law school wasn't what I wanted. This again was due to Dr. Sennholz. In my junior year I attended a weekend seminar at FEE (Foundation for Economic Education), and after that I was invited to be a member of Dr. Sennholz's Graduate Seminar which met every Wednesday night in his office to discuss classic books.² I was at the time the only undergraduate student in the seminar. The other participants were visiting students from Argentina and others working on graduate degrees through the International College in California, where Dr. Sennholz was a faculty mentor. In the graduate seminar we read Adam Smith, David Ricardo, John Stuart Mill, Eugen von Böhm-Bawerk, and, of course, Ludwig von Mises. This seminar introduced me to the idea of wrestling with the ideas in original texts in economics. During my senior year, I wrote my seminar paper on the *methodenstreit*, and my enthusiasm for the free-market policy of the Austrian School was now complemented with a philosophical commitment to methodological dualism and the *a priori* nature of the science of human action. Law school no longer seemed like the right place to go after Grove City. So instead of enrolling in law school, I took a job teaching tennis after graduation, applied to Ph.D. programs in economics, and eventually chose to head off to George Mason University in 1984.

Graduate school, even at a school such as George Mason University, is devoted to learning how other economists think, the language they use, the models they create, and the evidence they provide. Very little of your economic education is devoted to studying the actual economy and the appropriate policy response to given problems. In short, you study the writings of other economists, not really the economy *per se*. As a teacher of economics since 1987, I have often thought about my own conversion experience and realized that the power behind Dr. Sennholz's approach was the relevance he conveyed about economics for understanding the real world. We spent little time on Keynes, less on Marx, and some on Friedman. For the most part Dr. Sennholz devoted his energy to applying the economic insights of the Austrian School to explaining the economic history of the industrial revolution, the Great Depression, the operation of a gold standard, and the failure of socialism, fascism, and interventionism. The benefits of free trade were extolled and the vices of protectionism were laid bare.

The Austrian School of economics, in Dr. Sennholz's lectures, was the most consistent and articulate advocate of the private-property, free enterprise system. But the Austrian School was prone to irrelevance just as other schools of economic thought trapped within the academy. Dr. Sennholz described the contemporary Austrian School to me, circa 1983, when I had started to lean toward the career of becoming a professional economist, in the following way: Kirzner was a methodologist who while engaging other scholars failed to seriously engage the world; Lachmann wrote a good book on capital but nothing else; Rothbard was content with being a radical libertarian that was irrelevant for the practical world of public policy; but the Sennholz *branch* of the Austrian School was constantly fighting the public-policy battle in Washington (or 'Washin' as he would pronounce it). At that time (and to this day) my sympathies were already with Rothbard's libertarianism so I tended to dismiss Sennholz's characterization as too conservative. And, as I delved more into the scholarship of the contemporary Austrian School I disagreed with his assessment of

²Sennholz gave me two conditions for joining the seminar: (1) that I wear a proper pair of trousers (at the time I was often in sweatpants or warm-up suits coming from tennis practices or the gym) and (2) that I keep up with the readings because as he told me in his characteristic style—"If you don't keep up, we kick you out."

Kirzner and Lachmann and put more weight on the pure scholarly contributions of these individuals than their policy stance. But now in the middle of my career, I am coming to appreciate Dr. Sennholz's demand for continuous engagement with the world of public policy more than I have at any time since I was his student 20 years ago. We economists should be mindful of our relevance to public policy debates. We do better economics when the work we do is relevant to addressing real-world problems. Of course, science and philosophy matter and truth should be our ultimate goal. But hopefully truth yields better insight into how the world works, and on the basis of that correct understanding we should be able to engage the world more directly. We must avoid the economist's (Austrian or otherwise) vice of focusing our attention exclusively on other economists rather than on the economy.³

DR. SENNHOLZ'S OWN SCHOLARSHIP
AS AN EXAMPLE OF STRIVING FOR RELEVANCE

The most significant contributions Dr. Sennholz made in his career were undoubtedly in the classroom and lecture hall. A dynamic public speaker (who knew how to use his German accent to highlight points), Dr. Sennholz spoke to thousands of college students and lay audiences over his years at Grove City College and then as President of FEE.⁴ He wrote continuous commentaries of the world of public policy, and continues to do so today on his Web site (www.sennholz.com). Many of these pieces are not what one could refer to as scholarship, but are instead exercises in economic journalism. Some actually are more moral sermons than economics—sermons on the private property order and sound monetary policy. In addition to this commitment to almost daily engagement in contemporary public policy issues, Dr. Sennholz did publish books intended to be more lasting contributions. Characteristic of his intellectual interests, however, each of these books are devoted to public policy issues—European development after World War II in the 1950s (1955), the problems of inflation in the 1970s (1979), the issue of unemployment in the early 1980s (1987a), the looming problem of debts and deficits in the late 1980s (1987b), and a proposal to restore monetary freedom (1985).

