

Austrian Economics Newsletter

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The State of Economics in Austria Today: An Interview with Karl Socher

Karl Socher is professor of economics at the University of Innsbruck, Austria.

Q: *What is the status of Austrian economics in its homeland today?*

A: Poor. It is almost forgotten in Vienna itself. There are two or three economists in Vienna, especially Erich Streissler, who value the Austrian contribution to economics. Most of the other economists in Vienna call themselves Austro-Keynesians. They are not Keynesians in the traditional sense, but they think government should intervene heavily in the market through monetary and fiscal policy. They also believe in a social-market economy, like Germany's, where the social order is linked to the government with a social insurance system and welfare.

Q: *Is this view challenged?*

A: Not often. The social security system is especially sacrosanct. Even so, the system can be explained by public-choice theory: politicians keep the tax bite for the social insurance low and the payments high. This has created a huge deficit that will be impossible to finance. That is why we need serious reform.

Q: *How were you introduced to Austrian economics?*

A: While I was studying economics at the University of Vienna in 1950, I attended lectures by Hans Mayer, successor to the chair held by Friedrich von Wieser. Only later was I introduced to Keynesian economics. I was told to adopt the new economics and forget the old.

Q: *Were there other Austrian professors at the university while you were a student?*

A: Yes, there was Professor Mahr under whose guidance I wrote my dissertation on monetary theory. In my studies, I concluded that Wieser was wrong about his national income theory for microeconomics. In the writings of Mises I found a more correct position. When I broke with Wieser's position, Mayer was not happy about it. He was a fierce supporter of Wieser.



Karl Socher

Q: *What about Austrian economics at the University of Innsbruck?*

A: We continue to uphold the Austrian tradition; not all of us, but some. In an article Hayek wrote for an Austrian newspaper, he said that Austrian economics is not taught in Austria anymore. So a few of us in Innsbruck wrote him a letter saying we are still Austrian economists in the old sense. We call ourselves Hayekians and Misesians. A well-known economist in Vienna once said the Innsbruck economists do not belong to Austria anymore because of their views.

Q: *What is your impression of American Austrians?*

A: Very favorable. I am looking into what American

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Austrians are saying so we can re-import Austrian economics to Austria. I was worried that the research here looked backwards and simply re-wrote the old theories. On the contrary, I've found Austrian economics here to be fresh and alive. It is being applied to new developments: to rational expectations, to the theory of market failure, and to explain the stock market crash. I am pleased, and hope that my colleagues and I can learn from this.

Q: *What are graduate studies in economics like at the University of Innsbruck?*

A: We have a University system similar to Germany's. The first grade is the masters; we have the masters in economics and masters in business administration. After the masters, we have the doctor, which is different from your Ph.D. It takes about two years after the masters and you have to write a dissertation. Then we have the habitation, which is publication and research work, something like the Ph.D. Publication is necessary for the right to teach at the University.

Q: *How many students are there and what is the curriculum like?*

A: At Innsbruck we have 4000 business administration students and only 300 students of economics. We offer classes like the theory of economic policy, public choice, and public finance. And we have other fields, for instance sociology and political science. Our students are not as well versed in economic theory as you are in the United States, but we have a broad knowledge of political economy. Our students are also technically trained in mathematics and econometrics, which is not absolutely necessary for an economist, but I think it should be taught. In the doctor's program, there are seminars, but almost no regular classes. It's mostly the dissertation and the seminar work.

Q: *How is the economics curriculum set? Is it hard to introduce Austrian ideas to the graduate students at the University?*

A: We cannot change much because the curriculum

is decreed by the government. The actual content of the lectures is not supervised, so we can have an influence. The lecture may be called political economy, but we can add Austrian economics. If we did that all the time, however, it would be difficult for the students to pass the exams which are prepared by non-Austrians.

Q: *Are you trying to introduce a course in Austrian economics?*

A: Yes, but right now we are teaching it in the "Principles" classes. It gives us a chance to refer to Mises, Hayek, and the Austrian school.

