

MISES UNIVERSITY

Dear reader,

These are my lecture notes from the Mises University session from June 6 - 12, 2004. I would like to thank all of the professors for donating their time to the Mises Institute to give truly wonderful lectures, and would like to thank staff of the Mises Institute for providing me with the opportunity to attend the Mises University. It was truly a pleasure. I would especially like to thank Jeffery Tucker for his comments on my notes and encouragement.

These lectures notes are not a complete summary of the Mises University program. Since the program is so large that the [Mises Institute](#) has to offer concurrent lecture sessions, these lectures notes only summarize about one-third of the lectures given at the Mises University in June, 2004. I hope that anyone interested finds these notes useful. All errors are my own.

I encourage everyone reading these notes to attend the Mises University program in Auburn, Alabama. The Mises Institute is a beautiful building and everyone there is friendly. Auburn is a beautiful: a fitting setting for the most ardent advocates of freedom.

Parallel

Sincerely,

[David J. Heinrich](#)

<http://www.livejournal.com/users/dh003i>



Mises and the Foundation of Austrian Economics (lecture 1 of 34)

Prof. Hülsmann

Why isn't Austrian economics taught?

- State interventionism.
- The State hiring economists:
 - Biased towards the government.
 - At least don't interfere with the government.
- It is not just economics, but every field where the government displaces those it doesn't favor for those it does.

Essence of Austrian economics

- Realism distinguishes it from all other schools of thought.
- Realist philosophy.
- The mainstream economists *accept* a dichotomy in economics:
 - *Theory*: Make sense out of reality existing separately, with nothing to do with reality.
 - *Reality*.
- But Austrians *do not* accept the dichotomy
- Mainstream "heresies":
 - Positivism (test, never confirm/disprove)
 - Mathematica/econometrics
- Austrianism: realistic, immediately descriptive.
- Immediately describe something that is relevant.

Root of the Austrian School

- Austrian economics is representative of a *tradition* that reaches back much earlier than Menger, to the 14th century Orestne, who was against inflation, and wrote a treatise on the topic. There was an economics branch among the Scholastics.
- Austrian economics is an outflow of Realist philosophy:
 - Aristotle
 - Scholastics
 - Economics branch.
 - Austrian school is the only survivor.
 - influenced a century of economists.
 - St. Thomas Aquinas

- First feeble attempts at economics: applying Realist philosophy to the politico-economy.
- Branches of Realism in Italy, France, Germany; e.g., School of Salamanca, Jurists. Influenced Carl Menger. (Jurists were trained in law.)
- Relation between law and economics -- logical, rigorous, logical.
- Jewish element:
 - Austria obtained a part of Poland with many Jewish people; actually, there were many Jewish people throughout Poland, as the Jews were not persecuted in Poland.
 - Anti-semitic laws were overturned.
 - Jewish people integrated.
 - Jews brought Liberalism to Austria (also Socialism).
 - Influence on Constitution of Austria.
- Mises: came out of a Classical Liberal Jewish family.
 - Mises family was not religious, so no emphasis was placed on ethics; instead, emphasis was placed on Utilitarian considerations.
 - Mises is still in line with the Rationalist tradition, however.
 - Adopted from Rousseau, blend with Austrian topics.
- Menger:
 - Very unique "brand" of economics.
 - *Principalia of Economics*.
 - Difficulty getting published.
 - Published himself, was widely bought; was made a Professor at the University of Vienna.
 - Study fundamental economic phenomena, and explain the properties of those phenomena, isolating them and showing how they are inter-related.
 - Trace back to most basic elements:
 - Knowledge
 - Ownership
 - Information
 - Error
 - "Empirical method", similar to the natural sciences.
 - Price not most fundamental, but result of economic realities.
 - Trade of goods is a complex phenomenon, not just the show numerical relations.
 - Greatest contribution: Methodology.
 - No such thing as mathematical research in Austrian economic; explain economic phenomena, not just show numerical relations.
 - Merit: success in isolating elements that correspond to reality and explain it.
 - Error, even if use superior mathematics, if rely on arbitrary facts/aggregates.
 - Must explain complex phenomena, not just assume them as given.
 - Menger's theory of concrete prices: stress partial needs in relation to other partial needs. Value individual quantities of goods, not the whole class of goods over other goods.

- *Marginal Value* -- explains prices
- *Main contribution* -- empirical methodology, Realist Philosophy
- How did Menger end up as the founder of the Austrian school?
- Much opposition to Menger in academia
- But Menger was picked as tutor for the future King
- Became close friends with the future King.
- Suddenly, Menger very important.
- Used position of power to found Austrian School and appointed his best students to the chairs; e.g., Boehm Bawerk.
- Thus, Austrians played key role Austrian.
- Austrian Subdivisions
 - Main Line: Boehm Bawerk -- most important student of Mises.
 - Wieser -- Wieserian line
 - Influenced by:
 - Jevons
 - Walras
 - Menger
 - Not Menger's number one student
 - Mises was Bawerk's most important student.
 - Rothbard was Mises' most important student.
 - All of today's main line of Austrians are from the Mises-Rothbard/Menger-Bawerk line.
 - Wieser's students
 - Meyer, continued Wieserian line
 - Hayek, a student of Mises/Wieser. Hayek was Wieserian in his analytical approach; researched things that don't make sense from the Realist perspective. Tried to develop all theories to show how the free market zooms in on equilibrium.
 - Hayek's most important students were Kirzner and Garrison.
 - Mises considers equilibrium as only a tool to explain interest vs. profit.
 - Schumpeter: side-line of the Austrian school. Creative destruction. Tried to bridge Mises and Walras. Equilibrium is changeless, only interesting in disequilibrium.
- Boehm-Bawerk:
 - Four-time head of Ministry of Finance.
 - His works were translated very quickly.
 - Main representative of Austrian economics outside of Austria.
 - Teacher of Mises.
 - Attracted not only Austrians, but also Socialists.
 - Three Contributions: (*Capital and Interest: I & II*)
 - Time-preference to explain interest rates. Root cause.
 - Time Preference Theory of Interest.
 - Criticized Marxist "theory" of interest. Marxist theory of interest has certain parts that are plainly contrary to fact. They used "exploitation" of the working class to explain interest: predicts

interest rates would be different in different industries; but in reality, there is only one interest rate.

- Marx responds that it was really just aggregate.
- Bawerk responds that Marx hasn't explained anything.
- "Power and Economic Law." E.g., can labor unions or governments raise wage-rates at will? Political forces, however strong, never act against economic laws, but through economic laws. For example, what happens is that unions cause jobs to be shifted; if universal, they create mass unemployment.
- Mises
 - Influenced/taught by Bawerk.
 - Interest in history.
 - Initially, in tradition of Historical School.
 - Then encountered Menger's *Principles of Economics*, which changes his views, and demonstrated to him that there was a Realist Theory.
 - Mises was in the Realist tradition.
 - No economist with as many contributions as Mises:
 - Theory of money.
 - Money plays very important impact on real economy.
 - Effects not spectacular, like Keynesians, though.
 - Changes in money supply causes changes in distribution of wealthy: early-ones benefit at expense of late-comers, who are harmed by increased prices.
 - Value of money determined by same laws that affect anything else.
 - Business Cycle: Changes in money supply alter entrepreneurial investments. Lower interest rates. Entrepreneurs think real time-preferences are lower, thus invest in higher order goods, with longer time-frames. Eventually, errors are revealed as they realize that the funds to complete the investments don't exist, the products don't sell, or a halt in the inflation reveals real time-preferences through the natural rate of interest.
 - Calculation Critique of Socialism:
 - Rational calculation of capital is determined by profits, which are determined by money-prices. Money prices are necessary for any rational decision-making of how to distribute resources.
 - Socialism destroys money-prices. Money-prices require two owners: one of money, the other of the resource.
 - Because in a socialist "economy", "society" owns everything, there are no money prices. No way to decide which lines are the most profitable and efficient relative to other lines.
 - Socialism -- no common basis of calculation.

- Epistemology of economics. Economics is a sub-division of the science of Praxeology, the study of human action. Axioms are apodictic and can be shown to be absolutely true.
 - Choice. Absolutely true that we make choices. To argue against that is contradictory because you're making a choice.
 - Our knowledge of choice is from reflection. Can't be proven or disproven by observations.
 - Few economists think of epistemology. Positivism and empiricism is essentially a "bad religion".
 - No mainstream economists can intelligently discuss *a priorism*. E.g., Friedman said that the only way to resolve "differences" between praxeologists is to "shoot it out". Empirically false -- no shootings here.
 - All good economics is Realist; there is no useful positivist economics.
 - Today, modern theories of money are mostly like magic. e.g., printing out money can do "great things".
 - Commodity money can be money without being legal tender, but fiat paper money *must* be legal tender.

The Marginalist Revolution (lecture 2 of 34)

Prof. Salerno

Introduction

- Fathers of the marginalist revolution:
 - Menger (logical)
 - Jevons (mathematical)
 - Walras (mathematical)
- Jevons and Walras thought that Marginal Utility was a quantity; Menger thought it was personal utility.
- According to Menger, Austrian economics is the expounding of Marginal Utility.
- Menger is considered the founder of the Austrian school by all of his successors.
- Before Menger, economists thought that price was determined by the cost of production.
- Menger: Prices are determined by changes in peoples preferences and needs. He thus set out to determine the relationship between objective things and prices.

The Classical School

- Members:
 - D. Hume
 - D. Ricardo
 - A. Smith
- Prices are determined by supply and demand; the Classicists focused on the businessman and did not focus on the consumer.
 - Prices are determined by natural law.
 - Entrepreneurs make decisions via these prices.
- Classical explanation:
 - Prices increase.
 - Entrepreneurs see this.
 - Entrepreneurs thus produce more of that which is priced higher.
 - Prices then fall down, so that profits approach the normal rate of interest.
- The Classical economists focused on the businessman, but didn't consider why prices changed.
- Classicists wrongly looked at classes of goods, not just specific goods on the margin.
- Classicists faced the paradox of use value vs. exchange value, the so-called "*Paradox of Value*": Diamonds have a low use-value, but a high exchange value -- how do you

explain this?

- Classicists tried to determine / understand value through the “objective”; value was determined by the cost of production.
- Note: Menger renamed *use-value* to *subjective value*, *exchange value* to *objective value*.
- Can explain the price of an SUV by the Cost of Production (COP), but not the price of some rare antique; this is absurd.
- Classicists did not answer the Socialists because they didn’t focus at all on the underlying institutions making all of this possible.

Menger’s Approach

- Man is the beginning and cause of all economic activity.
- From Bastiat: All economics is to satisfy human wants.
- Menger linked the satisfaction of human wants to the actual prices, which no-one had done before him.
- All things are subject to cause and effect.
- Humans are means and ends to the economic politic.
- Dual causality:
 - Goods are *consumed* for the *satisfaction* of human wants.
 - The satisfaction of human wants is what *causes* the production of goods.
- Focused on goods.
- Four *prerequisites* to a *Good*:
 - Human need.
 - Objective capacity in thing to satisfy that human need.
 - Humans must know that the thing can satisfy the need, and know how to use that thing to satisfy the human need.
 - Human beings must have the ability to control the thing.
- A few notes on the *Four prerequisites to a Good*:
 - Mises: (2) is wrong: People only need to believe that the thing can satisfy a human need; thus, criteria (2) and (3) are redundant and can be combined into one criteria. Carl Menger had already partially accounted for this with the term “imaginary good”.
 - *Economic goods*: Economic goods meet all four criteria and are scarce in relation to human needs. Today, in modern Austrian economics, we just say “good” and don’t refer to “non-economic” goods as goods at all; e.g., we do not refer to the air as a good in most cases.

Marginal Utility to Determine Price

- With understanding of what it means to be an economic good, we can explain price.
- Consider 5 sacks of wheat in Crusoe economics, and these value-scale:
 - 1st sack -- life
 - 2nd sack -- health
 - 3rd sack -- seed for future harvest
 - 4th sack -- feed for farm animals
 - 5th sack -- whiskey
- What determines the value of a sack of wheat?
 - If he loses a sack, he's going to lose his 5th use-ranking.
 - He loses the satisfaction from the lowest ranked end that can be satisfied with the given supply -- Marginal Utility.
 - So, he values it at its Marginal Utility.
 - As supply increases, the lowest ranked end that can be satisfied goes down the value scale, so that Marginal Utility decreases; thus, price decreases (diminishing Marginal Utility).
- Consider the following value-scale in Crusoe economics, where Crusoe has three horses and two cows...If he had to lose one, which would it be?
 - 1st: Horse -- plow
 - 2nd: Horse -- plow
 - 3rd: Cow -- milk
 - 4th: Cow -- cheese / butter
 - 5th: Horse -- riding

It would be *a horse*, because the horses have the lowest Marginal Utility.

- There are no units of Marginal utility, but simply rankings; e.g., one may rank product X above the price paid, or product Y above the price paid.

Implications of Marginal Utility

- The structure of causality is like such, with subjective price-determination via imputation from consumer-wants to producer-goods prices:
 - want-satisfaction
 - rendition of service or goods
 - consumer goods
 - producer goods
- The objective structure of production, however, of course, goes in reverse:
 - producer goods
 - consumer goods
 - rendition of service or goods

- want-satisfaction
- Classicists have it exactly wrong when they say value is determined by the Cost of Production.
- Production goes the other way, from producer goods to consumer want-satisfaction.
- Orders of goods:
 - Higher -- producer
 - Lower -- consumer
- complementary goods are higher order goods used together to produce the goods one level below them, with regards to the orders of goods.
- Law of Marginal Productivity
- Valuations at exchange are *not* the same between trading parties, as the Classicists say, but are reversed. If John trades oranges to Eric in return for Eric's apples, it is because John values the apples he receives more than the oranges he is giving up. More precisely, with each trade, John places a higher marginal value on the apple he receives than on the orange he loses; likewise, with each trade, Adam places a higher marginal value on the orange he receives than on the apple he loses. Trade stops when either John or Adam places a higher marginal value on what he would be giving up than on what he would be gaining.

Value, Utility, and Price (lecture 3 of 34)

Prof. Herbener

Basic points about *Human Action*

- Human Action, the *Action Axiom*: man acts, using means to obtain ends, so as to ease unrest felt.
- The *Action Axiom* is true in the Aristotelean sense in that nay attempts to disprove it are in fact actions, and are thus self-contradictory.
- Understanding ("*verstehen*") of human action comes from our reflection on conceptual structure.
- Only human beings as individuals can act; this rules out collective action; thus, we can forgo "group valuation".
- How do we reconcile different individuals with the overall group?
- Appraisal -- choice between two alternatives, scarcity; in fact, action implies scarcity.
- Choice is two-dimensional: one thing is *chosen*, while the next-best thing is *forgone*.

Choice and Preference

- Choice is choosing between two alternatives.
- Preference is just our ranking of the alternatives in the *ordinal* sense (e.g., 1st, 2nd, 3rd, etc).
- Praxeologically, preference is part of action. There is no such thing as preference separate from action, and thus no such thing as a "preference map" existing separately from action.
- Preference can only be demonstrated through action; there can only be demonstrated preference. Thus, we often times cannot know very much about an individuals value-scale, except what can be deduced.

Value

- Value is subjective: that is, it is in the *human mind* and lacks extensive objective property; value does not exist outside of the human mind.
- Because value is subjective and wholly in the human mind, it can not be measured.
- Value is the state of mind we have; thus, there are *no cardinal* units of value (e.g., 1.5utils), as such is non-sensical; thus, we cannot add or subtract value, nor do any other mathematical manipulations of it.

- Values are not constant, but are constantly changing.
- There are no constants that relate our actions to objective conditions.
- Value is not a cipher through which, influenced by external factors, preference determines action.
- Mainstream economists have tried to use “cardinal rank” to *represent* ordinal rank; thus, they arbitrarily assign numbers to ordinal rankings:
 - e.g.,
A -- 95
B -- 85
C -- 75
 - However, as Austrians note, A, B, and C are not like grades, but are states of mind.
 - Cardinal numbers are not a representation of ordinal rank: they are a “representation” plus a quantitative difference between the rankings.
 - The mainstream response was to do linear transformations, which don’t change the function, but only the gap-size.
 - The Austrians responded that linear transformations don’t change the ratios. The only way to “represent” ordinal ranks would be through *all* cardinal functions.
- The mainstreamers then tried to use the concept of *indifference* -- the possibility of being indifferent between two options -- to equate utility:
 - *Leap of Faith*. This is wrong: to say that someone is indifferent is to say that they can’t make a choice; if they can make a choice, then they were not indifferent; however, to say that someone can’t make a choice is not to say that he or she equates utility.
 - Ordinal preference rankings:
1st: \$100
2nd: good X
3rd: \$80
 - Cardinal preference rankings:
ordinal rank: good -- utility function
1st: \$100 -- (2x,1y)(1x,2y)
2nd: X -- (1x,1y)
3rd: \$80 -- (0x,1y)
 - Money is never valued in this system -- only the “utility cardinality” of one good vs. another good. This is *unrealistic*:
 - The realistic thing to do is to consider the value scale: money vs. goods.
 - Unrealistic, because it requires us to map out a utility function for all possibilities, as if such a thing exists; in reality, individuals only demonstrate preference through action, and the idea of a utility map is contrary to that.
 - Indifference does not explain *action*, but only *inaction*.
 - Indifference is not a useful economic theoretical concept, as indifference cannot be revealed through action, nor can indifference explain action. Indifference is

only useful to psychologist, entrepreneurs, and forecasters.

- Continuity: assumption that indifference is infinitesimal, smooth. In *reality* there is no reason to think that economic phenomena are continuous.
- Assumption that utility function is constant, so that we can empirically *measure* a demand curve. This is flatly wrong, as peoples valuations are constantly changing.
- Summarily, indifference is simply an *equivocation* that allows economists to get to cardinal utility. Bah humbug.