In each of these books, Dr. Sennholz sought to use the important insights of the Austrian School of economics, and in particular those of his teacher Ludwig von Mises, to expose the failings of government policy to manage the economic system. Mises, along with Wilhelm Röpke, were the most influential economists on Dr. Sennholz and this shows in his emphasis on the security of private property, open trade, free labor, sound money, and fiscal responsibility. The utilitarianism of Mises shows in the consequentialist arguments Dr. Sennholz provides against government intervention and Röpke's moralism shows through in the ethical dimension that Dr. Sennholz rarely leaves out of his work. The basic message in all of Dr. Sennholz's writings is that the free market economy is not just efficient, but morally correct. Government interference in the natural workings of the economy is not just ineffective, but an evil that must be resisted. Inflationary policies not only distort economic calculation, but also represent a fundamental breach of trust between the government

³On the important role that economists can play in society see Dan Klein, ed. (1999) and Dan Klein (2001). For the classic statement see W.H. Hutt (1990).

⁴Within Austrian circles, Dr. Sennholz's list of students is quite impressive and includes Walter Grinder, Jeff Hummel, Sanford Ikeda, and Steve Thomsen among others. I doubt if you did a full count of Sennholz students from Grove City College who pursued their Ph.D.s or became intellectuals in support of free-market and classical-liberal causes that any other teacher in his generation, or even today, would be responsible for even half the number he generated during his career.

and its citizens. Unions do not just impede the labor market, but legal barriers that favor unions and thwart the freedom of contract introduce conflict into a market which otherwise would tend toward harmony of interests through voluntary choice. Debts and deficits do not just dissipate future productivity by crowding out private investment, they destroy the fiscal discipline required to keep government in check and ward off the entitlement mentality that is inherent to democratic processes and which brings with it social and racial conflict.

Dr. Sennholz makes these arguments in plain language with a minimal use of the jargon of professional economists. His audience is primarily the interested layman, not other economists. However, he does pepper his discourse with commentary on the work of other economists, in particular figures like John Maynard Keynes, A.C. Pigou, and Milton Friedman. His reference to the evolution of economic ideas within the economics profession is always in the context of his broader mission of exposing the popular misconceptions that underlie erroneous public policy. The economist's role, Dr. Sennholz insists, requires a courageous stance against the "putative guardians of the common good pointing in the wrong direction" (1979, p. vii).

The basic message that Dr. Sennholz attempted to convey to his readers was consistent from his first book to his most recent writings. To give an example, consider an extended excerpt from his first book, *How Can Europe Survive?*

If all the world were interventionist, peaceful coexistence of sovereign nations would also be impossible. Government interference with the operation of the market economy favors certain producers to the detriment of other producers and consumers. This "favor" and "protection" usually takes the form of influencing and regulating prices, which in turn is based upon the restriction of imports and exports. Import and export restrictions, however, are measures of economic nationalism and cause international economic conflict. Inflationary policies together with arbitrary parity regulations bring about foreign exchange shortages, which in turn lead to further restrictions on foreign trade. Numerous other forms of government intervention and protection—restriction of competition and investment, control of quantity and quality of goods produced, supervision of the methods of production employed, taxation that consumes capital and drives liquid capital elsewhere, and protection of numerous trade and professional organizations—are either direct acts of economic nationalism or depend upon supplementary acts of economic nationalism. No matter how we may analyze the system of interventionism, its inherent international aspect is the disintegration of the division of labor. Each act of economic nationalism requires painful adjustments on the part of those countries that deal with the offending country. In the final analysis, the structure of production in all countries, interdependent through foreign trade, is forced to make adjustments because of a single act of economic nationalism. Only the system of individual liberty and the unhampered world economy can provide the enormous advantages of the international division of labor and provide the milieu for nations to live in peace. (1955, p. 31)

The theme of how one intervention begets another intervention that undermines the peaceful market order is repeated again and again in Dr. Sennholz's books, articles, and lectures. The imagery that he invoked in his lectures still rings in my ears 20 years later, e.g., he described the modern welfare state as a giant circle with all of us having our hands in the pockets of our neighbors. But Dr. Sennholz did not just effectively use rhetoric and imagery to excite young minds about economics and the political economy of a free society. As the above excerpt demonstrates, his analysis had a lasting relevance. What he wrote in 1955 is as relevant for us today as it was then. In the wake of the Asian crisis of 1998 many economists, most notably Joseph