Q: *You once worked at the Austrian Institute for Business Cycle Research founded by Ludwig von Mises in 1926 and at which F. A. Hayek had worked. Is the Institute operating today?*

A: Yes, it is an important and well-known research institute. It has been involved in a long and protracted battle over control. Mises set it up to be financed by businessmen or the chamber of commerce so it would be independent of the government. That idea is still on the statutes. But after the war, the government stepped in and began financing it. A big clash occurred over a speech by the director of the Institute, Dr. Nensuc because it was favorable to free markets, Mises, and Austrian economics. After the speech, the government tried to close the Institute, but there was an outcry. Today the Institute is open, independent, and largely free from government control. The finance ministers all depend on its reports.

Q: *Is there any remnant of Austrian economic influence left?*

A: There are no Austrian economists there. They are Keynesians and Keynesianism is spread via this institute. The published reports do not advise the government directly, but through informal meetings with government officials they advise interventionist policies. This problem has improved recently and the Institute is more favorable toward free markets, not because of Misesian influence, but to keep up with the climate of opinion in Germany, Britain, and elsewhere. The whole world is going in this direction. So the influence of free markets came via Germany, Britain, and the United States back to the institute.

Q: *Are there any free-market institutes in Austria besides the Carl Menger Institute?*

A: There is an institute attached to the liberal party, but it doesn't do much. I have seen only two small publications. And there is the Institute for Higher Studies, which is not so attached to a political party. But the Carl Menger Institute is the main institute for free markets.

Q: *Is the current monetary system in Europe an example of Hayek's competing monies?*

Contributors to this Issue

David Conway is lecturer of philosophy at Middlesex Polytechnic University in England.

Hans-Hermann Hoppe is associate professor of economics at the University of Nevada, Las Vegas.

Gerard Radnitzky is professor of the philosophy of science at the University of Trier in West Germany.

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George Selgin is visiting assistant professor of economics at the University of Georgia.

A: No. When Hayek wrote about free choice in currency, he was speaking of individuals choosing the currency which they thought was best. In Europe, the government chooses it for you. It is similar to Hayek's because the individual governments want to choose a currency which is stable or, at least, fix their currency to another stable currency. Currency markets have become more stable and inflation rates are lower, but only because central banks and governments have learned that it is better to have a stable currency.

Q: Will Europe soon have a European central bank?

A: I hope not because it is a very bad idea. The push for it is mainly coming from countries, especially France, that do not like the stability of the German mark. They want a more inflationary policy than the Bundesbank provides. A European central bank would be more inflationary because it would

follow a policy that averages the aims of all the countries. Each central bank would have one vote. Germany would have to follow the dictates of the European Central Bank, creating a Federal Reserve-type stop-and-go policy. Under the current system, with each country pursuing independent monetary policies, there is more competition and a more stable currency system.

Q: The Bundesbank is often criticized for slowing growth in Europe with its conservative monetary policy. What's your view?

A: The criticism is incorrect. The Bundesbank simply slowed the rate of inflation. They still have unemployment, but it is not Keynesian unemployment where the remedy is high inflation. It is structural unemployment which is due to the conditions of the labor market. The wage policies of the government, and the structure of the labor market creates

Kluwer Academic Publishers and Austrian Economics

The Ludwig von Mises Institute is pleased to announce that Kluwer Academic Publishers, the publishers of the *Review of Austrian Economics*, volume 4, has requested that the Mises Institute increase the publication of the *RAE* from the present once a year to a tri-annual. Kluwer said they have been impressed with the quality of the *RAE* and its potential for having a large impact on economic thought not only in the United States but throughout the world. The *RAE*, edited by Murray Rothbard and co-edited by Walter Block, is now in its fourth year.

The shift to publishing the *RAE* to more than once a year will probably occur in 1991, according to Mises Institute president Llewellyn H. Rockwell, Jr. It will appear in a hard-back version for international and library distribution and a low-priced paperback for general distribution.