Valuation leads to the societal division of labor

- Individuals always aim action at maximizing psychic profit, and can evaluate actions. This is implicit in the *action axiom*, that “man acts”.
- All action is economizing; decision are based on valuation.
- Alternatives for valuation:
 - One person does all valuation for everyone (problematic).
 - Weigh opportunity costs.
 - All individuals decide for themselves.
- No one person can do all of the calculation needed to determine what should be produced.
- General structure of causality:
 - Preferences cause supply and demand.
 - Supply and demand determines the prices of goods.
 - The prices of goods determine the cost for consumers, and the revenues for entrepreneurs.
 - Preferences determine the supply of factors. The revenue for entrepreneurs restrains their demand for factors.
 - The supply of factors and the demand for factors determines the price of factors.
 - The price of factors determines the revenues for sellers and the costs for entrepreneurs.
- Two *Laws of Utility*:

These laws apply for equally suitable uses of goods; one unit serves any one end; e.g.,
 1st use of car => transportation to job
 2nd use of car => errands

 - *Diminishing Marginal Returns*: the greater the stock of the good, the lower the value of the marginal unit, because that marginal value goes to the least valued use.
 - More units of a good are preferred to less units of a good.
- Consider the following examples (H = horse):

| Rank | Buyer A | Buyer B | Buyer C |
|------|-----------|-----------|-----------|
| 1st |\$16k |\$14k |\$12k |
| 2nd |H |H |H |
| 3rd |\$13k |\$15k |\$11k |

| Rank | Seller X | Seller Y | Seller C |
|-------|----------------|--------------|----------|
| 1st | ..\$11k..... | ..\$13k..... | ..\$15k |
| 2nd | ..H..... | ..H..... | ..H |
| 3rd | ..\$10k..... | ..\$12k..... | ..\$14k |
| Price | .. $Q\{D\}$.. | .. $Q\{S\}$ | |
| \$15k | ...1..... | ...3 | |
| \$14k | ...1..... | ...2 | |
| \$13k | ...2..... | ...2* | |
| \$12k | ...2..... | ...1 | |
| \$11k | ...3..... | ...1 | |

Above the market clearing price (\$13k), sellers want to sell, but buyers don't want to buy.
Below the market clearing price (\$13k), buyers want to buy, but sellers don't want to sell.
At the market clearing price, buyers want to buy and sellers want to sell, and all traders have their preferences satisfied. Price fixing at a price above or below the market-clearing price will result in excess supply or shortages, respectively.

Praxeology: The Austrian Method (4 of 34)

Prof. Hoppe.

Introduction

- Are economic propositions logically deriveable from *apodictically true axioms*? Or are they just hypothesis that need to be *tested* again and again?
- Everyone, except Austrians, believes economics is *empirical*, in need of testing; albeit, the good economists don't practice what they preach.
- The Austrian position used to be the mainstream position, until Milton Friedman's 1950s essay on the positivist method. Previously, Lionel Robbins, who was heavily influenced by Mises, was most referred to for methodology.
- *Modern positivism*, or *logical empiricism*, is the heir of empiricism. Most important was the Vienna Circle. The logical empiricists are also the heirs of Karl Popper, who preferred the term "*positive falsification*", or "*critical rationalism*". The Vienna Circle movement was small in Europe, but became influential when it emigrated to the US.

Popperian Positivism

- Two types of propositions:
 - *Empirical*: verifiable for positivists; for Popper, must be falsifiable through experience. Nothing can be known with certainty.
 - *Analytical statements*: do not say anything about reality, but represent tautologies, things true by definition.
- Out of step with Aristotle.
- According to Positivists, then, there can be no normative statements; normative statements are just statements of preference.
- Scientific explanations are the same as scientific predictions in terms of structure:
 - IF A, THEN B.
 - If observed reality is consistent with economic theory, then so far we have not found out that the theory is false, according to the positivists.
 - If observed reality is different from economic theory, then we reject the hypothesis; however, we cannot say that no relation exists between A and B, but only that the relation is not exactly as we hypothesized it to be.
- Relativistic implications of positivism:
 - No absolute ethics.
 - Implies adopting the philosophy of social engineering: *everything* is possible and *everything* can and *should* be tried out, so long as we "keep an open mind".

- Economic laws require testing. Inductively, these are statements about reality which do not need any testing:
 - Minimum wage leads to higher levels of unemployment than would otherwise exist.
 - Inflation does not make us richer.
 - Under socialism, there is no cost-accounting.
- Relativist result: if all these things are just hypothesis, we need to try them out to find out if they are true or not; e.g.:
 - We need to test out the “hypothesis” that minimum wage laws cause higher unemployment, perhaps we can raise minimum wage to \$1,000,000 an hour and not cause unemployment levels to be higher than they would otherwise be.
 - We need to test out the hypothesis that inflation does not make us richer. Perhaps printing out piece of paper can make us richer. The State should try printing out 900 trillion dollars, to see whether or not we will become richer.
 - We need try out *Socialism*. Perhaps economic calculation is possible under *Socialism*.
- Austrians know that we don’t need to try out these things -- we know that the cited economic theories are correct, and that the idea of testing them out is humbug.
- According to positivism, a result different from the hypothesis doesn’t falsify it, but just shows that the hypothesis is not correct exactly as stated. So there is an infinite number of excuses to try out every imaginable form of non-sense.

Criticisms of Positivism

- If the statement that there are only *analytical* propositions and *empirical* propositions is true, then:
 - Is that statement *empirical*? If so, then *why* believe it? There could be an infinite number of other statements, and it could never be proven.
 - Is this statement *analytical*? If so, it is *meaningless*, and only *definitive*.
 - Is this statement *neither* analytical nor empirical, but a statement that is true *a priori*? To say that the statement is *a priori* true is non-sensical, because it is a *self-contradiction*.
- *Definitions* are either *stipulative* or *ostensive*. What kind of definition is this?
 - If *stipulative*, then so what? It is just something that’s stipulated.
 - If *ostensive*, then you can’t say it is a true definition, because that is self-contradictory.
- In any event, positivism is meaningless for *human action*. It mandates constant manipulation.
 - Economists proceed to try to either confirm a hypothesis or not to confirm it.
 - Why do we say it is a confirmation? Why not just say it is a string of facts? “Here is on fact, here’s another.”

- Likewise, why say that we've falsified the hypothesis? Why not just say that there are two different facts? "Here is one fact, here's another."
- Must assume that *causes* operate in a *time-independent* manner. Yet, how can he *know* that? It can't be positively verified. And if it is not verified, it is meaningless according to the positivists' own philosophy.
- This, however, cannot be confirmed empirically.
- $y = aX + b + e$
- Say y is a human action. The positivist must conceive of himself as a variable. The person engaging in this venture will have different knowledge after the outcome. But he doesn't know the outcome in advance -- we don't know what we will know before we know it. We can only know it when we have it.
- Actions can not be predicted like the movements of the stars.

Time Preference and Interest (lecture 5 of 34)

Prof. Herbener

Terms

These terms are *praxeological* -- important for us being able to envision our action.

- *Period of production* -- the time from the beginning of an action to the attainment of an end.
 - Working time, in stages of production.
 - Maturing time.
- *Duration of goods* -- time for which a good can maintain service.
- *Period of provision* -- time horizon we imagine when starting the action of how long the action will have an effect.
- *Time-irreversible flux* -- as we cannot allocate time, we cannot own time; thus, we cannot control it. Thus, we cannot treat time as a *factor of production*. The relevant view of time is always *sooner* vs. *later*:
 - economizing time, prioritizing the placement of our ends in time.
 - *time-preference* -- we prefer the same end *sooner* rather than *later*.

Time-Preference

- It is only because of *time-preference* that the *period of provision* is *not infinite*, which would contradict action. Also, we have time-preference for means.
- Time-preference is a praxeological concept interwoven with and implied by the action axiom, as action implies preference to act now, not later.
- Production processes, where we are not immediately able to satisfy our needs; ends do not satisfy needs.
- To engage in a large production-process, we must:
 - Obtain more the good.
 - Obtain a good that cannot be produced with a short production process.
- If time-preference implies the shortest processes of production are already taken up, we must use longer production-processes.
- Time-preference is displayed in every stage of production, linking together the structure of production.
- Always future-looking.
- No exceptions to time-preference, because it is bound up with action:

- e.g., two tickets, one for Friday, another for Thursday. If we prefer the Saturday ticket to the Friday ticket, we are really choosing between one present good and another.
- e.g., we value ice more in the Summer than in the Winter. In such a case:
 - Winter ice is a factor of production, and summer ice is a consumption good (consumer > producer).
 - The marginal utility of ice is greater in the Summer, less in the Winter.
 - Direct economizing of resources in time.

Rate of Interest

- Time-preference is manifested in the *original rate of interest* or *natural rate of interest*.
- Interest is the premium placed on the present, or discount we place on the future. Yearly percentage discounts on the future.
- The premium of the present is identical to the discount of the future.
- *Time market* -- exchange of present money for future money
- In exchange of present money for future money, we must have reverse preferences or ordinal rankings: between high- and low- time-preference individuals.
- Time market components:
 - *Credit market* -- loan, not consummated until the future:
 - Consumer loans
 - Producer loans
 - *Production structure* -- pair of cash transactions; factors / costs of production are incurred sooner in time. Entrepreneurs will not give factors of production money now unless he's paid a premium: unless the final output gives him more money than he put in.
- *Marginal revenue product* (MRP) -- how much additional revenue you obtain for each additional factor:
 - Price of output
 - Productivity of factor
- Entrepreneur will never pay the factor higher than its MRP, and never lower than its MRP because of competition, bidding for the factor:
 - Prices of factors, prices paid for factors, are never greater than the marginal revenue product (or rather, the discounted marginal revenue product, DMRP)
 - Rate of return is determined by the discount placed on the investment.
- Net income compensation: $\text{Price} = \text{MRP} / r$
 - Entrepreneurial interest
 - Entrepreneurial profit
 - Entrepreneurial income
- Natural market rate of interest components:

- Duration
- Entrepreneurial uncertainty rate
- Price premium
- Why aren't the prices of the production-factors bid up to the full MRP?
 - *Correct answer:* time-preference
 - *Incorrect answer:* "productivity of money"

Wages and Labor (lecture 6 of 34)

Prof. DiLorenzo

Why do people work?

A lot of anti-capitalist propaganda tries to convince people that work is the result of an unfair social system, and that workers are being systematically exploited. So, why do people really work?

- Benefits > costs
- People like labor
- Curiosity
- Like achieving something
- Like the process
- Satisfying particular wishes
- Psychic profit

Labor

- Labor is a commodity: Value Marginal Product --
 - Marginal productivity of labor
 - Price of commodity being sold
- Human capital resources, Marginal productivity of labor.
- Capital -- increases the marginal productivity of labor, which increases wages ($P\{q\} * MP\{1\}$)
- Anti-capital laws slow income growth.
- Capital accumulations are what really reduced / eliminated child-labor.
- All labor is connected: When labor unions get wage-rates increased, companies lay off employees, who go elsewhere, causing more supply elsewhere and driving down prices.
- No such thing as an “employer-cartel”:
 - If pay employee below his discounted value marginal product, he will be bid away by competitors.
 - To deny such would be to argue that hundreds of thousands of employers agree to set prices low:
 - Huge profit-incentive to cheat.
 - Historically, has never been done.

Catalactic Unemployment

Voluntary unemployment in the free market.

- Seasonal industries
- Searching for better job
- Unwilling to move
- Laziness, sloth
- Pay not high enough
 - Pay not high enough to compensate for welfare lost
 - Pay not high enough to compensate for the disutility of labor.

Institutional Unemployment

Unemployment created by State-interventionism.

- *Minimum wage*, which prices people out of jobs: Why not make minimum wage \$1,000 per hour?
- *Mandated costs* (“benefits”) -- any law that mandates any benefit increases the cost of employees, whether or not their “wage” goes up; e.g.:
 - vacation
 - health insurance
 - etc
- *Labor unions*, which try to raise wages above the free-market level, via various means:
 - Strike or threat of strike
 - Propaganda war against the company, which could be disastrous
 - Sabotage company they work for
 - *Note*: During the Great Depression, laws were passed that allowed labor unions to drive wages up unbelievably high, causing enormous unemployment, exacerbating the unemployment rate during the Great Depression, worsening the depression.
- Government spending, which drains off money from the private sector and causes inefficient resource-allocation.
- Unemployment “insurance”
- Laws that require companies to match labor wage rates
- Child labor restrictions (15yr olds can’t work at McDonalds)
- Restrictions on female labor -- in the 80s, women sewed in their basements, and sold the products they made; labor unions convinced The State to shut them down on the justification that they’re being “exploited”, despite testimony of the women to the contrary. The obvious reality is that the labor unions wanted to eliminate the competition.
- Occupational licensing; e.g., in NYC, it costs \$300,000 to be a cab-driver.

- Taxes, such as the pay-roll taxes and with-holding taxes.
- The cost of State-mandated paper-work.

Calculation and Price Theory (lecture 7 of 32)

Prof. Salerno

Classical Critique of Socialist Utopians

- Who will take out the trash? Incentive problem.
- Response: New socialist man will emerge and the problem will go away.
- Marx: Anyone who even discusses what Socialism will look like is *ipso facto* unscientific; it is simply historical law.

Mises' Critique of Socialism

- Points:
 - Why price system is necessary
 - Why money prices are needed
 - Why Socialism can't calculate
- Rational allocation of resources under Socialism is *impossible* because it abolishes the essential pre-conditions:
 - Money
 - Markets
 - etc.
 - Money still exists, maybe, but that's not enough
- The individual does not need prices to rationally allocate resources -- simply compares costs and benefits, input materials vs. output materials. *Non calculable action*.
- Why can't a planner make said rational decisions in such a way, using either his own value or "everyones"?'
 - Need economic calculation.
 - Need to know costs and benefits in a monetary amount.
 - Infinite number of combinations.
 - It isn't a question of knowledge; it's a question of volition: will.
 - Allocation problem: How do you know what to produce?
 - Production problem: What's the best way to produce the product? You do not know the opportunity cost of any given action.
- Free market solution: relies on prices to determine where to allocate scarce resources, and determine how to produce; know opportunity cost.
- Not only is a socialist economy not possible, it is a contradiction in terms. It is impossible

in the sense that you can't economize on resources: gross misallocations of labor.

- The Soviets tried replace markets with the *Gross Output Plan*:
 - Quotas on how much each section should produce.
 - Incentive problem.
- The Soviet Union only lasted so long because it wasn't a real Socialist State; it had free-market references. When they tried real Socialism -- no price, no market -- society broke down and reverted to primitivism, and went back to the household economic (1917-1921, "*War Communism*").
- Intellectual division of labor (Mises):
 - Consumers.
 - Entrepreneurs.
 - Resource-producers

Consumers determine prices and entrepreneurs determine resource-prices; together, they determine profit and loss.

- Markets are a social appraisements process: entrepreneurs bidding for resources summarily appraise prices, which, as a market, works to appraise. Cardinal number with price.
- Entrepreneurs can make mistakes, and do so all the time:
 - Entrepreneurs can see when they err, by losses, and fix that situation.
 - That process isn't available to Socialists, as The State owns all property, and can't tell profits or losses.

Socialist responses (simplistic)

- 1920s: Add up apples and oranges.
- 1920s: Add up labor hours. Idiotic, because you can't compare different workers labor hours, and this doesn't account for land/capital.
- 1920s: Tell managers to just do what they're doing right now -- only works if the world is static.

More complex Socialist reponses

- *Mathematical solution*: compute prices. This is not practical, as there are an enormous number of factors, and mind-boggling number of possible combinations.
- *Trial and error method (market Socialism)*:
 - Central Planning Board provides prices, and managers accept them.
 - parametric function of prices.
 - Tell the firm to minimize average costs using the given prices.
 - Where do the prices come from? Arbitrary. If find surplus, lower price; if

shortage, increase price.

- Hayek's / Robbins' response to the mathematical problem:
 - Data scattered, hard to collect.
 - Even if you do collect all the data, the system of equations is too large to solve.
 - Even if you could, by the time all of that was done, the data would be obsolete.

However, note that Hayek and Robbins made a major concession to the Socialists -- that it is possible.

- Mises' response to the mathematical problem:
 - Central Planning Board still owns all resources.
 - capitalism is not only managerial, but also entrepreneurial.
 - You need a stock market, so you can dissolve bad firms and reduce the size of those that are junk, or institute new management.
 - You must have the threat of profits, losses, and bankruptcy.
 - Mises called this "playing market", which would produce market prices just as much little girls "play house".

Money and Banking (lecture 8 of 32)

Prof. Hoppe

Three Types of Goods

- Consumer -- directly useful.
- Producer -- used to produce consumer-goods.
- Money -- common medium of exchange.

Barter Economy

- Why exchange goods in a barter economy? In a world with different resources, there are benefits to the division of labor:
 - *Absolute Advantage* -- one person is good at something, another at something else. If they specialize, they can produce more net goods and trade.
 - *Comparative Advantage* -- everyone specializes in the area where they're the most competent, both superior and inferior people, because of the scarcity of time. This results in more being produced.
- In order for A and B to exchange, each must have a *particular* good that the other wants: Double-coincidence.
- With *perfect knowledge*, all exchanges could be barter.
- However, in the real world, there is *imperfect knowledge* (uncertainty). E.g., A has something that B wants, but B has nothing A wants. How do you solve this?

Indirect Exchange: Money and the Monetary Economy

- Not all goods on the barter economy are equally marketable.
- So, an individual trades a less marketable good for a more marketable good.
- Thus, individuals buy the good not just for its use, but also for a medium of exchange.
- Result: That more marketable good becomes even more marketable, because you still have people using the good directly, and now there is one person for indirect exchange.
- Less intelligent people copy the very intelligent person, who uses the good for indirect exchange.
- More and more people copy said individual, because that good becomes even more marketable, and the benefits become greater.
- The good develops into money.

Benefits of Indirect Exchang

- Can engage in cost-accounting, with a common unit.
- Commodity that develops as money must be valuable in the first place, and can not be worthless paper at the beginning.

Features of Money in a Monetary Economy

- Must be a valuable commodity to begin with.
- Divisible.
- Transportable.
- High value per unit weight.
- Easily recognizeable.

Evolution of World-Wide Money

- Division of labor is beneficial, and encompasses the entire globe.
- If there are different moneys, you still need an international commodity money.
- As the market begins to encompass the entire world, one expects the evolution of a world-wide money standard to better facilitate exchange.
- That is exactly what happened with the Gold Standard.

Money as a Good

- If you double or half the money-quantity, by enlarge prices will adjust to increase or decrease, so society is no richer or poorer.
- So, any given quantity of money is as good as any other.
- Newcomers to inflation, or first-spenders of new money, will gain at the expense of second-comers, or second-spenders:
 - First-receivers can buy lots of goods at low prices, increasing the price of those goods, and enrichening themselves.
 - Second-comers find higher prices in those goods.

So, inflation makes some richer at the expense of others.

- However, increases in the money supply make us richer to the extend that the "money" is used for non-monetary purposes; obviously, this doesn't apply for *fiat* paper-money.

Falling Prices Under the Gold Standard

- The supply of goods expands faster than the supply of gold, so the prices in terms of gold tend to fall.
- This does not harm business, because the cost of their inputs goes down as well.
- Some individuals, like Milton Friedman, think that the purchasing power of money should be stable. This is absurd, because people want the value of their money to rise, and because the world is constantly in flux.

Explaining the Fiat Regime

- Current world system:
 - Not commodity money.
 - Purchasing power of money decreases.
 - Rising prices.
- States:
 - Want to increase income.
 - Can tax (coercion).
 - Inflation (thievery) -- safer.
- The State aims to control money:
 - Convince people that the State needs to have a monopoly on gold coins, to prevent fraud:
 - The free market really prevents fraud, because competitors would capitalize on any fraud by a company.
 - Monopoly State encourages fraud; e.g., debasement.
 - Obtain monopoly on money substitutes -- e.g., title tickets to gold, bank notes -- arguing that it's necessary to prevent fraud:
 - Again, it is competition that prevents deposit fraud, because if the bank issues fraudulent notes, competitors point that out, they redeem their bank notes, consumers redeem their bank notes, and there is a bank-run.
 - However, if you are a monopolist, you can print out money tickets and there are no competitors to call you on it; but, people eventually realize this anyways.
 - Once the State has a monopoly on gold coins and tickets (bank- notes), it declares that it will no longer redeem bank-notes:
 - Now, the bank-notes are cut from gold.
 - The tickets will still have "value", because they have become the unit of exchange.
- Historically, this has happened, such as in the US.
- Limitation: If other countries inflate slower, you have a problem, because of currency competition.

