

## *Artículos*

# LIBERALISMO *VERSUS* ANARCOCAPITALISMO

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*Resumen:* En el presente trabajo se explica por qué el programa del liberalismo clásico es teórica y prácticamente imposible, y por qué el único sistema de cooperación social plenamente compatible con la naturaleza del ser humano es el anarcocapitalismo.

*Palabras clave:* Liberalismo, anarcocapitalismo, socialismo, estatismo, empresarialidad.

*Abstract:* This article explains why the ideal of classical liberalism is theoretically and practically impossible, as well as that the only system of social cooperation theoretically possible and wholly compatible with human nature is anarcocapitalism.

*Key words:* Classical liberalism, anarcocapitalism, socialism, statism, entrepreneurship.

*Códigos JEL:* B53, D83, H11, H77, P17.

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## I INTRODUCCIÓN

El pensamiento liberal teórico y político se encuentra en esta primera década del siglo XXI en una encrucijada de trascendental importancia. Aunque la caída del Muro de Berlín y del socialismo real a partir de 1989 parecieron anunciar «el fin de la historia» (en la tan infeliz como rimbombante expresión de Francis Fukuyama), lo cierto es que hoy, y en muchos aspectos más que nunca, impera por doquier el estatismo y la desmoralización de los amantes de la libertad. Es urgente y se hace preciso, por tanto, un «aggiornamento» del liberalismo, es decir, una profunda revisión y puesta al día del ideario liberal a la luz de los últimos avances de la Ciencia Económica y de la experiencia acumulada en los últimos acontecimientos históricos. El punto de partida fundamental de esta revisión consiste en reconocer que el liberalismo clásico ha fracasado en su intento de limitar el poder del estado y que hoy la ciencia económica está en disposición de explicar el por qué este fracaso era inevitable. A su vez, la teoría dinámica de los procesos de cooperación social impulsados por la empresarialidad que da lugar al orden espontáneo del mercado se generaliza y convierte en todo un análisis del sistema anarcocapitalista de cooperación social que surge como el único sistema verdaderamente viable y compatible con la naturaleza del ser humano.

En el presente artículo se analizan con detalle estas cuestiones junto con una serie de consideraciones complementarias de tipo práctico y de estrategia científica y política. Además, se aprovecha el análisis contenido en el mismo para aclarar determinados malentendidos y errores de interpretación que a menudo suelen plantearse.

## II EL ERROR FATAL DEL LIBERALISMO CLÁSICO

El error fatal de los liberales clásicos radica en no haberse dado cuenta de que el programa del ideario liberal es teóricamente imposible pues incorpora dentro de sí mismo la semilla de su

propia destrucción, precisamente en la medida en que considera necesaria y acepta la existencia de un estado (aunque sea mínimo) entendido como la agencia monopolista de la coacción institucional.

Por tanto, el gran error de los liberales es de planteamiento: piensan que el liberalismo es un programa de acción política y doctrina económica que tiene por objetivo limitar el poder del estado, pero aceptándolo e incluso considerando necesaria su existencia. Sin embargo, hoy (en la primera década del siglo XXI), la Ciencia Económica ya ha puesto de manifiesto: (a) que el estado no es necesario; (b) que el estatismo (aunque sea mínimo) es teóricamente imposible; y (c) que, dada la naturaleza del ser humano, una vez que existe el estado es imposible limitar su poder. Comentaremos por separado cada uno de estos aspectos.

### III

#### EL ESTADO COMO ENTE INNECESARIO

Desde el punto de vista científico, solo desde el equivocado paradigma del equilibrio puede llegar a pensarse que exista una categoría de «bienes públicos» en los que, por darse los requisitos de oferta conjunta y no rivalidad en el consumo, se justificaría *prima facie* la existencia de una agencia monopolista de la coacción institucional (estado) que obligara a todos a financiarlos.

Sin embargo, la concepción dinámica del orden espontáneo impulsado por la función empresarial que ha desarrollado la Escuela Austriaca de Economía ha echado por tierra toda esta teoría justificativa del estado: siempre que surge una situación (aparente o real) de «bien público», i.e. de oferta conjunta y no rivalidad en el consumo, surgen los incentivos necesarios para que el ímpetu de la creatividad empresarial la supere mediante las innovaciones tecnológicas, jurídicas y los descubrimientos empresariales que hacen posible la solución de cualesquiera problemas que pudieran plantearse (siempre y cuando el recurso no sea declarado «público» y se permita el libre ejercicio de la función empresarial y la concomitante apropiación privada de los resultados de cada acto de creatividad empresarial). Así, por

ejemplo, el sistema de faros marítimos fue durante mucho tiempo de titularidad y financiación privada en el Reino Unido, lográndose por procedimientos privados (asociaciones de navegantes, precios portuarios, control social espontáneo, etc.) solventar el «problema» de lo que se considera en los libros de texto de economía «estadistas» el caso más típico de «bien público». Igualmente, en el lejano oeste norteamericano se planteó el problema de la definición y defensa del derecho de propiedad de, por ejemplo, las reses de ganado en amplísimas extensiones de tierra, introduciéndose paulatinamente diversas innovaciones empresariales («marcaje» de las reses, vigilancia continua por «cow-boys» a caballo armados y, finalmente, el descubrimiento e introducción del alambre de espino que, por primera vez, permitió la separación efectiva de grandes extensiones de tierra a un precio muy asequible) que solucionaron los problemas conforme se iban planteando. Todo este flujo creativo de innovaciones empresariales se habría bloqueado por completo si los recursos hubieran sido declarados «públicos», excluidos de la propiedad privada y gestionados burocráticamente por una agencia estatal. (Y así, hoy en día, por ejemplo, la mayoría de calles y carreteras están cerradas a la introducción de innumerables innovaciones empresariales —como el cobro de precio por vehículo y hora, la gestión privada de la seguridad, de la polución acústica, etc.— y ello a pesar de que la mayoría ya no plantean problema tecnológico alguno, pues dichos bienes han sido declarados «públicos» imposibilitándose así su privatización y gestión creativa empresarial).

Además, a nivel popular se piensa que el estado es necesario porque se confunde la existencia del mismo (innecesaria) con el carácter imprescindible de muchos de los servicios y recursos que hoy (malamente) oferta (casi siempre so pretexto de su carácter público) con carácter exclusivo. Los seres humanos observan que hoy en día las carreteras, los hospitales, las escuelas, el orden público, etc. etc., son proporcionados en gran (sino en exclusiva) medida por el estado, y como son muy necesarios, concluyen sin más análisis que el estado es también imprescindible. No se dan cuenta de que los recursos citados pueden producirse con mucha más calidad y de forma más eficiente, barata, y conforme con las cambiantes y variadas necesidades de cada persona, a través del

orden espontáneo del mercado, la creatividad empresarial y la propiedad privada. Además, caen en la trampa de creer que el estado es también necesario para proteger a los indefensos, pobres y desvalidos (sean «pequeños» accionistas, consumidores de a pie, trabajadores, etc.) sin entender que las supuestas medidas de protección sistemáticamente tienen el efecto, como demuestra la teoría económica, de perjudicar en cada caso precisamente a aquellos a los que se dice proteger, por lo que desaparece también una de las más burdas y manidas justificaciones de la existencia del estado.

Decía Rothbard que el conjunto de los bienes y servicios que actualmente proporciona el estado se dividen, a su vez, en dos subconjuntos: el de aquellos que hay que eliminar y el de aquellos que es preciso privatizar. Es claro que los bienes citados en el párrafo anterior pertenecen al segundo grupo y que la desaparición del estado, lejos de significar la desaparición de carreteras, hospitales, escuelas, orden público, etc., implicaría su provisión con más abundancia, calidad y a un precio más asequible (siempre en comparación con el coste real que vía impuestos actualmente pagan los ciudadanos). Además, hay que señalar que los casos históricos de caos institucional y desorden público que puedan señalarse (por ejemplo, en muchas ocasiones durante los años previos y durante la Guerra Civil en la Segunda República española, u hoy en día en amplias zonas de Colombia o en Irak) se deben al vacío de provisión de estos bienes creado por los propios estados que *ni hacen* con un mínimo de eficiencia lo que en teoría deberían hacer según sus propios seguidores, *ni dejan hacer* al sector privado y empresarial, pues el estado prefiere el desorden (que, además, parece legitimar su presencia coactiva con más intensidad) a su desmantelamiento y privatización a todos los niveles.

Es especialmente importante entender que la definición, adquisición, transmisión, intercambio y defensa de los derechos de propiedad que articulan e impulsan el proceso social, no requieren de una agencia monopolista de la violencia (estado). Y no sólo no la requieren sino que, por el contrario, el estado siempre actúa pisoteando múltiples títulos legítimos de propiedad, defendiéndolos de forma muy deficiente y corrompiendo el comportamiento individual (moral y jurídico) de respeto a los derechos de propiedad privada ajena.

El sistema jurídico es la plasmación evolutiva que integra los principios generales del derecho (especialmente de propiedad) compatibles con la naturaleza del ser humano. El derecho, por tanto, no es lo que el estado decide (democráticamente o no), sino que está ahí, inserto en la naturaleza del ser humano, aunque se descubra y consolide jurisprudencial y, sobre todo, doctrinalmente de forma evolutiva (en este sentido consideramos que el sistema jurídico de tradición romana y continental, por su carácter más abstracto y doctrinal, es muy superior al sistema anglosajón del *common law*, que surge de un desproporcionado respaldo del estado a las decisiones o fallos judiciales que, a través del «binding case», introducen en el sistema legal todo tipo de disfunciones provenientes de las circunstancias e intereses particulares que preponderan en cada proceso). El derecho es evolutivo y consuetudinario y, por tanto, es previo e independiente del estado y no requiere para su definición y descubrimiento de ninguna agencia monopolista de la coacción.

Y el estado no sólo no es preciso para definir el derecho. Tampoco lo es para hacerlo valer y defenderlo, y esto debe resultar especialmente obvio en los tiempos actuales, en los que el uso —incluso, paradójicamente, por muchos organismos gubernamentales— de empresas privadas de seguridad, está a la orden del día.

No puede pretenderse que exponamos aquí con detalle cómo funcionaría la provisión privada de los que hoy se consideran como «bienes públicos» (aunque el no saber a priori cómo solucionaría el mercado infinidad de problemas concretos es la objeción ingenua y fácil de aquellos que prefieren el statu quo actual so pretexto de que «más vale lo malo conocido que lo bueno por conocer»<sup>1</sup>). De hecho, no pueden conocerse hoy las soluciones empresariales que un ejército de emprendedores daría a los problemas planteados —si se les dejase hacerlo—. Pero lo que hasta los más escépticos han de reconocer es que «lo que hoy ya se sabe» es que el mercado, impulsado por la empresarialidad creativa, funciona y precisamente lo hace en la medida en que el estado no interviene coactivamente en su proceso social. Y que las

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<sup>1</sup> Véase, entre otros, el artículo de Albert Esplugas incluido en este número de *Procesos de Mercado*, pp. 205-253 y la bibliografía allí citada (Esplugas, 2007).

dificultades y conflictos siempre surgen precisamente allí donde no se deja que se desarrolle libremente el orden espontáneo del mercado. Por eso, los teóricos de la libertad (y con independencia del esfuerzo realizado desde Gustav de Molinari hasta hoy imaginando cómo funcionaría la red anarcocapitalista de agencias privadas de seguridad y defensa patrocinadoras cada una de ellas de sistemas jurídicos más o menos marginalmente alternativos) nunca deben de olvidar que precisamente lo que nos impide conocer con exactitud cómo sería un futuro sin estado (el carácter creativo de la función empresarial), es lo que nos da la tranquilidad de saber que cualquier problema tenderá a ser superado al dedicarse a su solución todo el esfuerzo y la creatividad de los seres humanos implicados (Kirzner 1985, 168). Ahora bien, gracias a la Ciencia Económica no sólo sabemos que el mercado funciona, también sabemos que el estatismo es teóricamente imposible.

#### IV POR QUÉ EL ESTATISMO ES TEÓRICAMENTE IMPOSIBLE

La teoría económica de la Escuela Austriaca sobre la imposibilidad del socialismo se generaliza (Huerta de Soto 1992, 151-153) y convierte en toda una teoría sobre la imposibilidad del estatismo, entendido como el intento de organizar cualquier parcela de la vida en sociedad mediante los mandatos coactivos de intervención, regulación y control procedentes del órgano monopolista de la agresión institucional (estado). Y es imposible que el estado cumpla sus objetivos coordinadores en cualquier parcela del proceso de cooperación social en que pretenda intervenir, incluyendo especialmente los ámbitos del dinero y la banca (Huerta de Soto, 1998), del descubrimiento del derecho, de la impartición de Justicia y del orden público (entendido como la prevención, represión y sanción de los actos criminales), por los siguientes cuatro motivos:

- a) Por el enorme volumen de información que necesitaría para ello y que sólo se encuentra de forma dispersa o diseminada



- en los millones de personas que cada día participan en el proceso social.
- b) Dado el carácter predominantemente tácito y no articulable (y, por tanto, no transmisible de forma inequívoca) de la información que necesitaría el órgano de intervención para dar un contenido coordinador a sus mandatos.
  - c) Porque la información que se utiliza a nivel social no está «dada» sino que cambia continuamente como consecuencia de la creatividad humana, siendo obviamente imposible transmitir hoy una información que sólo será creada mañana y que es la que necesita el órgano de intervención estatal para que mañana pueda lograr sus objetivos; y
  - d) Sobre todo porque el carácter coactivo de los mandatos del estado, y en la medida en que sean cumplidos e incidan con éxito en el cuerpo social, bloquea la actividad empresarial de creación de esa información que es precisamente la que necesita como «agua de mayo» la organización estatal de intervención para dar un contenido coordinador (y no desajustador) a sus propios mandatos.

Además de ser teóricamente imposible, el estatismo genera toda una serie de efectos distorsionadores periféricos muy dañinos: fomento de la irresponsabilidad (al no conocer el estado el coste real de su intervención actúa de forma irresponsable); destrucción del medio ambiente cuando éste es declarado bien público y se impide su privatización; corrupción de los conceptos tradicionales de Ley y Justicia que pasan a ser sustituidos por los de mandato y justicia «social» (Hayek 2006, 25-357); corrupción mimética del comportamiento individual que cada vez se hace más agresivo y respeta menos la moral y el derecho.

Este análisis nos permite concluir también que si en la actualidad determinadas sociedades prosperan ello no es por el estado sino, precisamente, *a pesar de él* (Rodríguez Braun, 1999), pues todavía muchos seres humanos conservan la inercia del comportamiento pautado sometido a leyes en sentido material, siguen existiendo parcelas de mayor libertad relativa y el estado suele ser muy ineficiente a la hora de imponer sus forzosamente

torpes y ciegos mandatos. Además, incluso hasta los incrementos más marginales de libertad generan notables impulsos de prosperidad, lo que ilustra hasta qué punto podría avanzar la civilización si pudiera desembarazarse de la rémora del estatismo.

Finalmente, ya hemos comentado el espejismo que afecta a todos aquellos que identifican al estado con la provisión de los bienes («públicos») que hoy (costosa y malamente) proporciona, concluyendo erróneamente que la desaparición del estado implicaría necesariamente la desaparición de sus preciados servicios, y ello en un entorno de continuo adoctrinamiento político a todos los niveles (y, especialmente, a través del sistema educativo que ningún estado, por razones obvias, quiere dejar de controlar), de imposición totalitaria de los criterios «políticamente correctos», y de racionalización auto-complaciente del *statu quo* por parte de una mayoría que se niega a ver lo obvio: que el estado no es sino una entelequia constituida por una minoría para vivir a costa de los demás, a los que primero explota, luego corrompe y después compra con recursos ajenos (impuestos) «favores» políticos de todo tipo.

## V

### LA IMPOSIBILIDAD DE LIMITAR EL PODER DEL ESTADO: SU CARÁCTER «LETAL» EN COMBINACIÓN CON LA NATURALEZA DEL SER HUMANO

Una vez que existe el estado es imposible limitar la expansión de su poder. Es cierto que, como indica Hoppe, determinadas formas políticas (como la monarquía absoluta, en la que el Rey-propietario será *ceteris paribus* más cuidadoso a largo plazo para «no matar a la gallina de los huevos de oro») tenderán a expansionar su poder e intervenir algo menos que otras (como la democracia, en la que no existen incentivos efectivos para que alguien se preocupe por lo que acaezca más allá de las próximas elecciones). También es cierto que, en determinadas

circunstancias históricas, ha dado la impresión de que la marea intervencionista se había, hasta cierto punto, contenido. Pero el análisis histórico es incontrovertible: el estado no ha dejado de crecer (Hoppe, 2004). Y no ha dejado de crecer porque la mezcla del estado, como institución monopolista de la violencia, con la naturaleza humana es «explosiva». El estado impulsa y atrae como un imán de fuerza irresistible las pasiones, vicios y facetas más perversas de la naturaleza del ser humano que intenta, por un lado, evadirse de sus mandatos y, por otro, aprovecharse del poder monopolista del estado todo lo que pueda. Además, y especialmente en los entornos democráticos, el efecto combinado de la acción de los grupos privilegiados de interés, los fenómenos de miopía gubernamental y «compra de votos», el carácter megalómano de los políticos y la irresponsabilidad y ceguera de las burocracias generan un cóctel peligrosamente inestable y explosivo, continuamente zarandeado por crisis sociales, económicas y políticas que, paradójicamente, son siempre utilizadas por los políticos y «líderes» sociales para justificar ulteriores dosis de intervención que, en vez de solucionar, crean y agravan aún más los problemas.

El estado se ha convertido en el «ídolo» al que todos recurren y adoran. La estatolatría es, sin duda alguna, la más grave y peligrosa enfermedad social de nuestro tiempo. Se nos educa para creer que todos los problemas pueden y deben ser detectados a tiempo y solucionados por el estado. Nuestro destino depende del estado y los políticos que lo controlan deben garantizarnos todo lo que exija nuestro bienestar. El ser humano permanece inmaduro y se revela contra su propia naturaleza creativa (que hace ineludiblemente incierto su futuro). Exige una bola de cristal que le asegure no sólo conocer lo que va a pasar sino además que cualesquiera problemas que surjan le serán solucionados. Esta «infantilización» de las masas se fomenta de forma deliberada por los políticos y líderes sociales pues así justifican públicamente su existencia y aseguran su popularidad, situación de predominio y capacidad de control. Además una legión de intelectuales, profesores e ingenieros sociales se suman a esta arrogante borrachera del poder.

Ni siquiera las iglesias y denominaciones religiosas más respetables han sido capaces de diagnosticar que la estatolatría es hoy en día la principal amenaza al ser humano libre, moral y responsable; que el estado es un ídolo falso de inmenso poder al que todos adoran y que no consiente que los seres humanos se liberen de su control ni tengan lealtades morales o religiosas ajenas a las que él mismo pueda dominar. Es más, ha logrado algo que a priori podría parecer imposible: distraer sinuosa y sistemáticamente a la ciudadanía de que él es el verdadero origen de los conflictos y males sociales, creando por doquier «cabezas de turco» (el «capitalismo», el ánimo de lucro, la propiedad privada) a las que culpar de los problemas y dirigir la ira popular, así como las condenas más serias y rotundas de los propios líderes morales y religiosos, casi ninguno de los cuales se ha dado cuenta del engaño ni atrevido hasta ahora a denunciar que la estatolatría es la principal amenaza en el presente siglo a la religión, a la moral y, por tanto, a la civilización humana.<sup>2</sup>

Así como la caída del Muro de Berlín en 1989 fue la mejor ilustración histórica del teorema de la imposibilidad del socialismo, el fracaso mayúsculo de los teóricos y políticos liberales a la hora de limitar el poder del estado ilustra a la perfección el teorema de la imposibilidad del estatismo y, en concreto, que el estado-liberal es en sí mismo contradictorio (por encarnar un estado-coactivo aunque sea «limitado») y teóricamente imposible

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<sup>2</sup> Quizás la principal excepción más reciente esté incluida en la brillante biografía sobre *Jesús de Nazaret* publicada por Benedicto XVI. Que el estado y el poder político sean la encarnación institucional del Anticristo debe resultar obvio para cualquiera con mínimos conocimientos de historia que lea las consideraciones del Papa sobre la más grave tentación que puede hacernos el Maligno: «El tentador no es tan burdo como para proponernos directamente adorar al diablo. Sólo nos propone decidarnos por lo racional, preferir un mundo planificado y organizado, en el que Dios puede ocupar un lugar, pero como asunto privado, sin interferir en nuestros propósitos esenciales. Soloviev atribuye un libro al Anticristo, *El camino abierto para la paz y el bienestar del mundo*, que se convierte, por así decirlo, en la nueva Biblia y que tiene como contenido esencial la adoración del bienestar y la planificación racional» (Ratzinger 2007, 66-67). En el mismo sentido, pero mucho más rotundo, destaca Redford (2006), incluido en las pp. 263-324 del presente número de *Procesos de Mercado*.

(pues aceptada la existencia del estado es imposible limitar el crecimiento de su poder). En suma, que el «estado de derecho» es un ideal imposible y una contradicción en los términos tan flagrante como la que supondría referirse a «la nieve caliente, a una puta virgen, a un esqueleto obeso, o a un cuadrado circular» (Jasay 1990, 35), o como en la que caen los «ingenieros sociales» y economistas neoclásicos cuando se refieren a un «mercado perfecto» o al denominado «modelo de competencia perfecta» (Huerta de Soto 2007, 347-348).

## VI EL ANARCOCAPITALISMO COMO ÚNICO SISTEMA POSIBLE DE COOPERACIÓN SOCIAL VERDADERAMENTE COMPATIBLE CON LA NATURALEZA DEL SER HUMANO

El estatismo es contrario a la naturaleza del ser humano pues consiste en el ejercicio sistemático y con carácter monopolista de una coacción que bloquea en todas las parcelas en donde incide (incluyendo las correspondientes a la definición del derecho y al mantenimiento del orden público) la creatividad y la coordinación empresarial que son precisamente las manifestaciones más típicas y esenciales de la naturaleza humana. Además, como ya hemos visto, el estatismo fomenta e impulsa la irresponsabilidad y corrupción moral al desviar la conducta humana hacia la utilización privilegiada de los resortes del poder político, en un entorno de ignorancia inerradicable que impide conocer qué costes genera cada acción estatal. Estos efectos del estatismo surgen siempre que exista un estado aunque se intente por todos los medios limitar su poder, objetivo éste que es imposible de lograr y que hace del liberalismo clásico una utopía científicamente irrealizable.

Es, pues, ineludible superar el «liberalismo utópico» de nuestros predecesores los liberales clásicos que, por un lado, pecaron de ingenuos al pensar que el estado podría ser limitado y, por otro, de falta de coherencia, al no asumir hasta sus últimas consecuencias las implicaciones de su propio ideario. Hoy, por tanto,

ya bien entrado el siglo XXI, se hace prioritario asumir la superación del liberalismo clásico (utópico e ingenuo) del siglo XIX, por su nueva formulación verdaderamente científica y moderna que podemos denominar capitalismo libertario, anarquismo de propiedad privada o, simplemente, anarcocapitalismo. Y es que no tiene sentido que los liberales sigan diciendo las mismas cosas que hace ciento cincuenta años cuando en pleno siglo XXI, y a pesar de la caída del Muro de Berlín hace ya casi veinte años, los estados no han dejado de crecer y cercenar en todos los ámbitos las libertades individuales de los seres humanos.

El anarcocapitalismo es la representación más pura del orden espontáneo del mercado en el que todos los servicios, incluyendo los de definición del derecho, justicia y orden público, son proporcionados a través de un proceso exclusivamente voluntario de cooperación social que se convierte así en el objeto central de investigación de la Ciencia Económica moderna. En este sistema ninguna parcela se cierra al ímpetu de la creatividad humana y de la coordinación empresarial, potenciándose la eficiencia y la justicia en la solución de los problemas que puedan plantearse, eliminándose de raíz los conflictos, ineficiencias y desajustes que genera toda agencia monopolista de la violencia (estado) por el mero hecho de existir. Además, el sistema propuesto elimina los incentivos corruptores del ser humano que genera el estado, impulsando por contra los comportamientos humanos más morales y responsables, e impidiendo el surgimiento de ninguna agencia monopolista (estado) que legitime el uso sistemático de la violencia y la explotación por parte de unos grupos sociales (los que en cada momento mejor controlen los resortes del poder estatal) a otros (aquellos a los que no queda más remedio que obedecer).

El anarcocapitalismo es el único sistema que reconoce plenamente la libre naturaleza creativa del ser humano y su capacidad continua para asumir comportamientos pautados cada vez más morales en un entorno en el que, por definición, nadie puede arrogarse el derecho a ejercer con carácter monopolista ninguna coacción sistemática. En suma, en el anarcocapitalismo todos los proyectos empresariales pueden probarse si obtienen con carácter voluntario el apoyo suficiente, por lo que son

múltiples las posibilidades creativas de solución que pueden idearse en un entorno dinámico y siempre cambiante de cooperación voluntaria.

La progresiva desaparición de los estados y su paulatina sustitución por un entramado dinámico de agencias privadas, por un lado patrocinadoras de diferentes sistemas jurídicos y, por otro, prestadoras de todo tipo de servicios de seguridad, prevención y defensa constituye el contenido más importante de la agenda política y científica así como el cambio social más trascendental que habrá de verificarse en el siglo XXI.

## VII CONCLUSIÓN: IMPLICACIONES REVOLUCIONARIAS DEL NUEVO PARADIGMA

La revolución contra el «Ancienne Règime» protagonizada en los siglos XVIII y XIX por los viejos liberales clásicos encuentra hoy su continuidad natural en la revolución anarcocapitalista del siglo XXI. Afortunadamente hemos descubierto el porqué del fracaso del liberalismo utópico y la necesidad de su superación por el liberalismo científico; y sabemos que los viejos revolucionarios erraron y pecaron de ingenuidad al perseguir un ideal imposible de alcanzar que abrió, además, las puertas a lo largo del siglo XX a las mayores tiranías estatistas que se han conocido en la historia de la humanidad.

El mensaje del anarcocapitalismo es netamente revolucionario. Revolucionario en cuanto a su objetivo: el desmantelamiento del estado y su sustitución por un proceso competitivo de mercado constituido por un entramado de agencias, asociaciones y organizaciones privadas. Revolucionario en cuanto a sus medios especialmente en los ámbitos científico, económico-social y político.