Kluwer has also approached the Mises Institute about expanding its book series, "Studies in Austrian Economics." Under the general editorship of the Institute, Kluwer wants to publish a minimum of three book-length manuscripts per year on all aspects of Austrian thought. The first in the series was Hans-Hermann Hoppe's *A Theory of Socialism and Capitalism*.

Next in line in the series is *Money, Method, and the Market Process*, a collection of essays by Ludwig von Mises, many of which have never been published, and *The Meaning of Ludwig von Mises*, a collection of essays drawn from a Mises Institute conference of the same name, edited by Professor Jeffrey Herbener of Washington and Jefferson College.

Other possible forthcoming books in the Series are several collections of essays: Murray Rothbard on Austrian economics; Roger Garrison on capital theory; and a number of Austrian banking scholars on the Federal Reserve System with papers drawn from a Mises Institute conference. The Mises Institute welcomes other manuscripts to be considered for publication as part of the series.

Kluwer cited events in Eastern Europe as a confirmation of their view that free-market thought will play an important role in re-shaping economics in the 1990s and beyond. They think all forms of statist economics, whether Marxian or Keynesian, to be on the decline. Along with Austrian economics, Kluwer is looking more closely at the Chicago and Public Choice Schools.

Money, Method, and the Market Process

Essays by
Ludwig von Mises

Selected by
Murray von Mises

Edited with an Introduction by
Richard M. Ebeling

unemployment. Perhaps there are too many academics and not enough good workers. But a looser monetary policy would do nothing to reduce unemployment.

Q: Are strong labor unions a major reason for the unemployment?

A: Yes, especially from 1975 to the beginning of the 1980s. In Austria we have a centralized federal labor union that is very powerful in making economic policy. There is no competition between the labor unions. In Austria we also have structural unemployment, but not because wages are too high. Faced with all this unemployment, the union knows it cannot overdraw.

Q: Labor union bosses have said they don't want to disturb monetary policy. Does the labor union now realize the benefits of a stable monetary system?

A: Yes. The labor union endorsed fixing the exchange rate to the Deutschmark. Practically all the influential politicians in Austria also favored it. They now know that high wage increases endanger the exchange rate, so they have opted for stable prices and keeping wages down. Labor was told that high wages do damage. The firms would not be able to export and this would create more unemployment in the export sector. If, however, wages increase according to a monetary target, productivity would increase and so would wages. But these increases won't affect the general price level.

Q: What are the prospects in Europe for privately issued money, gold-backed money, and more freedom in capital markets?

A: Capital controls and exchange controls are set to be lifted this year, and there is a good chance that will happen. But as long as money is stable, there is little chance for a gold-backed currency or private money. If the inflation rate reaches 10 percent or more, and exchange controls are lifted, banks could promise to pay in the most stable currency, whatever it is at the time. And if one country, say Luxembourg, opened a bank that began issuing money that was accepted in other countries, people would use it. This would be a form of private money.

Q: What about a gold currency?

A: It doesn't have much of a chance, but it is not impossible if a small country began to issue bank notes redeemable in gold. At the moment, such a currency would be too volatile. As long as the gold price fluctuates because of differing expectations about inflation, I don't see it succeeding.

Q: What do you think about free banking?

A: I'm still thinking about it. I don't know if it would be stable. Applying the Austrian theory of entrepreneurship to a free-banking system, it seems that the entrepreneur would look for new profit opportunities by issuing too much money.

Maybe the market would slow it down if it gets too high. But if a large bank is doing the issuing, it might do harm to the value of the money by the time it is stopped. A free-banking system would surely be more stable than the system in the U.S. But I am not sure whether it would be more stable than the Swiss or German system has been in the recent years. If you had a solid monetary constitution, with rules mandating that the central bank maintain a stable currency, this would also bring about a stable monetary system.

Q: Would you have sanctions to punish the directors of the bank?

A: Yes, punish them if they do not have a policy of high stability.

Q: What would you do?

A: You could shorten or lengthen the duration of the directors' terms based on the inflation rate. The higher the inflation rate the shorter the term. You could also fix the nominal income of the directors. If there is inflation, their real income goes down. You would also need negative double indexation so the directors wouldn't deflate either.