- Solution: World Central Bank, to create a world fiat money, which allows inflation at an unprecedented rate.
- Tendency towards a World Central Bank: Euro (because Germans weren't inflating), Dollar, Yen; leading to a World Central Bank dominated by the US.

Banking and Increases in the Money Supply

- *Safety-deposit banking* -- people pay a premium to the bank to store their money safely, and the bank issues bank-notes. So long as the bank-note to gold ratio is 1:1, there is no increase in the money supply.
- *Savings and loan bank* -- another function of the bank is to allow savers to obtain interest by loaning money to loaners. The bank obtains income between the interest differential. This system needs no reserve, and is not inflationary.
- *Fractional Reserve Bank* -- issue more bank-notes on gold than is at hand, and loan out money while at the same time offering to redeem at any time. This is fraudulent and inflationary:
 - Two people have title to the same property, which is fraudulent.
 - When the bank extends a loan to people, that implies it gives a commodity to the borrower.
 - Normally, when people defer money to savings, they are deferring their purchases into the future, and allowing business to make investments.
 - But now, people are spending money as well.
 - So there is not enough money for both the spending and the future spending; thus, business-investments fail.

Capital and Interest (lecture 9 of 32)

Prof. Murphy

Capital Goods vs. Capital Funds

- *Capital goods* -- machinery, etc.
- *Capital funds* -- money invested in an enterprise.
 - how much you'd get if you sold the business.
 - How much you'd get if you liquidated the business and sold all assets less liabilities.
- *Aggregations* -- many non-Austrians will try to add up total capital and compare. But, when they start talking about a nation, it is problematic, because Capital means assets you'd get if you sold the business: who would an entire nation sell its goods to, and wouldn't that raise prices?

Background: Classical School

- Classification based on the type of income:
 - Land -- rent
 - Labor -- wages
 - Capital -- interest

Austrian Distinctions

- Classification based on how produced:
 - Land (natural resources)
 - Labor
 - Capital (goods) -- "produced means of production"; Rothbard clarifies that it is more correct to call them "reproducible means of production". Capital goods earn no net rent income in the Evenly Rotating Economy.
- About people's subjective attitude towards objective things.
- Examples (Frank Fetter): 10% interest rate; machine expires in 2008

•

| Category | Amount Paid | | | | |
|-----------|-------------|---------|---------|---------|------|
| | 2004 | 2005 | 2006 | 2007 | 2008 |
| Rental | \$0 | \$1,000 | \$1,000 | \$1,000 | \$0 |
| Purchases | \$2487 | \$1,735 | \$909 | \$0 | \$0 |

- $PDV = D1/(1+r)^1 + D2/(1+r)^2 + D3/(1+r)^3 \dots$
- ROR, rate of return = $(D + dP)/P = (\$1,000 + \$1,736 - \$249) / \$2,486.85 = 0.1$
- 0% interest rate; machine expires in 2008

| Category | Amount Paid | | | | |
|----------|-------------|---------|---------|---------|--------------|
| | 2004 | 2005 | 2006 | 2007 | 2008 |
| Rental | \$0 | \$1,000 | \$1,000 | \$1,000 | \$0 Purchase |
| \$3,000 | \$2,000 | \$1,000 | \$0 | \$0 | |

- Suppose the machine becomes twice as productive, with a 10% interest rate, expiring in 2008

| Category | Amount Paid | | | | |
|----------|-------------|---------|---------|---------|------|
| | 2004 | 2005 | 2006 | 2007 | 2008 |
| Rental | \$0 | \$2,000 | \$2,000 | \$2,000 | \$0 |
| Purchase | \$4,971 | \$3,470 | \$1,188 | \$0 | \$0 |

- Remember, interest rates are determined by time-preference. So, the Classicalists were wrong in treating land differently.
- Consider a parcel of land, with a 10% interest rate

| Price | Amount Paid | | | | |
|----------|-------------|----------|----------|----------|----------|
| | 2004 | 2005 | 2006 | 2007 | 2008 |
| Rental | \$0 | \$1,000 | \$1,000 | \$1,000 | \$1,000 |
| Purchase | \$10,000 | \$10,000 | \$10,000 | \$10,000 | \$10,000 |

- How much people are willing to pay for it depends on expectations of the future.

Roundaboutness

- The more roundabout processes are, the more efficient and physically productive they are.
- The greater productivity of roundabout methods is why *Capital Accumulation* generates great wealth.
- In a sense, present goods have capital accumulated in them from the distance past.

Interventionism: Rent Control, Wage Laws, Trade, Unions (lecture 10 of 32)

Prof. Block

Rent Control

- False start: WWI.
- Really started in WWII. As hired army workers and sent them to a certain area, this caused prices to rise. So, they slapped on rent control.
 - The price control artificially lowered prices; thus, the quantity demanded exceeded the quantity supplied (marginal suppliers could no longer afford to supply housing).
 - Hence, there was a shortage of housing.
- Rent controls caused shortage:
 - Shortage.
 - No signal to entrepreneurs to build new homes.
 - No incentive to maintain existing ones.
- By 1946, most cities had abolished rent controls, except for New York City:
 - NYC changed rent controls slightly, so that the free market rate applied to new buildings, while existing buildings were under rent-control.
 - NYC also allowed free market prices for vacated buildings.
 - Thus, the way to profit was not by serving tenants, but by finding ways to get tenants to leave. Getting people to leave requires a different skill-set than enticing them to stay.
 - NYC decided to make zoning laws so that if you built a new foundation, you could use 90% of land, not just 75%. So, entrepreneurs built tons of new buildings, and rent was low; but, 6 years later, after the boom, rents rose to double and triple their former rates.
 - NYC had promised not to institute rent controls, and they didn't. They renamed rent-controls "rent stabilization" and instituted "rent stabilization".
 - *Rent stabilization* -- buildings were insured at lower rates, for the new high amounts. This resulted in many buildings being burned down to collect on insurance policies.

Wage Laws

- The reason we have to get jobs is because we have scarcity and we want more than we have.

- How much we get depends on how hard we work, how much capital there is, how free the market is.
- So, if Block cures tooth-decay, dentists use services elsewhere, etc.
- Proof that wages will always be above subsistence:
 - Wages = discounted marginal revenue product (DMRP)
 - Thus, if DMRP is greater than subsistence, wages will also be greater than subsistence.
 - No-one would hire a worker if the DMRP \leq subsistence, because he can't even produce enough to feed himself, let alone help the entrepreneur.
 - $W = \text{DMRP} > \text{subsistence}$
 - If the worker is paid less than his DMRP, competitors will bid away his service.
- The compensatory ability that low-productivity people have is their ability to work for very low wages -- minimum wage laws take that away from them.
- The higher the minimum wage, the more people suffer with unemployment who are unskilled.
- Objections:
 - It is argued that, yes, there is less employment, but those employed are making more money as an aggregate. Yet, in the long run, the demand curve *shifts*, so there is much less employment, as employers shift away from low-wage workers to alternatives.
 - Also, there are *monopsomy* analysis criticisms of Block's theory; these criticisms are absurd, because they ignore the fact that costs are subjective.
 - Another objection is that we are richer with minimum wage and no welfare, as opposed to without minimum wage and welfare. The response is that this analysis violates *cerebus paubis*; they are not holding all else constant, thus are not getting at the truth.

| Wage Law? | Pay with and without welfare | |
|--------------|------------------------------|---------------|
| | Welfare | No Welfare |
| Min. wage | $0 + 100 = 100$ | $0 + 0 = 0$ |
| No min. wage | $80 + 100 = 180$ | $80 + 0 = 80$ |

Labor Unions

- Lets say that labor union demands increase; employers then anturally look to hire cheaper factors of production.
- Unions want to make it expensive for employees to hire cheaper workers:
 - Violence.

- Government regulations: "fair negotiations".
- Wages don't increase because of unions; they increase because of increasing MRP, which increases because of capital investments.
- Unionization rates have gone from 34% to 14%, and wealth has increased.
- Many non-unionized industries are experiencing increases in wages.
- Rust Belt -- raised wages above MRP because of unions so that jobs could be exported elsewhere.
- Unions are partially illegitimate, partially legitimate:
 - Voluntary strikes, so long as the strikers aren't violating property rights, are fine.
 - Beating up replacement workers, and employer laws, are not fine, and constitute the initiation of aggression.

World Trade

- Apodictically, we know that free trade is good, because both parties think they'll benefit from trade *ex-anti*.
- It doesn't matter whether the trade is local or world-wide.
- *Absolute advantage* -- when one person/area can produce something absolutely better, another something else better, so each specializes in their absolute advantage. They then trade, and are both better off.
- *Comparative advantage* -- each country specializes in that in which it has a comparative advantage, because of the scarcity of time. Even if one country has an absolute advantage in everything, it is beneficial to specialize in that in which you have a comparative advantage, because you do that which you are best at.

Austrian Theory of the Trade Cycle (lecture 11 of 32)

Prof. Murphy

Introduction

- Over time, there are busts and booms.
- Conventional analysis is that the State needs to intervene and "fix" economic depressions.
- Austrians object to this by noting that after the State created the Federal Reserve, the Great Depression occurred.

Austrian Business Cycle: Introduction

- *Natural rate of interest* -- free market rate of interest, if the State doesn't intervene.
- *Market rate of interest* -- whatever the interest rate is in the papers.
- The State meddles with the market rate of interest:
 - The State lowers the rate of interest below the natural rate.
 - This creates a boom.
 - Misalignment sets a course of events into line that is seen as "prosperity" (increase in average standard of living), but it is really an illusion.
 - The boom is really an accumulation of malinvestments.
 - The bust is a necessary and beneficial liquidation of malinvestments, which are really misallocated resources (wasted resources).
- The Austrian Business Cycle (ABC) theory is a theory of the boom-bust cycle, not just a discussion of recession. The ABC does *not* say that *all* recessions are explainable by the ABC; albeit, most modern business cycles are ABCs.

Interest Rates: Artificially Lowering

- Mandate to lower interest rates.
- The State shifts the supply of interest loans:
- Illustration: genuine savings-induced growth. Assume a 10% interest rate.

Smith: Salary = \$100,000; consumes all annual salary

| Year | Consumes | Saves | Interest | Bank Balance |
|------|-----------|-------|----------|--------------|
| 1 | \$100,000 | \$0 | \$0 | \$0 |
| 2 | \$100,000 | \$0 | \$0 | 0 |
| 3 | \$100,000 | \$0 | \$0 | \$0 |
| 4 | \$100,000 | \$0 | \$0 | \$0 |
| 5 | \$100,000 | \$0 | \$0 | \$0 |

Jones: Salary = \$50,000; consumes half of gross income

| Year | Consumes | Saves | Interest | Bank Balance |
|------|--------------|-------------|------------|--------------|
| 1 | \$25,000 | \$25,000 | \$2,500 | \$25,000 |
| 2 | \$26,250 | \$26,250 | \$5,125 | \$52,250 |
| 3 | \$27,562.50 | \$27,562.50 | \$7,981.25 | \$79,812.50 |
| 4 | \$137,793.75 | \$0 | \$0 | \$0 |
| 5 | \$50,000 | \$0 | \$0 | \$0 |

This is how real savings accumulate.

- There is a trade-off.
- We can use a similar the PPF curve to model this: when we consume more consumer goods, but don't at least replace the capital goods, what's actually happening is that we're consuming our capital goods.
- Wages are higher because the tools we are using are increasing.
- Genuine growth: people relinquish some current consumption to channel that money into savings, which funds capital goods, which increase productivity.
- The State makes people think the interest rate is really lower, so this promotes *intertemporal coordination problems*:
 - Interest rate is key for determining profitability.
 - Interest rates show how much income people are deferring.
 - Projects that are not profitable at the natural rate of interest appear to be so at the artificially lower rates.
 - Artificially low interest rates cause entrepreneurs to react the same way they would if you had *real* rates that were low.
 - So, labor and resources are tied in these lines for longer periods of time, and products that wouldn't exist at all do.
 - Initially, this looks good, but because we don't really have enough savings

to fuel all of the new ventures, some of them must liquidate.

- People are really consuming capital.
- *Malinvestment*, not *overinvestment* is occurring; the problem is that the wrong type of capital goods are being invested in, not that people are necessarily investing too much in consumption:
 - Incorrectly channel capital goods such that they don't have the right proportions of capital goods to finish the projects.
 - Entrepreneurs engage in projects, such that we don't have enough.
- Austrians analysis:
 - Boom -- bad
 - Bust -- good
 - The bust allows resources invested in improper lines to be liquidated and re-allocated to productive lines.
 - Prescription:
 - Stop the inflation.
 - Allow the market interest rate to rise to the natural level.
 - Allow malinvestments to be liquidated.
 - Allow resources to be re-allocated to the proper lines of production.

Monopoly and Competition (lecture 12 of 32)

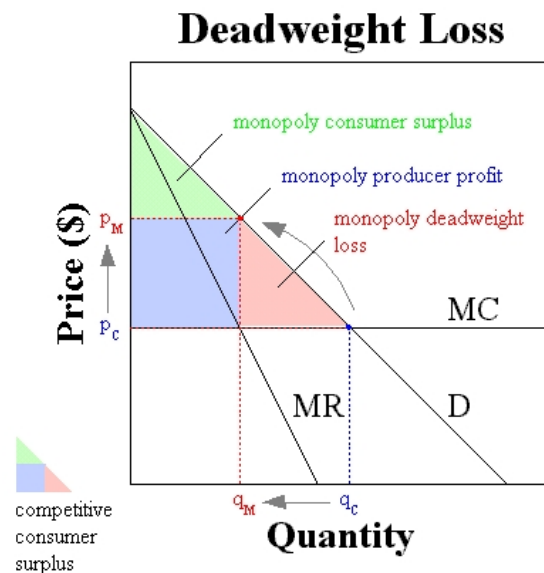
Prof. DiLorenzo

Neoclassical Competitive Model

- Assumptions of Neoclassical model of *perfect competition*:
 - Homogeneous product.
 - Homogeneous prices.
 - Price equality.
 - Perfect information.
 - Costless entry / exist.
 - Many firms.
- Difference between Neoclassical and Austrian theory:
 - Neoclassical theory assumes many things, which the Austrian theory explains how they may or may not come about: competition is a dynamic ongoing process, of which mergers are a natural consequences.
 - Hence, anti-trust interferes with that natural market process.
 - *Nirvana fallacy* -- "aha, the real world doesn't match the neoclassical model of perfect competition; thus, we need anti-trust laws.
 - Competition is essentially a dynamic process, the fundamental features of which are assumed away by neoclassicals.

Homogenous Product (Neoclassical Assumptions)

- Cereal companies started experimenting with all kinds of different cereals.
- Three companies obtained 90% of the market, and were sued by the State for having a "shared monopoly":
 - "Shared monopoly".
 - Obtained by "brand proliferation".
 - Judge ruled for the company, arguing that there are substitutes.
- Companies that engaged in product differentiation were accused of being monopolies, because they owned their own line.
- Confusion is based on a static analysis:



- Dead weight loss.
- Nirvana fallacy -- comparing what exists to what would in never-never and.
- Should be comparing to zero (0), which is what you'd get without the company.

Homogeneous Pricing (Neoclassical Assumption)

- If companies price *too low*, they are accused of "predatory pricing", and of being a monopoly:
 - Charge very low rate.
 - Drive competitors out of business.
 - Subsidize losses.
 - Then, when no-one's left, can charge "monopoly rates" and magically no-one will enter into business to compete with you.

It is pretty clear that no company has ever tried this, and any company foolish enough to try this would go bankrupt.

- If companies price *to high*, they are charged of "price gouging" or "price-fixing".
- Vanderbilt gave Rockefeller lower railroad rates because he provided such enormous business, and made a standing offer to anyone else who provided the same volume.

Many Firms (Neoclassical Assumption)

- Concentration ratios witch-hunting.
- Retreated from this in the 50s and 60s, and Austrians and even Chicagoans used arguments against it.
- But lawyers still use "concentration ratios".

- Red-Food case study:
 - Red-Food bought 7 stores that were closing down, re-hiring 400 employees.
 - The FCC sued, but the Federal judge over-ruled them, saying that Red- Food was just better.
 - But the State threatened to hold Red-Food up in court forever.
 - Thus, Red-Food agreed to sell the stores.
- Concentration is natural in the real world and always changes -- there are usually 2 or 3 companies that are just better in most industries.
- *Domino Theory*:
 - Firms emerge and can produce products cheaper and underprice.
 - Other firms see this, and merge too.
 - Then you have a wave of mergers.
 - Prices go down, and quantity goes up.

Neoclassicals see this as bad, because there are fewer firms; Austrians consider it good, because it means that there is strong competition and lower prices.

"Output Restriction" from a "Cartel / Monopoly"

- First of all, what's the "market level"?
- Secondly, how do we determine what the "market level" of production is?

Perfect Information (Neoclassical Assumption)

- The market reveals to us what that proper structure of the market ought to be -- can't know beforehand.
- If consumers know everything about products, it would rule out advertising, which facilitates competition, comparison-shopping, and lower prices.

The Theory of the Firm (lecture 13 of 32)

Prof. Klein

Limits to Neoclassical Approach

- Little insight into what firms are, what they do, why they're important.
- Little insight into practical managerial and policy issues:
 - How firms should be:
 - Organized.
 - Structured.
 - Financed.
 - Governed.
 - Effect of regulation

Aspects of the "Theory of the Firm"

- Theory of production:
 - Production structure.
 - Factor pricing.
 - Entrepreneurs' costs.
- Theory of firm proper:
 - Existence.
 - Boundaries.
 - Organization

Production and Cost

- Complexity of Production:
 - Entrepreneurship.
 - Economic calculation.
- Austrian Imputation Theory:
 - *Classical view*: costs determine prices.
 - *Austrian view*: prices determine costs.
 - *Marginalist productivity theory*: factor prices tend to be equal to their discounted marginal revenue (value) products.

Nature of the Firm

- *Neoclassical view*: firm as a production function ("black box").
- *Nexus-of-contracts view*: firm as a legal fiction.
- *Knowledge-based ("capabilities") view*: firm as a stock of knowledge.
- *Coasian view*: firm as *ownership* of assets.
- Problems:
 - *Neoclassical* -- only considers manager, very limited.
 - *Nexus-of-contracts* -- sense in which that's true, and relationship between employers and employees. Response to Marxist constual of the firm as a power relationship. However, the relationship and contracts differ from other contracts:
 - Less specific.
 - Entering into relationship where, within defined limits, you do at your boss says.
 - Contracts qualitatively different from normal contracts.
 - *Knowledge-based view* -- it is true, but tautological; doesn't say uch about how the firm's total knowledge is utilized.
 - *Coasian* -- firm is entrepreneur plus alienable assets he uses. ther individuals employed by the firm are not really a part of the firm, but imply individually contracting with the firm.