### a) Revolución científica:

Especialmente en el ámbito de la ciencia económica que se convierte en la teoría general del orden espontáneo del

mercado extendido a todas las áreas sociales. Incorporando, además, por contraste y oposición, el análisis de los efectos de descoordinación social generados por el estatismo en cualquier parcela en que incida (incluyendo las del derecho, la justicia y el orden público). Y también el estudio de las diferentes alternativas de desmantelamiento del estado, de los procesos de transición y de las formas y efectos de la privatización integral de todos los servicios que hoy se consideran «públicos», constituyen un campo prioritario de investigación para nuestra disciplina.

b) Revolución económica y social:

No podemos siquiera intuir los inmensos logros, avances y descubrimientos humanos que podrán alcanzarse en un entorno empresarial totalmente libre del estatismo. Incluso hoy, y a pesar del continuo acoso gubernamental, ya empieza a desarrollarse en un mundo cada vez más globalizado una civilización desconocida con un grado de complejidad inabarcable e incontrolable por el poder del estatismo que alcanzará una expansión ilimitada una vez logre desembarazarse completamente del mismo. Y es que la fuerza de la creatividad de la naturaleza humana es tal que termina aflorando incluso por los resquicios más estrechos que dejan los gobiernos. Y en cuanto los seres humanos vayan adquiriendo una mayor conciencia de la naturaleza esencialmente perversa del estado que les coarta y de las inmensas posibilidades que cada día se frustran cuando éste bloquea la fuerza impulsora de su creatividad empresarial se multiplicará el clamor social en pos de la reforma, el desmantelamiento del estado y el avance hacia un futuro que nos es en gran medida desconocido pero que habrá de elevar la civilización humana a cotas que hoy ni siquiera podemos imaginar.

c) Revolución política:

Por cuanto la lucha política del día a día pasa a tener una importancia subsidiaria a lo indicado en (a) y en (b). Es cierto



que siempre habrán de apoyarse las alternativas menos intervencionistas en clara alianza con el esfuerzo de los liberales clásicos en pos de la limitación democrática del estado. Pero el anarcocapitalista no se queda en esa labor pues sabe y debe hacer mucho más. Sabe que el objetivo final es el desmantelamiento total del estado y ello impulsa toda su imaginación y acción política en el día a día. Los avances incrementales en la buena dirección son, sin duda, bienvenidos pero sin caer jamás en un pragmatismo que traicione el objetivo último de lograr el fin del estado que, por razones pedagógicas y de influencia popular, siempre ha de perseguirse de forma sistemática y transparente<sup>3</sup> (Huerta de Soto, 1997).

Así, por ejemplo, formarán parte de la agenda política anarcocapitalista hacer que los estados sean cada vez sean más pequeños y tengan cada vez menos poder; que a través de la descentralización autonómica y municipal a todos los niveles, el nacionalismo liberal, la reintroducción de las ciudades-miniestados, y de la secesión [Huerta de Soto (1994) (2002)] se bloquee la dictadura de las mayorías sobre las minorías y de forma creciente los seres humanos «puedan votar más con los pies que con las urnas»; que puedan, en suma, asociarse a nivel global y por encima de las fronteras para lograr los más variados fines al margen y fuera de los estados (organizaciones religiosas, clubes privados, redes de internet, etc.) (Frey, 2001).

Por otro lado, debe recordarse que las revoluciones políticas no tienen por qué ser sangrientas. Esto es especialmente cierto cuando las mismas resultan del necesario proceso de educación y maduración social, así como del clamor popular y del deseo generalizado de acabar con el engaño, la mentira y la coacción que impiden realizarse al ser humano. Así, por ejemplo, básicamente incruentas fueron la caída del Muro de Berlín y la Revolución Checa que acabó con el socialismo en el este de Europa. Y mientras se llega a este importante

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<sup>3</sup> Prueba de la creciente importancia que está adquiriendo el capitalismo libertario en la actual agenda política es, por ejemplo, el artículo publicado con el título «Libertarians Rising» en la sección de Ensayos de la prestigiosa revista *Time*, 29 de octubre de 2007, p. 112 (Kinsley 2007).

resultado final deben utilizarse todos los resortes pacíficos<sup>4</sup> y legales<sup>5</sup> que permitan los sistemas políticos actuales.

Se abre, pues, un futuro apasionante, en el que continuamente se descubrirán múltiples nuevos caminos que, en consonancia con los principios esenciales, nos permitirán avanzar en pos del ideal anarcocapitalista. Futuro que aunque hoy nos pueda parecer lejano, en cualquier momento puede ser testigo de pasos de gigante que incluso sorprendan a los más optimistas. ¿Quién fue capaz de predecir tan solo cinco años antes, que en 1989 se desmoronaría el Muro de Berlín y con él todo el comunismo del este de Europa? La historia ha entrado en un proceso acelerado de cambio que, aunque nunca se detendrá, sí que abrirá un capítulo totalmente nuevo cuando el género humano, por primera vez en la historia moderna, logre desembarazarse definitivamente del estado y reducirlo tan solo a una oscura reliquia histórica de trágica memoria.

## VIII APÉNDICE GRÁFICO Y BREVE COMENTARIO SOBRE LA TRADICIÓN ANARQUISTA ESPAÑOLA

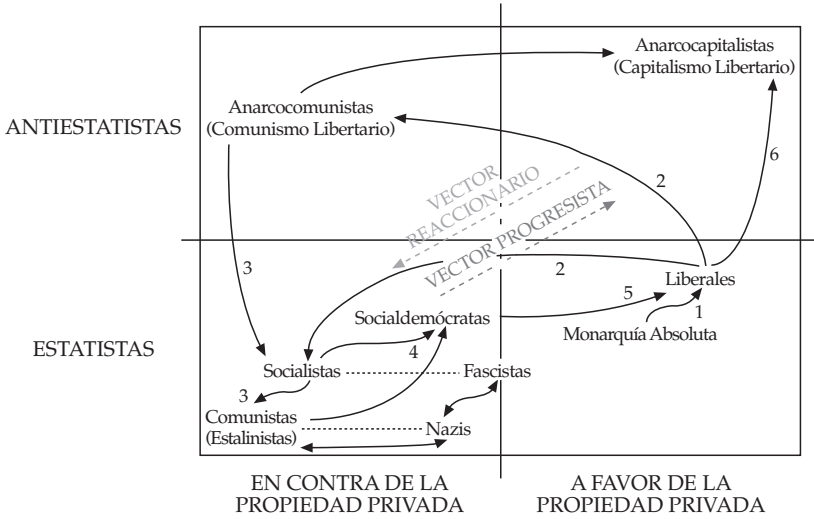
En el Gráfico 1 se representan los diferentes sistemas políticos y la evolución natural de unos a otros clasificados en función de

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<sup>4</sup> Nunca deben olvidarse las prescripciones de nuestros escolásticos del Siglo de Oro español sobre los estrictos requisitos que ha de reunir un acto de violencia para ser «justo»: 1º haber agotado todas las vías y procedimientos pacíficos posibles; 2º ser defensivo (frente a actos concretos de violencia) y jamás agresivo; 3º proporcional en cuanto a los medios utilizados (por ejemplo, el ideal de la independencia no vale la vida o libertad de un solo ser humano); 4º evitando, en todo caso, que se produzcan víctimas inocentes; 5º con posibilidades de éxito (lo contrario sería un suicidio injustificable). Sabios principios a los que yo añadiría la participación y financiación exclusivamente voluntarias. Todo acto de violencia que vulnere alguno de estos principios queda automáticamente deslegitimado y se convierte en el peor enemigo del objetivo que se dice se desea alcanzar. Por último, debe traerse aquí a colación toda la teoría del tiranicidio del Padre Juan de Mariana (Mariana, 1599).

<sup>5</sup> Como indicaba Rothbard no puede recomendarse el ir contra la «legalidad» (básicamente de mandatos administrativos) vigente pues en la inmensa mayoría de los casos no compensa en cuanto a los costes.

GRÁFICO 1



su carácter más o menos estatista y más o menos respetuoso con la propiedad privada.

Se constata cómo el inicial movimiento revolucionario (utópico y erróneo) de los liberales clásicos contra el Antiguo Régimen cae en el pragmatismo de aceptar el estado y abre las puertas a los totalitarismos socialistas (comunismo y fascismo-nazismo). La caída del socialismo real da entrada a la socialdemocracia que hoy impera por doquier (pensamiento único).

La segunda etapa, aún pendiente, de la fracasada revolución liberal (por el error e ingenuidad de los liberales clásicos) consiste precisamente en la evolución hacia el anarcocapitalismo.

Una de las consecuencias del fracaso de la revolución liberal fue la aparición del comunismo libertario, unánimemente denostado y perseguido por el resto de sistemas políticos (y en especial por los más de «izquierdas») precisamente por su carácter antiestatista. El comunismo libertario es también utópico pues al no aceptar la propiedad privada se ve abocado a utilizar la violencia sistemática (i.e., «estatal») en contra de la misma cayendo en una contradicción lógica irresoluble y bloqueando el proceso social empresarial

que impulsa el único orden anarquista científicamente concebible: aquel constituido por el mercado libertario capitalista.

La tradición anarquista en nuestro país es de rancio abolengo. Sin olvidar sus grandes crímenes (en todo caso cuantitativa y cualitativamente inferiores a los de comunistas y socialistas) y las contradicciones en las que incurrió, constituyó, especialmente durante la España de la Guerra Civil, un experimento (abocado al fracaso) que tuvo en su momento gran respaldo social y que, al igual que sucedió con la vieja revolución liberal, tiene hoy su segunda gran oportunidad en la superación de sus errores (carácter utópico del anarquismo que niega la propiedad privada) y en la asunción del orden de mercado como única y definitiva vía hacia la supresión del estado. Si los anarquistas españoles del siglo XXI son capaces de hacer suyas estas enseñanzas de la teoría y de la historia muy probablemente España de nuevo sorprenderá al mundo (esta vez de forma general y definitiva) impulsando la vanguardia teórica y práctica de la nueva revolución anarcocapitalista.

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# STABILITY OF GOLD STANDARD AND ITS SELECTED CONSEQUENCES

MICHAL KVASNIČKA\*

*Abstract:* The gold standard was quite stable in the past: the price level changes were relatively small, and trade cycles mild. However, its past stability does not guarantee stability nowadays. We show that the stability of the gold standard to shocks stemming from the world gold market depends critically on the size of the monetary stock of gold relative to the extent of these shocks. Every change decreasing the relative size of the monetary stock of gold lowers its stability. We discuss some consequences of the thesis too: first, any system economizing on its gold reserves (e.g. the mature fractional reserve free banking system of the Scottish type) may undermine the stability of the gold standard. Second, an attempt to reestablish the gold standard may have to include a collective action of many countries of a great economic power. If a single small country tried to resume to the gold, its monetary stock of gold would probably be tiny relative to the world gold market shocks, and the economy could be destabilized by these shocks. It makes the return of the gold standard rather improbable in the near future.

*Key words:* Gold Standard, Stability, Inflation, Trade Cycle.

*JEL Classification:* E31, E39, E42, N10.

## I INTRODUCTION

Some economists of the Austrian school have in the last decades proposed abandoning the present monetary system in which private fractional reserve banks issue liabilities convertible to a

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local fiat money issued by a monopoly state-owned central bank, and to reestablish some form of a commodity standard, usually a gold one,<sup>1</sup> and replace the central banking system with some kind of free banking system.

Reasons to 'prefer gold' are many; among them two are perhaps the most striking: first, the gold standard is the system most independent of government interventions of all known monetary systems. The second major reason is the historical stability of the gold standard. Until it was manipulated and eventually spoiled by governments, the gold standard provided quite stable prices (at least in comparison with the outcomes of fiat money issued by central banks in the 20th century, see e.g. Rolnick-Weber,1997), and only mild trade cycles (at least in comparison to recessions known from the 20th century, especially the Great Depression of the 1930s).

However, the historical stability of the gold standard does not guarantee its stability nowadays too, and hence whether it is desirable at all to reestablish it. For this reason we question its stability in this paper. For our purposes we understand the stability of the gold standard as the stability of the price level, and absence of trade cycles. It seems reasonable to consider these two together, since according to most trade cycle hypotheses, these two factors are interconnected. While exploring its stability, we will examine only consequences of one particular type of shocks—the shocks caused by the gold standard itself, i.e. by changes in gold mining, of industrial gold consumption, and of the impetus for holding non-monetary stocks of gold; we will not discuss the consequences of other types of shocks.

We will show that the stability of the gold standard in relation to the selected type of shocks depends on the size of the monetary stock of gold relative to the extent of these shocks. The higher the monetary stock of gold relative to the extent of these shocks, the more stable the price level when such a shock occurs. It

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<sup>1</sup> It does not matter whether the commodity standard is based on gold, silver, or other commodity with suitable characteristics. We will speak about the gold standard instead of a single-commodity standard to simplify matters. Anything stated below holds true for any single-commodity standard.

means that an economy under the gold standard in a world of a tiny monetary stock of gold could suffer serious instability. (For the stability in relation to a monetary shock, i.e. to a sudden change in the demand for money, holds the opposite; however, we will not question this problem here.)

To prove this thesis, we have to sketch a model of the gold standard (section 2), and explore its features, especially its dynamics (section 3). We will also discuss some implications of the thesis for the mature fractional reserve free banking system of a Scottish type, and of attempts to resume convertibility (section 4).

## II MODEL OF GOLD STANDARD

To explore the properties and stability of the gold standard, we will use a simple model derived by White (1999). It allows us to avoid algebra, and to present the model in an intuitive and easy-to-grasp way. (Those in love with algebra may take a look at the appendix, which sketches the argument in a slightly more formal way.) While the model is roughly compatible with other standard models of the gold standard, like Barro (1979), Dowd—Sampson (1993), or Chappell—Dowd (1997), it does not include special assumptions about the gold depletion, the process of adjustment of the actual non-monetary stock of gold to its target level, or a particular relation of the gold consumption to the aggregate product.

For the sake of simplicity, we assume a stationary closed economy under the gold standard—all gold countries form one single economy within which gold can flow without any cost, or restrictions, i.e. the purchasing power of gold is the same everywhere. Money may be either full-bodied coins, or claims on banks redeemable in gold; bank money can be either money substitutes, or fiduciary media, i.e. the money multiplier can be one or higher. To simplify matters further, we assume that the unit of money is the weight unit of gold, troy ounce (tr. oz.). We call all gold held for the monetary purposes (golden coins in



circulation, and gold reserves in bank vaults) the *monetary stock of gold*.

Under the gold standard, gold is used not only for monetary purposes, but for non-monetary ones as well. There are two types of non-monetary use of gold: consumptive and non-consumptive. The gold consumed (e.g. included in computer circuits) cannot be drawn back at a reasonable cost. Thus it constitutes an irreversible outflow of gold out of the economy. On the other hand, the non-consumptive use (e.g. holding jewelry for ornamental reasons) is reversible—it constitutes the *non-monetary stock of gold* that can be reused at any time for any purpose.

We assume that gold in the non-monetary stock can be minted, and gold in the monetary stock can be melted down free of charge, i.e. gold can flow from monetary to non-monetary use and vice versa without restrictions, which equalizes its purchasing power in each of its uses. Our assumptions secure that the purchasing power of money (the inverse value of the price level) is the same as the purchasing power of gold, regardless of whether the particular piece of gold is held for monetary or non-monetary purposes.

Under our assumptions the quantity of money is at any moment determined by the size of the monetary stock of gold, and the monetary multiplier—it is their multiple. The size of the monetary stock of gold is determined by the gold standard; the monetary multiplier is determined by the preferences of the public for the structure of its money balances, and by reserve requirements of banks.

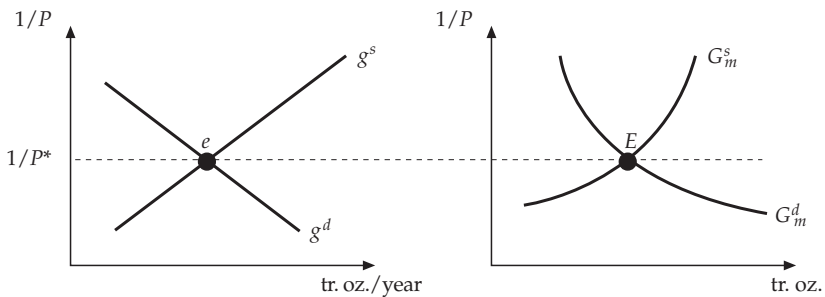
The momentary price level is at any moment determined by the momentary supply of money, and the momentary demand for it. Thus for a given demand for money any change in the size of the monetary stock of gold changes the quantity of money, and hence the price level. Since the quantity of money is a multiple of the size of the monetary stock of gold, we can also say that the momentary price level is determined by the momentary supply of the monetary stock of gold, and the momentary demand for it—where the demand for the monetary gold is the demand for money divided by the monetary multiplier. For this reason,

the demand for the monetary stock of gold  $G_m^d$  rises with the rise of the price level  $P$ , i.e. decreasing with the rise of the purchasing power of gold ( $1/P$ ), see the right side of Figure 1.

The size of the monetary stock of gold is not constant even in the very short run. It is so because it constitutes only a fraction of the *total stock of gold* available at that moment in the economy. The other part is the non-monetary stock of gold. Since any particular piece of gold can flow freely from one stock to the other, the momentary supply of the monetary stock of gold is given as the momentary total stock of gold in the economy *minus* the quantity demanded for the non-consumptive non-monetary use (let us assume for simplicity's sake that the size of the non-monetary stock of gold is always equal to its demanded quantity). The demand for the non-monetary stock of gold rises with the price level since it makes gold cheaper in terms of goods. Thus for a given size of the total stock of gold, the supply of the monetary stock of gold  $G_m^s$  decreases with the rise of the price level since more gold is demanded for the non-monetary stock, see Figure 1.

The size of the total stock of gold itself is not constant over time. It is increased by a quantity of newly mined gold per period

FIGURE 1



The long run equilibrium of a gold economy. The actual price level  $P^*$  is determined by the supply of the monetary stock of gold  $G_m^s$ , and the demand for it  $G_m^d$ . In the long run equilibrium, the price level is such that the same quantity of gold is mined (given the supply of newly mined gold  $g^s$ ) as is consumed (given the consumptive demand for gold  $g^d$ ), i.e. the total stock of gold is constant over the time, not pressing for the change of the price level.

of time, and decreased by the consumptive use of gold per period of time, i.e. it rises if more gold is mined than consumed, and goes down if the opposite holds true. The supply of the newly mined gold  $g^s$  is higher the lower the price level is because it makes gold mining more profitable, see the 'flow' supply curve  $g^s$  in the left part of Figure 1. The opposite holds true for the consumptive demand for gold  $g^d$  because a decrease in the price level makes the consumptive use of gold more costly, see the 'flow' supply curve  $g^d$  in Figure 1. These 'flow' supply and demand, and the demand for the non-monetary stock of gold may depend on other variables too, e.g. on the size of the aggregate product, the size of the monetary stock of gold etc. We will neglect these possible relationships since they are not important for our analysis.

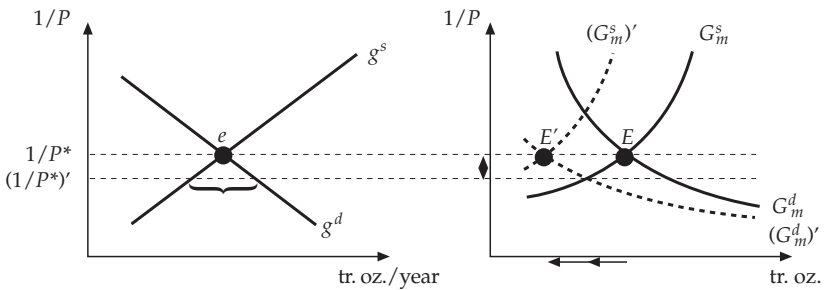
Since the total quantity of gold available to the economy is not constant over time but is changed by any surplus or deficit of mining over the consumptive use of gold, the price level determined by a momentary monetary gold supply need not be the long run equilibrium. Let us suppose that at the actual price level more gold is mined than consumed. In such a case the total quantity of gold rises. Some gold is added to the monetary stock of gold, which expands the actual quantity of money, which in turn raises the actual price level. As the price level rises, some gold is transferred from the monetary stock to the non-monetary stock, since at the higher price level more gold is demanded for this purpose. Moreover, less gold is mined, and more is consumed at the higher price level. The process continues until the price level is reached at which the same quantity of gold is both mined, and consumed. This is the *long run equilibrium price level*. If at the actual price level less gold is mined than consumed, the process goes in the opposite direction until the long run equilibrium price level is reached. Thus the actual price level is always determined by the momentary supply of the monetary stock of gold, and the momentary demand for it, while the long run equilibrium is determined by gold 'flows'. For a formal analysis of the steady state see Barro (1979); for an analysis of a steady growth see White (1999).

### III REACTION TO SHOCKS

There is no need to discuss properties of the gold standard in detail here. An interested reader may see the works quoted above. Only two propositions are important for us: first, any change in the demand for a *stock* of gold (either the monetary or non-monetary one) changes the price level only temporarily. The change of the price level caused by such a shock creates an imbalance between the quantity of gold mined and consumed. Gold is then either added to or subtracted from the total stock of gold, which changes the price level until the original long-run equilibrium price level is reestablished, see Figure 2.

Secondly, any change of the 'gold flows', i.e. of the supply of newly mined gold  $g^s$ , or of the consumptive demand for gold  $g^d$  changes the long-run equilibrium—the price level changes permanently. If either the flow supply, or the flow demand curve is shifted by a shock then there is an imbalance between the quantity of newly mined gold and the quantity of gold consumed at the actual price level. Gold is either added to or subtracted

FIGURE 2

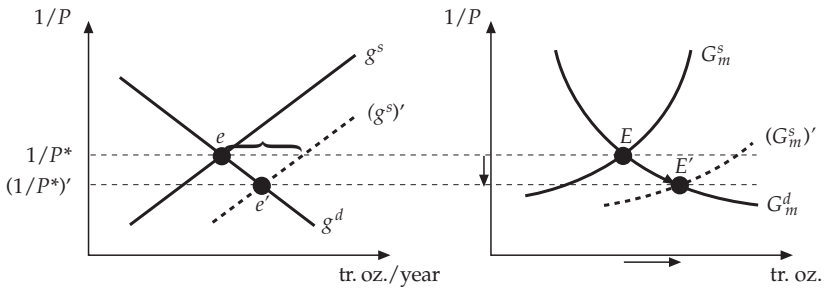


An example of a change in a demand for gold stock. Let us assume a decrease of the demand for money. It lowers the demand for the monetary stock of gold  $G_m^d$  to  $(G_m^d)'$ , which raises the price level from  $P^*$  to  $(P^*)'$ . At the higher price level more gold is consumed than mined—the difference (denoted by the brace) is subtracted from the total stock of gold, which shifts the supply of the monetary stock of gold  $G_m^s$  to the left, which in turn lowers the price level. The process continues until the original price level  $P^*$  is attained.

from the total gold stock changing the price level until a new long run equilibrium is reached, see Figure 3.

In this way the gold standard roughly stabilizes the price level.<sup>2</sup> This virtue of the gold standard is well known. What deserves special interest is the *dynamics* of the system, especially the *speed* with which a new long-run equilibrium price level is reached after a shock. The speed of the transition from the old to the new equilibrium is influenced by many factors, especially by price elasticity of the consumptive demand for gold, of the supply of the newly mined gold, and of the demand for the monetary, and for the non-monetary stock of gold. It is impossible to say anything meaningful about these factors in general. However, there is one important factor—the relative size of the monetary stock of gold—that significantly affects the price level stability in each case.

FIGURE 3



An example of a change of the ‘flow’ demand or supply. Let us assume an improvement in the mining technology, which shifts the supply of newly mined gold  $g^s$  to the right to  $(g^s)'$ . Now there is an imbalance (denoted by the brace) between the quantity of the newly mined gold and the quantity of gold consumed at the present price level. The surplus is added to the total stock of gold shifting the monetary supply of gold  $G_m^s$  to the right, which raises the price level. The price level rises until the new higher long-run equilibrium price level  $(P^*)'$  is reached.

<sup>2</sup> Barro (1979) gets slightly different result for a growing economy since he assumes that the consumptive demand for gold rises with the rise of GDP. We will not discuss this case in details since it does not change our thesis.

The monetary stock of gold acts like a cushion dampening the 'gold' shocks: the higher it is, the more stable the price level is. The transition to a new long run equilibrium is slower (and the associated rate of change of the quantity of money, and inflation or deflation is lower) the higher this cushion is relative to extent of the shock. The reason is simple: any surplus of gold is added to the monetary stock of gold (a deficit does the opposite). The size of this surplus or deficit is independent of the present size of the monetary stock of gold. Then, the lower the monetary stock of gold is, the higher its *percentage* change in a case of an imbalance is. The higher the percentage change of the monetary gold stock is, the higher the percentage change of the quantity of money is, and hence the percentage change of the price level, i.e. the price inflation or deflation. See Figure 3: the extent of the imbalance between the quantity of newly mined gold and gold consumed is denoted by the brace. How far to the right it shifts the supply of the monetary stock of gold depends on its relative size to the size of the monetary stock of gold. Note that the horizontal axes of the two parts of the Figure 3 have different scales.

A numerical case may illustrate this well. Let us suppose that a new gold field was discovered. The supply of newly mined gold  $g^s$  is shifted to the right, and there is a surplus of newly mined gold over its consumption at the present price level. The size of the imbalance is independent of the size of the monetary stock of gold. Let us say that the surplus is one million troy ounces per year. Now, if the monetary stock of gold is large, let us say one hundred billion troy ounces, it is increased by less than one to one thousand percent in a year, or even less because it lowers the purchasing power of gold slightly, and thus a part of the surplus is shifted to the non-monetary stock of gold. In such a case we may expect only negligible price inflation, and a very slow transition to the new equilibrium price level. On the other hand, if the monetary stock of gold was for instance only one million troy ounces, its percentage change would be quite high—between zero and one hundred percent per year depending on the price elasticity of the demand for the non-monetary stock of gold. Even if this demand was quite price-elastic, the price

inflation associated with the shock would be quite high. Moreover, it may be at its outset enhanced by a decrease in the demand for the monetary stock of gold because the public facing the high price inflation would decrease its demand for the real money balances.

Interesting empirical evidence supporting this thesis may be found in Radford's paper «The Economic Organization of a P.O.W. Camp» (Radford, 1945). In the Prisoner of War Camp where Mr. Radford was detained, cigarettes evolved into the general media of exchange. He writes: «At one time in the early days, before any private parcels had arrived and when there were no individual stocks, the weekly issue of cigarettes and food parcels occurred on a Monday. The non-monetary demand for cigarettes was great, and less elastic than demand for food: consequently prices fluctuated weekly falling towards Sunday night and rising sharply on Monday morning. Later, when many people held reserves, the weekly issue had no such effect, being too small a proportion of the total available.»

If the demand for the non-monetary gold stock changes, the process is slightly more complex but the major thesis remains the same. Let us suppose an increase in the demand for gold held for ornamental purposes. The extra-demanded gold is first subtracted from the monetary stock of gold. The price level would change more the higher the *percentage* change of the monetary stock of gold is—which depends on the size of the shock relative to the magnitude of the monetary stock of gold. As soon as the price level is affected, the process described above is set in motion: more gold is mined than consumed in this case, which raises the price level to the former long run equilibrium level. Thus price deflation is followed by price inflation in this case. Both of them are more severe the lower the monetary stock of gold relative to the extent of the shocks is.