Q: Are there centers of public choice ideas in Austria?

A: It is part of the political economy. We think the main ideas of public choice are Austrian. They come from Schumpeter, with his book on democracy, and Mises, with his theory of bureaucracy. All this is very popular in Austria. After James Buchanan had lectured in Vienna and several other cities, he said the discussion in Innsbruck was the best in a long time. I was very proud of my students and the questions they asked.

Q: Did you ever meet Ludwig von Mises?

A: Only once. It was at a meeting of the Mont Pelerin Society, in 1967, I think. We were hotly debating the relative merits of flexible versus fixed exchange rates. At the end, Ludwig von Mises stood up and said, "stability doesn't depend on the international monetary system, on whether you have more or less cooperation among the central banks, or on a new system of exchange-rate fixing. It depends on the monetary policy of each country. Each country must have a stable currency and a good monetary policy." We all agreed, and that was the end of the conference.

Q: Was it unusual for everybody to agree?

A: Yes, especially at the Mont Pelerin Society.

Professor Socher was interviewed by Mark Thornton and Parth Shah while he visited Auburn University to present a paper to the Austrian Economics Colloquium.

Short-Changed in Chile: The Truth about the Free-Banking Episode

by George Selgin

Admirers of Professor Rothbard's trenchant critique of interventionism in the marketplace expect him to hold no punches. Nevertheless, in his recent analysis of Chile's free-banking episode (*AEN*, Winter 1989) Rothbard plays down nefarious government interventions that reaped havoc with Chile's monetary and banking system in the 1860s and 1870s. Uncharacteristically and uncritically he embraces the mainstream view that Chile's troubles were due to its overly liberal banking legislation. According to Rothbard, Chile's *laissez-faire* banking policy encouraged its bankers to inflate recklessly.

It is necessary to stress that Rothbard's position is *against* freedom in banking and (implicitly) *in favor of* increased government intervention, notwithstanding his call for "freedom ... within a firm matrix of 100 percent specie reserves." Chile's banking law of 1860 did not exclude the possibility of 100-percent reserve banking; the law merely permitted bankers and their customers to engage *voluntarily* in fractional-reserve banking contracts. Those Chileans who favored hard money could refrain from holding fractionally-backed bank notes so long as the letter of the law of 1860 was upheld: the proponents of free banking in Chile were no more opposed to 100-percent banking *for those who wished it for themselves* than proponents of free speech are opposed to monastic vows of silence. In contrast Rothbard's attack on the law of 1860, based upon the mainstream view that it promoted inflation, constitutes an implicit defense of State-imposed restrictions on economic freedom.

Moreover, the mainstream interpretation of what happened in Chile does not stand scrutiny. Even a careful reading of Frank A. Fetter—allowing for his *a priori* conclusions based more upon prejudice against free banking than on any inferences drawn from evidence—indicates clearly that *unwarranted government interference* rather than the free-banking law of 1860 was responsible for Chile's monetary troubles.¹ Chile's free-banking system was undermined by (1) its bimetallic legislation of 1851 and (2) its sanctioning of inconvertible currency to ease the government's fiscal burdens in connection with its war with Spain and again in 1878.

Chile's wartime suspension of specie payment in 1865-66 was due entirely to the government's desire for fiscal support and *not*, as Rothbard asserts (p. 2), to any general banking crisis stemming from overissue of bank notes. Indeed, prior to the outbreak of the war the banking law of 1860 had led to only a minor expansion in note issues.² The government's sanctioning of irredeemable issues—first by the new Banco Nacional de Chile and then

by other banks—had nothing to do with any bank runs or crises excepting perhaps the government's own budgetary crisis. It speaks well of the general integrity of the free banks at this date that only one of them (the Banco de Mac-Clure y Cia) in addition to the National Bank took advantage of the government's generous provisions for the issuance of irredeemable paper.