Stiglitz, called for the imposition of capital controls.⁵ But as Dr. Sennholz points out, restrictive policy on capital consumes capital today and drives liquid capital elsewhere. Dr. Sennholz's argument also remains relevant (largely as a warning) to the contemporary formation of the European Union. Rather than create an environment of freedom of capital and labor throughout Europe, industrial special interest groups and labor unions utilize political power to maintain restrictions. But as Dr. Sennholz argued in the 1950s, the establishment of freedom of trade and movement of men and capital is the most important policy move that the people of Europe could adopt. Unification would be acceptable if the majority of Europeans were classical liberals in political inclination, but with the majority of Europeans leaning toward interventionism and socialism the promise of an economically unified Europe will go unfulfilled. Unification assumes free movement of labor, whereas the welfare state requires immigration laws and limiting labor supply to maintain wages above market clearing levels for privileged labor groups. Unification assumes that individual governments will abolish all barriers to entry from foreign competitors with domestic firms to ensure that these firms are constantly striving for cost minimization in production to compete effectively. The welfare state, on the other hand, raises the costs of doing business in order to ensure that security and social objectives are met. This means that domestic firms must be protected from foreign competitors otherwise their competitive position will be endangered. In short, the welfare state breeds protectionism. Unification presumes a stable currency, whereas the welfare state leads to credit expansion to finance social democratic policies. Unification requires free migration of capital, but the welfare state requires government control of capital investments and capital movements. As Dr. Sennholz argued, "It is obvious that the welfare state is incompatible with interstate unification, which requires the European nations to make a momentous decision. They must choose between government welfare and interstate unification. They cannot have both" (1955, p. 318).

In addition to his deployment of the economic analysis of interventionism and credit expansion, a consistent theme in Dr. Sennholz's writings is, as I have said above, that the moral element should not be forgotten. Only a change in private and public morality will result in the necessary changes. "Significant reforms," he argues, "in the final analysis, are moral reforms, changes in the perception of right conduct" (1987b, p. 163).

CONCLUSION

The economic "sermons" I was subjected to at Grove City College redirected my life. There is not a day that goes by that I don't remember fondly the style and substance of Dr. Sennholz's lectures. As a teacher of basic economics to hundreds of students each year, I borrow generously from those memories to try to convey the principles of economics and their implications for a free society. I am not as comfortable with introducing the moral element into the discussion in my classes, but I fundamentally believe Dr. Sennholz is right that lasting reform requires a change in morality. The difficulty within the transition economies over the past decade in establishing a free-market economy highlights the intricate institutional matrix required for a price system to function properly. Independent of even the transition experience, political economy in principle necessitates, at a certain level of analysis, the adoption of a moral stance (see Boettke 2001, pp. 7-28).

⁵Stiglitz won the Nobel Prize for Economic Science in 2001 for his contributions to information economics. However, he has become somewhat infamous in 2002 for publishing a book critical of recent globalization efforts and challenging market-oriented policy. See Stiglitz (2002).

Dr. Sennholz, in my opinion, successfully blended his knowledge of the science of economics with a deep commitment to the moral principles governing a society of free and responsible individuals. It was this message that was conveyed clearly in his writings and lectures. To those students who were open, Dr. Sennholz's message was transformative. During the dark days of the twentieth century, when socialism had seemed to grab the higher moral ground, there remained a vital few who resisted that intellectual trend. Some of them devoted their energies to pure scholarship—Nobel Prize winners, such as F. A. Hayek, Milton Friedman, George Stigler, James Buchanan, Ronald Coase, and Douglass North pushed economics in new directions and provided new ammunition for the defense of the free-market economy. Some among these, notably Milton Friedman, also rose to celebrity status as public intellectuals. Others such as Murray Rothbard pursued a mixed strategy of scholarship and political activism, while Israel Kirzner attempted to create a purely academic Austrian movement. But as the history of the Austrian School in the mid- to late-twentieth century is written, the contributions of Dr. Hans Sennholz as a teacher and popular writer must be accounted for as well. He provided scores of young people with the opportunity to learn the teachings of the Austrian School of economics at a time when Mises's name was no longer recognized by economists. From his position at a rural liberal arts college in Pennsylvania, Dr. Sennholz conveyed in a consistent and forceful manner the principles of freedom and free enterprise for over 30 years.

Congratulations to Dr. Sennholz on this occasion of his eightieth birthday.

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