When the monetary stock of gold is relatively small, we may expect not only relatively higher inflation or deflation caused by the factors discussed above, but also more severe trade cycles. This conclusion is obvious to those who believe that trade cycles are caused by changes of the aggregate price level (as for example the Monetarists and other monetary-misperceptions, or all kinds

of Keynesians do)<sup>3</sup>; but it holds good even if one sticks to the Austrian trade cycle theory. It is so because the change of the price level is just a consequence of the previous *money* expansion or contraction. The lower the monetary stock of gold is, the higher the *percentage* money expansion or contraction is—and this way the more severe the impact on the economy is.<sup>4,5</sup>

#### IV SELECTED CONSEQUENCES

The hypothesis sketched above has some consequences that Austrian economists might not welcome. We will stress two of them: first, we will show that the free banking system of the

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<sup>3</sup> The occurrence of the trade cycle may depend on expectations—an expected change of the price level need not to cause it. But it is hard to believe that the price level change caused by a shock of the kind we are dealing with could be expected precisely even at its outset.

<sup>4</sup> We assume that Mises and Hayek were right that *any* change in the quantity of money causes trade cycles, i.e. that Rothbard (1963, p. 34–36) was wrong when he stated that the expansion of the monetary stock of gold does not cause it. Anyway, even Rothbard would agree that the expansion of the fiduciary media allowed by the expansion of the monetary stock of gold causes a trade cycle. For the reasoning that a change in the stock of money itself causes a trade cycle regardless of a change in the general level of prices see Mises (1912), Hayek (1929), Hayek (1931), and other works in the Austrian trade cycle tradition.

<sup>5</sup> An interesting question is whether the occurrence of the trade cycle of the Austrian type depends on the bank reserve ratio. Let us assume that a shock boosts the monetary stock of gold. Then a part of the «surplus» gold is deposited with banks. If the banks keep only fractional reserves then the new gold deposits allow banks to expand their credit, pushing the interest rate below its equilibrium level, which drives the price level upward, and causes misallocations of investment, lengthening the production (increasing its roundaboutness), and creating an artificial boom. This is less certain in a case of one hundred percent reserve banking. In such a case it is possible that the «surplus» gold is spent in proportion to the existing money streams, not changing relative prices. However, this cannot be taken for granted, because the shock changes the relative distribution of wealth in society, see Mises (1912). Moreover, it seems highly probable that at least some of the newly mined gold would enter the credit market, thus lowering the interest rate. The corresponding trade cycle might be at least milder in this case than in the case of fractional reserve banking. However, this question requires more research before a final conclusion is reached. I am thankful to Prof. Huerta de Soto for this point (Huerta de Soto, 2006).



Scottish type may undermine the stability of the gold standard; second, we will show that a return to the gold standard may be difficult, and even impossible without collective action of many countries of great economic power.

### 1. Mature Free Banking System

White and Selgin have shown in their influential works (White, 1984, 1999, Selgin 1985, 1988, Selgin—White, 1987, 1994, etc.) how the mature fractional reserve free banking system of the Scottish type can evolve and work—that such a banking system may have many positive virtues: it need not be fraudulent, it may be stable without bank runs and panics, banks cannot inflate at will etc.

One of the advantages of this banking system over one with one hundred percent reserves is that it economizes on gold reserves, which reasonably lowers the resource cost of money. According to White (1999, p. 46–7), the gold reserves of the Scottish banks prior to Peel's Acts were about two percent or smaller (the monetary multiplier was 50, or higher). This lowers the resource cost of money from 2.5% GDP a year estimated by Friedman for the one hundred percent reserve banking to the negligible 0.05% estimated by White (1999) for the Scottish-type banking system.

However, this advantage is not free: it may undermine the stability of the gold standard, if spread to all gold-standard countries. It is so because it decreases the monetary stock of gold reasonably—about 50 times, according to White (1999), in comparison to the one hundred percent reserve banking. In such a case we have no guarantee that such a small monetary stock of gold is big enough to protect the gold standard countries reasonably against the 'gold' shocks. It may be such, but it is not certain at all—it is an empirical question which cannot be solved using data from the 18th or 19th century because the average reserve ratio, and the monetary stocks of gold were much higher in those days than they would be in the hypothetical worldwide free banking of the Scottish type. Selgin (1988, p. 129–133) is then misguided when he uses historical evidence from those days to

prove the stability of the mature fractional reserve free banking system. Such evidence is irrelevant.

Of course, this conclusion does not hold true for the mature free banking system of the Scottish type only, but for all monetary systems economizing on gold reserves, e.g. for the gold exchange system (if widespread), and the like.

## 2. Monetary Reconstruction

Some Austrian economists, e.g. Rothbard (1983), or Hülsmann (1998), proposed plans to reestablish the gold standard and free banking. Their proposals did not require any political coordination between countries. Hülsmann (1998), in his proposal for liberal monetary reform, even says that such a reform plan must be feasible in a single country—he can clearly see that collective action of many economically powerful nations is in the near future improbable, and could lead to many unwelcome compromises.

The authors of these proposals usually suppose without questioning that the gold standard would be as stable nowadays as it was in the 19th century and earlier. However, our hypothesis predicts that if only a single country returns to the gold standard, it might suffer from serious price instability and recurring trade cycles, since its monetary stock of gold would be most probably tiny in comparison with the *world* 'gold' shocks. It holds true for small countries; if any great country could have a monetary stock of gold big enough to protect the country reasonably from shocks is an empirical question.

Moreover, in a world where gold countries without central banks coexisted with countries with fiat money issued by central banks, the 'gold' shocks could be even more severe than in a purely commodity standard world. This is because the demand for the non-monetary stock of gold would rise whenever people in the fiat-money countries expected political instability, or a rise in domestic inflation etc., because they use gold as a hedge. The supply of gold would rise whenever central banks or other state or international agencies sold a part of their gold holdings,

or increased the limits on their gold leases. Another possible source of instability could be the market for gold derivatives.<sup>6</sup> Other shocks could be caused by attempts of other countries to reestablish the gold standard, or to leave it, as was experienced in the 19th century. Even the large monetary stocks of gold of those days were not big enough to isolate gold countries reasonably from price level volatility caused by this factor.

We can present here only very rough calculations to grasp the empirical importance of this thesis since all estimates depend critically on market prices that are (nowadays) extremely volatile. Moreover, these prices would be altered significantly by any reform of the monetary system—at least by a reform done in an economically strong country. We have to explore two questions: first, how much price level instability a country going to the gold standard would suffer if its monetary stock of gold was too small to stabilize its price level? Secondly, could the monetary stock of gold of a single country be big enough to stabilize its price level reasonably?

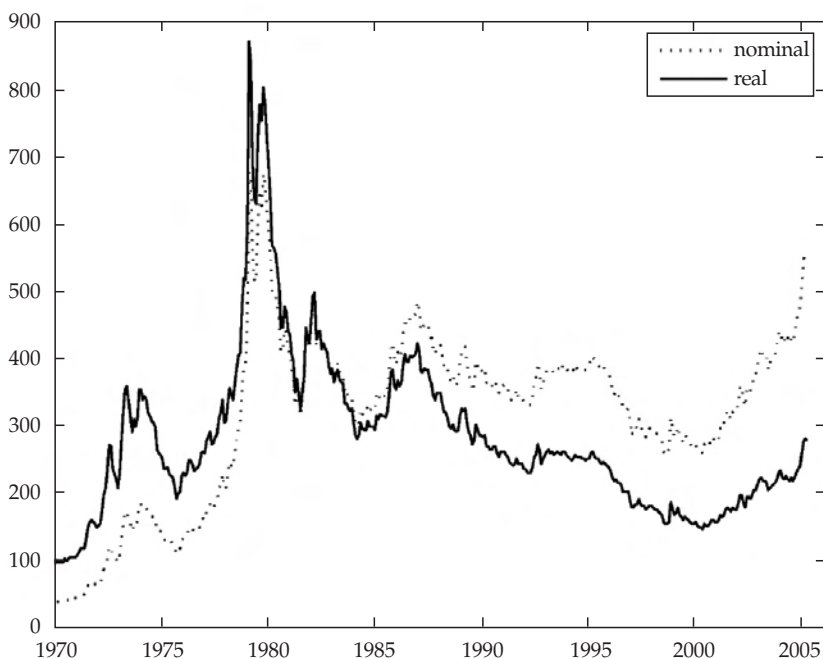
We can obtain the answer to the first question very simply by calculating the rate of inflation of a hypothetical currency based on gold in the limit case when the monetary stock of gold is nil. We use data on gold prices over the period of the last four decades, see Figure 4. If the price of gold in USD is  $p$ , and the US price level is  $P$ , then  $p/P$  is the price of gold in terms of goods, and  $P/p$  is the price of goods in terms of gold, i.e. the price level based on gold, see Figure 5. For the inflation of this 'gold price level' see Figure 6.

The 'gold inflation' has a very low mean value—almost zero in the whole sample starting early 1971 and ending early 2006, and about 3.4% in the subsample starting in 1982 (we have used an arithmetic average of monthly calculated p.a. inflation rates) but it is highly volatile ranging from less than -20% to more than 30% even in the more stable period since 1982. Its standard deviation is 22.3% in the whole sample, or 12.7% in the later

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<sup>6</sup> The impact of the derivatives market on the spot price of gold is very complex, and depends critically on the behavior of the official holders of gold (central banks, state and international agencies etc.). For an analysis see Neuberger (2001).

FIGURE 4  
NOMINAL AND REAL PRICE OF GOLD (USD/TR.OZ)



Nominal and real prices of gold in USD per tr. oz. Real values are deflated with the US CPI index. Source: The USD price of gold: World Gold Council ([www.gold.org](http://www.gold.org)); the US CPI index: BLS.

subsample. These outcomes are clearly much worse than the performance of a general central bank in the last decades. This means that if the monetary stock of gold was too small to stabilize the gold price level significantly, the outcomes of a gold standard reconstruction would be disastrous.

Let us proceed to the second question: how probable is it that a single country can have a monetary stock of gold of such an extent to stabilize its price level reasonably? The easiest way to estimate the answer is to calculate the probable size of the monetary stock of gold of a country and compare it to the expected size of 'gold' shocks. We make four estimates: one set for a small country, and the second for a large country. For each country we calculate one

FIGURE 5  
GOLD PRICE LEVEL (CALIBRATED TO 100 AT THE MIDDLE)



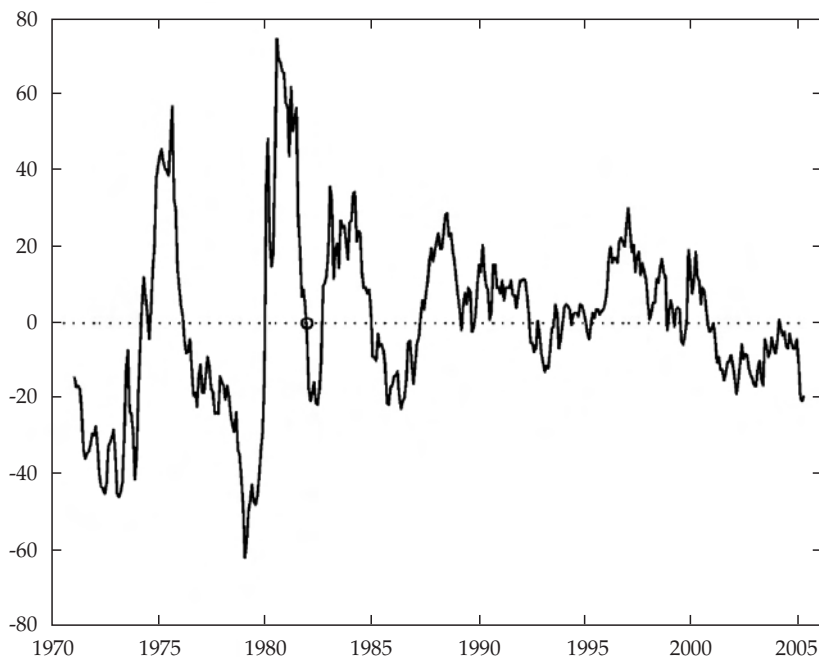
The price level of a hypothetical 'gold' currency. It is one over the price of gold in real USD calibrated for convenience to be 100 in the middle of the sample (calculated from the same data as in Figure 4).

estimate for a one hundred percent reserve banking assuming that the quantity of monetary gold is equal to the present stock of M1<sup>7</sup>, and the other for a mature free banking system of the Scottish type assuming that the quantity of the monetary gold is 2% of the present stock of M2. We use data from December 2005.<sup>8</sup>

<sup>7</sup> Such a calculation is most probably overestimated—the public is likely to hold more M1-type money when it is paid the net interest on it than when it has to pay a net warehouse fee.

<sup>8</sup> Long run averages may be better for this purpose. However, we prefer the simpler way because the estimates are very rough, and thus a use of a more sophisticated technique would yield no real gain.

FIGURE 6  
GOLD INFLATION (IN PERCENTS)



The rate of inflation of a hypothetical 'gold' currency (calculated from the same data as in Figure 4). The circle denotes the beginning of the more stable subsample.

Let us take the Czech Republic as an example of a small country, and the United States as an example of a large one. In December 2005, the Czech Republic money stock was 1,087 billion Czech crowns (M1), or 1,992 billion (M2). This was roughly 44, or 81 billion USD respectively (the exchange rate was 24.588 Czech crowns for 1 USD). Given the market price of gold (510.0972 USD per troy ounce), the monetary stock of gold would be 2,697 tons in the case of the one hundred percent reserve banking, and 99 tons in the case of free banking of the Scottish type. The same calculation for the United States gives a monetary stock of gold of 85,187 tons for one hundred

percent reserve banking, or 8,188 tons for the fractional reserve one.<sup>9</sup>

These estimates are not very robust. The market price of gold was sometimes much higher, sometimes much lower, see Figure 4. This can change the estimates from about two thirds of the presented numbers to their doubles. The exchange rate of the Czech crown changed during this time too, although it was far less volatile than the price of gold.

More importantly, if a country was likely to go to the gold standard, the demand for gold would rise—both within the country (for monetary purposes), and outside of it (for speculative purposes). This would drive the purchasing power of gold up—the necessary equilibrium monetary stock of gold would thus be much lower than the estimates presented above. This effect need not be very important in the case of the Czech Republic, or the United States with the Scottish-type free banking but it would be extremely significant if the United States tried to reestablish the one hundred percent reserve gold standard because the quantity of gold necessary at the *present* price to reestablish it constitutes more than one half of the above-ground gold stock (about 85,187 tons out of 155,500 tons, see below). Thus such an attempt would cause great gold deflation. It is impossible to guess what the equilibrium size of the monetary stock of gold would be in such a case, but it would obviously be much lower than those 85,187 tons estimated above.

The estimated size of the monetary stock of gold should be compared to the average extent of the ‘gold’ shocks. Alas, it is not possible because the necessary data is not available—the gold market is an OTC market, and its liquidity and volatility are not publicly known. The only available data are the estimates of the World Gold Council. It estimates the world total above-ground stock of gold as about 155,500 tons in 2005. The quantity of newly mined gold increased from 2,469 tons in 2004 to 2,520

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<sup>9</sup> Source: The Czech Republic money stock and the Czech crown–US dollar exchange rate: The Czech National Bank ([www.cnb.cz](http://www.cnb.cz)); the US money stock: Fred, the Federal Reserve System at St. Louis; the US price of gold: World Gold Council ([www.gold.org](http://www.gold.org)).

tons in 2005 (i.e. by 51 t), the total mine supply (due to hedging) from 2,042 to 2,407 tons (i.e. by 365 t). The total year «end-user consumption»<sup>10</sup> increased from 3,190 tons in 2003 to 3,496 tons in 2004, and to 3,727 tons of gold in 2005 (i.e. by 306 ton, or 231 tons per year respectively). From the statements and charts of WGC it can be learned that these quantities have been quite volatile in the past, and the quantity of above-ground gold has increased reasonably in the last decades (about 64% of it has been mined since 1950).<sup>11</sup>

Even though our data is not conclusive, rough proportions are clear. The monetary stock of gold estimated for the Czech republic (2,697 tons, or 99 tons respectively) is of the same order as the year production, or the «end-user consumption», or is lower. The same holds for the monetary stock estimated for the United States on the fractional reserve banking system (8,188 tons). Therefore, it seems reasonable to believe that usual shocks stemming from the gold market could destabilize the price level of such a country to a great extent. On the other hand, it seems possible that a sole country of the economic strength of the United States could perhaps stabilize the 'gold' price level if it had installed one hundred reserve free banking but even in such a case it cannot be taken for granted since the size of the corresponding monetary stock of gold cannot be guessed.

## V CONCLUSION

In this paper we have hypothesized that the price level stability of the gold standard to 'gold' shocks depends critically on the size of the monetary stock of gold relative to the extent of these shocks. Every change decreasing its relative size lowers its price level stability. Since the price level instability is usually associated

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<sup>10</sup> The «end-user consumption» defined by the World Gold Council includes production of new jewelry, industrial and dental use, and investment. This is not identical to the theoretic concept of consumptive use mentioned above.

<sup>11</sup> See the web site of the World Gold Council, [www.gold.org](http://www.gold.org)



with trade cycles, we have to assume that every such change decreases also the overall macroeconomic stability in a broad sense.

If our hypothesis is correct, it has some consequences that Austrian economists may not like: first, the mature fractional reserve free banking of the Scottish type may undermine the stability of the gold standard. Historical records of its stability in the 18th and 19th century are irrelevant since they are built upon a system with a much higher monetary stock of gold than that which would be associated with a hypothetical worldwide free banking of this type.

Secondly, an attempt to reestablish the gold standard would probably have to involve the collective action of many countries of a great economic power. If a single small country tried to resume gold, its monetary stock of gold would be small relative to the world gold market shocks, and the economy could be destabilized by 'gold' shocks. This means that a return to gold may nowadays be a very difficult task even if we neglect all problems associated with the initial transition of the price level to its new long run after-the-resumption equilibrium (i.e. initial deflation), which could be a serious problem indeed. This all makes the return to the gold standard rather improbable in the near future. Obviously, it is much easier to spoil something good which evolved over centuries in the twinkling of an eye than to create it again.

Advocates of the free banking system should then perhaps abandon attempts to reestablish the gold or other single commodity standard, and explore other possibilities such as a symmetrical standard, a commodity reserve currency, or the system proposed by Selgin (1994): a Scottish-type free banking based on a fiat monetary base of a forever-frozen quantity. There may be other systems of government-free money that could work well too—better than both the present system, and the dangerous transition to gold.

VI  
APPENDIX

Let us sketch how the major thesis of this paper may be derived in a more formal way. We cannot solve it here completely since it would require many special assumptions to allow us to solve the differential equation (7). However, even its informal treatment may yield some insight.

The quantity of money  $M(t)$  at time  $t$  is equal to the size of the monetary stock of gold  $G_m(t)$  times the monetary multiplier  $\mu$ .

$$M(t) = \mu \cdot G_m(t) \quad (1)$$

The quantity of money  $M^d(t)$  demanded at time  $t$  depends on the current price level  $P(t)$  and on the real money balances demanded  $\Phi(\bullet)$

$$M^d(t) = P(t) \cdot \Phi(\pi^e(t)) \quad (2)$$

where the demanded real money balances  $\Phi(\bullet)$  decrease with the rise of the expected rate of inflation  $\pi^e(t)$ .

The actual rate of inflation  $\pi(t)$  at time  $t$  is the rate of change of the price level

$$\pi(t) = \dot{P}(t)/P(t) \quad (3)$$

where the dot over  $P$  denotes the time derivative. (The same convention is used below too.)

The equilibrium price level is at each time determined by the demand for money (2) and the money supply (1)

$$P(t) = \frac{\mu \cdot G_m(t)}{\Phi(\pi(t), Y)} \quad (4)$$

The total stock of gold in the economy  $G(t)$  consists of the monetary stock of gold  $G_m(t)$ , and the non-monetary stock of gold  $G_n(t)$  where  $G_n(t)$  is an increasing function of  $P(t)$ . The

non-monetary stock of gold is at any point in time equal to its demanded quantity, i.e.

$$G_m(t) = G(t) - G_n(t) \quad (5)$$

The size of the total stock of gold  $G(t)$  is not constant over time. It is increased by a quantity of newly mined gold  $g^s(t)$ , and decreased by the consumptive use of gold  $g^d(t)$  at any moment. The rate of change of the total quantity of gold  $\dot{G}(t)$  in time  $t$  is

$$\dot{G}(t) = g^s(t) - g^d(t) \quad (6)$$

where  $g^s(t)$  is a decreasing function of  $P(t)$ , and  $g^d(t)$  in an increasing function of  $P(t)$ .

The rate of inflation at time  $t$  is then

$$\pi(t) = \frac{\dot{P}(t)}{P(t)} = \frac{\dot{G}_m(t)}{G_m(t)} - \frac{\dot{\Phi}(\bullet)}{\Phi(\bullet)} = \underbrace{\frac{g^s(t) - g^d(t) - \dot{G}_n(t)}{G_m(t)}}_A - \underbrace{\frac{\dot{\Phi}(\bullet)}{\Phi(\bullet)}}_B \quad (7)$$

The term  $A$  in the equation (7) is the basic cause of inflation. Its numerator is the size of the 'gold' shock—the quantity of gold that is to be added to or subtracted from the monetary stock of gold  $G_m(t)$ . It consists of the net inflow of gold into the economy  $g^s(t) - g^d(t)$ , and of the net quantity of gold transferred to the non-monetary stock of gold,  $\dot{G}_n(t)$ . Each of these terms may cause the original imbalance, while the other one dampens it in such a case. The size of the 'gold' shock (the numerator) is independent of the size of the monetary stock of gold  $G_m(t)$ , which is the denominator of the fraction. It means that other things being equal, given the shock, the rate of inflation or deflation is higher, the lower the monetary stock of gold  $G_m(t)$  is.

The term  $B$  in the equation (7) is the rate of change of the real money balances held by the public. We know empirically that a modest rate of inflation does not change the real money balances, so usually we may neglect this term altogether; and even in the case of hyperinflation, it is of a secondary importance. Moreover,

it does not change the result: if the rate of inflation rises in the time, it enhances the rise, since the public tries to lower its demand for the real money balances ( $\dot{\Phi}(\bullet) < 0$ ). If inflation slows down, it slows it down further, since in such a case the public increases its real money balances ( $\dot{\Phi}(\bullet) > 0$ ).

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# ASSET PRICES – AN AUSTRIAN PERSPECTIVE

PHILIPP BAGUS\*

*Abstract:* How asset prices should be taken into account in monetary policy is a controversial question in mainstream discussion. These mainstream positions can be differentiated into two broad perspectives: the proactive and the reactive views. The proactive view advocates pricking the asset price bubble, while the reactive view argues against monetary policy targeting asset prices. In this article the relation between asset prices and the Austrian business cycle theory is examined. Following this, a critique of both the proactive and reactive views is provided and implications for monetary policy are deduced.

*Key words:* Austrian Economics, Business Cycles, Asset Prices, Central Banks and their Policies.

*JEL Classification:* B53, E32, E58.

## I INTRODUCTION

How monetary policy should account for asset prices is a controversial question in mainstream discussion. The most contentious point is whether a restrictive monetary policy should be used to prick speculative asset price bubbles. The new chairman of the Federal Reserve System (the Fed), Ben Bernanke, along with Mark Gertler<sup>1</sup> are two well-known representatives of those economists who argue against a preventive pricking of

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<sup>1</sup> See Bernanke and Gertler (2000), p. 4.

asset price bubbles.<sup>2</sup> These economists point to the difficulties a central bank would have in identifying a bubble. They doubt that a central bank could manipulate the interest rate so precisely as to allow the speculative air to leak slowly from the asset price bubble. They fear, rather, that the restrictive monetary policy would burst the bubble and lead to a harsh and dangerous recession. Hence, a central bank policy that tries to manipulate asset prices is dismissed. According to this view, asset prices should only play a role in monetary policy insofar as they are an indicator of future price inflation. This kind of asset price consideration would be wholly sufficient.<sup>3</sup> The Bernanke view can be called the reactive view because the central bank watches the asset price bubble grow, and once the bubble bursts, recommends expansive monetary policy in order to stabilize asset prices.

However, there is a view which opposes the reactive view. The opposing side recommends a proactive approach,<sup>4</sup> arguing that it is, at least in some cases, appropriate to prick asset price bubbles. Cecchetti and his colleagues maintain that it is no more difficult to identify an asset price bubble than it is to estimate other parameters considered relevant for the central bank, like potential output, for instance.<sup>5</sup> Concern about financial instability is the main reason for recommending a proactive stance.<sup>6</sup> Proponents of a proactive approach hope that such a policy might help to prevent an asset price market crash, which might, without this intervention, destabilize the financial system. Following a crash of the stock, bond, or housing markets, balance sheets of banks and corporations might deteriorate and private households might reduce consumption. As a result, the credit allocation might be severely disrupted. This phenomenon is

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<sup>2</sup> Two proponents of this opinion are Svensson (2002), p. 289 and Greenspan (2002), p. 5.

<sup>3</sup> See Bernanke and Gertler (2000), p. 4 and Svensson (2002), p. 289.

<sup>4</sup> This side includes Cecchetti et al. (2000), Bordo and Jeanne (2002), Borio and Lowe (2002).

<sup>5</sup> See Cecchetti et al. (2000), p. 2.

<sup>6</sup> See Berger, Kifmer and Wagner (2005), p. 2; and Bordo and Jeanne (2002), p. 5; Borio and Lowe (2002), p. 23.

called a «credit crunch» which is basically another term for credit contraction. The credit crunch leads to severe consequences for enterprises which depend on further credits. Enterprises then go bankrupt. This in turn can lead to further reduction of consumption and further deterioration of bank balance sheets. When banks begin turning to bankruptcy due to bad loans, systemic stability is at risk. The whole monetary system threatens to collapse. The proactive pricking of bubbles is therefore thought to prevent this danger to the stability of the financial system. A second argument for a proactive strategy, sometimes mentioned, is the danger of misallocation of real resources caused by an asset price boom.<sup>7</sup> In this context, the argument is attributed to the Austrian School of economics. However, extensive elaboration about the complex relation between Austrian theory and the problem of asset prices is not provided. Most importantly, the Austrian school itself has not provided a systematic analysis of the problem of asset prices and monetary policy.<sup>8</sup>

In this paper, I examine what the Austrian business cycle theory (ABCT) can contribute to our understanding on the asset price problem. Such an analysis requires the development of a systematic Austrian perspective concerning asset prices. With this in mind, the paper is divided into four sections. The first section provides an analysis of the role of asset prices in the Austrian business cycle theory. The second section draws a connection between credit expansion and asset price bubbles. The third section offers a critique of both the proactive and reactive strategies in dealing with asset-price bubbles. The fourth section contrasts these mainstream policy prescriptions with monetary policy recommendations derived from Austrian theory.