No proponent of free banking, including Courcelle-Seneuil, has ever defended a government's right to undermine that system's natural checks and contractual obligations by encouraging banks to suspend payment. For this reason the events of 1865-66 hardly warrant a condemnation of free banking. Indeed the government's fiscal crisis could just as well have served as a pretext for its abandonment of 100-percent reserve banking, had such a system been in force. Would anyone then have been justified in condemning 100-percent reserve banking because it failed to withstand government encroachments aimed at securing low-interest loans?

Although the government of Chile was preparing to engineer a much vaster expansion of irredeemable currency in 1866, the closing of hostilities with Spain made this unnecessary and convertibility of all notes was



George Selgin

restored on August 31, 1866. In fact, despite the government's irresponsible behavior the entire war episode passed without any serious depreciation of the currency. The period from 1866 to 1874 was exceptional in that the government refrained from interfering with the free-banking law or with the principle of convertibility. The consequence was an era of remarkable growth and prosperity, free of monetary crises.³

Regrettably that era of unadulterated freedom in banking did not last long as unwarranted government interference once again began to take its toll. A banking crisis which began in 1874 culminated in the suspension of specie payments in 1878. Fetter blames this crisis and subsequent disorders on the free-banking law of 1860, and Rothbard embraces this interpretation. Yet the facts do not support Fetter's conclusion. They suggest, rather, that the events leading to the suspension of specie payments in 1878 were largely a consequence of Chile's *bimetallic legislation of 1851* fixing the legal rate of exchange of silver to gold at 16.39:1. This legal restriction alone accounts for the crisis of 1874; to point to the banking law of 1860 is unnecessary and unjust. Fetter's position is to some extent understandable as it reflects a preconception common to all economists of his era: Fetter set out to write his book convinced that free banking must lead to disaster; he could not resist interpreting the evidence in light of that common belief. That Rothbard should follow Fetter is less easy to understand, however, as Rothbard is well aware of free banking's *relatively non-inflationary* character compared to centralized banking (a feature of free banking stressed by Rothbard's teacher, Ludwig von Mises). The theory of free banking gives no grounds for assuming that bank reserve ratios will be driven below levels required to support routine requests for redemption.

Rothbard should have realized that something other than excessive freedom in banking had to be behind the events of 1874-78. Part of that something was bimetalism. Here is what Rothbard himself has to say elsewhere on this subject:

Under bimetalism, a nation recognized gold and silver as moneys, but set an arbitrary price, or exchange ratio, between them. When this arbitrary price differed, as it was bound to, from the free-market price (and this became ever more likely as time passed and the free-market price changed, while the government's arbitrary price remained the same), one money became overvalued and the other undervalued by the government. Thus, suppose that ... the government set the ratio between [gold and silver] at 16 ounces of silver:1 ounce of gold. The market price, perhaps 16:1 at the time of the price control, then changes to 15:1. What is the result? Silver is now being arbitrarily undervalued by the government and gold arbitrarily overvalued.... The same consequences now follow as from any effective price control.... Gold goes begging for silver in unsold surplus, while silver becomes scarce and disappears from circulation. Silver disappears to another country ... and gold, in turn, flows into the country.⁴

This description fits the events in Chile after 1874 almost to a "T" save for the fact that in Chile the market value of silver *fell* after 1851 relative to that of gold: whereas prior to 1874 the market value of silver was above the official rate of 16.39:1; it fell early in 1874 to 17.623:1.⁵ The official rate, which had previously overvalued gold, now overvalued silver—almost all of which had been melted down and exported in the preceding decades. All of a sudden there emerged a vast demand for gold to

export: holders of bank notes rushed to redeem them in the newly undervalued metal. The banks, having little silver to offer in place of gold to meet these exceptional demands for redemption, were left with no alternative but to watch their specie reserves dwindle while taking steps to reduce their liabilities as quickly as possible.⁶