Coasian Framework

- Firm and market as alternative resource-allocation mechanism.
- External and internal transacion costs.
- Optimal boundary of the firm -- determined by cost of market transaction.
- Further development:
 - Asset specificity, and the holdup problem.
 - Markets, hierarchies, and hybrids.
 - Authority and delegation.
- Compatable with Austrian Economics?
 - Wthin the firm, the price-mechanism is suppressed.
 - It is not necessary to have a market within the firm.
 - So-long as there is still a market outside of the firm.
 - Internalize transactions until *marginal cost of internalization* equals the *marginal cost of externalization*.
 - Austrian theory is very concerned with property and who owns what.

Rothbard on Limits of the Firm

- Conventional explanation.
- Incremental limits: nature of decision-making (ownership).
- [incomplete, help wanted]

Austrian Objections to Coasian Framework

- Ignores competition.
- Says price-mechanism is suppressed (bad phraseology).
- Insufficiently "dynamic".
- [incomplete, help wanted]

Summary

- Coasian framework: ownership and authority, which is essential to Misesian calculation.
- Entrepreneurship & economic calculation:
 - Factor-pricing.
 - Firm boundaries and internal organization.
- Policy implications:
 - Need for free-market prices.
 - "Freedom to fail".

Epistemological Problems of Economics (lecture 14 of 32) *Prof. Gordon*

Basic Features of Praxeology

- By *Action Axiom* alone, can develop body of economics. Seems counter-intuitive, as not much seems to follow.
- *Methodological Individualism / Singularism* -- start with actions by individuals, because it is people -- individuals -- who act. What follows from individuals acting?
 - Characteristics of action -- what follows from it?
 - From such, can understand:
 - All actions involve *means* to obtain *ends*.
 - All actions necessitate *forfeiting* alternative actions.
 - All actions must be done through the passage of *time*
 - These things *can* be known apart from experience, *a priori* , but don't *have* to be known that way.
- Just by thinking about.
- *Action Axiom* -- man acts, using certain means to obtain certain ends, so as to ease any unrest felt.

Deductive, but not Formal Reasoning

- Not formal logic, where symbols are used in "mathematical reasoning".
- Praxeological reasoning does not work this way, but is always expressed in normal language; we always have to reason and understand, thus know what is going on at every step.
- Praxeological advantage -- always has to be understood.

Additional Assumptions

- Don't have to investigate *a priori* axioms, but they are always valid given their specified circumstances.
- Praxeology is *a priori*, but not all economics can be derived from it.
- *Postulate 1*: Variety of resources, human and natural.
- *Postulate 2*: Labor has disutility.

- *Postulate 3*: In a monetary economy, there is *indirect exchange*.
- *Postulate 4*: Firms aim at maximizing their *money-profits* (least important).
- Are these postulates really *a priori*? Consider them as conditionals that apply in most circumstances. Stated as conditionals, they are *a priori*.
- Rothbard considers them basic *laws of nature*.

Praxeology: Descriptive or Revisionary?

- Is Mises' work revolutionary?
- Mises didn't think so, but thought his work was *descriptive* of reality, and in line with what was already thought by other economists.
- Mises thought he was just describing, in methodological fashion, how economics was done.
- At least some part of the profession still follows his method; however, since then, economists have drifted away.
- Today, Mises is *revisionary*.

Historical Criticism of Praxeology

- Historical school is German.
- Laws of standard economics are just true for a particular historical period; true for one period, not for another.
- Praxeology is wrong to think that you can get universal laws of economics.
- More extreme: People of different cultures and different times have different logics (polylogicism).
- What was Mises' response? Mises said he's not universalizing particular ends, but is interested in the logical structure of action:
 - No-one came up with an "alternate logic".
 - Attempts to come up with alternate logic would be counter-productive and impossible, because the mind needs certain categories of logic to think.
 - Mises also thought that *polylogicians* had alternative motives, namely socialism.
 - Not universalizing ends, but the logic of action.

Logical Positivist Attack on Praxeology

- *Vienna Circle* -- important group of philosophers after the 1930s, though they weren't taken seriously at the time.
- Any true empirical statement is one that is excluding particular realities.

- Can think of a certain situation where said statements are not true.
- What of statements claimed to be necessarily true?
 - Positivists argue that praxeological statements are just hypothetical statements, and are not always true.
 - *A priori* statements are just *tautologies* -- that is, just definitions, or parts of definitions -- and don't actually give us any information about the empirical world.
 - Since economics is about the empirical world, it thus can't be completely *a priori*.
- Is this criticism correct? No. Mises doesn't think he's defining the most highly valued ends, as what we choose, but rather he is stating that we choose our most highly valued alternative.
- How, then, does Mises know we chose our most highly valued ends? By definition.

Economics of the Public and Semi-Public Sector (lecture 15 of 32)

Prof. DiLorenzo

Standard View of Democracy (Classical)

- Perfectly competitive political system, very analogous to perfect competition.
- Economists devote their lives to showing how perfect Democracy is.
- In reality, politicians are experts at evading the will of the people.

Rational Ignorance

- Most people spend most of their time on private affairs, and none on public affairs. The larger the State becomes, the more difficult it becomes to keep track of the State, and the less beneficial it becomes.
- Benefit of voting = probability your vote wins × potential benefit
- There is a *cost* of voting:
 - Explains why so few people vote.
 - Explains why *special interests* dominate decision-making:
 - Concentrated benefits.
 - Disbursed costs.
- Even if you are a political genius, you can only know 1/1000 of what the State does.
- Also, there is a large propaganda effort to explain why we need all of these Interventions.
- Government itself is a *relentless propagandist*:
 - Government has the ability to drown out other voices:
 - State Universities.
 - Libertarian views drowned out by the State.
 - The State tells us that farmers are poor group who needs subsidies.
 - Argue farmers are poorer than the rest of us.
 - This is a lie: Farmers earn 140% the income of urban-dwellers and have lower costs of living.
 - The State also argues that subsidies go to small farmers:
 - This is also a lie.
 - Large corporate farms get most of the subsidies.
 - The State publishes bogus statistics on poverty:
 - Doesn't include the welfare poor people get.
 - Doesn't subtract taxes from those with higher income.

- This allows them to expand welfare.
- Welfare Credit Card is called an "*Independence Card*".
- Thus, every politicians and bureaucrat is a propagandist for his or her program.
- Rothbard said that even the most ruthless despot needs to get at least the tacit support of the people.

Logrolling

- In reality, what we get under Democracy is the will of the minority, not the majority:

Will Minority vs. Majority

| Group | Spending | |
|----------|-----------|---------|
| | Hospital? | School? |
| Young | No | Yes |
| Old | Yes | No |
| Majority | No | No |

- *Logrolling* -- make deals, packaged, so you get what you want if another politician gets what he wants.
- We don't get what the majority wants, but what a group of special interests decides they have to give up to get what they want.

Agenda Control

- *Washington Monument Syndrome* -- threaten to take your ball and go home if you don't get what you want
- Policemen don't protect citizens unless they get what they want.
- When school didn't get the tax benefits they wanted (an increased budget), they shut down the school buses.
- When *special interests* don't get what they want, they control the agenda so as to *extort* a positive vote.

Incumbant Advantage

- 90-95% incumbant re-elected.
- Each member of Congress is on a very narrowly defined Committee, which means that you work to get the largest amount of taxes stolen and taken to your district as possible.
- System is rigged to be such, and is essentially a monopoly, with barriers to entry created by the State.

- Incumbants win vast majority of elections.

Semi-Public Sector

- Entire *US Constitution* was designed to eliminate special interests groups.
- Not only does the State not hinder the factionalism and special interest groups, but it promotes them:
 - Gives special interests money.
 - Special interests use that same money to lobby the State to give them more money.
 - *ONB Watch* -- watch to make sure Congressmen don't criminalizing this lobbying humbug, or enforce laws against it.
 - *National Endowment for Democracy* -- funding element to lobby for *Democratic Imperialism*
 - *Legal Services Corporation* -- poor people who can't afford a lawyer are given a lawyer for civil cases. 50% of that money was used for other purposes; e.g., operations for a *sex change*.
 - *Underground Government* -- how do politicians respond to tax- evolts?
 - State/local governments, referendums would limit the growth of ending. How they respond is to say, "we won't borrow money, won't tax and won't spend," but instead created a whole bunch of *shadow corporations*.
 - These corporations issue debt that is not voter-approved. They promise to pay off the debt by "profits" from a venture.
 - Politicians say that these companies have a "moral", not "legal", obligation to pay off their bonds, a hint to the bond-market that the State will pay them off.
 - Eventually, they dip into the *trust fund* to pay for this humbug.

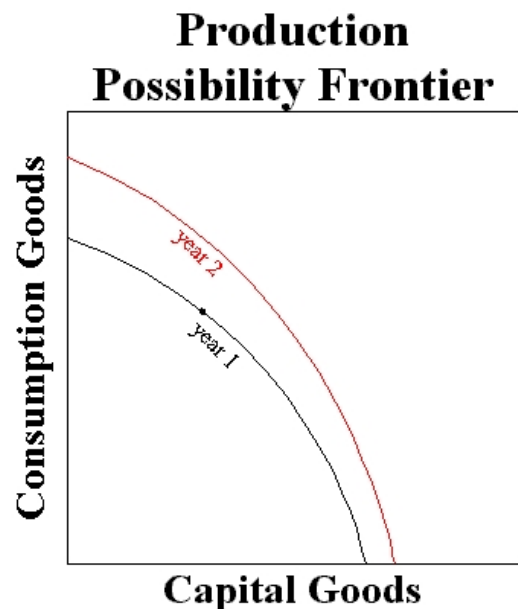
The biggest bankruptcies have occurred under these kinds of fraud.
- These are some of the tricks politicians use to escape the will of the people.
- Books to read:
 - *H.L. Menckin* essays; good to give to the worshippers of Democracy.
 - *Our Enemy, The State*. Nock, Albert J.

Austrian Theory of the Trade Cycle II (lecture 16 of 32)

Prof. Murphy

Garrison's Interlocking Graphical Framework

- In Garrison's interlocking graphical framework, we have Hayek triangle lining up with a PPF and a demand and supply graph for loans.
- *Hayek Triangle (HT)*:
 - On the *x-axis*, we have *time*, representing the various *stages of production*.
 - Higher orders of production are earlier in time.
 - Lower orders of production are later in time.
 - As goods move down the production pipeline, approaching their final state, they become more expensive.
 - On the *y-axis*, we have the *market value* of the goods. At the far right end of the *y-axis*, the market value of the goods is equivalent to the amount of money spent on *consumption*, which lines up with the [Consumption, Investment] coordinates on the Production Possibilities Frontier (PPF).
 - The slope of the Hayek triangle should be equivalent to the prevailing market interest rate.
- *Production Possibilities Frontier (PPF)*:



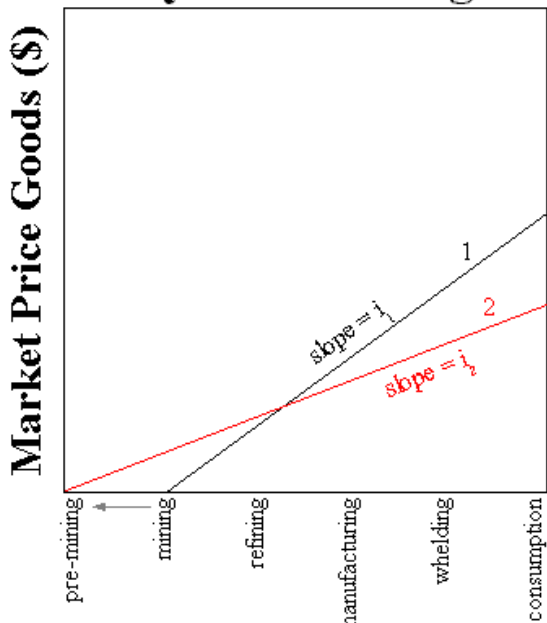
- On the *y-axis*, we have dollars spent on *consumption*. The particular y-coordinate designated aligns with the market value of the goods in the Hayek triangle when they are consumed.
- On the *x-axis*, we have dollars spent on *investment*. The particular x-coordinate designated aligns with the quantity of loans (loanable funds) provided at equilibrium in the supply and demand graph for loans.
- This graph represents the tradeoff to be made between *Investment (I)* and *Consumption (C)*.
- Any given dollar can either be spent on consumption or investment; thus, on net, dollars spent on consumption subtract from those spent on investment.
- *Supply and Demand for Loans:*
 - On the *y-axis*, we have the *Interest Rate (i)* of the loans provided.
 - The interest rate at the "point" where supply and demand intersect is equivalent to the slope of the Hayek triangle.
 - **note:* supply and demand curves do not actually "intersect", meeting at an exact point; this is merely a graphical convenience; real economic phenomena are not continuous, but are discrete).
 - On the *x-axis*, we have the *Quantity of loans supplied (Q)*. The quantity of loans supplied at the "intersection" of supply and demand is equal to the amount of investment at the designated point on the Production Possibilities Frontier (PPF).
 - The supply curve of loanable funds is influenced by consumers.
 - The demand for loans is influenced by businessmen.

When There is a Real Decrease in Time-Preference, Economic Growth Occurs

- Time-preferences become lower.
- Interest rates to become lower, as individuals no-longer require as high a return on their money to give up a certain amount of money in the present.
- Investment increases and consumption decreases.
- Entrepreneurs invest in means of production that are more round about and longer, to be more efficient.
-
- Thus, there are more orders of production.
- And thus, there are more resources:
 - More people are involved in higher orders of production than before.
 - Less people are involved in lower orders of production than before.
- Production become more efficient.

Garrison's Interlocking Graphical Framework

Hayekian Triangle



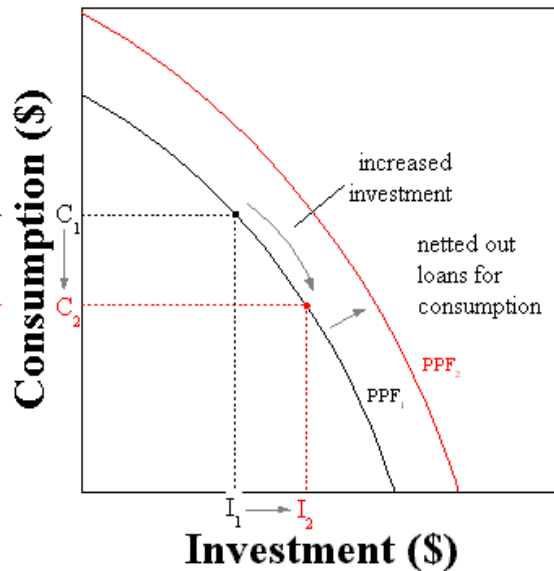
Time: Production Stages

As goods move down the pipeline, approaching their final state, they become more expensive

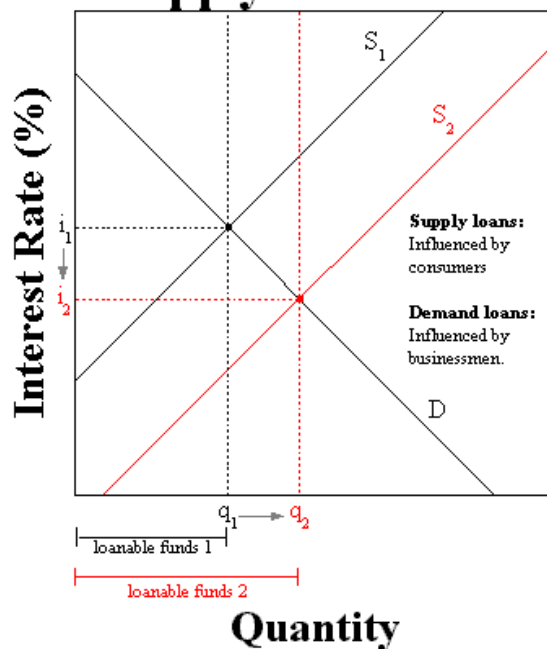


Amount of consumption on *Hayekian Triangle* should equal consumption point on *Production Possibilities Frontier*

Production Possibilities Frontier



Supply & Demand



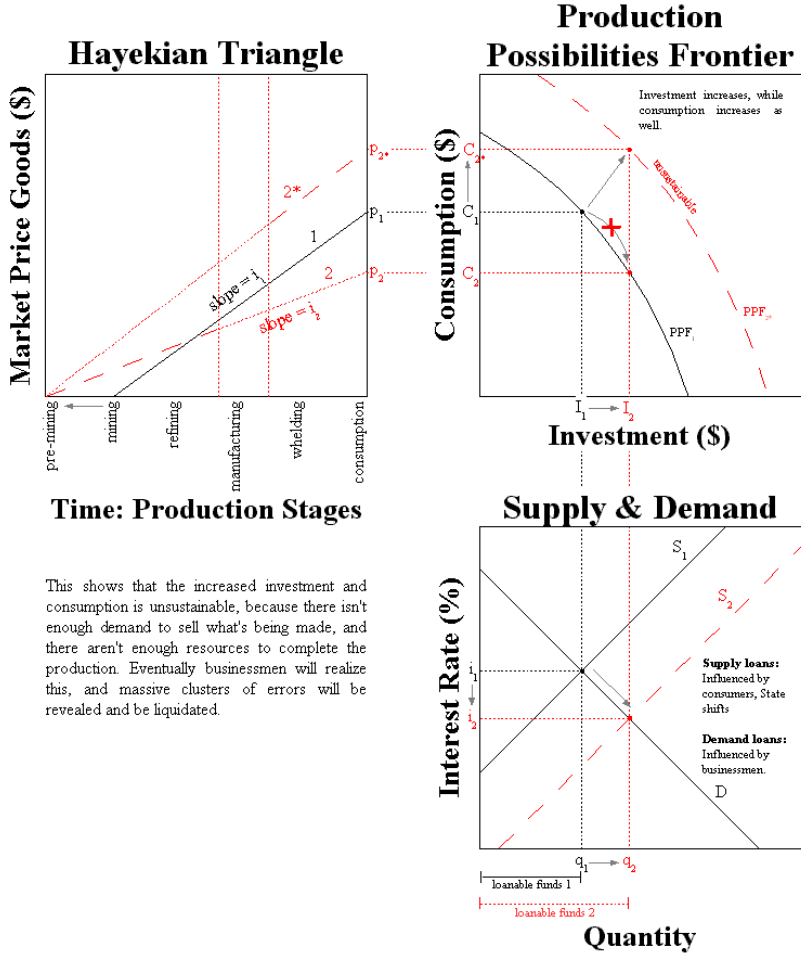
- Hence, the increased efficiency allows for consumption and investment, shifting the PPI

curve outwards.