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<sup>7</sup> See Gruen and Plumb and Stone (2002), p. 13; and Conrad and Stahl (2002), p. 490.

<sup>8</sup> See Borio and Lowe (2002), p. 27, and Bordo and Wheelock (2004), p. 19; Conrad and Stahl (2002), p. 490. Skousen (2005), p. 286 observes a growing interest in the Austrian view on asset prices. There has been a more general study by Machlup (2002) about the stock market. Mueller (2001) and Huerta de Soto (2006) have written about bubbles. However, no exhaustive and systematic analysis about ABCT and asset prices has been undertaken.



## II A THEORY OF CREDIT EXPANSION AND ASSET PRICES

### 1. Asset prices and the business cycle

According to the ABCT, the business cycle is caused by an increase in the amount of money by the banking system via credit expansion. This credit expansion leads to an interest rate that is too low in comparison with the preferences of the market participants.<sup>9</sup> Due to the relative reduction of the interest rate, entrepreneurs are led to think that the amount of savings has increased. In turn, they engage in new investment projects, beginning more investment projects than can be finished with available means of production. Interest rate reductions have more of an effect on investment projects that take more time to be completed than on projects that take less time to be finished. Hence, many investment projects are begun that take relatively much time to produce consumer goods. The crucial point is that investors are led to undertake more investment projects than otherwise, acting as if savings had increased, increasing the demand for producer goods.

When the owners of the factors of production get paid with the newly created money and spend their income in the old consumption-savings ratio, (i.e., they do not increase their savings), there will be a relative increase in the demand for consumer goods. Moreover, the supply of consumer goods slows down. This is due to the undertaking of investment projects that yield consumer goods only after a longer time period than for projects that would have otherwise been undertaken. The relative increase in demand for consumer goods and the relative decrease in their supply allow the prices of consumer goods to rise. Consequently, the increase in the consumer goods prices increases profits in consumer goods industries in comparison to capital

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<sup>9</sup> This is not necessarily so as Hülsmann (1998), p. 4 has shown because the impact of the new money on prices might be anticipated by entrepreneurs and included in the interest rate.

goods industries. Losses in capital goods industries may arise as well. It becomes evident that not all investment projects that were begun can be completed with the available means of production and a recession sets in. Mainly investment projects that consume much time, i.e., in the higher stages of production, have to be abandoned and factors of production are then shifted back to less time-consuming projects, to the lower stages of production, which produce consumer goods more quickly and yield higher profits. The recession ends when the investment projects come into line again with the preferred consumption-savings ratio of the market participants.

Now what role do asset prices play in an artificial boom caused by credit expansion?

There are several effects of the credit expansion on asset prices.<sup>10</sup> First, the credit expansion has an effect on capital goods prices and thereby, on asset prices. As already mentioned, the credit expansion leads to a reduction of the interest rate in the loan market.<sup>11</sup> Entrepreneurs will use this lowered interest rate to discount the expected returns of the capital goods, which results in a higher net present value of the capital goods.<sup>12</sup> The net present value of stocks, bonds, and real estate, which represent capital goods, is increased by the lowered interest rate as well.

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<sup>10</sup> In this essay, I focus on prices of financial assets like stocks, bonds and real estate. Investors buy financial assets either to collect rent, interest, or dividends, or to sell them at a higher price later. As such, raw materials can become financial assets at certain times. Accordingly, in the 1970s, for example, investors bought petroleum as a financial asset. Recently, raw materials seem to assume the role of financial assets again.

<sup>11</sup> More precisely, the interest rates decline relatively, i.e., they will be lower than they would have been without credit expansion. Hence, the historic fact that in economic booms the nominal interest rate tends to increase does not affect the analysis. In the rest of this article, all changes should be regarded as relative. And again, the reduction of the interest rate is not necessary since entrepreneurs could anticipate the effect the credit expansion has on prices.

<sup>12</sup> See Huerta de Soto (2006), p. 278-279. However, future returns will be discounted by the interest rate that is thought to prevail at each respective point of time. The longer the fall in the interest rate is thought to last the stronger will be the effect on net present values. In the end, we are dealing with the illusion of the market participants that the interest rate can be lowered permanently by monetary policy, thereby making the bubble possible.

As a result, entrepreneurs will bid up the prices of stocks, bonds, and real estate to their new, higher net present value.

A second effect works towards a soaring of stock and real estate prices. Investment projects, that with a higher interest rate would have been unprofitable, now look profitable due to the interest rate reduction. In order to undertake these investment projects, capital goods are needed. Therefore, as new credit is created, capital goods are demanded. However, if savings do not increase, neither does the supply of capital goods. The increase in the demand for capital goods meets a supply of capital goods that has not increased. Consequently, the prices of capital goods will be bid up. Consequently, the price of capital goods titles and the price of their production facilities also increase.<sup>13</sup> Stocks are titles to capital goods and production facilities of capital goods. Houses are capital goods to the degree that their services are consumed in the future. Bond prices also depend on the market value of capital goods, since when the market value of capital goods and of the company issuing the bonds increases, the perceived probability of the company meeting its bond obligations might increase. Indeed, «bond-holders (long-term creditors) are just different types of owners»<sup>14</sup> of the company. Hence, the prices of stocks, bonds, and real estate soar. An asset price boom begins.

After the asset price boom has been triggered by credit expansion, it is fueled by waves of optimism pervading the whole economy. This optimism, instead of fueling all asset prices simultaneously, might concentrate on one or more of these areas, i.e., stocks, bonds, or real estate. It is possible that the optimism is so enthusiastic that it is thought that a new era of never-ending growth has begun, often symbolized by a new technology.<sup>15</sup> The

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<sup>13</sup> See Machlup (2002), p. 188.

<sup>14</sup> See Rothbard (2000), p. 51.

<sup>15</sup> Historical examples are the boom of the 1920s' stock market and the «New Economy» boom in the late 1990s where new technologies played a major role. In the 1920s, commercially available electrical power and the radio, a new media device, represented the boom while in the late 1990s information technology and, more specifically, the internet, another communicational innovation, promised a new age. On the «New Economy» boom see Callahan and Garrison (2003).

new technology leads to the expectation that future profits will increase strongly, which increases the expected net present value.

Later, optimism might be fed by three sources. First, the accounting profits will increase during the boom. As Mises points out (1998, p. 546):

If the annual depreciation quotas are determined in such a way as not to pay full regard to the fact that the replacement of worn-out equipment will require higher costs than the amount for which it was purchased in the past, they are obviously insufficient. If in selling inventories and products the whole difference between the price spent for their acquisition and the price realized in the sale is entered in the books as a surplus, the error is the same.

Hence, the illusionary gains of businesses seem to indicate not only that everything in the economy is fine but also that there is a period of great prosperity and real growth. This further increases the optimism. Therefore, due to the illusionary gains, people might invest more in asset price markets and thereby throw new oil into the fire of the asset price boom.

Second, during this boom, the belief often spreads that credit expansion makes an increase in production possible without having to forego consumption.<sup>16</sup> A euphoria diffuses in the economy. One thinks that production can be increased without having to save in the first place. The rising security and housing prices seem to support this belief. Therefore, the security market and real estate investors are willing to continue the entertaining speculation if credit expansion continues to flow and consumption does not need to be restricted.<sup>17</sup>

Third, the optimism is self-enforcing, in a way, since the rising asset prices attract more investors to asset price markets. People might quit their jobs to dedicate themselves to asset price market speculation, where profits seem to be made automatically and in an easier way than in their old jobs. Entrepreneurial creativity and effort are shifted towards asset price markets. As a consequence

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<sup>16</sup> See Huerta de Soto (2006), p. 280-281.

<sup>17</sup> See Machlup (2002), p. 95.

of the money flowing into the asset price markets, prices continue to soar, increasing the optimism even further.<sup>18, 19</sup>

Optimism is not the only reinforcement for an increase in speculative prices. The boom can reinforce itself in another way. This occurs when the asset price boom receives positive feedback from the credit expansion and thereby boosts further malinvestments both in the asset price markets and the real economy. There are two possible reasons for this feedback. First, the higher asset prices, i.e., higher security and housing prices, can be used by companies as a collateral for further credits.<sup>20</sup> Moreover, there might be the illusion of an increase in real wealth by the increase in asset prices.<sup>21</sup> Under this illusion, market participants reduce savings and demand further credits. The bond market is a vivid example of this effect. When interest rates are artificially lowered by the credit expansion, the prices of bonds tend to rise. Market participants might get a false impression that their real wealth has increased. Believing that the asset price

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<sup>18</sup> In this article I focus on analyzing a closed economy. However, in the real world, the optimism can spread to other countries leading to another flow of purchasing power to the asset price markets stabilizing the exchange rate (which is psychologically important) in spite of deficits in the balance of trade.

<sup>19</sup> An interesting characteristic of the asset price boom is that as time goes by it becomes ever more dependent on the optimism that feeds it. When asset prices are not inflated by credit expansion, changes in the psychology of market participants do not play an important or determining role in asset price fluctuation. More specifically, psychological changes by themselves do not cause a crash, but only reflect changes in expectations about the real economy. For example, when there is fear of war, prices are likely to collapse. In contrast, during periods of credit expansion and asset price booms the psychology of market participants *eo ipso* suddenly becomes important for the changes in asset prices. A small deterioration of the fragile euphoria of the «new times» can endanger the asset price boom, triggering a reinforcing downturn. This downturn can be triggered for almost any reason, e.g., losses in some industries, elections, political conflicts, or new government interventions. Such a downturn may stop only when asset prices return to net present values not distorted by credit expansion.

<sup>20</sup> See Huerta de Soto (2006), p. 362. The new international accounting standards (IFRS) greatly improve this feedback mechanism since assets have to be accounted for with their market value (instead of the purchase price) which increases during an asset price boom. The IFRS breaks with the prudence and caution of the institution of accounting practices that have evolved freely for more than a thousand years in the market. See also Huerta de Soto (2003).

<sup>21</sup> This effect is sometimes called «wealth effect.» See, for example, Goodhart and Hofmann (2004), p. 175.

markets somehow «save» for them, they stop saving. However, this is an illusion since the real amount of goods is not increasing. Since their nominal wealth seems to steadily and automatically increase they increase consumption on the cost of savings. Concerning stocks and real estate markets, Mises (1998, p. 546-47) makes the following observation:

If the rise in the prices of stocks and real estate is considered as a gain, the illusion is no less manifest. What makes people believe that inflation results in general prosperity is precisely such illusory gains. They feel lucky and become openhanded in spending and enjoying life. They embellish their homes, they build new mansions and patronize the entertainment business. In spending apparent gains, the fanciful result of false reckoning, they are consuming capital.

Why would one save if one becomes wealthier every year? Market participants might even go into more debt to invest in the bond market, buying seemingly no-risk assets as government bonds, thereby increasing bond prices further. Hence, it can be concluded that the asset price boom tends to feed and reinforce itself with further credit expansion.

It should be emphasized that the asset price boom also has an important effect on entrepreneurial culture, because a new type of entrepreneur will become successful in the boom. As Mueller states (2001, p. 14):

With the continuation of such a boom, prudence diminishes, and new types of entrepreneurs appear, who neglect profits in favor of market share and who eagerly apply the latest standard of technology irrespective of a prudent evaluation of their economic merits. As money can be gained easily with speculation on asset price markets the entrepreneurial capacities are directed towards speculation and making fast profits at asset price markets.

While the optimism about new technologies and the booming economy spreads, it is possible that enterprises that maximize revenue and use new technology will experience extraordinarily

soaring stock prices. Hence, short-term thinking is rewarded at the cost of long-term thinking and a prudent, conservative entrepreneurial culture. Seeing the possibility of quick profits, people become more present-oriented, i.e., their time preference increases. They begin to think, and are actually proven right during the boom, that no hard work or thought is necessary to make profits. Just pick any stock and it will go up. Hence, work ethic declines and a culture of «no sacrifice» develops. Entrepreneurial energy is dedicated to making fast profits in the asset price markets. Wanting to earn money as quickly as possible, people fill their daily conversations with the latest asset price market news. They develop and acquire knowledge that helps them to participate in an asset price boom fueled by credit expansion. This knowledge will become worthless when the credit expansion ends. When the bubble unexpectedly bursts, the entrepreneurial culture and confidence of a whole generation will be severely damaged, demoralizing a whole generation. The increase in time preference rates will have lasting social effects and start a process of decivilization.<sup>22</sup>

Moreover, the general population might become repelled by the stock market. Individuals do not learn to invest long-term in the stock market, thereby preventing the development of a «society of proprietors.» A «society of proprietors» serves as a battering ram against any government intention to intervene in the economy, because when companies are harmed by government interventions proprietors will protest. The recurrent booms and busts within the asset price market, therefore, can be considered as a major drawback to a free society.

## 2. Delay of malinvestments by a stock market boom<sup>23</sup>

Another point in relation to credit expansion and the stock market is important. It is by all means possible, that the new credits are not given directly to entrepreneurs who would use them to engage

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<sup>22</sup> For the influence of time preference on the process of civilization, see Hoppe (2001).

<sup>23</sup> The same analysis applies *mutatis mutandis* for a real estate, bond market, or raw materials boom.

in investment projects, of which all could not be completed. Instead, the new credits might then be used by those speculating in the stock market. The newly created fiduciary media are injected first into asset markets and from there, under certain circumstances, and only after some interval, they then begin to spread over the whole economy.

It is possible that the new credits, flowing into the stock exchange would be used in a speculation chain. In other words, the credits would be used to buy stocks, and then the sellers of the stocks would use this money to invest in the stock market and so forth. It is therefore conceivable that at least for some time the credit expansion is «absorbed» by the stock market.<sup>24</sup> In fact, as long as the illusion persists that a new era has begun, the credit expansion can accumulate in the stock market. Hence, as long as the stock market absorbs the credit expansion, resources are not intertemporally misallocated therefore delaying the business cycle. The reason for this is the absence of additional investment projects undertaken that cannot be ended with the available means of production.<sup>25</sup> It is as if new money is being pumped into a casino. As long as the new money is used for ever newer games in the casino it is stored up there. Only indirectly, by changes in the perceived wealth, would the games in the casino have effects on the prices beyond its tables.

Moreover, not only can speculation in the stock market delay the recession, but it can even ease the recession. As was stated above, a recession sets in when owners of the factors of production receive newly created money and spend in the old consumptions-savings ratio. Savings are too meager for the completion of the longer production processes. A stock market boom can increase savings and thereby ease and delay the recession. This attenuation becomes possible when the speculators do not increase their consumption but, due to the euphoria at the stock market,

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<sup>24</sup> See Machlup (2002), p. 54.

<sup>25</sup> However, market participants might perceive their wealth in a different manner and consequently change their time preference rate. In this case, the structure of production would be changed in a sustainable way. However, there would still be no artificial boom.



consume less, save more, and invest more of their income in the stock market.<sup>26</sup> Due to the relative increase in savings, the relative increase in consumer goods prices that introduces the recession is watered down. The adaptation in the recession is then smaller than it would have been otherwise. However, even though this attenuation might be theoretically possible, it is not necessarily probable in later stages of the boom. As our analysis of the «wealth effect» and «illusionary gains» has shown, consumption might actually increase in relation to savings due to the illusion that the asset price boom signifies higher real wealth. For example, the low savings rate in the U.S. indicates that recent asset price booms have stimulated consumption instead of savings.

It must be emphasized that even though the stock market boom might ease the recession and delay an artificial boom in the real economy, malinvestments in the real economy are likely to occur. The boom-bust cycle is likely to set in, since the absorption of the newly created credits in the stock exchange cannot last forever.<sup>27</sup> Sooner or later, the credits leak from the stock exchange into real production. There are two reasons for this.<sup>28</sup> First, the rising stock prices will incite new issues of stocks as an inexpensive way to finance new investment projects, since the costs of financial capital are reduced by the rising stock prices. Second, entrepreneurs will be encouraged to sell their higher stocks in order to invest in new projects.<sup>29</sup> New investment projects will now have become attractive since the credit expansion leads to relatively lower interest rates. Finally, investments will be greater than the available means of production needed to complete all of the initiated projects. The credit expansion in this case will have simply taken a detour around the stock market. This detour can greatly lengthen the period from

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<sup>26</sup> See Huerta de Soto (2002), p. 361.

<sup>27</sup> See Machlup (2002), p. 100.

<sup>28</sup> See Machlup (2002), p. 51-53.

<sup>29</sup> It is also conceivable that stocks are sold to finance current consumption. In this case, consumer goods prices rise and resources will be shifted from longer investment projects to the consumer goods industries. There is a tendency towards a shortening of the structure of production. This can induce the recession or limit the amount of further malinvestments.

the beginning of the credit expansion to the bust. Hence, the existence of temporarily absorbing asset price markets can account for the length of historical boom-bust cycles.

### **3. Credit expansion as a necessary condition for a sustained asset price boom – the central banking and asset price stabilization illusion cycle**

In a free market economy, savings flow slowly and steadily to the stock market.<sup>30</sup> The incentives to liquidate and engage in stock market investments tend to balance. If the price of a stock is below its net present value, entrepreneurs will buy the stock, while they will sell it when it is above its net present value. Therefore, persistent security booms or real estate booms are normally not possible. For example, by itself, the «technology shock» cannot incite a persistent boom. It must be nourished and fed by credit expansion. Only a credit expansion facilitates a persistent and euphoric security boom of all industries, including the consumption good industries.<sup>31</sup>

Without an ongoing credit expansion the stock market boom would end soon for two reasons. First, when stock prices soar, market participants, especially professional speculators, will dissolve their holdings. Stock prices will tend to fall back to their net present value. Second, entrepreneurs will exploit the high stock prices and issue new shares. The number of initial

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<sup>30</sup> Again we concentrate on the stock market. But again, the analysis applies *mutatis mutandis* for the bond and real estate markets.

<sup>31</sup> A possible but improbable steady decline of time preference rates and a consequent increase in savings and decline of the interest rates would only enable a boom in capitalist goods industries. The increase in savings would be depressing for consumer goods industries. Of course, increases in the money supply, for instance, newly mined gold in a gold standard would increase stock market prices as well. However, this would hardly be considered a sustained stock market boom where stock prices increase relative to commodity prices. The only possibility imaginable is the occurrence of an irrational optimism of virtually all market participants, erring on future earnings and interest rates. The only possibility for such clusters of entrepreneurial errors seems to be caused by a credit expansion. For the problem of clusters of errors, see Hülsmann (1998).

public offerings will increase, and the increasing supply of stocks will generate a tendency towards falling stock prices. But why do these two reasons not apply to a stock market boom fueled by credit expansion? More concretely, during a credit expansion why do professional speculators not immediately end an asset price boom by selling stocks or even short-selling the overvalued stocks? The answer is straight-forward: the problem for these speculators is that they do not know when the credit-driven boom will end.<sup>32</sup> They might even try to short-sell stocks. However, with this strategy, they will be losing money continuously if the credit expansion continues. In addition, the continuing credit expansion will supply the liquidity to absorb new public offerings.

For this reason, bubbles become possible only because the endurance and the extension of the credit expansion are uncertain. Credit expansion therefore, greatly enlarges the volatility of asset price markets. Credit expansion makes asset price bubbles and busts not only possible, but probable. Even the professional investors, who normally have an equilibrating effect on price volatility, participate in the speculation, trying to guess when credit expansion ends, making profits during the bull market and then leaving the market before it crashes.

However, the uncertainty of the extent of the credit expansion might explain why professional investors participate in evolving bubbles, but this uncertainty does not explain sufficiently why there are clusters of malinvestments in asset price markets in the first place. In particular, we must answer the intriguing question: why do investors in asset price markets repeatedly commit clusters of errors which result in asset price bubbles? The answer is simply a lack of theoretical knowledge. A widespread belief exists, that with the artificial reduction of the interest rate, unending growth of the real economy and asset price markets is possible. It is believed that the stabilization of asset prices by the central bank could be achieved and would actually be in the interest of all market participants. Hence, market participants do not see any reason why a superficially booming stock market or

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<sup>32</sup> See Machlup (2002), p. 96.

real economy might be endangered by credit expansion.<sup>33</sup> They just do not understand that they are facing an artificial, credit-driven boom, (i.e., they are not aware of the ABCT and its implications for asset price markets). Therefore, they invest in asset markets not realizing that they might be committing errors. The rising and bursting of the asset price bubbles might then also be called an asset price stabilization illusion cycle.

Even after asset prices crash, the illusion prevails that credit expansion and the central bank's managing of asset prices is in the interest of market participants. Especially the propping up of asset prices by further credit expansion is thought to be beneficial. This illusion keeps the credit expansion, which was absorbed by the stock market, from being entirely wiped out in the recession. Stock prices might not fall back to their net present values since it is expected that the «beneficial» credit expansion will continue. As a result of this illusion, it is possible that with new cycles, a growing base of credit expansion remains absorbed in the asset price markets.

#### **4. Ever increasing doses of credit to fuel the boom**

As a credit expansion is necessary to start a bubble in the first place, ever higher doses of credit are necessary in order to keep the boom going. There are two main reasons for this. The first reason can be explained by the fact that the credit expansion begins to flow into the real economy at some point, initiating a business cycle and raising consumer goods prices to levels that are higher than they would have been without credit expansion. More specifically, consumer prices rise for several reasons. First, consumer goods prices rise, because incomes of the owners of the factors of production rise due to the new money spent in new investment projects. The owners of the factors of production spend this new monetary income partly on consumer goods. Second, during the boom phase new investment projects are

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<sup>33</sup> For the role that plays illusion in error cycles, see Hülsmann (1998).

undertaken. These projects take longer to yield consumer goods than the projects that were undertaken before. Hence, the flow of consumer goods slows down, resulting in a tendency towards higher consumer goods prices. Third, due to the rising stock prices, people might be induced to sell their stocks and take delight in increased consumption, since they regard their real wealth as having been increased. As a result, profits in stock speculation might not be used for reinvestment but for consumption instead, leading to a consumption of capital.<sup>34</sup>

The need for ever increasing doses of credit can be explained now by the increase in consumer goods prices. If the social time preference rate does not change, stock market participants will not be willing to restrict consumption when consumer prices increase. They will not continue speculation and will sell their holdings to pay for the higher consumption goods prices. However, the stock market prices might be prevented from falling if the stock market participants receive additional money for speculation through additional loans.<sup>35</sup> This new credit expansion will lead to a further reduction in the amount of consumer goods and an increase in consumer goods prices, thus increasing the need for an even higher dose of credit to prevent a stock market collapse. It is important to emphasize that, as consumer prices continue to go up, higher—and not merely proportional—doses of credit are required. This is because, at some time, the newly created money is spent on a shrinking amount of consumer goods.

Yet, increasing the doses of credits *ad infinitum* without destroying the monetary system is not possible. As consumers become aware of the ongoing inflation and the fact that the availability of consumer goods is decreasing, they will rush to buy consumer goods. They will sell their stocks for money and sell their money to buy consumer goods. If the doses of credit expansion are increased continuously, the process will finally end in a runaway hyperinflation with the break-down of the monetary system.<sup>36</sup>

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<sup>34</sup> See Hayek (1934), p. 133.

<sup>35</sup> See Machlup (2002), p. 95.

<sup>36</sup> See Rothbard (2001), p. 875-877.

Another factor that can cause the stock market boom to collapse is an increase in the nominal interest rate. An increase in the nominal interest rate would endanger the stock market boom (and even more strongly the bond market boom) since the future earnings would have to be discounted more strongly. The gross market interest rate contains a premium for the expected price increase. As prices begin to increase, people will expect further price increases and, accordingly, the gross market interest rate will rise. Investors will tend to interpret as a negative sign. A possible means of watering down this increase in the gross market interest rate is further credit expansion. Since prices will rise further as credit expansion doses become higher, the doses of credit needed to avert an increase in the nominal interest rate must become even higher. Yet, the likelihood of watering down the increase in the gross market rate over a long period of time is doubtful. This is because market participants will probably not remain ignorant of the increased credit expansion. Anticipating this, they will increase their interest rate bidding.<sup>37</sup>

The stock market boom requires a continually higher increase in doses of credit. When this does not happen, consumer goods prices increase relative to producer goods prices, leading the stock market participants to sell their holdings. The belief in a continuous stock market boom fueled by credit expansion is shaken and a bear market sets in. The distortions between real savings and investments that were caused by the credit expansion become apparent in the stock market where clusters of investment and speculation errors manifest themselves. The stock market

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<sup>37</sup> The reasons why interest rates have not increased substantially in the last years, notwithstanding the credit expansion, might be twofold. First, the liberalization of the foreign trade of former communist or socialist countries China and India led to an increase in the production of consumption goods. Second, the mercantilistic policies of China and Japan which have increased their dollar reserves. The combination of both lead to relatively stable consumption good prices which would have increased less or even fallen otherwise. Hence, interest rates did not explode despite the credit expansion. The price premium was therefore somewhat «hidden» since the credit expansion was partly compensated by the above mentioned factors. I owe this insight to Guido Hülsmann. He notes that productivity increases or growth can therefore hide the «price premium,» making long booms possible.

is, therefore in a sense, a mirror of the real economy. As a mirror of the real economy, stocks of capital intensive enterprises will suffer higher losses than enterprises that produce consumer goods or goods that are relatively less capital intensive.

### III MONETARY POLICY AND ASSET PRICES

#### 1. Critique of the proactive view

After a theoretical analysis of the asset price issue, I now would like to provide a critique of both mainstream views concerning the appropriate monetary policies towards asset prices. Following this, I will propose an Austrian view on this debate and address the question of whether problems are posed by asset prices for monetary policy. First, there are several points concerning the proactive view on monetary policy. The proactive view, at least in some cases, advocates the pricking of asset price bubbles. As Cecchetti (2002, p. 2) states about the failure of the Federal Reserve to prick the internet bubble:

Taking explicit account of the bubble by tightening is a sound alternative. To the extent that bubbles arise from unrealistic expectations of future economic growth, interest-rate increases that moderate current levels of growth can put a break on them. I believe that we are now paying the price for the Federal Reserve's failure to contemplate such action in the spring of 1997. If the Fed had raised interest rates even only slightly —0.5-0.75 percentage points, say— it would have put a modest break on growth, reduced reported corporate profits and lowered estimates of future revenue growth. With a slower growth forecast, the stock price bubble may have been less extreme.