Referring to the outbreak of the crisis Fetter says that the banks, encouraged by "loose banking practices" and a desire to minimize their losses, allowed their "margin of safety" to decline in response to the loss of gold—thus causing the system to suspend in 1878.⁷ Amazingly, though, evidence supplied by Fetter himself (and cited by Rothbard as well) contradicts this claim. The average percentage figures for reserves to deposits for note issuing banks were 7.6%, 9.1%, and 7.4% respectively for 1876, 1877, and 1878.⁸ Notwithstanding the impression conveyed by Rothbard these figures are not terribly low by historical fractional-reserve standards (in Scotland in the 1830s, for example, rates of around 2% were typical.) Furthermore (as Rothbard also points out) average figures disguise the fact that many banks kept much higher reserve ratios: the averages reflect to a large extent the irresponsible policies of a few

The theory of free banking gives no grounds for assuming that bank reserve ratios will be driven below levels required to support routine requests for redemption.

"bad apples." Still more significantly, the average figures themselves are not low *relative to those from the period prior to the appreciation of gold*: as Fetter himself shows (and Rothbard reiterates) the average reserve on December 31, 1869 was 8% of the combined value of notes and deposits. (The figure of 5% appearing on p. 3 of Rothbard's account appears to be a misprint). As this is the *only* reserve figure given by Fetter for the pre-1874 period, it is difficult to accept his conclusion that banks allowed their "margin of safety" to decline after changing relative prices forced a switch in the *de facto* standard from gold to silver! On the contrary, the banks appear, overall, to have succeeded admirably in preserving their "margin of safety" despite exceptional, legislatively-inspired demands to convert notes and deposits into gold.

No proponent of free banking has ever defended bimetallic legislation. To blame free banking rather than bimetalism for Chile's banking troubles after 1874 is no better than blaming the housing shortage in Berkeley on "unbridled capitalist exploitation" instead of rent control. Moreover it seems that even

bimetallism was not alone sufficient to undermine the convertibility of bank notes in Chile after 1874. Once again the Chilean government's unquenchable appetite for funds was the ultimate reason for the suspension—a reason which, to repeat, could likewise cause the downfall of *any* convertible-currency system, fractional-reserve or not.

To tell the complete story of the events leading to the suspension of mid-1878—which Chile's more prudent bank managers appear to have been prepared to avoid *despite* the adverse effects of bimetallism—we must take a closer look at the “bad apples” mentioned above and see just what they were up to during the preceding weeks. In the early 1870s the government ran small budget deficits. But the situation changed dramatically after 1874 when gold began to leave the country, provoking a severe shortage of credit and causing fiscal revenues to plummet. In June 1878 the government once again sought financial support from the banks.⁹ Nine banks in all agreed to purchase over 2.5 million pesos of two-year, 9% Treasury notes in return for their notes (up to four times the value of their individual loans) being declared publically receivable until 1888. Thus a privilege previously limited to the National Bank and the Banco de Agustin Edward y Cia was extended to seven others. In turn the two previously favored banks were given a small annual side payment as a consolation prize.

The inequity of these arrangements did not pass without notice. At least one member of the Chamber of Deputies attacked the loan, saying it would pave the way to suspension “because the government would authorize inconvertibility before it would allow the banks to fail.” It was not long before this prophecy was borne out. By early July three of the nine banks which had participated in the June loan saw their reserves fall to exceptionally low levels—in one case to below 3% of liabilities. Rather than contract their obligations as other banks had done, the imperiled three continued recklessly to extend credit. The Directors of the National Bank in particular continued to make generous loans to themselves which increased greatly in value in the crucial weeks leading to the suspension.¹⁰ Finally a committee of representatives from the troubled banks, led by the representative from the National Bank, approached the government to request permission to suspend payment. To rescue these ill-managed banks (and perhaps to fulfill the implicit terms of the June loan agreement) the government authorized a suspension *for the nine banks that were a party to the June loan only*. (The remaining two banks, which had not increased their loans in the previous weeks, were up to this point in no danger of default.)

The notes of the nine banks were declared legal tender in return for their paying to the government 4% annually on their circulations.