When the State Artificially Lowers Interest Rates, the Boom-Bust Cycle Occurs

-
- The State creates more credit, allowing banks to loan out money on a fractional reserve basis by a ratio of say 1:10 (pyramiding), on top of their initial printing of money (inflation).
- The extra loanable money floating around causes the supply curve for loans to shift rightward and downward:
 - The interest rate (price) of loans drops.
 - The quantity of loans increases.
- The banks loan out credit to businessmen, who use it to buy capital goods. The businessmen are in fact malinvesting that new extra money, diverting it from projects to which it would otherwise have gone, towards projects to which it would otherwise not have gone.
- Aggregately, there isn't enough physical capital goods to complete all of these projects:
 - Some projects will be complete.
 - Some projects won't be complete.
- The government keeps pumping in credit.
- Though the new money hits the banking system first, and then companies get it, the new money slowly gets around the economy, causing *prices* to *rise* in *non-uniform* fashion.
- People start adding a large *inflation premium* to loans than they had before. If the State wants to keep the boom going year after year, it has to pump in even more money, at an even faster rate.
- This can lead to hyper-inflation and a crack-up boom. However, normally that is not the case. In any event, this is *unsustainable*:
 - Businessmen eventually realize:
 - There isn't enough demand to sell what they're making.
 - They don't have the resources to complete the product.
 - They then liquidate these malinvestments.
 - This is the bust.

Garrison's Interlocking Graphical Framework
When the State artificially lowers the interest rate by inflation

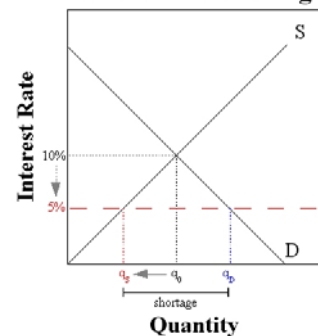


Alternatively, if the State stops pumping in credit and new money, the artificial boom stops and the malinvestments are revealed and liquidated (this is the bust). The bust is actually *good*, as it liquidates wasteful employment of resources (malinvestment), and reallocates those resources towards more highly wanted ends.

Milton Friedman's "Plucking" Objection and Garrison's Response

- Milton Friedman's objection to the Austrian theory of the business cycle (the "plucking")

Changing the Interest Rate by Changing the Quantity Supplied
Interest-Rate Fixing



objection):

- If the Austrian model is true, there should be a high correlation between a peak (of the GDP) and a recovery.
- The bust should happen quickly after the upturn.
- However, Friedman found no correlation between rise and fall.
- There could be long rises without falls.
- Garrison's response:
 - In reality, the GDP only goes up a little bit above sustainable production.
 - However, it then falls way below the sustainable rate of production.
 - Thus, Friedman's objection doesn't rule out the ABC (though it did suggest the line of thought leading to that insight).
 -

Chicago vs. Austrian view of Property Rights and Capitalism (lecture 17 of 32)

Prof. Block

General Argument for Privatization

- *Moral:*
 - Private = voluntary.
 - Public = involuntary.
- *Practical:*
 - The State is not as responsive to people's needs as is the free market.
 - Voting every transaction has more effect than voting every four years.

Road Privatization

- Why should we have road privatization?
- If we apply libertarian principles to the hard cases, it strengthens libertarianism.
- This is an *offensive*, not *defensive*, strategy.
- 40,000 people are killed on public streets, roads, and highways.
- MADD -- Mothers Against Drunk Driving: can't demonstrate their preference.

Road Socialism

- Congestion is indicative of Russian-style road socialism.
- The first roads were private, as was the whole system:
 - System:
 - Less for very fat wheels.
 - More for very thin wheels.
 - Less for walkers.
 - Collapsed because of the State
- Chicagoans argue that roads are public goods.
 - Non-excludable? Non-sense, can exclude privately.
 - Non-rivalrous? Non-sense.
- Consider the economists role under road socialism, vs under the free market roads. Under road socialism, economists function as "road consultants", so they profit.

Deaths on Public Roads

- Mainstream economists argue there is a whole slew of reasons why there are so many deaths:
 - Speeding.
 - Drinking.
 - Wrecklessness.
 - And many other things.
- These arguments confuse *proximate causes* with *ultimate causes*:
 - Those examples are just proximate causes.
 - The ultimate cause is the incompetence of road management.
 - Road managers didn't orchestrate things to prevent such proximate causes.

How Would Privatized Roads Work

- Like most businesses, private roads would probably operate for a profit.
- Go to the market:
 - Go to the market, get funding (IPO) or loans.
 - Buy land.
 - Buy trucks and cement.
 - Build the road.
 - Charge rates.
- How would private road entrepreneurs increase safety?
Competition to find the best ways to produce safe roads. Various ideas include:

- "Crazy roads" for crazy people.
- Staked cars which are squished.
- Crosses to indicate where people died.
- Minimum speed limits.
- Different speed ranges in different lanes.
- Clear cats eyes and white line.
- Speed monitoring by satellite to make sure you drive good.
- The point is that only the free market -- voluntary interactions -- can determine which arrangements are best, and produce safe roads.

Objections

- You'd have to pay a penny every so often, because each house owns a bit of the road.
 - One person would own the road.
 - You'd probably pay per how much you drove on the road.
- Blockade: trapped in your house by road owners.
 - Insurance company would insure you -- access insurance.
 - Road owners want to entice you to buy land by the road: you'd buy it on the condition that they let you out.
- Who decides what the rules of the road are?
 - It is in the interest of road owners to have compatible rules.
 - Road owners might even agree on a voluntary committee to set guidelines.
 - If one road's rules are too far out, the corresponding road-owner will go broke.
 - Hayekian discovery process.
- You would have traffic-congestion.
 - On public roads, there is massive congestion because you don't pay for the roads on a rational basis.
 - You pay a gasoline tax, but that is the same whether you drive at rush hour or not.
 - Privatized roads would charge such that you pay higher prices for roads at peak times, to even out demand and eliminate congestion.
- Who gets the green light? It is in the interest of each street-owner to only have the green light.
 - Road owners would own blocks of roads.
 - Also, various road-owners would cooperate for profits.
 - It is in the interest of road-owners that their roads smoothly interact with other roads.
- Why pay anything, roads are already free?
 - Roads are not free, you pay taxes.
 - The free market rates would be cheaper, because they always are (the free market is always more efficient, serving the consumer via a profits-losses test, while

States have a calculation problem).

- Eminent domain. What about hold-outs?
 - If X doesn't want to sell his road, that's his right.
 - Options: contract with a number of people to *pay* them for the option to buy their land at a later date. Then, you can confront the holdout with that, and he might be more reasonable.
 - If no other routes? Build a bridge above or a tunnel below the hold-outs house:
 - Objection: *ad coelum* -- you own a cone to the center of the Earth and going up into the heavens.
 - This objection is absurd -- you don't own that property, as you haven't homesteaded it.
 - Can't tunnel under so shallow as to collapse the land above.
 - Bridge -- there are some restrictions:
 - the hold-out may have already homesteaded:
 - Sunlight.
 - Rain.
 - Right to transport.
 - In that case, the road-builder can build a draw-bridge that is clear and has a mesh.

Law and Economics (lecture 18 of 32)

Prof. Hoppe

When We Have No Problems, When We Do: Garden of Eden

- When there is a *super-abundance* of goods, there are no problems with conflicts over resource-use.
- *Scarcity* is *necessary* for *conflicts*. Only because of this can you argue in the first place.
- If we have *scarcity of resources*, we need to *resolve conflicts*.
- There are two *scarce* things in the *Garden of Eden*:
 - Standing room.
 - One's body.
- We need *rules* for the *use* of scarce resources; if rules do not exist, there will be conflict.
- Property rights are exclusive control rights assigned to specific scarce resources, to avoid conflict.
- Rules for the Garden of Eden:
 - Each person has a right to their *own body* and for nothing to be done to them against their will.
 - Each person can *move anywhere* that *someone else isn't already occupying*.

Real World Austro-Libertarianism

- Rules:
 - *Self-ownership* over your own body.
 - *Original appropriation (homesteading)*: first-use, first-own; mixing of your labor with the land.
 - *Production rule* -- he who uses his body and some originally appropriated goods to transform them and produce a good owns that good.
 - Right to *exchange* and *contract* your ownings for someone else's on a *voluntary*, non-coercive manner.
- Alternatives as objections:
 - *Slavery?* Not universalizable -- not everyone could possibly accept it.
 - I own what you appropriated, but you don't own what I appropriated -- not universalizable.
 - *Universal Communism* -- we all "own" each other. If I only own 1/20 of myself, then I need the consent of everyone else -- the *permission* of everyone else -- to do anything. However, "everyone else" could not give their consent, as they would

only own 1/20 of their body, and would have to obtain consent, ad absurdum.

- Likewise for all other rules.
- Our rules fulfill both requirements -- they are *universalizable* and they allow mankind to *survive*, from the very first man on Earth.
- Justifying our rules by a second requirement:
 - Problems of "conflict" with animals or *non-human* entities are *extra-moral* (*amoral*) problems, technical in nature.
 - What is necessary to say, "here we have a moral problem"?
 - Must be capable of having a *propositional exchange*.
 - Must be capable of *reasoning* with them, arguing.
 - Both entities must be rational:
 - Demonstrate rationality by engaging in or attempting to do so.
 - Anyone who argues we can have a moral problem without engaging in rational argumentation contradicts himself because they are engaging in a rational argument; also, you can't demonstrate a moral problem without argument.
 - The *a priori* of argumentation.
 - *Argumentation ethics*.
 - *argumentation ethics* -- if you can argue for anything to be moral without making argumentation, you are *contradicting* yourself.
 - *a priori of argumentation*
 - *Self-ownership* -- otherwise, you have no right to open your mouth in the first place. Only because of this can you argue in the first place.
 - *Objection*: Doesn't show that we should argue rationally.
Response: if we shouldn't, then you should shut your mouth.
 - *Objection*: Haven't shown that we have a right to use our body.
Response: Non-sense, by making said argument, you're asserting such.
 - *Original appropriation*: The only alternative to it would be through declaration. If X can declare X owns everything, so can Y, and this is no solution to the problem of conflict over resources.
- You cannot own the market value of your property:
 - You only own the property itself.
 - Reducing the market value of other's property by competition is not aggression.
- You can homestead an *easement*:
 - If Y appropriates property and sends out smoke, nearby settlers appropriated dirty property, and can't complain.
 - You can only complain about it if you homesteaded clean land, and someone *later* starts polluting.
- You cannot make *inter-personal utility comparisons*:
 - This is because utility is just an *ordinal ranking*.
 - If one person gains and so does another, you can say that both are better off. *Ex*

ante, this is the *ex anti* result of any consensual agreement, exchange, contract, etc.

- If X gains and Y loses, you can't say whether or not they're better off overall.
- Following our rules *always* results in a situation where both trading parties are better off *ex ante* (Pareto-superior).

Chicagoan "Rules"

- *Coase/Posner* argue we should avoid the more serious harm:
 - Whatever *increases wealth* is *just*.
 - Whatever *decreases wealth* is *injust*.
- Consider if A rapes B. Chicagoans would analyze it as such:
 - A is not restrained, but rather this is a reciprocal nature of problem.
 - A harms B by raping her.
 - B "harms" A by preventing A from raping her.
 - The question is to see which harm and to restrain that harm.
- If Ford tried to retire, we could *enslave* him and *force* him to work.
- We can enslave those who want solitude, because that is a criminal thing that reduces net wealth.
- This humbuggery means there is no *stability* in *property rights*:
 - If property rights are instable, the Chicagoan goal of wealth-maximization can't be achieved, because no-one knows something is their property. [my thoughts begin here]
 - The Chicagoan system would produce very high time-preferences.
 - Essentially, society would quickly revert to barbarism, resulting in mass-starvation and death.
 - This is because, as no-one would be secure in their property -- as any wealth-maximizing hoodlum could grab their wallet if they thought they could produce more wealth with it -- people would have a much greater preference for future consumption as opposed to saving. Once something is consumed, no-one can take that consumption away from you.
 - Hence, consumption would increase enormously and investment would decrease enormously.
 - There would be no investment in new technologies, or maintaining current thing.
 - Individuals would essentially be consuming their capital.
 - Hence, society would regress to barbarism.
 - The effects would not be so severe if only *courts* could decide who was the better wealth-maximizer, but there would still be much instability in property rights; hence, the Chicagoan goal of wealth-maximization would not be fulfilled
 - Hence, the Chicagoan system is self-defeating and self-contradictory, as it clearly does not result in the achievement of its own goals.

- Taking the Chicagoan's goal -- wealth-maximization -- as a given, it is clear that the way to do this is by the aforementioned libertarian principles. The problem with Chicagoans seems to be that they are compartmentalizing to just one situation, and not considering the overall societal effect their plan would have.

Environmentalism and Resource Economics (lecture 19 of 32) *Prof. Block*

Air Pollution

- *Market failure:*
 - Private entrepreneurs only account for private costs.
 - Private enterprises do not account for social costs.
 - This results in more steel being produced than is optimal.
 - Nonsense: these are really results of State-failures to enforce private property rights.
- Socialists claim that their system is more environmentally friendly than capitalism.
 - In reality, socialism is very harmful to the environment, as can be seen from history. See the USSR.
 - Democracy isn't the answer either, as The State creates environmental disasters in the US too.
- In the 1830s, there was a spate of "environmental" lawsuits against factories for tort (property destruction) against private property owners.
 - For the most part, these cases prevailed.
 - This forced private companies to consider the costs of pollution, the "social costs".
 - In the 1830s, "environmental forensics" began to develop as a science to find the source of various pollutions.
 - This created incentives for corporations to use cleaner technology.
- In the 1870s, the courts declared, however, that "there was something more important than private property rights, and that is the 'public good'".
 - Courts didn't enforce tort in the US.
 - Laws made it so that smoke-stacks had to be 300 feet high, so as to "hide the smoke property-rights violators", which was essentially like a pro-rape law.
 - It was then claimed that there was "market failure", and a slew of ill-considered environmental regulations were passed.

Plastic

- Assume that everything ever said about plastic bags by environmentalists wackos is true.
- Lets say that you're asked at a super-market whether or not you want a paper bag or plastic bag.

- Each is \$0.01, so the only incentive for paper is whether or not you want a paper or plastic bag.
- Otherwise, you are indifferent.
- What about the costs of disposing of paper/plastic? *Cost of Disposing Paper/Plastic*

| Bag | Product Cost | Disposal Cost | Total Cost |
|---------|--------------|---------------|------------|
| Paper | \$0.01 | \$0.01 | \$0.02 |
| Plastic | \$0.01 | \$5.00 | \$5.01 |

- Now, which ones are you going to use? Usually, paper would be selected, but not with disposal socialism.
- Now, let's challenge the assumptions by environmentalists that we previously held to be true. Ruthje, a garbologist, has actually found that plastic doesn't harm the environment, as it is chemically inert. What really harms the environment is paper, such as the Yellow Pages ink.

Diaper

- Which diapers are more environmentally sound -- disposable diapers or reusable diapers?
- We don't know, because we don't know the cost of disposal.

Nuclear Power

- The State actually subsidizes nuclear power.
- What we should do is take away all of the State-created advantages/disadvantages of nuclear power.
- Let free market competition reign, let the free market decide.

Love Canal

- Hooker Chemical Company dumped waste in a very-well contained waste container.
- The State seized their property by eminent domain, and Hooker Chemical Company warned them of that.
- But the State started drilling pipes, puncturing the waste container and causing waste to leak into the river.
- Somehow, even though Hooker Chemical Company was very responsible, they were scapegoated.
- In reality, very few people got sick from the waste leakage into the river.

Forests and 300-Year Old Redwood Trees: Tragedy of the Commons

- Tragedy of the commons.
- If someone owns a forest, they will cut down gradually, to preserve its capital value.
- If they don't own the forest, then they will cost it down as fast as they can, because the forest doesn't have any capital value to them.
- There are plenty of cows, but Buffalo nearly went extinct. Cows were privatized, Buffalo were not. So, Buffalo were nearly hunted to extinction, because no-one had the incentive to preserve capital value.
- Alligators nearly went extinct, but now are very common because of Alligator-privitization.
- Other animals to privatize:
 - White Sharks.
 - Elephants.
 - Rhinos.

Oil Spills

- Exxon oil-spills, because of drunken pilot. Why was the drunken pilot hired and kept? Because of the Disability Act.
- The problem with ocean and oil-spills is that the ocean is not privately owned.
- If we had privitization of the ocean, then we would have rationality:
 - If you know an oil spill in your part of the ocean would drift to someone else's part of the ocena, you'd be sued; thus, you would be more careful.
 - Charge higher rates to less safe ships.

Global Warming

- There are two ways in which we can screw up ourselves:
 - Choke in our own dust.
 - Get hit by a meteor.
- So, let the free market decide how to balance the optimum.

Over-Population

- There is no correlation between wealth and population density.
- Logically, no correlation should exist, either.
- The Netherlands Fallacy -- certain countries depend on other countries for their

livelihood; the problem with this is that such is done on a voluntary basis.

- When the sun blows up, if we don't have very high technology, we're done for.

The Microeconomics of Security Services (lecture 20 of 32) *Prof. Murphy*

Sources

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- [The Market for Liberty](#). Tannehill. Objectivist.
- [The Machinery of Freedom](#). Friedman, David D. [Utilitarian](#).
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General Arbitration

- A steals a cow from B.
- B challenges A to go to arbitrator X.
- If A doesn't go, it's suspicious and is used as evidence against him.
- A can also take the matter to his own arbitrator.
- The quality of arbitrations is judged by the free market.
- Police protection agency would be separate from private courts.

Personal Protection

- Day-to-day security measures are personal.
- Locks.
- Guns.
- Selective apartments.

What Would it be Like in an Anarchist World?

- Competing services for private defense/security.
- Firms specialize in producing personell for security:
 - Body armor.
 - Politeness.

- Much more humane/courteous behaviour, because it is good for business.
- Contrarily, rude inhuman treatment is bad for business.
- Monopoly services create a situation where there's no reason for the cops to maximize services while minimizing costs.