One should also keep in mind that the aim of the proactive view in raising the interest during a bubble expansion is to secure financial stability. For example, Borio and Lowe (2002, p. 22) make the following comment:

If the risk of this occurring [inflation-targeting regimes not responding sufficiently to threat to the financial system] is significant, then a slightly modified policy regime, under which the central bank responds not only to short-term inflation pressures but also, at least occasionally, to financial imbalances, may ultimately deliver a better combination of monetary and financial stability. Under such a regime the central bank might opt for higher interest rates than are justified simply on the basis of the short-term inflation outlook if there are clear signs of financial imbalances, such as if credit growth is rapid *and asset prices are rising quickly*. The justification for doing so could be that the higher interest rates could help contain the financial excesses, and in so doing reduce the probability of future financial instability and possibly a sustained undershooting of the inflation objective. (Italics added)

An interesting implication of the proactive view is its limitation of credit expansion. This limitation may also limit the extent of a real recession. Proactive policy recommendations are less expansionistic than reactive recommendations. However, the theory behind the proactive view is fallacious.<sup>38</sup> The proactive view argues that the bursting of larger bubbles might lead to a deterioration of bank and company balance sheets. Companies then will have difficulties getting further credits. A credit crunch sets in. This, in turn, will lead to the bankruptcies of companies that rely on further credits. Bankruptcies will ensue, further deteriorating bank and company balance sheets. To ensure liquidity, banks will restrict further credits. As a bank's balance sheets deteriorate, a bank run might occur, which in turn can lead to further bank runs, placing the whole monetary system in danger.<sup>39</sup>

While the reasoning is technically correct, the problem is that the proactive view, as well as the reactive view, considers the stock

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<sup>38</sup> The assumptions underlying the proactive view are shared by the reactive view. The difference between the two is that the proactive view is more optimistic concerning the capability of the central bank to manage asset prices.

<sup>39</sup> For the reasoning behind the proactive view, see Bordo and Jeanne (2002); or Borio and Lowe (2002).



market crash as the cause of the downturn or recession.<sup>40</sup> More specifically, the credit crunch is seen as a worsening factor in the recession. Yet, the ultimate cause of the recession is the credit expansion that created the distortions in asset price markets and the real economy. The stock market crash only manifests the malinvestments that have already occurred. Moreover, triggering a credit crunch speeds the recovery. There are two main reasons for this. First, people might save more. The cause of the recession is a lack of savings in relation to consumption, so that not all investment projects that were begun can be finished. It is indeed possible that through the credit crunch, consumption shrinks relative to savings. Feeling themselves to be poorer because the market values of the assets they hold have collapsed, individuals might save more. Moreover, falling prices in the economy might lead to an accounting illusion. As Rothbard (2000, p. 17-18) puts it:

In a deflation the accounting illusion is reversed: what seems like losses and capital consumption, may actually mean profits for the firm, since assets cost now much less to replace. This overstatement of losses, however, restricts consumption and encourages saving; a man may think he is merely replacing capital, when he is actually making an added investment in the business.<sup>41</sup>

Hence, the overstatement of losses and the collapse of asset prices might induce a restriction of consumption and an increase in savings. The recession, which has been caused by a lack of savings, is now made shorter and less severe.

Second, the restriction of credits leads to an increase in the money interest rate. The money supply in the hands of businesses is reduced.<sup>42</sup> This leads to a relative fall in factor prices and increases the differentials between buying and selling prices, which is in turn the first step towards a recovery.

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<sup>40</sup> See Bean (2004), p. 14.

<sup>41</sup> See Rothbard (2000), p. 17-18.

<sup>42</sup> *Ibidem*, p. 18.

Moreover, in a clean and efficient way, the credit restriction wipes out businesses that rely on further credit expansion with artificially low interest rates, i.e., businesses not in line with consumer preferences in a free market.<sup>43</sup> After the liquidation of these unsustainable investments, the resources employed in the erroneously undertaken projects can be shifted to uses which better satisfy consumer preferences. Consequently, far from being the cause of the recession, a credit crunch, instead, hastens the recovery.

Similarly, the burst of the asset price bubble that causes the credit crunch is not the ultimate cause of the recession. Again, it is the credit expansion that causes the malinvestments and the asset price boom. The burst of the bubble as a trigger of a credit crunch speeds the recovery. Therefore, it is erroneous to start the analysis of the credit crunch with the asset prices boom. Rather, it must start at the root of the phenomenon, which is credit expansion and fractional reserve banking. Herein, the proactive view fails.

Moreover, there is another problem in the aim of the proactive view. By pricking the bubble while it is small, proactivists wants to ensure financial stability.<sup>44</sup> This raises two questions. First, what is the nature of the financial system that should be rescued? Second and more specifically, can this system ever be stable? Let us turn to the first question. It is true, that the fiat monetary system with fractional reserves might be put into severe trouble by an asset price crash that causes a banking crisis. In the extreme, the system might collapse and in a market process, another

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<sup>43</sup> It is arbitrary to say that there might be «prudential» projects (in the sense that they would be profitable in a «normal» world with a stable financial system) that would be harmed by the credit contraction. How can a project be «prudential» if it relies on the absence of a credit contraction? How can a project be «prudential» if it relies on the stability of an inherently unstable financial system? The problems of the «prudential» projects are an entrepreneurial error. The alternative to the contraction is to create a new credit expansion. With ever more credit expansion, ever more investment projects become «prudential.» Where is the line of credit expansion where «prudential» projects and unprudential ones can be differentiated? In any case, the projects can go bankrupt quickly, change owners, and begin anew with really prudential plans.

<sup>44</sup> See Bordo and Jeanne (2002), p. 5; or Borio and Lowe (2002), p. 23.

commodity money might evolve. It is even possible that the traumatic experience of the collapse leads to a sound monetary system, i.e. a commodity standard with 100% reserves. This experience might immunize the public against tolerating further attempts of the state to manipulate money. Thus, the illusion that credit expansion and fractional reserve banking benefits all market participants might be ended. Even though many might consider the collapse of the monetary system as something to be avoided, one cannot argue from a value-free position that the system should be preserved. The proactivists seem to have smuggled in ethical content. Yet, this content requires justification. In contrast to the proactive position, economists asked to recommend a sound monetary system which does not lead to business cycles might even see an asset price crash as advantageous. Such a recommendation might lead to the end of the existing monetary system.

The other question is, whether the existing system can ever be stable. The fractional reserve banking system backed by a central bank as lender of last resort tends to generate boom and bust cycles by credit expansion. The existing monetary system greatly enlarges the possible fluctuations in the asset price markets. In a fractional reserve system, a bank run leads to the bankruptcy of the bank. This, in turn, can shake the confidence in the liquidity of other banks and trigger more bank runs. Therefore, the system can never be stable, since sudden changes in confidence can put the whole system into jeopardy. The ability of the system is wholly based upon confidence in the permanent liquidity of the banks. However, confidences can change and fractional reserve banks are, strictly speaking, never liquid. Banks within this system are always in danger of bankruptcy. To prevent the bankruptcy of a bank, the central bank is required to intervene, printing as much money as would be necessary to keep the bank solvent. This, of course, would lead then to wild fluctuations of the purchasing power of money, i.e. to instability. Furthermore, it is the fractional reserve banking system that produces the asset price bubbles which the proactive view recommends pricking. Curiously, the proactive view recommends pricking asset price bubbles to preserve the stability of a system

that is inherently instable. Yet, this does not make the system stable but, at best, only dampens the volatility and extent of the asset price and real economy cycles.

The problem underlying proactivist concerns has been aptly called a «dilemma.»<sup>45</sup> Indeed, it is the old dilemma that always arises when one starts conducting monetary policy. By increasing the money supply through the loan market, the interest rate is artificially reduced, leading to an intertemporal misallocation of resources and ultimately a recession. Keeping monetary policy expansionary may help to continue the boom, but only at the cost of a greater recession later. The «asset price problem» is a reflection of the very same dilemma.<sup>46</sup> By not pricking the bubble, the bubble grows and endangers the future stability of the financial system and consumer goods prices. By pricking the bubble, however, the current financial stability is endangered. This «dilemma» can be interpreted as a further step in a long line of interventions by the government in the banking and monetary system. Mises' theory of interventionism is useful in analyzing this long line of interventions.<sup>47</sup> His theory states that interventions

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<sup>45</sup> See Bordo and Jeanne (2002, p. 131).

<sup>46</sup> This dilemma was recognized earlier. As Benjamin M. Anderson (1979 [first edition 1949], p. 216) states about the Federal Reserve board in the late 1920s: «The Federal Reserve authorities from early 1928 on pursued an inconclusive policy based on *three partially conflicting motives*: (a) the desire to restrain the use of credit for stock market speculation; (b) the desire not to tighten money in foreign countries and not to pull in more gold from abroad; and (c) the desire not to let money grow tight in business uses at home. The conflict among these policies meant that the efforts at restraint were handicapped and inconclusive, and that the wild speculation ran on for a year and nine months after the restraining efforts began.» (Italics added)

Anderson (1979, pp. 209-210) himself seems to propose a proactive stand as he critiques Gustav Cassel for arguing that the central bank should not take stock market booms into account and tighten credit in response to them: «We were troubled also in 1928-29 by the weird doctrine of Professor Gustav Cassel of Sweden (who had many American followers as well as wide vogue in Europe) that it was the business of central banks to maintain a fixed commodity price level, and that central banks must not concern themselves with the stock market and must not tighten credit to restrain stock market excesses because that would reduce commodity prices.»

See also Wicker (1966, p. 118, 129 and 131) for the differing views among those on the Federal Reserve Board concerning a proactive or reactive stand towards the stock market speculation.

<sup>47</sup> Mises' theory of interventionism can be found in Mises (1996), p. 15-56.

are not stable but must either lead to further interventions or their abolition. The crucial point in Mises' argument is that an intervention leads to unwanted results from the view point of the interventionist, so that later he either takes the intervention away, or tries to fix the problem with more interventions, thereby creating more unwanted consequences.

The starting point of the interventions into the banking system is the allowance and toleration of fractional reserve banking which historically was born by a breach of private law.<sup>48</sup> The fractional reserve banks are always in danger of losing reserves to other banks that are less expansionistic. This puts the liquidity of expansionistic banks into danger if other banks demand redemption. In order to improve the stability of the fractional reserve banking system, a central bank, constituting another intervention, is installed. This intervention coordinates the credit expansion to prevent losses of reserves, with the central bank acting as a lender of last resort. However, this increases the opportunities to expand credit, leading to greater business cycles. In a recession, bank runs threaten the existence of the fractional reserve system. To fix this threat of bank runs the government has to nationalize the private commodity money and install a fiat money regime in order to prevent bank runs. This fiat money regime provides the banks with even greater security to engage in credit expansion. Hence, the ability to expand and contract credit is enlarged. As a consequence the banking sector is regulated by the central bank. However, credit cycles become more volatile as banks search for monetary innovations. At some point these credit cycles lead to gigantic bubbles in the asset price markets. Since an asset price crash could endanger the stability of this fragile financial system and put the central bank on the spot, other interventions seem to be necessary, that is the central bank's continuous management of asset prices combined with stricter regulations of financial markets and the banking sector. Therefore, the Misesian theory of interventionism can explain why the state

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<sup>48</sup> See Huerta de Soto (2006), p. 1-134. For the dynamics of state intervention into the monetary system see also Rothbard (1990). Salerno (1991) has coined the term «progression theorem» for this process.

is inclined to commit continuing interventions into the banking and monetary system. Historically, the next step seems to be a stricter regulation of financial markets and the manipulation of asset prices.

As noted earlier, the collapse of a monetary system is usually considered as something to be avoided. And surely, a government and banks both have an interest in the stability of a financial system. There is no need, however, to assume that the primary interest of the government and of bankers is a stable monetary system. A completely stable market, would in essence, be a conflict of interests. Bankers make great profits by credit expansion and the ability to create money out of thin air; while in a symbiotic manner the government is financed by the credit expansion. This financing of expenditures via credit expansion has an advantage for the government in that it is usually not as unpopular as taxes. The banks are traditionally the biggest investors in asset price markets and provide their customers services related to asset price markets. Hence, the banks profit from the central bank bailing out asset price market investors. A crash would severely hurt the banks and endanger the fractional reserve banking system and asset markets. The financing of government would be disturbed. It is in the vital interest of banks and the government that the central bankers manipulate with asset prices and bail out investors.

## **2. Critique of the reactive view**

The reactive view concentrates not on the proactive prevention of bubbles but rather on easing of the consequences of an asset bubble's collapse. As Greenspan (2002, p. 5) states:

«The notion that a will-timed incremental tightening could have been calibrated to prevent the late 1990s bubble is almost surely an illusion. Instead, we noted in the previously cited mid-1999 congressional testimony the need to focus on policies 'to mitigate the fallout when it occurs and, hopefully, ease the transition to the next expansion.'»

The reactive view extends the proactive position, adding false assumptions to its theory concerning the financial system. In order to refute the proactive view, the reactive view points to problems connected with a proactive policy. Those problems, asserted to be caused by the active pricking of asset price bubbles, are mostly irrelevant from a perspective of economics as a value free science. Instead, such problems concern the practice of monetary policy.

First, those who advocate a reactive approach claim that central bankers would have a justification problem if consumer goods prices would stay stable.<sup>49</sup> Since credit expansion can be absorbed temporarily by asset price markets or compensated by productivity increases, it is indeed conceivable that during an asset price boom consumer prices do not rise sharply.<sup>50</sup> Therefore, it is possible to have stable consumer prices and an asset price boom at the same time. In this context, it would be difficult for central bankers to argue for a tightening of monetary policy to prick an asset price bubble. Consumers, content with the price increase of their assets, will argue that the central bank is wrong in pursuing a restrictive monetary policy because consumer prices do not show any signs of inflation. Hence, the public pressure on central bankers not to prick asset price bubbles will be enormous. While the justification problem is irrelevant to the theoretical problem of the connection of asset prices, credit expansion, and the real economy, it is important for the practice of monetary policy. This shows that a strong incentive to continue an expansive monetary policy accompanies the installation of a fiat money system headed by a central bank.

Second, those who support a reactivist policy claim that central bankers cannot know when an asset price bubble occurs. Svensson (2002, p. 290) states that «[i]t goes without saying that in most realistic situations, it will be very difficult to judge whether a particular asset-price movement is grounded in expectations about reasonable fundamentals or a bubble...».

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<sup>49</sup> See Conrad and Stahl (2002), p. 492.

<sup>50</sup> This has been the case during the «New Economy Boom».

Indeed, there is no clear-cut sign of a persistent asset price boom. The central bank as a central institution does not possess the subjective information necessary to determine when an asset price rise is artificially caused by a credit expansion and when not. In order to forestall any distortions on asset price markets by credit expansion, a central bank would have to manipulate asset prices via its monetary policy simulating how asset prices would form in a market with private money. However, this is impossible, since money has been nationalized and the central bank exists. One simply cannot simulate a free market of money.<sup>51</sup> Granting this point that the central bank lacks the appropriate knowledge to precisely identify asset price bubbles, it must be recognized that unusually large asset price bubbles might be detected.

Third, the reactive view maintains that the credibility and reputation by a central bank might be in danger, if it tries to target both asset prices and consumer goods prices. It is argued that the central bank would be viewed too interventionist by manipulating asset prices and thereby losing its credibility.<sup>52</sup> Furthermore, by trying to achieve two aims, the likelihood is greater that the central bank would fail in one of those aims. The two aims might even suggest contradictory policies.<sup>53</sup> The underlying problem is that the central bank has one instrument (monetary policy) to achieve two aims. For example, consumption good prices might rise while the stock market falls. In this case, the central bank would almost necessary fail in its aim of stabilizing both. Hence, the credibility of the central bank would suffer. The credibility of the central bank is considered a very important factor for the success of its aims. The reputation or credibility concern of the reactive view is indeed justified. By trying to manipulate too many features of the economy the central bank gets into difficulties and contradictory aims. It shows that it is impossible for the central bank to fine-tune the economy.

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<sup>51</sup> For the application of the theorem of the impossibility of socialism to money, see Huerta de Soto (2006), p. 503-525.

<sup>52</sup> See Mishkin and White (2002), p. 35.

<sup>53</sup> See Berger and Kifmer and Wagner (2005), p. 1.



Another argument that reactivists make is that if monetary policy makers increase interest rates, the stock market might not be affected, but economic activity would be hampered. As Bean (2004, p. 15) states:

[...] a modest increase in interest rates may do little to restrain an asset price boom. But an increase large enough to materially affect the evolution of asset prices is likely to have a significant adverse impact on economic activity.

It is true that the euphoria of the bubble might not be affected in the beginning by small increases in the interest rate. However, the boom will end sooner than without such an increase in the interest rates, since increasing interest rates reduces the net present value of companies and puts projects that rely on lower interest rates in danger. The increase in interest rates that are artificially low does have a healthy effect by purging unsustainable investment projects. The increase has a positive effect on «economic activity» in the sense that it shifts «economic activity» and economic resources from unsustainable adventures to investment projects that are in line with consumer preferences.

Let us now turn to a more substantial problem with the reactive view. The reactive view asserts or at least implies, that it would be possible to avoid the «pricking» of asset price bubbles by prudent monetary policy. Yet, this is an illusion. The only thing that the central bank can achieve is delaying the «pricking» of asset price bubbles through its fostering of further credit expansion via relative interest rate decreases. By continuing credit expansion with higher doses of credit it is possible to maintain an artificial boom in the stock market. Such a reactive policy, which in the beginning avoids a «pricking» of the bubble, enlarges the distortions in the stock market. Later these extortions find their way into the real economy, starting an unsustainable boom. Finally, as this analysis shows, recession must set in when profits in consumer goods industries rise relative to profits in capital goods industries. At the latest, when the real economy slumps into a recession with losses and bankruptcies in capital good industries, the euphoria will vanish and the stock market

will collapse. The central bank cannot avert this development by simply letting the bubble grow. As credit expansion continues, the growing bubble and growing distortions in the real economy will become ever more sensitive to monetary policy. Hence, at some point only a little slowing down of further credit expansion will be sufficient to start the recession and «prick» the bubble.

There is another implication of reactive policy shared by the mainstream. The mainstream unanimously recommends reacting to an asset price crash with an easing of monetary policy.<sup>54</sup> However, the stock market crash only manifests the malinvestments that were undertaken some time ago. Finally, errors that were undertaken in the past become apparent and can be taken into account by market participants. Therefore, it is an important sign for the acting individuals that the stock market crashes. One can come back to a healthy and sustainable economic development. Entrepreneurial actions will be characterized by long-term thinking again and the illusion that one could get richer without savings or efforts fades. It must be pointed out, that the errors committed in the past would not disappear if the stock market had not crashed, and that the effects of these errors can not be wiped out by a new credit expansion. In fact, if credit expansion is undertaken to prop up the asset prices, the new credit expansion will eventually flow into the real economy and malinvestments will not be liquidated as quickly as they would have without this propping up, i.e., the errors of the past will not be corrected. Moreover, there will be new malinvestments caused by the credit expansion. New errors will be added on top of the old. Therefore, a restrictive monetary policy after a stock market crash can help to liquidate the malinvestments both quickly and cleanly. Every delay of the stock market crash and the return to sustainable plans of the individuals is bought at the cost of more distortions and errors and consequently, a harsher correction in the future. Again, a final-break down of the stock market and the unsustainable plans of individuals can at best be delayed for some time, but not prevented by propping up asset prices.

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<sup>54</sup> Zimmermann (2004), p. 112; or Peter (2004), p. 23. The reactive view even seems to imply an expansive monetary policy when an asset price collapse is imminent. See Bean (2004), p. 15.

Let us turn to a last important element of the reactive view. While the reactive view argues that stock market increases should not be disturbed, it recommends, as explained above, reacting to a crash by an easing of monetary policy. This recommendation entails a bailing out of investors at the asset price markets. This downward safety net for asset prices leads to moral hazard. Investors start to rely on central bankers to react in favor of asset prices when a crash occurs or is expected to occur. As Mueller (2001, p. 1) puts it:

Government and monetary authorities who systematically practice a policy of stabilizing financial assets and business activities by a policy of easy money and bailouts expose individual economic agents to a learning process of diminishing risk perception.

That is, investors expect the central bank to intervene and prop up asset prices. This implicit assurance has aptly been called Greenspan-Put,<sup>55</sup> named after former Fed chairman Alan Greenspan, who was expected to and did actually intervene whenever a stock market crash loomed. By relying on this insurance, stock market participants make riskier investments. The probability and severity of asset price bubbles are increased. It is important to note that the bailing out of the stock market by credit expansion has, as well, important real effects, since it indirectly works as a safety net for investors in the real economy. These investors know that in a harsh recession with big businesses collapsing, the stock market would collapse as well. In this scenario, central bankers, adhering to a reactive view, would intervene and expand credit, bailing out businesses in need of further credits at an artificially low rate. Hence, the reactive view leads to moral hazard in the real economy as well.<sup>56</sup>

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<sup>55</sup> See Detken and Smets (2004), p. 9 and p. 30.

<sup>56</sup> Moral hazard in the real economy is, of course, also stimulated by the belief that in a recession with businesses «too big to fail» central bankers would bail them out by credit expansion. This moral hazard is complementary to the moral hazard caused by application of the reactive view policy that props up asset prices.

### **3. The boom as an unmistakable indicator of a credit expansion**

After the critique of both the reactive and proactive views we will now turn to the question of how the ABCT and its connection with asset prices could help monetary policy makers, assuming they want to restrict malinvestments. First, we must keep in mind that only a continuous credit expansion makes a wild persistent stock market boom possible. Hence, the boom is a good and early indicator for an ongoing credit expansion that might not have reached real production yet. In contrast, other indicators of credit expansion often fail. For example, consumer goods prices might not increase at the beginning of a credit expansion. Since productivity might increase at the same time, consumer price indexes might stay stable in periods of credit expansion as shown by the experiences in the 1920s in the U.S.. Also the exchange rate might fail as an indicator for a dangerous increase in credit expansion since other countries might be engaged in a credit expansion as well. Therefore, an ongoing asset price boom is a relatively good indicator of credit expansion. Machlup even regards the stock market boom even as the best indicator of an artificial boom (2002, p. 217), and Robbins (1971), p. 171, argues that «[...] the banks should pay chief attention to the movements of the security markets...».

This indicator can be improved upon if one looks separately at the stock prices of enterprises located at different points in the production process. In a stable growth process caused by an increase in savings and a corresponding decrease in consumption, the shares of enterprises that produce consumption goods tend to fall while the shares of enterprises that produce capital goods or extract raw materials tend to rise. In an artificial boom, however, consumption does not shrink. The money created by credit expansion is invested in new enterprises without a corresponding reduction of consumption. Therefore, it is possible that both the stocks prices of companies that are located near consumption (consumer goods industries) and the stocks of companies located further away from consumption (capital good industries) soar. The increase in the price of stocks of capital

goods companies which is not compensated by a decrease in the price of stocks in consumer goods companies indicates an artificial boom. Outlining a stock market indicator, of course, does not tell us how to measure a stock market boom in practice. This might be done by measuring the deviations from an average price-earnings ratio. However, identifying a stock market boom always remains difficult and is a matter of *Verstehen*, i.e., of an entrepreneurial interpretation.

#### 4. Implications for monetary policy

Fractional reserve banking leads to boom and bust cycles caused by credit expansion. This credit expansion can also lead to bubbles in the asset price markets that pose virtually insurmountable problems and «dilemmas» for monetary policy makers. These problems are already inherent in the fractional reserve banking system. The only way to solve the «asset price problem» would be to eradicate the fractional reserve banking system, making room for a sound monetary system to evolve on a 100 percent reserve basis. A 100% gold standard would be such a monetary system, by definition ruling out credit expansion and thereby, also ruling out business cycles and asset price booms and busts. Monetary policy and consequently, the asset price problem for monetary policy would no longer exist. It is intriguing that this true solution of the asset price problem is not analyzed or even mentioned by either the proactive nor reactive proponents. Their debate is therefore in vain. These proponents seem to be unaware of the easiest, and most straightforward, and apparent solution to the asset price problem.

However, there might be people who would like to preserve the inherently instable fractional reserve banking system that causes boom and busts in the real economy and asset price markets. These people might want monetary policy to restrict malinvestments and the loss of capital. They can draw, from the above reasoning, two main conclusions concerning the treatment of asset prices by the monetary authority that strongly defer from usual neoclassical conclusions.

First, if there is a stock market boom the central bank should restrict credit. As Lionel Robbins (1971), p. 171-172 states:

If, as soon as there appeared signs of a general boom on security markets, the Central Banks were to take action to bring it to an end, it seems probable that extremes of business fluctuations might be avoided.

That is, the central bank should raise interest rates in order to end the artificial boom. If the credit expansion was only retained in the stock market and has not had real effects on the structure of production, it might even be possible to prevent distortions of the structure of production. By restricting credit the asset prices might, in this case, fall again without distorting the structure of production. Assuming that malinvestments should be minimized, the theory, therefore, would recommend a strong proactive policy, which means that the asset price bubble should always be pricked.

Second, when a stock market crash occurs, an expansionary monetary policy that would prop up asset prices should be avoided; in contrast, a restrictive monetary policy should be adopted. By restricting credit, the central bank would hasten the recovery and the readapting of the structure of production to the preferences of the market participants.

#### IV CONCLUSION

ABCT, credit expansion, and asset price booms are closely connected. Real savings, investments, and consumption become disordinated by the artificial reduction of the interest rate. This will be felt in the asset price markets as well. The error cycle of asset price booms and busts become possible because market participants do not know when the credit expansion has ended, and because market participants believe that credit expansion and central banking stabilization of asset prices are beneficial.

Since ongoing booms are only possible if there is ongoing credit expansion, asset price booms can serve as a good indicator

for credit expansion. As the analysis has shown, drawing from Austrian theory, one can support the proactive view in favor of pricking asset price bubbles. However, neoclassical economists recommend a proactive stance only in order to maintain the stability of an unsound monetary system, ignoring the liquidation of malinvestments that a restrictive policy might induce. Furthermore, the recommended reaction towards a burst of an asset price bubble has dubious results. An expansive monetary policy can only temporarily maintain the distorted structure of the economy. Though well-intended, such a policy becomes bad medicine. While in contrast, a restrictive monetary policy could purge malinvestments more quickly. Instead of meddling with asset prices, Austrian theory shows a clean way to end asset price booms and busts. To end asset price booms and busts, one has to eliminate their cause — credit expansion. To do this, a sound monetary system must be installed. A traditional Austrian recommendation for monetary reform,<sup>57</sup> a 100 percent gold standard, would with the restricting of the credit expansion also restrict the likelihood of asset price bubbles. The problem of asset prices for monetary policy would with monetary policy itself disappear.

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<sup>57</sup> See Rothbard (1991); and Rockwell (1992); and Huerta de Soto (2006), pp. 557 for extensive descriptions of transition plans towards a 100% gold standard.