As Fetter himself relates “the serious condition of two or three banks, in particular the Banco Nacional de Chile, was the immediate occasion for the suspen-

sion of payments” which these banks themselves requested.¹¹ Contrary to what Rothbard implies there is no reason to assume that other banks were in equal danger of succumbing to the “unfavorable balance of trade.” The suspension of '78—which lasted for almost 50 years (allowing for the brief interlude from 1895-1898) was aimed entirely at bailing out several politically-favored banks. The favored banks had lent generously to the government to rescue it from its own bimetallic legislation, knowing full well that this would lead them to insolvency. They relied upon the government to support them by sanctioning the suspension of payments, and were not disappointed. Had the government abided by a policy of true free banking these ill-managed banks would have been allowed to fail and suspension would have been avoided; with such a policy in place the banks might never have dared to undertake the excessive lending that caused their reserves to be depleted. Moreover, had it not been for bimetallism the government might never have faced the fiscal crisis that led it to seek the aid of the banks in the first place. To his credit, Courcelle-Seneuil foresaw the danger of government bailouts and expressed himself in favor of a policy of allowing ill-managed banks to fail and be liquidated.¹²

Free banking did not fail in Chile. Like many other manifestations of economic liberty it was undermined by government intervention before it could prove itself. Friends of economic freedom should not hesitate to laud Courcelle-Seneuil's noble effort.

Notes

1. A source more sympathetic to the free banking experiment but not cited by Rothbard is Augustin Ross Edwards, *Chile, 1851-1910: Sixty Years of Monetary and Financial Questions and of Banking Problems* (Valparaiso, Chile: Westcott, 1910).

2. Edward H. Strobel, “Cheap Money in Chile.” *Sound Currency* 3, no. 16 (July 1896): 550. According to Fetter only “a few hundred thousand pesos” of notes were in circulation at the outbreak of the war. Frank A. Fetter, *Monetary Inflation in Chile* (Princeton: Princeton University Press, 1931), p. 9.

3. Fetter, p. 16. During this era Chile's railroad and telegraph systems were developed, the port of Valparaiso was enlarged and improved, and fiscal revenues increased by one-quarter. See Victor-L. Tapié, *Histoire de L'Amérique Latine au XXIXe Siècle* (Paris: Aulier, 1945), p. 183.

4. Murray N. Rothbard, *Man, Economy, and State* (Los Angeles: Nash Publishing, 1970), pp. 783-84.

5. Strobel, p. 548. Rothbard is aware of Chile's bimetallic legislation. This important fact is relegated to a footnote, and he makes no mention of the switch from a *de facto* gold standard to a *de facto* silver standard in 1874 and its crucial bearing upon events thereafter.

6. It is apparent that banks took steps to accumulate silver in anticipation of its overvaluation, thereby avoiding an immediate crisis.

7. Fetter, p. 26.

8. *Ibid*; see also Strobel, p. 551, for detailed figures for 1878.

9. Fetter, p. 27.

10. *Ibid*, p. 30; Ross, pp. 37-39.

11. Fetter, p. 29. According to Ross (p. 38), “The debt of the Government served the [National] bank as a pretext for bringing pressure to bear on the Congress in order to wring from it the Law of Inconvertibility.”

12. Ross, p. 80.

Austrian Economics in Denmark

Academic interest in methodological individualism, subjectivism, and Austrian economics is invading the long-established fortresses of welfarism, i.e., the Scandinavian "welfare states." But, while there has been for some years an Austrian following in Sweden and Norway, this is a recent development in Denmark.

For the last three years a group of students from economics, political science, philosophy, psychology, and history, and primarily from the University of Copenhagen, have been trying to spread interest in Austrianism among the Danish academic community.

In the fall of 1987 the group organized, for the first time at any Danish university, a course on Austrian theory. The course on methodology was offered at the Institute for Economics, a part of the University of Copenhagen. A course on "applied Austrian theory" will be offered in the spring of 1990.