Monopoly State Protection vs. Anarcho-Capitalistic Protection

- Monopoly doesn't go out of business because of bad security and high costs.
- People don't riot because they see the choice as between brutal police and chaos.
- High speed police chases -- in an anarcho-capitalistic world, these wouldn't happen as they endanger lives. There would be helicopters, more coordination, and more cops deployed.
- Response-time -- very slow for police today; they have no incentive to be quick for most people, especially in the ghetto, due to risk.
- Prisons:
 - So-called "private" prisons.
 - Government strapped for cash, so goes to private prisons.
 - A lot of scandals. Socialists say that it's because the evil firms are only watching the bottom line.
 - But, the customer is still the State:
 - So, no rational contract
 - State doesn't have clauses like "penalty for riot or rape".
 - So, naturally, firms have no incentive to prevent these things.
 - "Private prisons" are really just outsourcing, an appendage of the State.
 - Anarcho-capitalistic prisons would be better because of competition.
 - Also, there is the problem of the criminal's sitting around doing nothing.
 - Their potential labor is wasted.
 - Should allocate labor to most comparative advantage.
- Parole:
 - Under the State, we let out people who ought to be kept in prison.
 - This would not happen under anarcho-capitalism.
 - In a highly developed urban area, you'd need to have some group vouch for you to get into a mall, to get a credit card, etc.
 - Voucher association would be like an insurance agency, and you'd be charged voucher services.
 - In prisons, prison companies would compete with each other for the prisoner's business (where he stays). (the prisoner wouldn't necessarily be the one deciding).
 - Parole would be based on a voucher-system, where if you let out a prisoner, he has to pay you dues and he goes out.
- Police-protection?
 - It is not in the police's interest to eliminate crime, because they would lose budget.

- Wouldn't want to eliminate homicide, but catch many killers.
- Calculation problem:
 - Even if the State's police really want to do good, they don't know how to allocate resources.
 - People are taxed, and money goes to the police in aggregates, and is spent based on politics.
 - The link between payment and performance is severed.
 - Under the market, the profit-loss test tells the private police agency what to do.

Economics of the Gold Standard (lecture 21 of 32)

Prof. Block

Introduction

- Prior to indirect exchange, there was direct exchange. To acquire X, you needed to find someone who was willing to sell X for something you had, Y.
- Then, some genius decided to use a very widely accepted good as a method of indirect exchange: purchased a more marketable good with a less marketable good.
- Then, this genius would use the more marketable good to purchase other goods, which he desired.
- The idea caught on, demand for the commodity increased, and it quickly became the monetary standard.
- Gold has been chosen as the monetary standard everywhere when people have been free to choose it.

Why Gold as the Monetary Standard?

- High unit/weight value.
- Durable.
- Divisible.
- Transportable.
- "Pretty".
- Many industrial uses.
- Easily identified and characterized.

Advantages of the Gold Standard

- Can't print up more gold. It needs to be mined, a very expensive process.
- The State can't print up fiat money.
- The cause of inflation is the printing of money.
- The effect of inflation (an increase in the money-supply):
 - If you expect inflation, you buy more today.

- If you expect deflation, you buy less today.
- Because expectations are for prices to fall (deflation), individuals buy less, not more, when prices go up.
- So, the State keeps increasing the money supply, and prices remain the same; but as they do this, eventually so much money is chasing the same goods that prices go up more than proportionately. Thus:
 - An increase the money-supply can leave prices unchanged.
 - An increase in the money-supply can cause prices to go up.
 - An increase in the money-supply can cause prices to go up more than proportionately.

This shows that monetarism is flatly wrong.

Bank Notes

- People get bank notes for claims to bank-reserves.
- Pretty soon, people start trading in bank-note claims on gold, not gold.
- A bank merchant has the idea to issue more notes for gold than he has.
 - Fractional reserves.
 - He has 10kg of gold and loans out bank-notes for 10.2kg of gold.
 - Competition prevents this from perpetuation.

Rothbard's Plan

- Complete separation of money and state.
- Private money.
- No legal tender.
- Fractional reserve banking would be criminal
- Benefits:
 - No Austrian Business Cycle.
 - No wealth redistribution (from inflation).
 - Peace.
 - Prosperity.

Contrasting the Austrian View to Others' Views

- *American Economic Review* Q&A had no questions on gold.
- Milton Friedman:
 - Distrustful of State being trusted with money.
 - Problem with commodity standard is that it is costing resources that would otherwise have been used for other things.

- So, he thinks we should just accept paper money (fiat-money).
- So, "freedom is great, but it costs something, so to hell with freedom." Atrocious.
- Just because something costs real resources doesn't mean we shouldn't use it -- the free market decides how best to allocate it. Even Friedman thinks gold is insurance.
- Allan Greenspan:
 - Gold and economic freedom are inseparable.
 - Statists are all united in their hatred, terror, and rants against gold.
 - Gold acts to protect property rights, which is something that the State hates.
 - So, how do we account for Greenspan now? Rothbard answers:
 - Favors the gold standard, but only at a high philosophical level.
 - Never has he ever done anything to promote the gold standard.
- Hayek:
 - Austrian against the gold standard.
 - Proposes that we repeal the legal tender laws.
 - "Ducat" -- basket of a whole bunch of stuff, like a dollar, yen, etc. Non-sense. Repealing legal tender is necessary, but not sufficient:
 - Against Mises' insights on money and the regression theorem.
 - As if there is infinite regression, which is circular.
 - But, if you really go back and back and back, the first money must be a commodity.
 - If you just get rid of legal tender, people will still use dollars.
 - This would be a disaster, because anyone else could print money as well. This would create hyper-inflation and a crack-up boom. Money would lose all value.
 - All Hayek's ducat is, is a competition between fiat currency, which would be competition in the production of bads -- inflation.
 - Want competition between real property rights owners, not between crooks.
- Mundell:
 - Sort of a free market economist, but Keynesian.
 - "Optimal currency area" -- much less than the entire world.
 - Need many currencies, each one supreme in its particular area.
 - If each region has its own currency, then this would solve unemployment.
 - How define "region"?
 - Area, where there is factor mobility, outside of which there is no factor mobility.
 - But, regions are constantly changing, so do we constantly change the money? Disaster.
 - On one hand, the entire world is a region under the free market, because there is world-wide factor mobility.
 - On the other hand, everyone is a region, because there are transaction costs.

Further Considerations in the Theory of Interest (lecture 22 of 32)

Prof. Hülsmann

Profit vs. Interest

- Classical view -- just profit
- Modern (Austrian) view:
 - Interest -- survives even in the ERE (evenly rotating economy).
 - Profit -- pure product of disequilibrium.
- The following is a situation of disequilibrium:
 - Company A: \$100 \implies \$120 : \$30 interest, -\$10 loss.
 - Company B: \$90 \implies \$130 : \$30 interest, \$10 gain.
- In such a situation, there is a tendency towards equilibrium via arbitrage -- the reallocation of factors of production until all return is the same:
 - Company A: \$95 \implies \$125
 - Company B: \$95 \implies \$125
- However, you can't really say that the first situation is disequilibrium, because you have to consider psychic revenue, which could be higher in A than B.
- Interest is the spread that subsists in general equilibrium, \$20 in the second case.
- Now, we can define profit and loss.
- The ERE allows us to see the difference between profit and interest.

History

- Frank Knight:
 - *Risk, Uncertainty, and Profit*.
 - Profit can only exist in a world in which we have error.
 - Mises wrote a lengthy article clearly explaining and improving upon Knight.

Interest

- What we've called interest so far is *total interest*
- Components of total interest:
 - Pure interest.

- Price premium -- compensation for predicted inflation.
- Entrepreneurial component -- compensation for risk and uncertainty.
 - *Risk: class probability*, characterizeable risk.
 - *Uncertainty: case probability*, something we don't know.

Non-Austrian Interest Theories

- Marxist theory of interest -- exploitation of the employee by the employer.
- Interest theory of production -- productivity theory of interest:
 - time 1: 100t ==> time 2: 250t
 - 5oz ==> 125oz since
 - This is wrong, because it assumes that prices are constant -- price are not stable.
 - The idea is that productivity of a thing determines the interest: must assume that there is something in the thing itself that determines its value innately, which is non-sense since value is subjectively determined.
- Schumpeter said profit, or interest, can only exist in disequilibrium, and arbitrage eliminates it in equilibrium -- so there is really no interest. This is wrong.

Böehm-Bawerk's Theory of Interest

- Present goods are always more valuable than some future goods temporally displaced.
- Time-preference for the present.
- Why time-preference? Future needs under-estimated.
- Explanation of interest as a difference that is dependant on value-difference in time.
- Problems: Hard to test and contradicts intuition:
 - In all product-possibilities, we never have a product that is homogenous with the factors of production. This is problematic because Bawerk's theory mandates that they be the same good temporally displaced.
 - This theory contradicts, in fact, the liberty of choice that we have, because we can always make bargains inconsistant with the theory.

Mises' Theory of Interest

- Time-preference is something that does exist.
- Mises: by the very fact that I do certain things, I demonstrate that I prefer doing it now rather than later, that it's more important to do it now than later.
- All actions have this feature.
- So far, this doesn't explain interest, just that we prefer now not later.
- Mises' and Bawerk's point of view is that interest is entirely determined by the price

consumers pay and the costs of the factors of production.

Modern Austrian Theory of Interest (Hülsmann)

- If you cannot obtain interest, you go out of business.
- Interest comes from the fact that entrepreneurs from outside seek a spread between output and factors of production.
- Interest payments subside in the market only in those businesses where the interest rate cannot be arbitrated away, because people enjoy doing the activity (e.g., opera).
- ??For a more detailed explanation, see [A Theory of Interest. Hülsmann, Jörg Guido. QJAE, vol 5, num 4.](#)

Rothbard and Mises in the History of Economic Thought (lecture 23 of 32)

Prof. Salerno

Introductory Comments

- Ludwig von Mises (1881-1973).
- Murray N. Rothbard (1926-1995).
- Hayek -- system builders vs. puzzlers. System builders, Hayek noted, tend to change their mind by the fashion of the day.
- However, Salerno argues that system builders never change their minds; it is technicians, like Robbins, who change their minds.

Parallels between Mises and Rothbard

- Creative geniuses.
- Neither claimed false originality for their systems; humility.
- Both worked in isolation.
- Both started from foundations and didn't try to revolutionize, but worked from foundations.
- Both had treatises publishes at key moments:
 - Mises -- [Human Action \(1949\)](#).
 - Rothbard -- [Man, Economy, and State & Power and Market \(1962\)](#).
- Intrinsient -- didn't deviate from the correct path.

Kirzner-Caldwell Account of the History of the Austrian School of Economics

- Big bang theory of the Austrian School of Economics and its rebirth:
 - Started with Menger.
 - Quickly spread throughout Europe in 1914 to the 1920s, and to the Americas.
 - Austrian School had predicted that the boom would come to a screaming halt.
 - *Big Bang*: After/as the Great Depression started, there were even more Austrians.
 - *Death*: When Keynes came out, everyon went to him as a fashion-wave. Mises was forgotten about.
 - Mises fled to the US, continued to work, and had some prominent students, such as Rothbard, Hayek, and Kirzner.
 - None of Mises' students made many ripples.

- *2nd Big Bang*: In 1974, after Hayek got the Nobel, there was the first meeting of Austrians.
- Shifted focus to Kirzner, because he started an NYU Austrian graduate school program.
- Late 1970s, Lachman was brought over.
- Argued that from late 1970s to late 1980s, Rothbard shifted from economics to social libertarianism.
- Problems:
 - No attribute to Mises/Rothbard in the re-birth.
 - Treats the whole school as a monolith from the start; doesn't account for the Wieser/Bawerk split.
 - Doesn't provide treatment for the scarcity of resources.
 - Doesn't treat ups and downs with academic position.
 - Too much focus on the evil influence of Schumpeter.

Salerno's Account of the History of the Austrian School of Economics

- Menger's students split:
 - Böehm-Bawerk -- elaborated on Menger, followed Menger: dynamic market process view.
 - Wieser -- influenced by mathematical Walras, static equilibrium view.
- Böehm-Bawerk's students were Mises and Strigl.
- Wieser's students:
 - Schumpeter was influenced by Wieser and Walras:
 - 1908 -- *Natures Essence*.
 - 1911 -- *Theory of Economic Development*.
 - Basically, thought of the economy as static for long periods of time, then -- poof! -- there's entrepreneurs, technology, and growth, then it settles down.
 - Hans Meyer.
 - Friedrich von Hayek.
 - Haberlen.
 - Machlup.
 - Morgenstern.
- Böehm-Bawerk entered the State, which was a mistake, and then returned to academics in 1904-1914, but had a hard time and found it difficult to keep up with academia. He held a seminar with Mises.
- 1920s: Mises started his seminar. Hayek sat in *one* of Mises' classes, and didn't like it very much. Mises hadn't elaborated on his thoughts yet, and Hayek hadn't read Böehm-Bawerk yet.
- Mises also held a private seminar (privatseminar) for PhD's; by the time Hayek was in Mises' seminar, he was already mostly set in his thinking (though Mises influenced him).

- The Austrian school begins to deteriorate after 1914:
 - Marshallian economics sweeps England and the US.
 - One faction was left at LSE, the London School of Economics, led by Lionel Robbins.
 - Robbins wrote a great Austrian book in 1922.
- 1930s: Hayek gives some brilliant lectures, and is invited to the LSE.
- Hayek encourages Hicks to read Pareto. Hicks then imports mathematical economists.
- 1934: Robbins is leaning in a more mathematical direction.
- Mises invited for full-time academic position in Vienna; looking around Vienna, he notices that there are no more Mengarians.
- 1929-1933: Working on *Nationalökonomie (Human Action)*, Mises didn't publish an academic paper.
- Wieserians didn't understand how to use the Evenly Rotating Economy (ERE); Mises understood that it was to be used only as a way to explain interest.
- Also, no-one had explained the economy as a system of money-prices, not just barter-prices. Mises had.
- 1940: Mises flees. In 1949, he publishes *Human Action*.
- By the end of World War II, the Mengerians were completely forgotten, and economics was completely mathematical. There wasn't a sudden "big bang" in Austrian development. And while Keynes did help in the demise of the Austrians, he wasn't key.
- The Austrian school was basically dead, though there were scattered works from a group of Mises' students.
- 1961-1963: Rothbard writes a primer on money, explaining how it's created; also *Man, Economy, and State*.
- Here's how the Austrian school began to become reborn: when graduate students started coming to Austrians.
- Kirzner's 1972 book was very important, but didn't inspire people with an overall view of the economy.
- By 1974, all of the people who had come to see Kirzner and Rothbard came because Rothbard had paved the way.
- 1974/1975: Austrians such as Hayek and Rothbard commented on student's papers. Rothbard was a Misesian, Lachman a nihilist. Kirzner tries to homogenize Hayek and Mises.
- 1976: Rothbardian students.
- 1978: IHS books/place taken over by a billionaire, Charles Koch, who founded the CATO institute and the NYU program.
- Koch's view was that you should play up Hayek, and downplay Mises and Rothbard.

- Phases of the Austrian revival:
 - Genius in bloom, Rothbard and students (1961-1976).
 - Austrian economics without Mises/Rothbard.
 - Revival of Rothbardians (1986-present).
- Rothbard publishes a number of books and articles during what Kirzner considers his dormant period.
- Many Kirznerians now have come closer to Rothbardians and come to the Austrian Scholars Conference.
- Austrian economics is now flourishing.

Theory and History (a seminar)

Prof. Hoppe and Prof. Hülsmann

Errors Made by Historians

- Sequence of events cannot tell us about historical causes.
- Need some theoretical things not based on historical observations, but on good theories:
 - Should be something you can logically recognize as true when you hear it.
 - Does not need to be, and is not, based on historical observations.
- Prominent historians often give a sequence of events the wrong explanation. You encounter a multitude of clear misinterpretations of historical events based on poor understanding of economic theories.

Positivist/Mainstream

- Science:
 - Physics.
 - Biology.
 - Chemistry.
 - Experimental physics.
- History:
 - Individuality of events.
 - Econometrics.
 - Quantitative history.

Austrian

- Natural sciences:
 - No animism.
 - Objects do not make choices.
- Human and social sciences:
 - History:
 - Individual/singular.
 - Events that come to bear on a particular case.
 - Theory: General factors of human action that take place in all times.
 - *Praxeology*: human action.
 - *Economics*: human action insofar as it can rely on economic calculation.

An Illustrative Example:

- The positivist tries to determine if an increase in money supply could result in a decrease in price-levels, accounting for other factors.
- The Austrian knows that because the money-supply has been increased, prices must be higher than they otherwise would have been, *ceteris paribus* (that is, if there is inflation, if you increase the money-supply, prices will be higher than they would be without that inflation).

Medical Economics: The Austrian point of view (lecture 24 of 32)

Prof. Block

Nestle's Fiasco

- Nestle made a formula that, when mixed with water, produces milk.
- When mother's used Nestle's milk, babies got sick because of dirty water.
- Nestle got into trouble because the leftists hate the free market.
- Not fraud -- Nestle's powder milk was fine.
- Not "market failure" -- it was a State-provided water-source.
- The answer is to privatize water.

Drug Legilization

- Leglization is not advocacy.
- Libertarians aren't necessarily Libertines.
- Does selling or using drugs necessarily violate the non-aggression axiom? No.
- However, selling to children, or driving drunk, could be aggression.
- Economic argument: drugs are just a good like any other -- both parties benefit *ex anti*.
- We must ignore third-party objections, because otherwise there could be no trade at all. To every conceivable trade, some third party could object.
- Libertarian argument: we are all self-owners of our bodies.
 - Telling people they can't use drugs is partial state.
 - Victimless crime: two consenting parties (we aren't talking about children, here).
 - It's drug-criminalization.
- Objections and answers:
 - *Objection 1:* Prohibition prevents people from hurting themselves.
Answer 1: But that's paternalistic, and violates self-ownership. Reductio: what else should we criminalize? French fries?
 - *Objection 2:* Drug-criminzliation protects the economic interest of society. Druggies impose costs on socialized health care.
Answer 2: Eliminate socialized health-care.
 - *Objection 3:* Druggies can't support their families.
Answer 3: The same is true for alcoholics, yet alcohol is and should be legal.

Maybe not supporting your family is criminal (the initiation of aggression), but using drugs is not.

- *Objection 4:* Drugs increase crime-rates.

Answer 4: This is wrong. The criminalization of drugs is what causes crime:

- Druggies have to steal to support their habit.
- There is crime in protecting drug-monopolies.
- Extremization -- illegalizing drugs tends to push people to the most severe/extreme drugs.

- *Objection 5:* Elasticity of drug curve, worried that 50% of people would use drugs if they were legal.

Answer 5:

- If drugs were legal, no drug-dealer would be pushing drugs to kids.
- Right now, drug-dealer's push drugs for free.
- In the Netherlands, drugs are partially legal, yet there are not high rates ther.

- *Objection 6:* Needles/AIDS/HIV.

Answer 6: Legalization would reduce these problems.

- Why can't we win the drug war? It's because every time we "succeed" and capture drugs, we reduce the supply, thus making drugs more expensive, and making the black market in drugs more lucrative.

Body Parts

- Many people die from needing body-parts.
- How many people would donate kidney's if they were offered \$1,000 to donate their kidney's when they die in an accident -- what about \$2,000? \$3,000?
- How many people's lives would be saved if we had a market in organs?