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# LA THÉORIE AUTRICHIENNE DE LA BUREAUCRATIE DE MISES: UNE PERSPECTIVE CRITIQUE

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**Résumé:** Compte tenu de place importante que prend désormais l'organisation étatique au sein des sociétés contemporaines, l'élaboration d'une théorie économique de la bureaucratie s'avère essentielle pour en comprendre à la fois les mécanismes de fonctionnement et les implications. Cet article revient sur la contribution de Mises, qui par ses travaux, permet d'offrir une réelle alternative aux approches traditionnelles. La première partie de cette contribution présente la théorie de Mises en soulignant ses spécificités par rapport à la conception défendue par Weber, dont à la fois elle s'inspire et s'en écarte substantiellement. L'absence du calcul économique dans le processus d'allocation des ressources représente une dimension essentielle pour comprendre la théorie proposée. Mises démontre également que l'organisation bureaucratique s'accommode aisément des différents régimes politiques et reflète l'intervention généralisée de l'Etat.

La deuxième partie concerne les conséquences de la bureaucratie. Mises distingue quatre effets: les effets économiques, sociaux, politiques et psychologiques. Chaque catégorie fait l'objet d'une présentation détaillée.

La troisième partie soulève des points critiques du modèle de la bureaucratie de Mises. Ainsi, sa conception du bureaucrate et sa place au sein de l'organisation bureaucratique nous paraissent faire l'objet d'une élaboration insuffisante. Les mécanismes de l'expansion bureaucratique méritent également un raffinement de l'analyse, tandis que la justification avancée d'une bureaucratie minimale soulève la question de l'existence d'un Etat minimal.

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*Mots clés:* Bureaucratie, calcul économique, processus de marché, Etat minimal.

*Abstract:* The bureaucratic organisations became key actors in our contemporary societies. To develop an appropriate theory to understand how these organisations work and their implications constitute true stakes. This article deals with Mises' theory of bureaucracy, which differs radically from the traditional approaches.

The first part presents the definition of the Misesian bureaucracy, which shares some common points with Wéber's version and shows also true strong disagreements. The absence of economic calculation constitutes the main key idea to understand the Misesian theory. Mises shows also that bureaucracy reflects the governmental interventions, which can be combined with different types of political systems.

The second part deals with the consequences of bureaucracy. This part proposes a detailed analysis of the economic, social, political and psychological effects.

The third part raises some critical points for the theory. It seems that the conception of bureaucrat and its place inside the bureaucratic organisation is not sufficiently analysed. Moreover, the modelling of the bureaucratic expansion deserves a more refined research. Finally, the justifications given by Mises to justify a minimal bureaucracy emphasize the necessity to think the place and the role of the State.

*Keywords:* Bureaucracy, economic calculation, market process, minimal government.

*JEL Classification:* D73 H11 L38 P11 P21.

## I INTRODUCTION

L'étude de la bureaucratie est centrale pour au moins deux raisons. La première est qu'elle constitue une forme d'organisation alternative à celle de la firme ou de l'entreprise. De nombreuses études sont consacrées à cette dernière. Elle est présentée comme le lieu d'exécution d'un programme de minimisation des coûts ou de maximisation du profit (Archibald 1971). D'autres se sont intéressés aux déterminants de sa taille en intégrant les coûts de transaction ou encore les modalités de financement (Barzel, 2003), (Coase, 2000, 1960, 1937), (Alchian et Demstesz, 1973). La perspective

autrichienne insiste sur la dynamique entrepreneuriale de la firme (Sautet 2000) (Ioannides 1999). L'organisation bureaucratique a fait comparativement l'objet d'un nombre réduit d'élaborations théoriques (Grefe, 1981). Il convient donc de saisir cette réalité et de l'analyser.

Une autre raison majeure poussant à l'étude de la bureaucratie repose sur le développement contemporain de l'intervention publique et cela depuis plus de cinquante ans avec la mise en place de l'Etat- Providence (Peltzamn 1980). Or le système bureaucratique est la modalité de transmission privilégiée de l'interventionnisme public. Lorsque le gouvernement décide de produire de nouvelles lois, il doit mobiliser des structures bureaucratiques qui prennent en charge la rédaction de ces nouvelles dispositions et qui mettent en oeuvre les moyens de les faire respecter. Si le gouvernement décide de la production de nouveaux services, une structure bureaucratique sera créée ou associée. L'omniprésence de l'intervention publique nécessite de s'intéresser au phénomène bureaucratique.

Cet article présente et discute la théorie économique de la bureaucratie dans sa version autrichienne, qui est peu utilisée malgré des apports fondamentaux. En effet, le modèle théorique traditionnellement discuté en économie ou par d'autres disciplines est celui de Niskanen, c'est-à-dire une perspective se rattachant à l'approche développée par l'école des choix publics (Niskanen, 1994, 1975, 1968)<sup>1</sup>. La contribution majeure du courant économique autrichien a été développée dans l'ouvrage «Bureaucratie» de Mises (Mises, 2003, 1983 [1944]), même si les apports de Rothbard ne doivent pas être négligés (Rothbard 1993 [1962]). Cette théorie alternative de la bureaucratie est souvent résumée à la possibilité de l'usage du calcul économique au sein des organisations privées et publiques (Reisman, 1998 (1990), p. 304-305), voire critiquée et caricaturée (Niskanen 1994, p. 19), parfois largement ignorée et incomprise (Grefe, 1994, 1981)<sup>2</sup>.

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<sup>1</sup> Nous pourrions également citer les travaux de Downs (1994 [1966]), de Tullock (1965), et de Breton et Wintrobe (1982).

<sup>2</sup> Les travaux de Mises et de Weber font l'objet d'une présentation très rapide et ne sont pas cités dans la bibliographie de l'auteur dans son ouvrage de 1981 (bien

Nous proposons dans cet article de remédier dans une certaine mesure à cette incomplétude, en saisissant à la fois la particularité de l'explication autrichienne en nous limitant à sa version misessienne et d'en cerner les enjeux. La dimension comparative<sup>3</sup> avec d'autres approches est inévitable (Anderson 2004), mais nous désirons ici l'instrumenter pour mettre l'accent sur les spécificités de la démarche autrichienne. Dans une première partie, nous développons la définition et la présentation de la bureaucratie telles qu'elles sont avancées chez Mises. La deuxième partie traite des conséquences associées à l'organisation bureaucratique, tandis que dans la dernière partie de notre article nous saisissons les limites de cette approche.

## II

### LA DÉFINITION DE LA BUREAUCRATIE

La définition proposée par Mises partage en de nombreux points la conception wéberienne. Nous pouvons avancer l'hypothèse raisonnable d'une certaine influence de celle-ci sur les travaux de Mises. Toutefois, l'approche développée par Mises se démarque clairement des enseignements de Weber quant à l'interprétation à donner d'une telle organisation, ce qui a pour conséquence immédiate qu'il n'y a pas réduction de l'une à l'autre. Une différence essentielle réside dans l'étendue et les effets associés à l'organisation bureaucratique.

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qu'apparaissant en note de bas de page), alors que le travail de Mises constitue une des premières approches économiques de la bureaucratie et que les enseignements de Weber sur le modèle bureaucratique sont incontournables en sociologie, en science politique et à certains égards en économie. L'ouvrage de 1994 ne répare pas l'outrage dans la mesure, où il le présente comme l'expression inaboutie d'une théorie, sur laquelle se développeront les efforts de formalisation de Niskanen pour en donner une expression actualisée. La thèse de l'auteur nous paraît fort discutable, qui semble s'expliquer par son ignorance des fondements à la fois du courant des choix publics et ceux de l'école autrichienne.

<sup>3</sup> Nous avons par le passé procédé à une approche comparatiste entre la théorie de la bureaucratie élaborée par Mises et le modèle de Niskanen (Carnis 2000).

## 1. L'influence de Weber

Weber dresse précisément les caractéristiques de ce que recouvre une organisation bureaucratique et donc par ce qu'il entend par bureaucrate (Weber, 1952, p. 196-198). Le principe essentiel est l'articulation du fonctionnement de l'organisation autour de règles, de lois ou de réglementations publiques. Les attributions du bureaucrate sont enchâssées dans des *procédures* et sont contrôlées par l'autorité hiérarchique, laquelle prend la forme d'une pyramide dont le contrôle s'exerce du haut vers le bas. Le bureaucrate ou le fonctionnaire est un élément essentiel de la machine bureaucratique (Ibid. p. 198-204). La profession de fonctionnaire relève d'une véritable vocation et nécessite des compétences particulières qui font l'objet d'un contrôle. Le bureaucrate est compétent, bénéficie d'une estime sociale associée à l'occupation du poste, lequel est rémunéré non pas en fonction d'un niveau de production, mais qui dépend du statut et de son ancienneté. La fonction s'accompagne d'un certain nombre d'avantages comme le bénéfice d'un emploi à vie et d'une pension de retraite.

Pour Weber, la bureaucratie est le produit de l'histoire, l'expression de la forme ultime de gestion des affaires publiques. La bureaucratie publique est l'expression d'une rationalité légale, où la loi permet l'égalité des citoyens. L'exécution des tâches administratives est dépersonnalisée, permettant d'éviter les situations de corruption et de favoritisme. La bureaucratie weberienne prend la forme d'une mécanique froide, impersonnelle dont la course ne peut être facilement déviée.

«... the more the bureaucracy is "dehumanised", the more completely it succeeds in eliminating from official business love, hatred, and all purely personal, irrational, and emotional elements which escape calculation. This the specific nature of bureaucracy and it is appraised as its special virtue.» (Ibid. p 216)

Pour conclure sur cette présentation rapide de la bureaucratie chez Weber, il est essentiel de souligner que le phénomène bureaucratique ne se limite pas à la gestion publique. Définissant



la bureaucratie par certaines caractéristiques organisationnelles, il en identifie des éléments au sein des grandes entreprises. Pour distinguer les deux formes, il parle d'«autorité bureaucratique» pour désigner en fait l'administration et de «management bureaucratique» pour les entreprises (Weber 1952, p. 196).

Mises reprend pour partie les caractéristiques développées par Weber afin de comprendre la bureaucratie. Pour Mises, la bureaucratie se présente comme un mode d'administration des ressources qui s'appuie largement sur une codification des tâches à exécuter et des règles de comportement. L'importance de la règle prédomine.

«L'organisation bureaucratique est celle où les responsables sont tenus de se conformer aux statuts et règlements détaillés établis par l'autorité d'un organisme supérieur. Le rôle du bureaucrate est d'exécuter les prescriptions des statuts, et règlements, qui restreignent singulièrement pour lui le pouvoir d'agir dans le sens qu'il estime le meilleur.» (Mises, 2003 [1944] p. 53)

Les règlements constituent ainsi la courroie de transmission des décisions de l'autorité supérieure<sup>4</sup> par le biais de la chaîne hiérarchique tout en maintenant une action dépersonnalisée sans égard au caractère juste ou injuste de l'intervention. Le bon bureaucrate est celui qui applique les règlements.

«Leur préoccupation principale est d'obéir aux règlements et ordonnances qu'ils soient raisonnables ou contraires aux buts poursuivis. La première qualité d'un administrateur est l'obéissance aux codes et aux décrets.» (Ibid., p. 47)

Sans doute marqué par le contexte historique dans lequel Weber écrit, le bureaucrate est également présenté comme un administrateur qui occupe un poste dont la particularité s'explique par le fait que le produit de son travail ne peut pas être apprécié

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<sup>4</sup> Mises conçoit ainsi les règlements et les lois mis en œuvre par la bureaucratie comme «des instruments grâce auxquels s'exécute la volonté de l'autorité supérieure». (p. 51).

en termes monétaires (Ibid. p. 60). La fonction est donc rémunérée selon des considérations statutaires et non selon des critères productifs. Son recrutement est réalisé par une autorité supérieure. Là où Weber associe une certaine estime sociale à l'occupation d'un tel poste, auquel sont associés une rétribution avantageuse et d'autres bénéfices, qui peuvent être interprétés comme la contrepartie de la compétence et du dévouement dont fait preuve le bureaucrate. Il n'y a rien de tel pour Mises. Pour ce dernier, le terme de bureaucrate est devenu péjoratif. Il affirme d'ailleurs :

«Nul ne doute que la bureaucratie ne soit on ne peut plus néfaste, ni qu'elle doive disparaître d'un monde parfait.» (Ibid., p. 5)

Plus en avant dans l'ouvrage (Chap. V), Mises développe l'intérêt recherché par les postulants à la carrière de fonctionnaire. Les avantages divers, un salaire plus élevé, une retraite assurée et confortable, des conditions de travail moins pénibles et une sécurité de l'emploi présentent des attraits évidents pour certaines personnes. Bien que l'analyse de Mises s'accorde sur les caractéristiques d'une bureaucratie que Weber a préalablement cernées, l'interprétation est toute différente.

Un autre point commun aux deux analyses concerne l'identification de formes bureaucratiques au sein des grandes entreprises. Cependant, l'interprétation qui en est donnée s'avère radicalement différente. Pour Weber, il s'agit de l'identification de mécanismes organisationnels (ligne hiérarchique, lien de subordination...) communs, des mécanismes administratifs similaires à ceux existant dans l'appareil d'Etat et qui témoignent d'une certaine efficacité. Pour Mises, ils ne représentent que les conséquences de l'intrusion de l'Etat dans le fonctionnement des affaires privées. Sans l'intervention de l'Etat dans l'économie et le monde des affaires, ces fonctions n'auraient aucune raison d'être au sein des entreprises privées, car fondées sur aucune justification de profit.

«L'objet du présent ouvrage est de tenter de démontrer que, pour l'entreprise animée par la recherche du profit, le danger de la bureaucratie n'existe pas à la condition que l'Etat laisse à ses

dirigeants les mains libres. L'entreprise privée n'évolue pas nécessairement vers une structure bureaucratique rigide. La tendance dénoncée résulte de l'immixtion de l'Etat dans le secteur privé. Elle est le fruit de la politique qui tend à enlever au mobile du profit le rôle qu'il joue dans l'organisation économique de la société. » (Mises 2003 (1944) p. 17).

## 2. La définition de la bureaucratie chez Mises

Même si Mises ne donne pas de définition précise de la bureaucratie, il souligne qu'il s'agit d'un mode d'allocation des ressources, « une méthode de gestion applicable en différents secteurs de l'activité humaine » (Ibid. p. 50). La bureaucratie est « un principe de technique et d'organisation administrative ». Mises en donne également une définition négative, à savoir ce qu'elle n'est pas à défaut de préciser ce qu'elle est.

«L'organisation bureaucratique est la méthode appliquée à la conduite des affaires administratives dont le résultat ne s'apprécie pas en monnaie sur le marché.»

«L'organisation bureaucratique est la conduite des affaires qui échappent au contrôle du calcul économique.» (Ibid. p. 54)

En conséquence, la gestion bureaucratique se définirait comme l'allocation de ressources qui n'obéirait pas au critère du profit. En fait, une définition plus précise de la bureaucratie chez Mises consiste en la procédure *d'allocation*<sup>5</sup> *de ressources non légitimement possédées par l'administrateur, qui procède par l'intermédiaire d'un système de règles régit par des relations de commandement*<sup>6</sup>. L'allocation n'obéit pas à un principe de

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<sup>5</sup> Le terme allocation ici ne désigne pas seulement l'attribution directe de ressources à certains usages, mais également l'obligation ou l'influence directe de réglementations à la direction de ressources à des usages particuliers.

<sup>6</sup> Les grandes entreprises constituent-elles des bureaucraties ? En effet, les dirigeants sont généralement des managers qui ne sont pas propriétaires de l'entreprise, au sein desquelles des règles existent ainsi que des relations hiérarchiques. En fait, l'embauche du manager repose sur une relation contractuelle qui lui impose

valorisation par le marché et est indifférente à la propriété privée<sup>7</sup>.

«One must first be clear as to what is really to be understood by bureaucracy and the bureaucratic conduct of business, and just how these are distinguished from commercial enterprise and the commercial conduct of business. The opposition between the commercial and the bureaucratic mentality is the counterpart in the intellectual realm of the opposition between capitalism – private ownership of the means of production – and socialism – communal ownership of the means of production.» (Mises, 1996 (1985) [1927]).

La définition proposée met en évidence trois caractéristiques essentielles de la bureaucratie, à savoir la violation de droits de propriété, des dépendances hiérarchiques et une allocation systématique des ressources par des règlements. En cela, une gestion bureaucratique ne nécessite pas nécessairement la production de biens ou de services par une entreprise publique. Une entreprise privée peut être obligée par une loi à dépenser une partie de ses ressources à la protection de l'environnement. Dans ce cas, il y a immixtion de l'Etat dans les affaires privées de l'entreprise, qui de fait se voit expropriée d'une partie de sa propriété légitime. Ces critères permettent à Mises de distinguer ainsi une gestion par le système du profit et une gestion bureaucratique, dont le Tableau 1 précise les distinctions fondamentales.

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de gérer au mieux commercialement l'entreprise. Certes des règles et une hiérarchie existent, mais elles ne sont pas les éléments essentiels de leur fonctionnement. L'organisation de l'entreprise doit prendre en compte une logique commerciale, comptabiliser les coûts de production et les produits des ventes. Si l'entreprise abandonne partiellement cet objectif commercial, elle intègre alors des éléments constitutifs d'une bureaucratie au sens de Mises.

<sup>7</sup> Même si Mises ne développe pas une théorie des droits de propriété, le droit de propriété est au cœur de son analyse et de son argument sur le calcul économique. Les droits de propriété sur les facteurs de production s'avèrent à cet égard fondamentaux. «The liberals maintain that the only workable system of human cooperation in a society based on the division of labor is private ownership of the means of production.» (Mises 1996, p. 18). Notre analyse diffère substantiellement de celle du Pr. Hülsmann sur ce point pour qualifier l'organisation bureaucratique.

TABLEAU 1  
 LES CARACTÉRISTIQUES D'UNE GESTION  
 BUREAUCRATIQUE ET COMMERCIALE

	<i>Gestion bureaucratique</i>	<i>Gestion marchande</i>
Régime de propriété	Violation, imposition	Relation contractuelle et respect de la propriété privée
Mode d'allocation	Règles	Système de prix
Mode d'organisation	Relation hiérarchique et de commandement	Relation commerciale
Création de valeur	?	Indicateur de profit et expression monétaire

La *gestion commerciale* s'appuie sur des droits de propriété, un système de prix qui permet l'allocation des ressources aux usages les plus valorisés. Il s'adosse à des relations commerciales (concernant le contrat de travail, les ventes...), dont la valorisation peut prendre une expression monétaire. La création de valeur associée à la *gestion bureaucratique* est plus problématique à démontrer dans la mesure où celle-ci ne peut prendre d'expression monétaire.

«Nous ne disons pas, remarquons-le, qu'une conduite heureuse des affaires publiques n'a pas de valeur; nous disons que le marché n'en indique pas le prix, que la valeur n'en peut être réalisée dans une transaction commerciale et n'est par conséquent pas susceptible d'expression en termes monétaires.» (Mises 2003 [2004] p. 53)

La gestion bureaucratique implique des relations de coercition, la violence, le non-respect des droits de propriété, des relations de hiérarchie et de commandement.

### 3. Les différences de typologie entre les approches de Mises et de Weber

La terminologie de gestion bureaucratique et commerciale proposée par Mises peut prêter à confusion avec la typologie avancée par Weber. Pour Weber, la *gestion bureaucratique* signifie qu'une entreprise privée est organisée autour de principes bureaucratiques tels qu'il les a définis. Lorsque ces principes sont mis en œuvre dans les organisations étatiques, Weber qualifie cette situation d'*autorité bureaucratique*.

Pour Mises, la *gestion bureaucratique* peut caractériser certaines entreprises privées et peut concerner également les administrations publiques. En cela, ce que Mises exprime par gestion bureaucratique peut inclure à la fois les concepts d'autorité bureaucratique et de gestion bureaucratique de Weber et recouvre les modalités d'allocation des ressources par des règles. Ainsi, la *gestion bureaucratique* de Mises renvoie à la fois à la *gestion bureaucratique* et à l'*autorité bureaucratique* de Weber. De même, la notion wéberienne de *gestion bureaucratique* peut recouvrir les concepts de *gestion bureaucratique* et de *gestion commerciale* développés par Mises, lorsqu'elle se limite à une procédure administrative.

En somme, la vision wéberienne participe d'une *approche organisationnelle* de la bureaucratie alors que l'analyse de Mises consiste en une *approche fonctionnelle* (rôle des prix et des droits de propriété). Il nous semble cependant que la définition wéberienne établit une assimilation abusive de la notion de règles au sein des organisations privée et publique. En effet, la règle au sein de l'organisation publique est souvent synonyme de réglementations, de règlements, de loi qui permettent de définir des *procédures* au caractère impératif et juridique. La règle au sein d'une organisation privée se réfère le plus souvent à un *processus*, voire des *procédés*, c'est-à-dire un agencement d'opérations plus ou moins complexes qui peuvent évoluer en conséquence si l'atteinte de l'objectif est plus aisée. Son évolution est d'autant plus facile que l'exécutant puisse faire des propositions pouvant être retenues par la direction (système de management de Toyota par exemple). Ceci n'est pas le cas dans une structure bureaucratique, dans la mesure où l'obéissance de l'exécutant est primordiale.

Une éventuelle discussion de la règle est alors interprétée comme sa remise en cause. Cette distinction souligne que quand bien même l'approche de Mises serait influencée par les travaux de Weber, elle ne se réduit pas à celle-ci<sup>8</sup>.

#### **4. Le phénomène bureaucratique: cause ou symptôme d'un mal plus profond, l'interventionnisme**

Pour Mises, la bureaucratie ne constitue pas le véritable problème auquel la société doit faire face. En effet, elle «n'est qu'un corollaire et un symptôme de transformations plus profondes» qui est à l'œuvre, à savoir le glissement vers une économie socialiste avec un Etat omnipotent et totalitaire<sup>9</sup>.

«Mais la bureaucratie n'y est pour rien. C'est le fait du nouveau système de gouvernement qui restreint la liberté de l'individu dans la direction de ses propres affaires et assigne à l'Etat des tâches toujours plus lourdes. Les responsable n'est pas le bureaucrate, mais le système politique.»

«La bureaucratie joue un rôle essentiel dans l'exécution de ses plans. Mais on a tort d'imputer aux bureaucrates pris individuellement les torts d'un système.» «C'est le système qui est mauvais, et non les sous-ordres qu'il utilise.» (Mises 2003 [1944] p. 23).

Ainsi, la bureaucratie n'est que l'expression de l'interventionnisme public, dont elle est une modalité d'exécution particulière. Les organisations bureaucratiques sont d'autant plus prépondérantes dans l'économie que l'interventionnisme public est répandu. L'existence de structures bureaucratiques signifie également l'atteinte au droit des personnes, une restriction de leur liberté, mais également un usage d'autant limité du mécanisme des profits et des pertes, et une mauvaise allocation des ressources au sein de l'économie. Les effets de la gestion bureaucratique sont d'autant plus néfastes que

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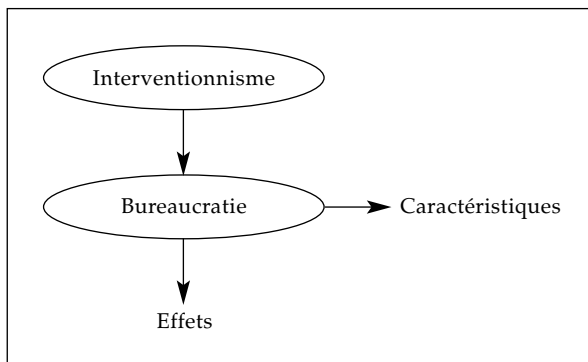
<sup>8</sup> Pour un étude comparative des théories de Mises et de Weber sur leur analyse de la bureaucratie, voir Anderson (2004).

<sup>9</sup> Hayek avait établi un constat similaire au même moment (Hayek 1993 [1944]).

l'interventionnisme public est répandu. Ainsi au-delà des effets liés à la nature de la relation bureaucratique, il existe un impact lié au degré de bureaucratisation d'une société. Une dynamique propre à la sphère étatique est alors en marche. Une généralisation de la production bureaucratique implique une atteinte généralisée à la souveraineté des consommateurs et des droits de propriété, une socialisation progressive de l'appareil de production pour laquelle la signification du mécanisme des prix est d'autant plus réduite que le marché libre est limité à une portion congrue du système économique. Dans cet environnement particulier, le comportement des bureaucrates s'adapte en conséquence au système et aux mécanismes d'incitations qui ne relaient pas les préférences des consommateurs. Ils constituent alors les rouages d'une énorme machine dont les conséquences seront analysées dans la section suivante (Figure 1).

Mises justifie l'existence d'une bureaucratie, qui serait nécessaire pour assurer la coopération sociale et éviter une situation anarchique. En somme, l'intervention publique doit se limiter à assurer les tâches de police et de justice, et de défense (Mises 1996 (1985) [1927] p. 36-38 et p. 84). Il s'agit de préserver la propriété, la paix et la liberté et d'éviter que la société sombre dans l'anarchie.

FIGURE 1  
LES CONDITIONS D'EXISTENCE  
DE LA BUREAUCRATIE





«Et comme la collaboration sociale, pour être efficace, nécessite un gouvernement, une certaine dose de bureaucratie est indispensable. Ce dont nous souffrons, ce n'est pas tant de la bureaucratie elle-même que de son intrusion dans tous les domaines de la vie et de l'activité humaines.» (Mises, 2003 [1944] p. 23)

Selon Mises, une bureaucratie réduite fonctionne à peu près convenablement dans la mesure où les décisions prises peuvent s'adosser à l'information véhiculée et générée par le fonctionnement du marché. Sans cette information relative au système des prix relatifs, « une économie sans calcul en termes de monnaie ne peut exister que dans des conditions très simples » (Mises, 1939, p. 106 et s.). En somme, Mises pose les limites de l'extension de la bureaucratie à la fois par un argument positif et négatif. La bureaucratie trouve ses limites dans la protection des biens et les personnes et ne peut fonctionner de manière économiquement rationnelle qu'en s'appuyant sur l'information générée par le fonctionnement de l'économie de marché. Au-delà et à mesure de son extension, l'économie se dirige alors vers un chaos généralisé (Mises 2003 [1944], p. 65). L'économie contrôlée ne dispose pas des moyens de connaître si les plans de production sont profitables ou non. Par ailleurs, par ce que la gestion bureaucratique implique une violation du droit de propriété<sup>10</sup> et une redistribution autoritaire de revenu (Mises, 2002 [1928], p. 372 et s.), le franchissement des limites d'une bureaucratisation minimale signifie un changement de nature: elle ne vise plus à une protection et à la production d'un bien nécessaire. Elle crée désormais de l'insécurité économique par son impossibilité à corriger les erreurs et de l'insécurité politique en violant les droits de propriété.