In 1988 these students founded the "Praxeologica Project," with the help of Libertas—the Danish Society for the Study of Individual Liberty and Free Market Economics. Their purpose is to hold one or two interdisciplinary symposia each year, where students and professors interested in methodological individualism and subjectivism can present their Austrian research. From these lectures will be published a series entitled *Praxeologica*.

"Theory and Method: The Renaissance of the Austrian School of Economics" was the theme for the First Danish Praxeologica Symposium. Among the speakers were a Danish professor, five students, and Leonard Liggio from the Institute for Humane Studies, who lectured on "Austrian Economics in the U.S.A." Most of the lectures from this symposium were published in 1989 as *Praxeologica I*.

In August, the second Praxeologica Symposium was held with the theme, "F. A. Hayek: The Austrian School and the Social Sciences"; lectures from this symposium were published in December of 1989 as *Praxeologica II*. Among the speakers were two professors, two students, Christian Gandil, former vice president of The Mont Pelerin Society, and Tom Palmer, Institute for Humane Studies, who lectured on "Competitive Processes as Discovery Processes: Hayek and Natural Law."

"Public Choice Theory, Austrian Economics and Modern Theories of the State," the third Praxeologica Symposium was held in November and the lectures from this symposium will be published in 1990 as *Praxeologica III*.

The *Praxeologica* group, which is headed by students Otto Brons-Petersen, Nicolai Juul Foss and Peter Kurrild-Klitgaard may be contacted at: *Praxeologica*, c/o Peter Kurrild-Klitgaard, Matthausgade 16, II t.h., DK-1666 Copenhagen V. Denmark.

Book Reviews

Time and Public Policy

by T. Alexander Smith
University of Tennessee Press, 1989

Reviewed by Larry J. Sechrest

Several interdisciplinary works of interest to economists have appeared in recent years: F. A. Hayek's *The Fatal Conceit*, Robert Higg's *Crisis and Leviathan*, and Charles Murray's *Losing Ground* come readily to mind. Perhaps the most intriguing of such efforts is T. Alexander Smith's *Time and Public Policy*, for it represents a conscious attempt to examine modern political institutions and public policies utilizing the concept of time preference, a notion usually found only in treatises on economics.

Indeed, as Smith is aware, time preference is of little consequence even to mainstream economists; only the Austrian school has treated time and time preference as the centrally important concepts they are. Moreover, Smith—who is a professor of political science—is clearly much impressed with the great body of Austrian theory, not merely with the treatment of time preference. The Hayekian approach to business cycles, the nature of interest, the heterogeneity of capital, free banking, the classic gold standard and the rejection of the standard model of "perfect competition" are all mentioned favorably. And there are numerous references to the works of specific Austrians; the names of Hayek, Mises, Rothbard, Lachmann, Shackle, and Kirzner appear prominently. It must not be supposed, however, that this is a work of an economic dimension only. Smith borrows and blends ideas from several disciplines aside from economics and political science: sociology, psychology, political philosophy, history, legal theory, etc. This is a very ambitious and largely successful effort.

The basic theme of the book is the claim that stability, freedom, and prosperity are all simultaneously enhanced in an environment characterized by (1) low time preference, (2) free markets and, (3) the "rule of law" (as that term has been used by theorists such as Hayek and Oakeshott). In contrast, Smith points out that most contemporary Western democracies—especially the United States and the United Kingdom—suffer from a pervasive cultural, political, and economic decay that has led to very high time preference, widespread intervention into economic life, and highly partisan "promissory politics."

As Smith argues, long time horizons (i.e., low time

"the decline of the Judeo-Christian faith," the rise of a new middle class, and the Keynesian denigration of saving and exhortation to spend.

Smith's argument on religion is the usual one that the erosion of religious belief has led to loneliness and alienation (and higher time preference) for many individuals; regardless of the nature of one's religious

In this context Smith makes an observation which, while not original, is nevertheless rather provocative: that many modern conservatives (e.g., George Will and Irving Kristol) are *not* enthusiastic defenders of free markets, despite a media-managed image to the contrary. Thus they, like modern liberals, believe that the state performs a valid function by managing time