Socialized Medicine

- Hillary almost gave us socialized medicine. Do we really want to turn over such an important part of the economy to the State?
- Objections and answers:
 - *Objection 1:* Making money off of sickness is evil.
Answer 1: But people make money off of food too, and that's necessary to live. If we can trust the market with food, we can trust it with health-care.
 - *Objection 2:* Health is too important to leave to the free market.
Answer 2: This is wrong. It is Socialism and the State which we shouldn't trust with the most important things.
 - *Objection 3:* Doctor's are working for greed, so we can't trust them. *Answer 3:* Non-sense.
 - *Objection 4:* There are 40-million Americans without health insurance.
Answer 4:

- We don't have carrot insurance either.
- Don't have food insurance, but food is important.
- The reason we want health insurance is because health-care is so expensive, which is caused by Socialized health-care.
- Problems with socialized medicine:
 - Don't know how to allocate resources.
 - In some situations, we're like the USSR.
 - The only reason we can allocate resources at all (in a less than completely arbitrary manner) in this Socialized system is because of prices.
 - 60% of the resources used are for the people in the last few months of their lives. In a free market, people wouldn't do that -- they aren't that selfish.
- Free Market Solutions to Health Care:
 - Milton Friedman has noted that the American Medical Association (AMA) is a very powerful union, because they can shift the supply curve even *before* you enter the market:
 - The number of applicants to medical schools is very large.
 - Doctors prevent people from being trained, so you can't even get in the market to compete.
 - From 1934-1939, doctors (through the AMA) prevented Jewish immigrants who were doctors from the University of Vienna, Austria, from entering the field.
 - You needed to be a citizen to practice.
 - You needed to take an English exam. They argued it was necessary for communication. This is non-sense:
 - Translators.
 - Restrict practice to German-speaking population.
 - Unconscious patients.
 - Quality? If the AMA was so worried about quality, why let interns work for 48 hours?
 - Professors of Biology (pHDs) make about 49,000 per year. That would probably be the free-market salary for doctors.
 - The FDA causes the prices of drugs to skyrocket. In the free market, there wouldn't be an FDA, but rather there would be competing certification issues.
 - Supply and Demand -- demand side. What if milk was socialized? We'd be using it for baths -- a very uneconomical waste of resource.
 - There's a shortage of service, so there are very long waiting lines.
 - Malpractice: very expensive, result is that doctors order all kinds of tests and are practicing law, not medicine. Under a free enterprise system:
 - *Contract A*: The doctor does his or her best, and the patient cannot sue.
 - *Contract B*: The patient can sue, but prices would necessarily be higher.
 - How is quality insured in a free market system?
 - Competing certification agencies.
 - Anyone could do such, but if some quack does it, no-one would take him seriously, and his "certificates" would be meaningless.

Extensions and Applications in Austrian Macroeconomies (lecture 25 of 32)

Prof. Murphy

Rational Expectations Objections to the Austrian Business Cycle Theory (ABC)

- There are no systematic forecasting errors.
- Rational expectations does not mean perfect forecasting.
- Maybe the first time the government injects money into the economy, ABC is right; however, businessmen are not so stupid as to fall for it again and again.
 - But, in the real world, people do make mistakes, because rational expectations doesn't say that people don't make mistakes, that they're omniscient -- just that there are no systematic errors.
 - Rational expectations says that people don't systematically under-estimate the adjustment for the actual rate of interest -- it says that half underestimate it and half overestimate it.

Austrian Resposne to Rational Expectations Objections to the ABC

- What they are saying is that "We don't agree with ABC, because if it were true, then people would act to alleviate it, so therefore it must be false." This is nonsense on stilts.
- We are not talking about just a one-time injections, but a daily process. It is entirely possible that businessmen act on the average to compensate, but that is not going to cancel out the malinvestments that have occured.
 - It's just malinvestments not made, which doesn't cancel out malinvestments. Utility is lower. This illustrates the danger of thinking in aggregates.
 - Given that the government keeps doing this, and that it's causing the boom, the goverment is getting around this.
 - The govenrment just has to inject more credit to get around the adjustments of businessmen.
- Clearly, there are ignornat borrowers out there, such as dumb people, or people who just ahven't been burned yet. Rational expecations argues that smart people adjust, and offset the actions of stupid people, so as to overcompensate; thus, in aggregate, there is no overinvestment in capital as opposed to consumer goods.
 - The problem with this is that it is *not* the aggregate that matters -- aggregate thinking is a simplification.
 - You have to look at the specifics; no matter what smart people do, they can't undo

the inefficient employment of resources by stupid people. Even if smart people *overcompensate*, that can't negate malinvestment, but is in-and-of itself a malinvestment.

- Prisoner's dilemma answer. If you look at the incentives that businessmen face, even if they know what's going on, they can't stop it:
 - If you're a businessman, you still have to operate, and borrow money.
 - You can't prevent other people from responding to the government's changed policy.
 - All businessmen would have to *agree* to ignore the fact that the government did inflate the money-supply and is lowering the interest rate; if one ignores this and others don't, that person loses.
 - On the margin, it is more beneficial to borrow money at the low rate.
 - The *dominant* strategy is to borrow money at low interest rates; however, the *pareto-optimal* strategy is for no-one to borrow, because they'd all be better off.

Outsourcing

- Some people don't like it, because it lays off American workers. We don't discuss that anymore, since that is naive.
- Paul Craig Roberts objection to outsourcing is the best criticism of outsourcing. Roberts says that the situation has changed, so we can't use the standard case for free trade. He is not really saying that we can't use some argument for free trade, but just that we can't use the standard argument for it (David Ricardo's classical argument).
- David Ricardo's classical case for free trade:
 - If we eliminate tariffs, goods flow in.
 - But, we'll just specialize in something different.
 - Aggregate consumption will go up in the US.
 - Ricardo argues that we can be richer if we specialize in that in which we have a *comparative advantage*:

| Product | US | | India | |
|-------------|---------------|------|---------------|------|
| | Units | Time | Units | Time |
| Televisions | 10 TV's | 4hrs | 8 TV's | 4hrs |
| CD Players | 50 CD players | 4hrs | 10 CD players | 4hrs |

- Some people get poorer, but on average, people in the nation are richer.
- Roberts says that Ricardo's argument is right, but that that is not what is happening today:
 - US firms actually ship machinery over to India.
 - We were assuming that only consumption goods, not capital good, can be shipped across the ocean.
 - As machinery is just being shifted over, there is no compensation.

- Response to Roberts:
 - *Black box response:*
 - Can construct a very similar scenario, and Roberts must agree that it's ok.
 - Suppose that rather than the firm transmitting information over the internet to Indian doctors, Indian doctors make black boxes that have all the medical knowledge.
 - Now, India ships black boxes to the US.
 - They put doctors out of business, but help Americans a lot by making things cheaper.
 - The difference between this case, and Robert's situation, is not the difference between the US benefitting or not benefitting
 - Heavy vs. light gift:
 - Send an under-developed economy a machine.
 - This can't hurt them, but can only help them, as they can choose to use or not use it.
 - Roberts is saying we'd better help them if we make the machine heavy so they can't ship it to India.
 - So, Roberts would have to argue that if they found a capital good and sold it to India, we wouldn't be helping them; however, this is wrong, because the person who sold it is actually getting more by shipping it to India than keeping it; the market price of the machine is higher in India than on the island.
 - Symbolic proof that free trade *must* help us out:
 - Lets say that capitalists/shareholders outsource jobs.
 - Obviously, capitalists/shareholders are better off.
 - The workers laid off are worse off.
 - Let:
 - W = average original wage of workers laid off
 - w = average wage of laid off workers in 2nd best job
 - N = number of outsourced workers
 - f = average foreign wage
 - Thus:
 - Total cost to US labor:
 $(w - W)N$
 - Total gain to shareholders:
 $(W - f)N$
 - What does the US gain overall? Capitalists only outsource if:
 $(W - f)N > (W - w)N$
 $W - f > W - w$
 $-f > -w$
 $f < w$
 - This *must* be true, because if the 2nd best wage wasn't better than the foreign wage, companies would just offer to reduce their employees salaries.

Current Topics in Economic Policy: Equal Pay, Discrimination, Glass Ceiling (lecture 26 of 32)

Prof. Block

Discrimination

- Short answer to critics: they're wrong.
- Affirmative action is Jesse Jackson's position.
- Libertarian position:
 - Private affirmative action is ok.
 - Public affirmative action is not ok.
- The usual view is that white wages are greater than black wages, and that male wages are greater than female wages.
- The claim is that most employers are white men who hate blacks and women (I've always thought that men tend to like women).
- $F\{w\}:M\{w\} = B\{w\}:W\{w\} = 0.75$
 - $F\{w\}$ = female wages
 - $M\{w\}$ = male wages
 - $B\{w\}$ = black wages
 - $W\{w\}$ = white wages
- The claim is that because employers hate blacks, the demand for black workers is low.
- Marital asymmetric hypothesis (libertarian alternative):
 - Marriage has an unequal market effect on men vs. women.
 - "Women are not as productive as men".
 - But this is not saying that women are inferior, but just that women are more active in some other areas (namely, family), and less active in the workplace.
 - Wives tend to do more housework.
- Why are blacks 75% as productive as whites on the market? Possibilities:
 - Slavery, discrimination, Jim-crow legislation.
 - Alternate theory is that blacks have a lower IQ.
- Married men are much more interested in promotion than are married women; thus, marriage makes men more eager to get a promotion, and women less eager to get one.
- Married men are *less* likely to move for their wives if they get a job-offer than married women are likely to move for their husbands if they get a job-offer.

- Logical proof that the discrimination-theory is wrong:
 - The reality of male and female wage-rates vs. what feminists claim is their respective productivities:

| Category | Male | Female |
|--------------|------|--------|
| Wage | \$10 | \$7.5 |
| Productivity | \$10 | \$10 |

- Profit = Productivity - Wage
 Profit{men} = \$10 - \$10 = 0
 Profit{women} = \$10 - \$7.5 = \$2.5
- This is nonsense, because if this were the case, firms that hire men would go broke, and those hiring more women (or only women) would have enormous profits. This situation is clearly instable.
- The reality of the productivity of males and females vs. what feminsits want their wage-rates to be:

| Category | Male | Female |
|--------------|------|--------|
| Wage | \$10 | \$10 |
| Productivity | \$10 | \$7.5 |

In this situation, firmstrying to pay women \$10 lose money on them (thus, would most likely hire less women than they otherwise would).

- The way things *really* are:

| Category | Male | Female |
|--------------|------|--------|
| Wage | \$10 | \$7.5 |
| Productivity | \$10 | \$7.5 |

- The point is that on the free market, discrimination is viciated against discrimination. Anyone discriminated against becomes more marketable, as their salary is lower.
- The reason that blacks/minorities are charged more is because it costs more to serve them.
- Does the market discriminate against tall people or obese people? No, the higher costs these people face simply means it costs more to serve them.

Empirical Research

Lets look at the wages of men vs. women in Canada, 1971, over 30 years old:

Symbol Definitions

| Symbol | Definition |
|--------|--------------------------|
| W{mF} | wages of married females |

| | |
|------------|--------------------------------|
| $W\{nmF\}$ | wages of never-married females |
| $W\{mM\}$ | wages of married men |
| $W\{nmM\}$ | wages of never-married men |

Wages of Married and Never-Married Men and Women

| Category | Ratio |
|---------------------|----------------|
| $W\{mF\}:W\{mM\}$ | 0.33 |
| $W\{nmF\}:W\{nmM\}$ | 0.992 (no gap) |
| $W\{F\}:W\{M\}$ | 0.38 |

Wages of Men vs. Women in Various Age-Groups

Glass Ceiling

- The glass ceiling theory is that women are highly under-represented in the upper extremities (top-notch) of whatever you want to talk about.
- Block's argument is that men are "God's crpshoots". There are more male CEO's, but also more male crooks and nut-cases.
- Women are stable, "God's insurance policy".
- The idea is that the the distribution of male and female intelligence, while having the same average, has a different variance. The female distribution has less variance, and is focused around the mean, with thin tails. The male distribution has more variance, with less focus around the mean and fatter tails.
- There is a socio-biological reason for this: men are expendible, women are not.
- From the standpoint of human repopulation, if a lot of men die, so what? If a lot of women die, it's bad because you can't repopulate.

Trade Barriers, Outsourcing, and Economic Development (lecture 27 of 32)

Prof. DiLorenzo

Introduction

- Outsourcing is a big issue, although less than 1% of the job-force is outsourced.
- Tarriffs had a very big impact on the cause of the Civil War
- "If goods can't cross borders, armies will" -- Bastiat
 - Free trade is conducive to peace.
 - Trade-barrier are conducive to war.
 - If people can't enrich themselves by peaceful means, they will do so through violent means.

Tarriffs, Quotas, and Trade-Barriers

- The effect of tarrifs are a regressive tax, effecting the poor more than the rich.
- X-inefficiency -- means monogenial laziness; with weaker competition, managers won't be as efficient, won't cut costs as much; the same amount of goods will be produced, but using more resources.
- Tariffs cause rent-seeking -- income transfer from consumers, competitors, tax-payers.
- The more time you spend pursuing rent-seeking (income-transfer), the less time you spend working, investing, producing wealth. This is waste.
- Reduces the size of the market, hinders the division of labor.
- Tariffs reduce innovation.
 - With no competition, there is no incentive to make better products.
 - Increases costs.
- Pass-through effect -- tariffs have disproportional effects on export-dependent areas; the extent to which they can pass on the costs of the tariff:
 - Tariff is an indirect tax on exports through imports.
 - If restrict the number of dollars that leave the US to other countries, we restrict foreign investment.
- Retaliation against tariffs:
 - Smoot-Howley tariff, passed in by Hoover. Raised the average tariff rate around 45-50%. US exports had declined by 53% in 1932.
 - These tariffs strengthened the Japanese Fascists, just like Versailles strengthened

Hitler.

- Quotas produce similar effects, though there's no government revenue.

Voluntary Export Restraints

- Japanese "voluntarily" agree to restrict exports to the US.
- As a result of this, the average compact car was \$2,500 more expensive than it would have been.
- This was a lie by the Reaganites, so Reagan didn't seem like the anti free-trade Fascist he was. (**disclaimer:** I am uncertain as to whether this is Prof. DiLorenzo's statement, or my own addition).
- There was a 5-year agreement.
- After the 5-year agreement, the Japanese came back to the US and asked to renew the contract.
- The same thing, if done privately, would have been prosecuted under the Sherman Anti-Trust Act. Of course, they weren't prosecuted, because they were a part of the State.

Domestic Purchasing Requirement

- Required to buy only things with parts in them that are domestically produced:
 - Requires a certain percentage of the content to be domestic.
 - Basically, no-one with yellow skin.
- Alternatively, may require the product to be produced domestically.

Foreign Imports Restrictions

- NAFTA
- "Quality standards" for imports.

Outsourcing

- Hayek -- "If you want the benefits of competition, then you have to realize that when your time comes to adapt to changing economic conditions, you have to adapt and not lobby for protection."
- Companies are reducing costs, which results in lowered prices through savings.
- Stimulates US exports.
- "Downsized jobs" are often the result of technological improvement, which leads to other types of jobs being created.

- A small percentage of people are employed in these industries.

Re-Importation

- Supports reimportation of drugs.
- Patents are a monopoly.
- FDA hinders production/marketization of drugs.

Protection and the Market for Security (lecture 28 of 32) *Prof. Hoppe*

Hobbesian Mythology

- State of nature -- war of all against all: one man is another man's wolf.
- To get out of this predicament, we have to create the State.
- The State is Sovereign:
 - Ultimate judge in every conflict.
 - Ultimate judge in conflicts that involve itself.
 - Territorial monopoly of taxing power: it charges a price for protection services without having anyone's agreement.
- Immediate problems:
 - Whoever it is who is elevated to the level of the State, he himself must also be a wolf. This immediately sheds doubt on the plausibility of this scenario.
 - If we construct a group small enough -- two individuals -- neither can ever cooperate with each other, so one must be the master, the other the serf. Yet, we see that all around the world, small groups of people cooperate. Why should it be different for a large group of people, which is just a multitude of bilateral relations?
 - What can we expect of this institution?
 - Order/peace between citizens
 - If not suppress private crime, would have nothing to tax.
 - But, you'd also expect such of a protection racket -- protection rackets create Hobbesian war.
 - Suppress other protection rackets -- or non-aggressive competitors -- to maximize profit.
 - Once we have the State established, the problem that gave rise to the State occurs on an international level: the war of States against other State. Hobbes must propose a world-wide State.
 - Isn't this just a big protection racket?
 - How is this convincing? This would be world-wide tyranny.

Empirical Evidence Against The State

- The view of the Founding Fathers was the the State provides protection against internal and external violence.
- The US has done something very different from that.

- 40% of the money we earn is taxed away (stolen).
- Inflation: purchasing power of \$1 today is less than that of \$0.01 when the Federal Reserve was created.
- Growing body of laws: thousands, tens of thousands, of laws are created yearly:
 - Make things that were legal yesterday illegal today.
 - Make things that were illegal yesterday legal today.
 - How can you know what is or isn't your property, or what you can or can't do, under a system where the rules are arbitrarily changed on a constant basis?
- Wars, foreign policy:
 - 600,000 died in the Civil War.
 - The US is the most imperialist country since 1879:
 - Spanish Civil War
 - World War I
 - World War II
 - Meddled in foreign affairs: China, Korea, Indonesia, Cuba, Quantico, Peru, Vietnam, Cambodia, Yugoslavia, Grenada, Libia, Nicaragua, Panama, Iraq, Bosnia, Afghanistan.
 - There hasn't been a *single* year in which we haven't attacked other countries in some manner.

Reaction

- Can't deny facts.
- But you can attempt to immunize your hypothesis: "the Constitution was great, but various things went wrong." In other words, despite all the problems, it was not the problem with the Constitution, and various other excuses.
- They don't say that there's something structurally wrong with a Constitutional government via a State; instead, they make a bunch of excuses:
 - Some other Presidents.
 - Few Amendments.
 - Various details of the Constitution and implementation.

Argument Against the Constitution

- It is impossible to use a State to obtain protection.
- The State is a geographical monopoly on taxes, that is supposed to protect property.
- There is an inherent contradiction: The State is supposed to protect property, yet it necessarily expropriates property. How can an institution which is always the

judge possible by just? There is a permanent perversion of justice in favor of the State.

- Constitutional courts are part of the institution of the State.
- Inherently, the State will expand its own power.
- How many resources does the State need to produce its "services"?
 - On private markets, consumers direct resources.
 - The State will use *more* rather than *fewer* resources.
 - As soon as the consumers do not determine this, the answer will always be the same -- more resources to produce security, while the quality of the work (security) decreases, because the State can tax.

Alternative: Free-Market Protection

- Competing insurance companies:
 - Police
 - Courts
 - Detectives
 - Prisons
 - Etc, all either joined or separate
- All would be voluntary, being able to exchange one thing for another.
- In contrast to the State, the tendency would be for prices to protect property would fall. Prices, the premium we'd have to pay for protection, would tend to fall.
- No over-production. Whatever is spent on one thing can not be spent on another. Consumers determine how many resources to allocate to security vs. other things.
- Insurance companies *indemnify* you if they haven't fulfilled their obligations. Does the government do that? No. Why should they.
- Prevention:
 - What is the incentive of the government to prevent crime? Very little to none: lots of crime, yet the State can always ask for (take) more money.
 - Insurance companies want to prevent crime, so as not to have to pay out.
 - Insurance companies also want to prevent crime to compete for customers.
- Compensation -- want to be compensated for any wrong done against you
- Catch criminal:
 - Try to catch the criminal. Usually, the State doesn't even find the criminal.
 - Do they force the criminal to compensate the individual? No.
 - Private insurance companies have a motive to do that.
 - Instead, the State puts criminals in prison with luxuries (paid for by the taxpayers, which includes the victim).
 - Private agencies would put criminals to work to pay their victims.