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<sup>10</sup> Mises n'utilise pas ces mots. Néanmoins, il utilise régulièrement le qualificatif de «souveraineté du consommateur» pour désigner le pouvoir d'influence du consommateur sur le producteur afin que ce dernier produise le bien désiré. Selon Mises, une conséquence de l'interventionnisme réside dans la disparition de cette souveraineté. Nous pouvons traduire sans trahir la pensée de l'auteur, qu'il s'agit bien d'une violation de ses droits à l'allocation de ces ressources. Ceci est encore plus flagrant, lorsque la dépense publique se fait au détriment de l'individu. «Suffice it to say here that the "general economic" objectives of public enterprises amount to the subsidization of one group of citizens at the expense of the rest» (Mises, 2002 [1928], p. 377).

## **5. Les différentes combinaisons politiques et économiques de la bureaucratie**

Le système bureaucratique est un mécanisme de transmission particulier de l'interventionnisme public, qui ne prend pas en compte la nature des objectifs à atteindre. Il peut donc être associé à la fois à divers systèmes politiques et s'étendre à différentes formes d'entreprise.

Il peut soutenir un système totalitaire ou un Etat constitutionnel. La bureaucratie n'est qu'un système d'exécution qui peut s'avérer redoutable, d'autant plus lorsqu'il est au service de l'injustice.

«L'Etat est la seule institution qualifiée pour user de la contrainte et infliger des peines aux individus. Ce pouvoir effrayant ne peut être abandonné à l'arbitraire de quelques hommes, si compétents et si intelligents qu'ils s'estiment eux-mêmes. Il est nécessaire de réduire son étendue.» (Ibid. p. 84)

Mises insiste sur cette distinction pour éviter la confusion entre bureaucratie et système totalitaire.

«Le totalitarisme est bien autre chose que la simple bureaucratie. C'est dans la soumission totale de l'individu, dans le travail et dans le loisir, aux ordres des dirigeants et des fonctionnaires. Il réduit l'homme à n'être qu'un rouage dans un mécanisme de contrainte et de coercition qui embrasse tous les aspects de la vie individuelle. Il oblige l'individu à renoncer à toute activité que l'Etat n'approuve pas. Il transforme la société en une armée du travail admirablement disciplinée, disent les défenseurs du socialisme, en un baigne répliquent ses adversaires». (Mises, 2003 [1944], p. 23)

En conséquence, le caractère bureaucratique n'est pas le critère discriminant pour établir le caractère despotique d'un système politique. Le critère essentiel de l'analyse de Mises est la souveraineté du peuple. La loi est ce qui permet alors de protéger l'individu de l'arbitraire de l'administration et du bureaucrate. L'administration se voit donc contrainte dans l'utilisation et le montant des dépenses. Le parlement se doit de

jouer le rôle de contrôleur général des dépenses et veiller à ce qu'il ne se produise pas de dérives budgétaires.

«Le trait caractéristique (de l'Etat constitutionnel) qui le distingue du despotisme est que ce n'est pas l'administration, mais les représentants du peuple régulièrement élus qui ont à déterminer ce qui sert le mieux le bien public. C'est le seul système qui réalise la souveraineté du peuple et sauvegarde son droit à se gouverner lui-même.» (Ibid. p. 49)

Mises donne donc un tour plus politique à l'analyse de la bureaucratie et ne se limite pas à la seule dimension économique. Il y a cependant une caractéristique commune à ces deux dimensions. Il s'agit de la souveraineté de l'individu, en tant qu'électeur lorsqu'il élit ses représentants au parlement, en tant que consommateur lorsqu'il choisit les biens et services qu'ils désirent consommer. La souveraineté de l'individu peut être considérée comme la capacité de contrôle de celui-ci sur ses ressources, qui peut prendre une forme directe par son comportement d'achat et sa capacité à négocier pour des biens privés et une forme indirecte en élisant des représentants contrôlant la dépense budgétaire concernant la consommation de biens publics.

La bureaucratie peut être déclinée également selon différents types d'organisation. Ainsi, il distingue une bureaucratie au sein de l'administration, qui regroupe les agences gouvernementales, les ministères et les collectivités locales et territoriales, dont les prestations ne peuvent être appréciées en termes monétaires. Les entreprises publiques constituent également une forme de bureaucratie, dont le produit est rarement supérieur à la dépense. L'objectif de ces entreprises consiste à procéder à un transfert de revenu entre les individus.

«Quels que puissent être les autres buts poursuivis, une telle politique revient toujours en définitive à subventionner les uns aux frais des autres.» (Ibid. p. 68)

En effet, leur objectif n'est pas de rechercher un profit, mais de produire le plus possible ou d'offrir le produit ou le service

à un prix relativement bas. La réalisation d'une perte ne s'en trouve pas sanctionnée. Au contraire, elle peut refléter une pratique tout à fait satisfaisante de la part des autorités, à savoir «la stricte obéissance à un ensemble de règles» et «une soumission à cette réglementation».

La bureaucratie concerne également les entreprises privées. Lorsque l'entreprise est détournée de son objectif commercial et donc d'entreprendre une activité profitable, l'entreprise compose avec les influences de la bureaucratie (Mises, 2002 [1928], p. 378 et 379), (Mises 1996 (1985) [1927], p. 103). Mises précise ainsi que l'entreprise privée peut être entravée dans son fonctionnement de différentes manières: par une limitation de son profit, par un contrôle des prix, par le contrôle du taux de marge en influençant les coûts de production ou en accroissant le taux d'imposition payé par les entreprises (Mises 2003 (1944) p. 75). Mises souligne que cette politique a pour conséquence de limiter le rythme d'accumulation du capital du fait de distorsions fiscales et de réduire les incitations des entrepreneurs à prendre des risques et à se lancer dans des activités productives.

L'influence bureaucratique conduit également les entreprises privées à modifier la gestion de leur personnel. Il s'agit dès lors de respecter des règles définies par l'Etat et d'infléchir les efforts en faveur de l'atteinte des objectifs commerciaux. L'immixtion de la bureaucratie dans la gestion du personnel prend une forme plus pernicieuse, lorsqu'elle oblige l'entreprise à rechercher des appuis politiques et syndicaux. Les conseils d'administration doivent faire une place à certains amis politiques, les entreprises doivent procéder à des versements en faveur de partis politiques et de syndicats pour s'assurer des protections nécessaires ou pour protéger le marché sur lesquels elles interviennent (Ibid. p. 78-80).

Le contrôle bureaucratique peut conduire à une subordination totale de l'entreprise privée à l'administration. Celle-ci dispose en effet d'un arsenal législatif qui peut conduire l'entreprise à de graves difficultés, voire à sa fermeture ou encore à sa faillite, mais également à l'expropriation de son légitime propriétaire. Il s'agit alors pour le dirigeant de saisir au mieux les opportunités, d'user de diplomatie et de corruption parfois, pour éviter la perte de son affaire.

### III LES CONSÉQUENCES DE LA BUREAUCRATIE

Mises consacre une large part de son ouvrage aux conséquences néfastes de l'organisation bureaucratique, concernant les dimensions économiques, politiques, sociales et psychologiques.

#### 1. Les conséquences économiques

Pour comprendre les conséquences économiques de la bureaucratie, Mises établit une comparaison systématique entre le management privé et l'organisation bureaucratique pour en souligner les logiques divergentes.

Mises rappelle que l'économie capitaliste ou de marché est fondée sur la propriété privée des moyens de production. Le marché repose sur un système de coopération sociale et de division du travail (Mises 2003 (1944) p. 25). Au sein de ce système, l'entrepreneur joue un rôle essentiel pour satisfaire les besoins des consommateurs. Car ce sont les consommateurs qui orientent les efforts de la production dans les différents secteurs par le mécanisme que constitue le système de prix relatifs. Le but de l'entrepreneur est la réalisation d'un profit, à savoir assurer un niveau de produit supérieur à celui des débours (Ibid. p. 25). La contrainte de la recherche du profit oblige l'entrepreneur à satisfaire le consommateur, qui agit en véritable souverain dans la mesure où il dispose du pouvoir d'allouer son pouvoir d'achat là où bon lui semble. Certes l'entrepreneur assure les décisions techniques de la production, mais ce sont les consommateurs qui orientent la production tant sur le plan quantitatif que qualitatif.

«Capitalistes, entrepreneurs, et exploitants sont des instruments dans la conduite des affaires économiques. Ils sont à la barre et dirigent le navire, mais ils n'ont pas la liberté de lui fixer un itinéraire. Le commandement en chef ne leur appartient pas, ils ne sont que des hommes à la barre tenus d'obéir sans réserve aux ordres du capitaine. Le capitaine, c'est le consommateur.» (Ibid.)

Le système récompense ainsi l'entrepreneur qui fait des choix judicieux par le profit ou le sanctionne lorsqu'il a pris des décisions malheureuses par une perte. Il permet d'orienter les ressources productives vers les secteurs qui satisfont les besoins les plus urgents.

«Nul entrepreneur ne peut investir son capital dans une affaire qui n'offre pas de perspectives de profit. C'est précisément cela qui fait la souveraineté du consommateur et contraint le chef d'entreprise à produire l'article que les consommateurs réclament le plus instamment.» (Ibid. p. 30)

Les traits essentiels de l'économie de marché sont donc la capacité du consommateur à pouvoir orienter les ressources productives à la satisfaction des besoins jugés les plus urgents. Cette souveraineté des consommateurs prend une forme directe par l'intermédiaire de la dépense. Le système du profit traduit les préférences des consommateurs et oriente le producteur à établir des choix adéquats. Une toute autre caractéristique essentielle de l'économie de marché reste toutefois la propriété privée, pour les consommateurs avec leur pouvoir d'achat et pour les producteurs qui engagent leurs ressources et qui peuvent s'approprier le surplus.

La supériorité du système capitaliste sur tout autre système réside dans sa capacité à rendre possible le calcul économique. Le système de prix permet à la fois de s'assurer de la viabilité des plans de production présents que de la rentabilité des projets. Le mécanisme du calcul économique concerne l'ensemble des entreprises, quelle que soit leur taille. Le calcul économique permet de cerner les plans de production satisfaisants les besoins les plus urgents parmi l'ensemble des besoins exprimés sur le marché et qui peuvent être contradictoires. Il permet de sélectionner la technique productive adéquate, mais également de déterminer les quantités devant être produites et leurs qualités.

«La supériorité du système capitaliste réside en ce qu'il est le seul système de coopération sociale et de division du travail qui permette le calcul de l'imputation, qu'il s'agisse d'élaborer de nouveaux

programmes de production ou d'évaluer les services rendus par des usines, les exploitations et les ateliers qui fonctionnent déjà.» (Mises, (2003) 1944, p. 27)

Contrairement au système de marché, la gestion bureaucratique se révèle incapable d'évaluer les plans de production. Plus précisément, le calcul économique n'est possible que sur une dimension réduite du développement de la bureaucratie, c'est-à-dire lorsqu'elle se réduit aux dimensions de défense, de police et de justice (Mises, 1996 (1985) [1927]). Dans cette situation, l'organisation bureaucratique bénéficie de l'information générée par le marché. A mesure du développement de l'immixtion bureaucratique, l'information générée par le marché se dégrade et devient de ce fait peu pertinente. Le calcul économique<sup>11</sup> s'avère dès lors impossible et les plans de production idoines ne peuvent être choisis. Le système de perte et de profit ne peut être utilisé, là où il était primordial pour l'allocation des ressources. En conséquence, dans une économie socialiste où l'organisation bureaucratique est généralisée, le calcul économique est tout bonnement impossible.

«En régime socialiste, on ne peut discerner ni les profits, ni les pertes. Là où le calcul fait défaut, il n'y a aucun moyen de savoir si les programmes conçus ou exécutés étaient ceux qui convenaient le mieux à la satisfaction des besoins les plus pressants ; le succès ou l'échec restent dans l'ombre.» (Mises, 2003 (1944), p. 34)

Non seulement, le marché sélectionne les plans de production adéquats, mais corrige aussi les erreurs éventuelles commises par les entrepreneurs. En conséquence, la gestion bureaucratique s'avère incapable de déterminer la rentabilité des plans de production, car elle ne dispose pas des mécanismes de correction, ce qui laisse place à des phases de cycle économique

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<sup>11</sup> Un calcul économique public peut être mis en œuvre, mais il ne reflète aucunement les préférences des consommateurs et s'établit sur des données erronées. En cela, il ne peut et ne doit pas être confondu avec le calcul économique d'un système de libre marché.

chaotique, de développement étatique suivi d'ajustements brutaux (Hülsmann, 1998). Si l'entrepreneur satisfait les consommateurs, il dispose alors d'un profit. Il s'ensuit qu'un état moins satisfaisant est remplacé par un autre qui l'est plus. Si la mauvaise appréciation de la situation par l'entrepreneur se traduit par une perte, alors on peut considérer que ce dernier a subventionné une partie de sa clientèle. Dans ce cas, les consommateurs servis sont satisfaits. Seul l'entrepreneur subit une perte qui résulte de mauvais choix passés. Le fonctionnement du mécanisme de prix et la possibilité du calcul économique suggèrent que seul un système d'économie de marché puisse créer de la richesse.

Il en est tout autrement dans le cadre d'une gestion bureaucratique. En effet, les ressources sont allouées de manière autoritaire. Il n'existe aucun moyen de savoir si les productions sont adéquates et réalisées avec la technique de production appropriée. Même si la production n'est pas sans valeur, sa valorisation ne peut faire l'objet d'une monétarisation. En conséquence, il peut être avancé que celle-ci ne peut *que* générer une perte. En effet, d'un point de vue logique, la décision de bureaucrate(s) ne peut pas refléter celle de l'ensemble des consommateurs. En somme, il pourrait déterminer une quantité approximative des besoins sans disposer toutefois des caractéristiques des biens désirés, ni même connaître si l'emploi des ressources utilisées est satisfaisant. La gestion bureaucratique implique en conséquence une situation généralisée de subvention des besoins des uns par les moyens des autres. Certains biens sont produits en quantités trop importantes, d'autres avec une utilisation trop intensive de facteurs de production ou encore réalisés dans des délais trop longs. Les pertes sont donc généralisées et systématiques. Un point de tension subsiste cependant dans la présentation de Mises quant aux effets de la bureaucratie. En effet, la mauvaise appréciation de la situation par l'entrepreneur peut engendrer une perte au même titre qu'une gestion bureaucratique. N'existe-t-il pas une proximité entre les deux modes d'allocation qu'il ne le semble à première vue? En fait, il existe une véritable différence entre ces deux situations. Premièrement, la perte supportée par l'entrepreneur est le fait de sa propre propriété. Il supporte sur ses fonds propres les



conséquences de son erreur. Le consommateur bénéficie d'une subvention dans la mesure où il bénéficie d'un bien dont le prix de revient est inférieur à son coût de production. Dans une organisation bureaucratique, le bureaucrate ne supporte pas la perte, mais la reporte sur les contribuables. Deuxièmement, les pertes subies par les entrepreneurs sont d'une importance relativement réduite par rapport à celles qui peuvent être générées par un système économique complètement socialisé, par ce qu'elles sont détectées et corrigées rapidement. Troisièmement, la perte enregistrée par l'entrepreneur survient *ex post*, c'est-à-dire que le plan de production initié n'a pas été jugé satisfaisant par les consommateurs. En ce qui concerne la bureaucratie, il s'agit d'une perte *ex ante* dans la mesure où l'allocation des ressources est réalisée en l'absence d'orientations de la part du consommateur d'une part, et son financement est assuré à partir de ressources (fiscales) dont l'orientation initiale a été modifiée, d'autre part.

La supériorité de l'économie de marché sur l'organisation bureaucratique repose sur la possibilité du calcul économique, à savoir la possibilité de comparer en termes monétaires les différents usages des ressources. Ce système n'est pas uniquement à l'œuvre sur le marché, mais aussi au sein des entreprises. Il irrigue chaque unité productive par l'intermédiaire du principe de comptabilité, qui enregistre les produits et les pertes. Il incite donc chaque directeur d'unité à dégager des profits afin d'éviter de perdre la direction de celle-ci. L'argument avancé par Mises est intéressant, puisqu'il suggère que l'efficacité du calcul économique ne dépende pas de la taille de l'entreprise. Il irrigue l'ensemble des structures et au sein de celles-ci. Ainsi, le système de comptabilité permet d'éviter la présence de structures bureaucratiques au sein des grandes entreprises et assure une gestion décentralisée.

Mises distingue différentes immixtions de la bureaucratie. La première forme renvoie aux administrations publiques composées d'agents qui définissent et appliquent des règles. La seconde est constituée des entreprises publiques où l'obéissance à la règle s'avère plus importante que la recherche du profit. Les entreprises privées font également l'objet d'une procédure

de bureaucratisation, qui conduit à substituer l'obéissance à certaines réglementations à la recherche du profit.

Le contrôle étatique se traduit également par des conséquences sur la politique de recrutement des entreprises privées. Il ne s'agit plus de prendre en considération le produit actualisé du travail et de le rapprocher de son coût pour décider de l'embauche éventuelle. Dans un système bureaucratisé, l'entreprise recherche en premier lieu l'appui des syndicats et celui des partis politiques auxquels elle verse des contributions et les associe à ses conseils d'administration. La relation de dépendance à l'égard du politique se transforme progressivement en un lien de subordination. Il s'agit ainsi de travailler à l'élaboration d'une réglementation ou de rechercher la protection publique sur un secteur d'activité au détriment des concurrents et des consommateurs.

Ces interventions étatiques dans le bon fonctionnement de l'entreprise privée la conduisent vers un processus de bureaucratisation. Alors que l'entreprise doit être « pilotée » directement par le fonctionnement du marché, celle-ci consacre désormais une partie de ces ressources à la gestion de règles édictées par l'administration. En conséquence, la bureaucratie présente au sein des entreprises n'est que le résultat d'interventions étatiques. Ils ne reflètent aucunement des décisions d'entrepreneurs en phase avec le fonctionnement du marché. En effet, ces mesures ne sont pas exigées par le consommateur. Elles constituent ainsi des dépenses improductives qui seraient sanctionnées et corrigées sur un marché libre. Les mécanismes bureaucratiques présents au sein des entreprises ne s'expliquent pas par leur développement ou par l'importance de leur taille, car le calcul économique permet de gérer cette dimension du problème. La bureaucratie résulte donc des règles imposées par l'administration qu'il faut nécessairement appliquer et gérer.

Pour Mises, le système bureaucratique reste néfaste, voire nuisible au bon fonctionnement d'une économie décentralisée. « What is generally castigated as bureaucratic regimentation, pettiness, fearfulness, formalism, and ponderousness is indispensable in an administration that does not seek profit use » (Mises 202 [1932] p. 375). Cette conception tranche avec la version pessimiste de Weber qui y voit un progrès substantiel pour le fonctionnement des sociétés:

«Precision, speed, unambiguity, knowledge of the files, continuity, discretion, unity, strict subordination, reduction of friction and of material and personal costs – these are raised to the optimum point in the strictly bureaucratic administration, and especially in its monocratic form» (Weber, 1952, p. 216).

## **2. Les conséquences politiques et sociales de la bureaucratisation**

Mises caractérise la démocratie par la capacité à destituer politiquement les gouvernants de manière pacifique (Mises 1996 [1962], p. 42). La bureaucratie établit un renversement de perspective concernant la relation entre ceux qui composent le plus grand nombre et ceux qui font partie du plus petit nombre.

En fait, la bureaucratisation des sociétés annonce une nouvelle philosophie. L'individu n'est plus l'élément central dont il faut protéger pour assurer la prospérité. Désormais, l'Etat se situe dans une position surplombante, prenant l'expression d'une forme *divine* (Mises 2003 (1944) p. 83). L'Etat protégerait contre l'égoïsme de l'individu et constituerait le véhicule privilégié de l'expression du bien commun.

«Aujourd'hui, le culte de l'Etat, philosophie à la mode, a obscurci le problème. Les conflits politiques ne sont plus considérés comme des luttes entre des groupes d'hommes, mais comme une guerre entre deux principes, le bon et le mauvais. Le bon est représenté par le grand dieu Etat, matérialisation de l'idée éternelle de moralité, et le mauvais par "l'âpre individualisme" d'hommes égoïstes. Dans ce dualisme, l'Etat a toujours raison, l'individu toujours tort. L'Etat représente le bien public, la justice, la civilisation et la sagesse supérieure. L'individu est une misérable créature, sottise et méchante» (Ibid. p. 82).

Ce renversement de perspective se traduit également dans les modalités de la relation entre les administrés et les bureaucrates. La position sociale du bureaucrate n'est pas le résultat d'une activité valorisée par le consommateur, mais le produit d'une

organisation capable de s'arroger des privilèges, qui porte atteinte aux choix du consommateur. Sur un marché libre, le consommateur est souverain pour décider qui peut bénéficier de tels ou tels avantages, de telles ou telles rémunérations. Le comportement d'achat détermine les rémunérations des uns et des autres. Dans un cadre bureaucratique, c'est l'administration elle-même qui décide de sa propre rémunération. Cela est d'autant plus facilité que le bureaucrate soit également un électeur qui a particulièrement intérêt à se défendre.

«Le bureaucrate n'est pas seulement un fonctionnaire. En régime démocratique, il est en même temps électeur et comme tel participe à la souveraineté de l'Etat qui l'emploie. Sa position est particulière: il est à la fois employeur et salarié. Et son intérêt pécuniaire de salarié l'emporte sur son intérêt d'employeur, car il tire beaucoup plus de la caisse publique qu'il ne contribue à l'accroître.» (Ibid. p. 88).

Non seulement la bureaucratie s'impose à l'individu, avec la complicité du bureaucrate qui se sert en retour de la structure pour bénéficier d'avantages indus, mais la bureaucratisation s'impose dans les esprits par le contrôle de l'éducation qui justifie l'intervention de l'Etat et enseigne les limites du fonctionnement du marché<sup>12</sup>. La bureaucratie s'impose également en développant un appareil de justification intellectuelle promouvant l'intervention de l'Etat. Il existe une véritable dynamique de l'intervention étatique dans les affaires privées, qui trouvent toujours plus de défenseurs à mesure de la croissance de l'Etat et de la multiplication de ses interventions. Il trouve également des partisans dans les bénéficiaires de ses programmes, dans la mesure où l'Etat qui promet l'abondance et l'opulence ne peut retirer à certains au préalable pour donner ensuite à autrui. La situation finale après l'intervention de l'Etat s'avère alors moins satisfaisante que la précédente. L'intervention publique ne pouvant atteindre le but qu'elle s'est fixé, car allant à l'encontre des lois économiques et

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<sup>12</sup> Cette thèse a été reprise et développée par le Pr. Hoppe dans «Natural Elites, Intellectuals and the State», Ludwig Von Mises Institute, speech delivered at the Supporters Summit in San Francisco, California (1995).

en menant des politiques qui s'avèrent contradictoires. Toujours plus d'intervention est requise pour faire face au nouvel état d'insatisfaction (Rothbard 1993 [1962], chap. 12).

Progressivement la bureaucratisation transforme la société. Là où le marché avait mis en position de force le consommateur, souverain de sa dépense, elle substitue un ordre politique contraignant décidant pour l'électeur. Dans un système capitaliste, les capitaines d'industrie sont au service des consommateurs (Ibid. p. 97). Désormais le bureaucrate devient le maître qui impose ses propres règles. Les atteintes aux libertés individuelles se multiplient. L'homme constitue alors un moyen pour satisfaire les désirs propres des dirigeants. La menace totalitaire qui accompagne l'omnipotence de l'interventionnisme étatique est dénoncée par Mises par des propos sans ambiguïté.

«Son but n'est pas de rendre les gens heureux, mais de les amener à un état qui le rende heureux, lui dictateur. Il désire les domestiquer, leur donner le rang de bétail.»

«Qui doit être le maître? Tel est le problème. L'homme doit-il être libre de choisir la route qui le mène vers ce qu'il croit le bonheur? Ou le dictateur doit-il utiliser ses semblables comme des pions dans la partie qu'il engage pour devenir lui-même plus heureux?»

«Celui qui est incapable de servir ses concitoyens désire les gouverner.» (Mises 2003 (1944) p. 100)

### 3. Les conséquences psychologiques

Le processus de bureaucratisation amène aussi à des conséquences d'ordre psychologique qui se traduisent par l'embrigadement et le contrôle de la jeunesse. Il favorise le conservatisme qui conduit à ôter tout sens critique aux individus.

Mises souligne que l'embrigadement de la jeunesse constitue une des constantes des sociétés fortement bureaucratisées, comme cela a été le cas sous les régimes d'Hitler, de Mussolini et de Staline. Il s'agit de contrôler dès la naissance les citoyens, les obliger à obéir, à étouffer toute contestation. L'adolescent appartient à la mécanique administrative, dont il ne devient qu'un rouage.

La machine administrative annihile alors chez lui toute velléité révolutionnaire (Ibid. p. 106).

Le système bureaucratique favorise la domination des plus jeunes par les plus anciens. Nous assistons alors à la mie en place d'un système de castes, système que le libéralisme et le capitalisme ont toujours combattu. Ce système de castes conduit à discriminer les individus selon un principe d'ancienneté. La jeunesse doit être soumise, docile et si elle veut réussir, obéissante. Pour réussir, elle doit plaire aux détenteurs de pouvoir, à ceux qui occupent les postes et assurent les responsabilités. Comme l'affirme Mises, «il n'y a pas de place pour les novateurs qui pensent par eux-mêmes» (Ibid. p. 110).

Mises va plus loin dans son analyse et souligne que le processus de bureaucratisation conduit à une crise de civilisation, en bloquant l'évolution et l'amélioration des conditions de vie des individus. Elle stérilise le progrès.

«Nous sommes en présence d'une crise qui n'est pas simplement celle de la jeunesse. C'est une crise du progrès et de la civilisation. L'humanité est condamnée quand la possibilité de refaire la société selon ses propres goûts n'est plus laissée à la jeunesse.» (Ibid. p. 110)

A terme, une société qui fonctionne sur un mode bureaucratique se rigidifie (Ibid. p. 112). La bureaucratie génère un climat de conservatisme social et économique. Elle bloque le processus d'innovation tant sur le plan économique en limitant la prise de risques que sur le plan social en contrôlant les nouvelles idées qui émergeraient des nouvelles générations.

La relation de pouvoir s'en trouve aussi transformée par le passage d'une souveraineté économique permettant le choix de consommation et la satisfaction des besoins les plus urgents à une mise sous tutelle politique avec la mise en œuvre contraignante de réglementations et l'obéissance à des règles définies par les détenteurs de pouvoir. Il existe également un changement de nature. Alors que la relation marchande suppose le respect du contrat passé et de la propriété privée, la relation de pouvoir s'impose par la contrainte. «Le fondement dernier d'un système de bureaucratie généralisée est la violence» (Mises 2003 (1944) p. 114).

La perte de tout sens critique résulte également de la bureaucratisation des esprits. Le contrôle de l'économie et de la société semble éblouir les intellectuels, fascinés par une telle évolution. Ces derniers démontrent une crédulité et une naïveté confondantes, idéalisant le devenir des sociétés, qu'un dictateur influençable façonnerait conformément à leur propre vision.