- Stability:
 - State changes laws yearly, all year round.
 - Private agencies would have constant rules, to compete with one-another.
- De-armament:
 - States de-arm you, so they're a protection racket.
 - Insurance companies would encourage weapon ownership, encourage competence, and charge lower rates for it.
- Wealth-redistribution:
 - No geographical wealth-redistribution under insurance.
 - Pay more depending on the region and desire for safety.
 - State forces one group of people to support another group of people.
- Insurance agencies would encourage peaceful behaviour, so they wouldn't have to pay out.
- Victimless crimes -- insurance agencies wouldn't waste resources on victimless crimes.

Alternatives: Courts

- If the conflicting parties have the same agency, then they'd go to that agency.
- If the conflicting parties had different agencies:
 - Companies agree -- verdict enforced.
 - Companies disagree: provisions offered:
 - Independent arbitrators.
 - The independent arbitrators incentive would be to come up with a judgement that insures they'll be selected for appeal again.
 - Won't be chosen again if their judgements aren't considered fair.
 - Incentive is to come up with a universally accepted set of principles of judgement guiding the situation.
 - As unrealistic as this may sound, it already exists and works on the international level between citizens.

Alternatives: How do these free, Stateless territories defend themselves against States?

- They'd be much wealthier than States.
- Heavily armed.
- Whenever a State attacks somebody it needs a justification for invading -- soldiers might not follow orders:
 - No provocation from free territories.

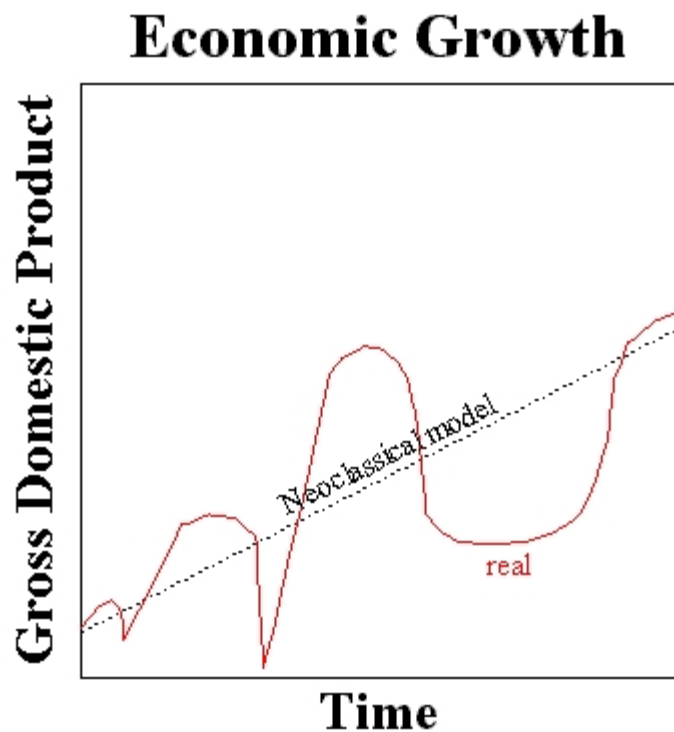
- Incentive to repress crazies.
- Very difficult to persuade a nation to attack an area that has done nothing; so, no public support, and need public support all the way down to soldiers.
- If the State invades, it would be a guerilla war.
- Anarcho-capitalistic societies would have an incentive to specifically kill the aggressors -- the politicians. Anarcho-capitalistic societies would have precise technologies.

Business Cycles and Prediction (lecture 29 of 32)

Prof. Thornton

Introduction

- Textbook examples of business cycles seem easy to predict.
- Real business cycles are much more difficult to predict.
- Problematic for mainstream economists, because they believe science is in prediction.
- Austrians reject prediction as unscientific.
- *Ultimate Foundation of Economic Science* and [Manipulation of Money and Credit](#) are important books for anyone interested in business cycles.
- Men are not like rocks. On prediction:
 - Things like rocks have regularity, allowing for perfect prediction.
 - This regularity doesn't apply to humans; there are no constants in economic relations.
 - Praxeologically, you can make certain qualitative statements of prediction; but, there is much less certainty about predicting quantitatively how things will change.
 - The only way is through *verstehen*.
- *Verstehen* -- must use historical information to help you; you can use statistics to aid you, but this is still not scientific, because there are no constant relations.
 - No constant relations.



- Variations -- relations will change.
- Forecasting can be seen, from the scientific point of view, to be self-contradictory: one's own actions invalidate one's predictions.

Two Views of the Future

- Austrians start from the foundations of theory for predictions.
- Mainstream is positivistic, so they jump into statistics:
 - Given a lot of contradictory evidence.
 - Confusion about what a bubble is.
 - Confusion about what the stock-market is.
 - Are bubbles natural? According to the mainstream, yes.
- The question of *who* actually *did* make accurate predictions about the economy goes beyond the talk of the day and to the fundamental issues:
 - Interesting to compare what Austrians said vs. what mainstream economists said, in regards to booms and busts.
 - "New era" economics.
 - LewRockwell.com -- Thornton.

Predictions

- Survey of business economists:
 - 1/4/1999: predicted low growth, high inflation (beginning) that year; economy went very high.
 - 7/2/1999: Economists predicted a 50% increase.
 - 1/3/2000: Economists predicted enormous increases, "no end in sight". Just after, there was a huge crash.
 - 7/3/2000: Economists predicted a "soft landing", just as we got into a depression.
- Government economists prediction record:
 - From 1992 to 1996, they predicted the economy fairly accurately.
 - From 1996 to 2000, they under-predicted the economy.
 - From 2000 on, in apparent attempts to catch up with the old growth-rates, they over-predicted the economy, which had an enormous drop.
- Actual predictions:
 - *Dow 36,000, 1999*. "Different perspective on stocks." "Stocks are cheap." "No price is too high." Glassman and Hasset, supply siders.
 - Charles Murray noted that books such as *Dow 36,000* are frequent at the top of booms.
 - Chris Meyer noted that no theory of cycles or bubbles can tell us when the boom will end.

- JTomy Dicken has called the 2000 bubbles "history's greatest bubble".
- Reisman: clearly something is wrong, we cannot live as a society with everyone living by day-trading.
- Summarily, *almost all* of the people who were able to predict the collapse were Austrians, but Austrians always tend to predict bust. A few analysts were able to do asset research to find over-valuation.
- It's not that skyscrapers cause the boom to pop (bust), it's that booms cause skyscrapers.
- Cantillon effects (used by Austrians).
- Jim Puplava, FinancialSense.com, Thornton.
- Austrians can be permibears, because they see problems; but not all of them have a feeling for when it's going to end; so, you have to look at the record and weed out the permibears, who know Austrian economics, but don't have *verstehen* of what's going on. The volume of predictions for bust tends to get louder near the end of the bubble among Austrians; but among the mainstream, the volume of predictions of euphoria tends to get louder near the end of the bubble.

Economics of Political Centralization (lecture 30 of 32)

Prof. Hoppe

Introduction: History

- Soviet Union collapsed.
- Attempt to create nations out of regions with no historical similarity has failed. These attempts at creating nations have dissolved.
- With the collapse of the USSR, we are closer than ever in history to a situation where we can say we have one world order:
 - US controls Japan, Germany, and even Europe.
 - European Union.
 - US controls Europe to the extent that European Central Banks uses the USD as their reference points, so we can inflate without immediate consequence.
- Europe had been composed of hundreds or thousands of units, but now it is a just a few dozen. However, there are some small trends of decentralization, such as the Austro-Hungarian empire. Over-riding tendency, however, is centralization:
 - After the 40-year war, what we now call Germany consisted of many many subunits; by 1871, they were "unified".
 - Likewise for Italy, which was "unified" in 1860.
 - Even small countries such as Switzerland were only unified around then. Switzerland started out with "12 cantons".
- Internal centralization -- central parts of the government have grown relative to localized parts.

Interpretation

- Orthodox position:
 - Centralization is good.
 - Decentralization is bad.
- Hoppe's view:
 - Centralization is bad.
 - Decentralization is good.
- An assumption by the orthodoxy is that centralizations creates a more globalized economy, thus wealth.

- We have gotten wealth.
- This does not show that it is because of centralization: we could be richer if not for it.
- Political centralization is not the same as economic centralization/unification.
- Political centralization is the expansion of the central authorities taxing power.
- Economic unification is just world-wide trade.
- Political centralization hinders economic unification. States are actually *anti-productive*, and promote the disintegration of the free market:
 - Taxes.
 - Inflation.
 - Tariffs.
 - Quotas.
 - Regulations.
- Political size and economic unification are *systematically unrelated*.
 - The USSR was larger than the US; yet, the USSR was not economically united.
 - Switzerland is very small, yet it is very integrated.
- If a less taxing State expands, this causes economic progress; if a more taxing state expands, this causes economic regress.
- There is an indirect relationship between the size of the State and economic unity:
 - Modern States emerged from small States.
 - When there were many small States, the States were more moderated:
 - Many "competitors" nearby.
 - Thus, it was easy for people to "vote with their feet".
 - Less moderated States tended to lose their most productive individuals.
 - Less moderated States tended to keep the least productive individuals.
 - Such is why capitalism appeared first in such highly decentralized places as:
 - Italy.
 - Germany.
 - Etc.
 - The uniqueness of Europe is what was responsible for the flourishing of capitalism.
- States compete with each other for subjects. One State's subjects run to other States, creating conflict:
 - Capitalistic competition allows for unending coexistence.
 - State competition is eliminative, because of the territorial monopoly. States with more resources tend to win conflicts; that is, *ceteris paribus*, the State with more resources will win a conflict with other States.
 - States that tax less will have more resources, because their peoples will be richer.
 - States that tax more will have less resources, because their people will be the poorest.
 - Thus, most liberal States internally tend to be the most aggressive externally, because they know that they can win; States that are the most oppressive

internally tend to be the least aggressive externally, because they know they won't win.

- This explains why Europe tends to dominate the world, and why its imperialist foreign policy has been liberalizing.
- Dialectic process -- this can't go on forever; the more we approach One World State, the less reason there will be for the remaining States to remain liberal:
 - E.g., in European countries, the rise of socialist parties has begun.
 - The US started out very liberal, with low taxes. Then, there was the Civil War and the Spanish War:
 - Liberalism makes rise.
 - Then enter into imperialism.
 - Increasingly, less reason for US to keep stay liberal, because in a way we've almost expanded over the entire world.
 - The so-called "free trade" networks are just mountains of paper. If you want free trade, you only need two sentences:
 - You can import freely.
 - You can export freely.

Liberals and their Problems

- Because wanted to expand liberalization, they always supported centralized government and opposed small States.
- Opposed the Catholic Church.
- Combined with democracy over monary, because they considered monarchs illegitimate.

Internal Problems With Democracy

- Not valueable in and of itself:
 - Majority could abolish democracy.
 - Majority wipe out the minority until only two left -- then no such thing.
 - A Constitution doesn't solve any problems, because it admist some higher value than democracy.
 - Secession is "anti-democracy".
- Monarchy:
 - Incentive to preserve value.
 - Clear distinction between the ruler and the ruled.
- Democracy:
 - Distinction between the ruler and the ruled is blurred.
 - Less resistance to State power.
 - False idea that we rule ourselves.

Secession

- Eliminates unwanted integration; allows for people to be separate but equal; e.g., satellites of the USSR.
- In the US, busing, rent control, etc forces people who don't want to live together to live together:
 - Not conducive to harmony.
 - Conducive to discord and hate.
- Other regions will then have to immitate these successful regions.
- Everything after secession depends on what is done within the territory.

State Size vs. Economic Integration

- There is an important indirect relation between the size of the State and economic integration.
- Integration is easier in smaller States.
- Small States have to compete.
- Much more necessity of free trade in small States.
- The smaller the unit, the greater the pressure you face to adopt free trade.
- The smaller the unit, the more likely it is that we have international money, based on gold, and the more pressure on the little States to adopt the international commodity (the standard).
- Goette: "I do not fear that Germany will not be united; she is united, because my coin is accepted everywhere, and I can go from here to there."

The Case Against All Antitrust Legislation (lecture 31 of 32) *Prof. DiLorenzo*

History

- Railroads coming together in 1800s.
- Centralized meat packing in Chicago.
- Shipped dressed beef long distances from all over.
- All of the sudden, had all kinds of competition.
- Impetus for anti-trust law was actually to prop up the price of beef.
- Scales of economies and railroad transport were lowering prices all over.
- Anti-Trust Laws: Whenever you see one company suing another, it is because company A does something that benefits consumers (lowering prices) that company B doesn't like.

Reformers vs. Abolitionists

- Austrians -- abolish anti-trust
- Chicagoeans -- reform anti-trust

Abolishing Anti-Trust Laws

- Anti-trust alws are inherently *incompartable* with competition:
 - When created, even Socialists opposed anti-trust laws.
 - Competititon is a dynamic ongoing process.
 - If you disrupt this, you will mess things up.
 - Anti-trust laws regulate trading, market advertising, raising prices ("price-gouging"), leaving some prices the same ("collusion"), cutting prices ("undercutting"), mergers.
 - In a sense, a corporation is just a merger of assets between shareholders; company-mergers are more of the same.
 - "Treble damages" -- pay 3x what "overpriced"; but no way to know what the "market rate" should have been.
 - Witch-hunt against companies with large market-share.
- Historically Protectionist:
 - *Not a single* book on history had a statistic on the output levels in the 1880's era.

- There were 17 industries in which DiLorenzo could find some historical data:
 - Real GNP increased 24% from 1880 to 1890; the "cartelized" restricted industries increased by 100%.
 - While general prices fell 7%, the prices of those general industries went down much more.
 - So, they were expanding production 10x faster than the GNP and cutting prices faster than the general price-level was dropping.
 - Congressmembers actually know this.
- So, anti-trust law was protectionism, in the guise of "increasing competition".
- New York Times -- anti-trust law was passed to clear way to bring in tariffs; they passed off a big anti-consumer law, with tariffs and protectionism; anti-trust was used as smoke-screen.
- "Exclusion" from consumers is a bad thing.
- 114-year history of destroying competition.
 - "Perfect competition" requires the Sherman Anti-Trust law -- "many firms". Economists of the 1890s saw all of the statistics, and saw the prices dropping from mergers.
 - *Anti-Trust and Monopoly* (Independent Institute).
 - Nirvana fallacy -- comparing reality to perfect competitive ideal; but real competition is between before and after innovation.
- Incompatible with private property and freedom of association. Business activities don't harm anyone; Sherman is anti-free speech: even if you just "say" you want to fix prices, you can go to jail. In fact, any regulation of prospect of regulation stifles free speech on the part of business-people, because of the fear of retaliation.
- Anti Rule of Law:
 - Continual, capricious harassment of successful businessmen.
 - Law vagueness: anti-trust laws are vague.
 - The meaning of these laws is decided *post hoc*.
 - No-one knows what's legal vs. illegal, until the State sweeps down on them.
 - Businessmen, innovation, initiative, etc are stifled.

Apriorism and Positivism in the Social Sciences (lecture 32 of 32)

Prof. Long

Positivists and Semi-Positivists

- Auguste Comte
- Logical Positivists (Vienna Circle)
- Karl Popper
- Milton Friedman -- *Methodology of Positivist Economics*.
- Got their good ideas from Wittgenstein:
 - Unless you can apply/recognize ideas in practice, you don't understand them.
 - Positivists altered this to the verification theory of meaning -- you need to verify it; they think that the only meaning in a sentence is its predictive power, otherwise you haven't said anything at all.
 - To say that god exists or doesn't exist is meaningless; you have just expressed a "feeling", but nothing else. It is no different than saying "ooh" or "ahh" or "blah blah blah".

Karl Popper

- Statements have to be falsifiable, because you can never prove something. Later, he changed this to criticisable.
- Popper allowed for the existence of the *a priori*, but just thought that it wasn't scientific.
- Popper adopted the rationality principle, that people seem to choose the means best for their ends:
 - Not *a priori* true.
 - *A posteriori* false -- sometimes people don't. Yet, Popper still thought that this was generally/normally true.

Milton Friedman

- *Methodology of Positivist Economics*.
- Hayek said he regretted not criticizing this piece.
- Devoted to the dispute between the Austrian and Neoclassical economics on the necessity of realistic assumptions.

- Austrians say that he assumes away explaining factors.
- Friedman says a realistic model is impossible, because it is impossible to use all of the details.
- Friedman also said that the point of the model is to give us predictions that work: whether or not the model is approximately true doesn't matter, because prediction is all that matters.
- Friedman says that if we have a dispute about *a priori* principles, we have no way to resolve it, "without resorting to blows". Positivists, however, can resort to facts.

Austrian Response to Friedman

- Positivists are ignoring something important -- themselves. The fact that action exists is something we know *a priori*, because denying such is an action.
- We know that action exists, and that it applies to the real world.
- We don't have to do empirical tests to know that you act and know that you exist.
- The idea that we can't resolve disputes about *a priori* truths (e.g., axioms) without violence is absurd. You don't see Austrians bashing each other's brains in.
- Friedman is confusing the issue. He refers to axiomatic truths as if they are internal revelations.
- Psychologism -- the idea that when talking about logic, we are really talking about the psychological.
- The realm of logic is *more* public than the possibility of observation.
- Types of abstraction: We need to distinguish between failing to specify something vs. specifying its absence:
 - *Precise abstraction* -- specify the absence of something, "idealize".
 - *Non-precise abstraction* -- fail to specify something.
- Austrians object to the neoclassical specification of things that are flatly false: e.g., perfect information.
- Friedman's mistake is that he sees all abstraction as an idealization; however, this is wrong.
- If you don't see the difference between the logical and the psychological, you may think that if the idea in your head is incomplete, so is the thing that you're describing.
- Mises criticizes the idea that economics has to deal with ideal types; early Austrians made that mistake too.
- Mises rejects ideal types: the laws of reality apply to reality just as they are; this also applies to the laws of physics -- you need *non-precise* abstraction.
- Economic laws are *counter-factual* in nature, as are the laws of physics. [Realism and Abstraction in Economics: Aristotle and Mises versus Friedman](#). Long, Roderick T.

"A counterfactual law relates an observable fact to a counterfactual alternative, it is immaterial which other facts exist besides the one under consideration, how these other facts are modified throughout time, and how they influence the course of events." -- [Facts and Counterfactuals in Economic Law](#). *Huelsmann, Joerg Guido*.