«Cette absence d'esprit critique permet de dire aux gens qu'ils seront libres dans un système où tout est réglementé. Ils se figurent qu'un régime où l'ensemble des moyens de production est aux mains de l'Etat et où celui-ci est le seul employeur est le royaume de la liberté. Ils négligent l'éventualité où l'Etat omnipotent de leurs rêves viserait des fins qu'eux-mêmes désapprouveraient totalement. Ils supposent toujours que le dictateur agira exactement dans un sens conforme à leurs désirs» (Ibid. p. 118)

#### IV

#### POINTS DE TENSION ET CRITIQUES DE LA THÉORIE AUTRICHIENNE DE LA BUREAUCRATIE

La théorie de la bureaucratie de Mises soulève un certain nombre de remarques et de critiques. Son analyse semble négliger la capacité du bureaucrate à la fois à accroître le budget de son organisation et à bénéficier dans le cadre de son action d'un espace d'incertitude lui permettant de s'abstraire des règles de fonctionnement qui lui sont imposées. Il semble également que la présentation de Mises souffre d'une insuffisance théorique quant aux conditions explicatives de l'extension de la bureaucratie.

#### **1. Le bureaucrate, un agent capable de s'extraire de la rigidité des règlements ?**

Les divergences radicales existant entre l'approche de Mises pouvant être qualifiées d'Autrichienne et celle de Niskanen qui s'inscrit au sein du corpus de l'école des choix publics sont évidentes (Carnis 2000). Néanmoins, l'analyse de Niskanen met

en avant certaines limites de la théorie de la bureaucratie de Mises.

Pour Niskanen, le bureaucrate recherche à satisfaire ses propres intérêts. En cela, il ne diffère pas du comportement du consommateur ou de tout autre agent qui recherche la maximisation de sa satisfaction. Le bureaucrate n'est donc pas un acteur passif qui obéit à des injonctions transmises par la hiérarchie.

«Most of the literature on bureaucracy, however, has represented the bureaucrat either as an automaton or as maximizing some concept of general welfare, the latter usually considered to be identical with the objectives of the state. For a positive theory of bureaucracy, though, the beginning of wisdom is the recognition that bureaucrats are people who are, at least, not entirely motivated by the general welfare or the interests of the state.»  
(Niskanen 1994, p. 36)

Le bureaucrate devient ainsi un acteur essentiel au sein des organisations. Il cherche à préserver ses avantages ou à les accroître. Pour cela, les membres de la bureaucratie sont conduits à justifier des augmentations de budget tout en essayant de satisfaire sa tutelle de contrôle (Ibid. p. 42). L'accroissement des budgets s'explique chez Niskanen par une double logique de rationalité et de survie qui est à l'œuvre.

La logique de rationalité suppose que le bureaucrate dispose d'une fonction de satisfaction, qui intègre des composantes telles que le salaire, des avantages en nature, la réputation, le pouvoir... dont l'importance varie avec la taille du budget géré. Si le bureaucrate désire accroître sa satisfaction, il aura tendance à justifier et à exiger une augmentation des budgets pour permettre de produire en quantité plus importante. Cette production additionnelle nécessitera des embauches supplémentaires assurant des promotions aux titulaires déjà en poste et augmentant les ressources attribuées à l'organisation facilitant son fonctionnement.

«Among the several variables that may enter the bureaucrat's utility function are the following: salary, prerequisites of the office,



public reputation, power, patronage, output of the bureau, ease of making change, and ease of managing the bureau. All these variables ... are a positive monotonic function of the total budget of the bureau during the bureaucrat's tenure in office.» (Ibid. p. 38)

L'augmentation des ressources de l'organisation bureaucratique facilite ainsi l'obtention d'un budget discrétionnaire rendant possible la satisfaction de l'intérêt des bureaucrates (Migué and Bélanger 1974). Cette évolution s'avère d'autant plus facile à justifier pour le bureaucrate du fait de l'impossibilité de spécifier précisément la notion d'intérêt public, puisqu'il n'est pas défini, ni ne fait l'objet d'un consensus. En effet, c'est le bureaucrate lui-même qui par son activité décide de fait ce que recouvre cette notion ; il s'agit d'une interprétation toute personnelle qui n'est en rien objective.

Cette conception niskanienne de la bureaucratie pointe le manque de théorisation de la part de Mises concernant le comportement du bureaucrate. Certes ce dernier souligne le caractère intéressé de l'agent administratif, attiré par la sécurité de l'emploi, des pensions flatteuses et des conditions de travail avantageuses associées à sa position. Cependant, l'enclassement du bureaucrate dans un système de règles, certes existant et contraignant, laisse peu de place pour comprendre son autonomie. Or l'analyse de Niskanen a le mérite de souligner la capacité du bureaucrate à instrumenter sa position pour justifier à la fois des budgets plus importants pour la dépense générale de la production publique et pour obtenir un budget discrétionnaire pour ses fins propres. Il peut ainsi façonner les règles, les moduler et les infléchir. Il existe un espace de liberté que ne conçoit pas Mises, trop influencé sur ce point par la vision de la bureaucratie wéberienne, elle-même critiquée à juste titre (Merton 1939).

La logique de survie souligne les contraintes de l'action du bureaucrate, qui doit composer à l'intérieur de l'organisation avec les autres bureaucrates et à l'extérieur les autres bureaucraties, dont les intérêts diffèrent.

«... a bureaucrat who may not be personally motivated to maximize the budget of his bureau is usually driven by conditions both

internal and external to the bureau to do just that.» (Niskanen, 1994 p. 39)

Le bureaucrate doit composer avec d'autres bureaucrates au sein des organisations du fait de son appartenance à une hiérarchie. Puisque le nombre de gratifications reste limité, le bureaucrate est incité à œuvrer au développement du budget de son organisation, afin d'accroître le volant discrétionnaire à distribuer. Ce surplus discrétionnaire permet ainsi d'acheter la coopération des bureaucrates subalternes dont le travail est essentiel à l'atteinte des engagements de la bureaucratie (Ibid. p. 40). Le responsable est donc incité à rechercher l'accroissement de la taille de son organisation, afin d'éviter par ailleurs son propre déclassement. Il est d'autant plus incité à le faire que le développement de son organisation constitue un levier essentiel pour accroître son propre prestige et ses prérogatives. Il est également incité à le rechercher pour des motifs externes au fonctionnement de son organisation. Son agence est en concurrence avec d'autres bureaucraties pour l'obtention de budgets. En cela, il recherche l'appui des autorités de tutelle et des politiques ou à le conserver et à l'entretenir. Pour préserver ou obtenir une position privilégiée, le bureaucrate doit proposer de nouveaux projets, qui serviront à alimenter le programme des politiques ou le programme prévisionnel d'actions des autorités.

«They depend on the bureau to seek out and propose new programs and to make a case for larger expenditures in old programs.» (Ibid p. 40)

Les interactions au sein des organisations et entre les organisations conduisent ainsi à l'augmentation de la taille des budgets. La dérive budgétaire s'explique essentiellement par l'hypothèse de la recherche de la satisfaction de l'intérêt personnel du bureaucrate. Même si Mises constate les rivalités et le manque de coordination entre les différentes organisations bureaucratiques (Ibid. p. 93-94), il ne peut percevoir ce jeu d'acteur au sein des organisations. En effet, le strict respect des règles par le bureaucrate est un trait essentiel de sa théorie de la bureaucratie. D'ailleurs,

de cette caractéristique il dérive une tendance au conservatisme des sociétés fortement bureaucratisées. Cette conclusion s'oppose à la vision développée par Niskanen qui semble suggérer une capacité des bureaucrates à innover, à inventer et à justifier de nouvelles interventions. Par ailleurs, d'autres études sur la bureaucratie soviétique sous Staline, mettent en évidence que même sous des régimes totalitaires, le bureaucrate joue avec des marges de manœuvre quant bien elles restent restreintes.

Cette impossibilité à concevoir un bureaucrate capable d'initiatives s'explique également par l'adoption d'une vision d'un bureaucrate mettant en œuvre une expression particulière de *l'intérêt public*<sup>13</sup>. Les règles sont supposées contrôler toute expression ou recherche de l'intérêt privé. Ikeda propose une typologie des systèmes bureaucratiques qui s'appuie sur une présentation matricielle, croisant les situations en présence d'intérêt personnel ou public, et avec information parfaite ou en ignorance partielle. La théorie de Mises se caractériserait ainsi par la recherche de l'intérêt public et une situation d'ignorance partielle, tandis que l'approche de Niskanen relèverait plus d'une hypothèse d'intérêt personnel et d'ignorance partielle si l'on tient compte de l'asymétrie d'informations entre agents, voire d'information parfaite si l'on accepte la possibilité d'identifier des fonctions de production. La vision de Mises semble être à la fois victime de l'influence wébérienne et du contexte historique de l'administration de l'Empire prussien, qui s'appuyait sur des bureaucrates dont on louait à la fois le dévouement et la compétence<sup>14</sup> (Tableau 2).

Il reste que la tendance au conservatisme des sociétés bureaucratisées n'empêche pas Mises de penser la dynamique de l'intervention publique. En effet, cette dynamique s'explique par les contradictions existant entre les différents programmes de

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<sup>13</sup> Plus précisément, il s'agit des préférences des dirigeants. L'Etat surplombant désormais les égoïsmes individuels, il devient le traducteur de l'intérêt public. Le lecteur peut se référer sur ce point à la partie sur les conséquences politiques, sociales et psychologiques de la bureaucratie.

<sup>14</sup> Le lecteur se reportera avec profit au livre de Marie-Bénédicte Vincent (2006), *Serviteurs de l'Etat: les élites administratives en Prusse de 1871 à 1933*, Belin.

TABLEAU 2  
MATRICE DES SYSTÈMES BUREAUCRATIQUES

	<i>Intérêt personnel</i>	<i>Intérêt public</i>
Connaissance parfaite	Choix publics Chicago	Ecole de l'intérêt public
Ignorance partielle	Choix publics Virginie	Economie politique autrichienne

Font: (Ikeda 1997, p. 240).

l'intervention publique d'une part (Mises 2003, p. 94), et de l'incapacité à satisfaire les citoyens avec le nouvel état de la société après la mise en œuvre de l'intervention d'autre part (Ibid. p. 93). Cette insatisfaction appelant de nouvelles interventions. Alors que Mises fonde la dynamique sur les limites du calcul économique dans une économie minée par l'interventionnisme public, Niskanen explique celle-ci par la recherche de l'intérêt personnel du bureaucrate à disposer d'un budget discrétionnaire toujours plus important.

L'approche de Lipsky raisonne en des termes similaires, proches de ceux de Niskanen (Lipsky 1980). Son analyse est essentiellement dirigée vers les comportements des bureaucrates en charge de l'exécution des politiques publiques. Il traite donc des bureaucrates de terrain. Il souligne les conséquences dues à une définition peu ou non précisée des objectifs de politique publique. Cette situation donne une liberté d'interprétation et d'action dans l'exécution de la production publique. Le bureaucrate dispose d'un double degré de liberté. Il est à la fois autonome et dispose d'un pouvoir discrétionnaire (Ibid. chapitre 2). Nous retiendrons ici que le bureaucrate peut s'émanciper du contrôle de sa hiérarchie. Il dispose d'une capacité de résistance et peut refuser de coopérer au sein de l'organisation si ses attentes ne sont pas satisfaites (Ibid. p. 16-18). Cette autonomie est âprement défendue par les bureaucrates de terrain face aux tentatives de contrôle éventuelles de leur supérieur. L'exécutant dispose également d'un pouvoir discrétionnaire dans la production de services rendus à la population. Les ressources étant insuffisantes pour satisfaire l'ensemble des demandes, il doit gérer la pénurie à partir de ses

propres critères et sur lesquels il a la maîtrise. Certes la loi peut déterminer la procédure pour bénéficier de tel service, les conditions d'éligibilité, mais celle-ci ne prévoit pas comment discriminer parmi l'ensemble des bénéficiaires. Ce travail est mis en œuvre par le bureaucrate, qui trouve dans celui-ci une position de force. L'analyse de Lipsky met en lumière les points de tension de la conception de Mises qui évacue cette dimension. Certes Mises souligne qu'une différence entre la gestion marchande et la gestion bureaucratique porte sur le caractère impersonnel des valorisations. Sur un marché, la valorisation porte plus sur des choses que sur les personnes qui produisent les biens (Mises 2003 (1944) p. 43 et 60-61). Les personnes sont jugées sur leur contribution productive, même si des relations plus personnelles peuvent intervenir lors d'une proximité entre le consommateur et le producteur (Ibid. p. 43). La gestion bureaucratique fait quant à elle intervenir des relations de subordination personnelles, qui peuvent se révéler oppressives (Ibid. p. 61). Mises souligne ainsi une certaine souplesse dans le respect des règles. Il s'oppose ainsi à la vision de Weber qui voit dans l'exécution bureaucratique une dépersonnalisation poussée des relations évitant ainsi les problèmes d'intérêts privés.

## **2. Théoriser le processus d'expansion bureaucratique**

Le développement de l'interventionnisme et les conditions d'expansion bureaucratique comme modalité d'allocation des ressources s'expliquent chez de Mises par l'incapacité de ce type d'économie à parvenir à un calcul économique élaboré permettant de sélectionner les plans de productions profitables. L'incapacité de l'interventionnisme à satisfaire les désirs qu'il suscite appelle à toujours plus d'intervention.

Cette dynamique peut prendre deux voies divergentes et antagoniques: celle du libre marché et celle de l'économie centralisée qui est condamnée fatalement à l'échec. Or Mises lui-même reconnaît l'existence de plusieurs formes d'interventionnisme et de degré d'intervention (Mises 1998 [1940]; 1996 (1985) [1927]). Même si les différentes expressions de l'interventionnisme peuvent être comprises comme des phases temporaires d'un processus à

l'œuvre, l'analyse de Mises reste silencieuse pour comprendre les différents états ainsi que les modalités de transition entre ceux-ci. Par ailleurs, l'accroissement de l'interventionnisme implique si nous suivons l'argumentation de Mises que l'instrument de calcul économique devient de moins en moins pertinent. Les insatisfactions associées à l'intervention publique deviennent de plus en plus importantes exigeant de nouvelles interventions dégradant d'autant plus la qualité de cet outil. Nous devons en déduire que le rythme de dégradation s'accélère à mesure de l'accroissement des interventions qui elles aussi s'en trouvent accrues pour faire face aux nouveaux problèmes et aux demandes de la population qui surgissent. La vitesse de dégradation de la situation suggère, bien qu'il reste possible de penser des états intermédiaires, un caractère singulièrement instable et peu durable de ces situations. Or la réalité contredit ce résultat, avec des sociétés où la dégradation se fait de manière progressive et à un rythme stabilisé (Ikeda 1997 p. 46), avec des Etats Providences qui perdurent, et des évolutions sociétales qui ne vont pas en sens unique, comme le suggèrent certaines révolutions libérales et managériales.

La non prise en compte de l'autonomie du bureaucrate ne permet pas de rendre compte de la mécanique interne et des arbitrages réalisés au sein de l'organisation publique. Ce point a été mis en évidence précédemment. Par ailleurs, Ikeda souligne également l'importance de la modification des prix relatifs liée à la politique interventionniste, qui pourrait être associée dans une certaine mesure à une altération progressive des préférences (Ibid. p. 133 et 154). Son argumentation consiste à prendre en considération la modification progressive des coûts relatifs de l'interventionnisme. Les interventions assurent l'obtention d'avantages pour certains groupes et elles se traduisent également un coût pour d'autres simultanément. Conceptuellement, il existerait alors un équilibre au niveau sociétal plus ou moins stable et favorable à un niveau d'intervention. L'analyse d'Ikeda suggère également une modification des préférences pour l'intervention publique (Ibid. p. 113 et 117). Lorsque celle-ci devient de plus en plus présente, elle peut conduire à une préférence accrue en faveur de l'intervention publique, ce qui faciliterait son

extension. L'approche d'Ikeda présente l'avantage de comprendre la diversité des interventions et des différences d'intensité. Des sociétés particulières peuvent avoir des préférences différentes à l'égard de l'interventionnisme en y étant plus ou moins favorable. Le rythme de développement de l'interventionnisme s'en trouve également différencié comme d'ailleurs la structure des prix relatifs. Cette théorisation aide à comprendre et à définir des structures de résistance à l'interventionnisme, mais également de rendre possible d'un point de vue conceptuel des retournements. Elle offre également des pistes de compréhension des modalités d'ajustements et de changements d'orientation plus souples sans négliger la situation de rupture (Ibid. p. 123). De fait, Ikeda introduit l'idée de rendements décroissants dans l'usage de l'interventionnisme public, alors que l'analyse de Mises suggérerait des rendements négatifs croissants (la destruction du système se réalise également à un rythme croissant (pertes marginales croissantes)). En cela, cette approche mériterait d'être affinée sur le plan théorique, ce qui rendrait possible l'interprétation des situations intermédiaires et durables des Etats Providences dans le processus de bureaucratisation.

### **3. Les limites à la conception d'une bureaucratie minimale**

L'impossibilité de procéder à un calcul économique élaboré constitue l'argument essentiel de Mises pour démontrer le caractère néfaste de la gestion bureaucratique. La bureaucratie, en tant que modalité d'exécution de l'intervention de l'Etat, serait possible seulement pour une sphère d'intervention réduite. Dans ce cas, l'agence gouvernementale peut s'appuyer sur le système de prix relatifs du marché libre pour établir des décisions rationnelles. Pour une situation d'interventionnisme généralisé, l'économie est conduite à un échec inéluctable, «à un appauvrissement général», à «la dissolution de la société et au chaos».

«[Le système bureaucratique] ne réussit qu'à désagréger l'appareil de production et distribution d'un pays. La pauvreté et la misère doivent fatalement en résulter.» (Mises, 2003, (1944) p. 8)

«Son gaspillage insouciant dissipe la richesse nationale.» (Ibid. p. 7)

Mises limite l'intervention de l'Etat aux fonctions régaliennes de police, de justice et de défense afin d'assurer la coopération sociale (Ibid. p. 23). Cette sphère d'action limitée s'en trouve justifiée à la fois pour des motifs de praticabilité de l'intervention elle-même et la nécessité de disposer des informations requises pour procéder aux décisions idoines. Elle s'explique également par les limites du marché à prendre en charge de telles productions. En effet, la production de ces biens et services par l'Etat résulterait d'une caractéristique d'incommensurabilité de l'extrait et ne saurait faire l'objet d'un calcul économique. Il s'agit de protéger la liberté et les droits des individus (Ibid. p. 51).

Cette justification enclenche donc le processus d'une première intervention de l'Etat qui nécessite le prélèvement et l'utilisation de ressources, pour assurer leur financement, ce qui accroît d'un degré supplémentaire l'intervention publique initiale. La conséquence de la justification de domaines réservés de l'Etat conduit à autoriser d'autres immixtions dans des secteurs connexes qui alimenteront l'intervention au sein d'autres secteurs. La dynamique interventionniste serait enclenchée. En effet, ces interventions, si nous suivons le schéma de Mises, doivent conduire à des distorsions sur le marché qui susciteront des appels à de nouvelles interventions. En somme, l'argumentation de Mises en faveur d'une bureaucratie minimale est porteuse de dangers réels en permettant d'initier un mécanisme dont lui-même dénonce les conséquences.

L'argument d'incommensurabilité n'est pas satisfaisant pour justifier l'intervention publique dans ces domaines, dans la mesure où le marché intervient dans de nombreux secteurs où les individus doivent établir des arbitrages impliquant une telle dimension<sup>15</sup>: éducation des enfants, système de sécurité, hygiène alimentaire... L'argument lui-même peut ouvrir la porte à de nouvelles formes d'intervention en étendant la notion de sécurité aux domaines de la santé (contrôle des ventes d'alcool, de tabac,

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<sup>15</sup> La production échapperait à un arbitrage en monnaie.



politiques de santé...), de conduites à risque (contrôle des vitesses de circulation, risques financiers et endettement...), à celles de justice et de justice sociale (favoriser la redistribution des revenus pour éviter qu'elle ne s'effectue par la violence), favoriser la politique de stabilité économique pour protéger les individus d'effets éventuels liés aux changements conjoncturels et structurels... Par ailleurs, l'argument qui postule l'incapacité du secteur privé à intervenir dans tels secteurs est contredit par un certain nombre de théories (Hoppe 1999) (Rothbard 1996 (1973)) (Tannehill 1984 (1970)) et de faits sociaux (importance du secteur privé dans le secteur de la sécurité, firmes privées de production d'armement, système privé d'éducation, de santé et d'assurance couvrant de nombreux risques). Le rejet de la conception anarchiste ou libertarienne par Mises ne nous semble pas reposer sur une argumentation logique et ouvre la porte à des contradictions au sein même de l'approche (Mises 1986, p. 37).

Mises précise que la gestion bureaucratique échappe au contrôle du calcul économique (Mises, 2003 (1944), p. 54). La formulation s'avère relativement ambiguë dans la mesure où il n'est pas précisé si cela est la conséquence ou la cause de l'intervention. L'intervention s'explique-t-elle par ce que le calcul économique ne peut faire l'objet d'une application dans ce cas précis? La gestion bureaucratique conduit-elle par sa nature à exclure toute possibilité de calcul dans le domaine d'intervention précis? En somme, la production échappe-t-elle à une évaluation par le marché parce qu'elle ne peut faire l'objet de transactions marchandes ou parce qu'elle s'y soustrait?

«Les objectifs des administrations publiques ne sont susceptibles d'évaluation en termes monétaires et ne se soumettent pas au contrôle des méthodes comptables.» (Mises 2003 (1944) p. 52)

Il semblerait que Mises partage sur ce point une position ambivalente. L'incapacité à évaluer en termes monétaires une production serait l'explication de l'intervention pour ce qui concerne des domaines circonscrits assurant la coopération sociale et d'une conséquence pour toute intervention qui irait

au-delà de ce périmètre défini<sup>16</sup>. Cette explication duale de l'intervention publique prête le flanc non seulement à de sévères critiques comme celles mentionnées dans le point précédent, mais aussi comment devient-il désormais possible de justifier cette différence? Mises n'avance aucune précision sur ce point, ce qui en affaiblit l'argumentation. L'engagement de gardes du corps assurant la sécurité physique des personnes ne peut-il pas faire l'objet de transactions sur le marché? La gestion de la santé par le secteur privé, de l'éducation des enfants par les parents ne comprend-il pas des dimensions incommensurables qui pourraient justifier l'intervention de l'Etat? Mises laisse également la porte ouverte à d'autres interprétations de l'intervention publique. Certains pourraient arguer que l'intervention publique est requise dans tel domaine du fait de l'impossibilité d'utiliser le calcul économique au motif de considérations morales. Dans ce cas, le raisonnement en termes de rentabilité des plans mis en œuvre ne se poserait pas, puisque par nature il ne pourrait s'y appliquer. En conséquence, la supériorité de la procédure de marché sur le mode de gestion bureaucratique ne pourrait être avancée, puisque nous aurions renoncé alors à ce critère. La démonstration empirique de l'échec d'un système par rapport à un autre ne pourrait plus être tranchée, comme pour délibérer sur les échecs de l'économie mixte. La justification ultime reposerait alors sur un jugement de valeur émanant de la part du dirigeant et des bureaucrates. L'argumentation de Mises nécessite ainsi d'être raffinée notamment en précisant le fonctionnement de l'organisation bureaucratique et en abandonnant la défense d'un domaine réservé de l'intervention publique ou en trouvant une justification plus cohérente avec l'ensemble théorique proposé.

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<sup>16</sup> Or comme nous l'avons précédemment remarqué, la première intervention risque fort de constituer un cheval de Troie de l'interventionnisme dans le fonctionnement du libre marché. Cette perspective suggère également l'existence d'une imbrication inévitable.

## V CONCLUSION

L'analyse de la bureaucratie proposée par Mises s'inscrit dans une réflexion générale sur l'interventionnisme public et ses conséquences sur le fonctionnement de l'économie de marché. Mises associe dans son approche la théorie de l'entrepreneur et le problème de l'économie de marché. Les deux s'articulent pour produire les biens demandés tout en réalisant la production au moindre coût. L'économie de marché sert ainsi de référentiel pour comprendre les conséquences de la gestion bureaucratique, dont les caractéristiques génériques présentent une certaine proximité avec la conception de Weber.

La bureaucratie se conçoit chez Mises comme une technique de mise en œuvre de l'intervention publique, qui conduit inévitablement au délabrement économique et au chaos social en détruisant la coopération entre les personnes. Le risque politique n'est pas négligeable puisqu'il peut dériver rapidement vers un système totalitaire. Mises a clairement identifié les raisons de cette incapacité de la bureaucratie à opérer efficacement. L'absence du mécanisme de profit et le non-sens du calcul public, lorsqu'il est mis en œuvre ne permet pas de satisfaire les consommateurs. Une destruction de richesses doit s'en suivre. Les conséquences sociales et psychologiques ne sont pas moins importantes, puisqu'il s'agit ni plus ni moins de la mise sous tutelle progressive d'une société qui s'en trouve dès lors condamnée à la sclérose, à l'immobilisme, annihilant les ressorts que sont la jeunesse, l'innovation, la constitution d'un capital et qui permettent de bâtir un avenir pour la société. La fin ultime conduit alors à un inéluctable déclin et à la destruction de la société elle-même.

Il reste que cette approche présente certaines apories qui exigent de nouveaux développements. Cet effort pourrait prendre la forme d'une nouvelle élaboration d'une théorie autrichienne de la bureaucratie, prenant racine dans les travaux précurseurs de Mises et de Rothbard, tout en se démarquant de la conception plus en vogue développée par l'école des choix publics.

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# ON SAY'S LAW, KEYNES'S MONEY, AND POST KEYNESIANS

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*Abstract:* Say's Law maintains that there can never be a superabundance of all goods (if any good were available in greater supply than needed, such as water or air, it would no longer be an economic good at all) and that if there is an excess of some items that are still goods, it will be matched with an insufficiency of others. The reputation of Keynes (1936) was made in part on the basis of a supposed refutation of Say's Law. This paper attempts to probe the irrationality of Keynes' position by examining his concept of money and its relationship to his theory.

*Key words:* Say's Law; Keynes; money; economic goods; animal spirits; unemployment.

*JEL Category:* E12.

## I INTRODUCTION

«Men are involuntarily unemployed if, in the event of a small rise in the price of wage-goods relatively to the money-wage, both the aggregate supply of labor willing to work for the current money-wage and the aggregate demand for it [labor]

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at that wage would be greater than the existing volume of employment»

KEYNES (1936, 15).

«But the Stock exchange revalues many investments every day and the reevaluations give a frequent opportunity to the individual (though not to the community as a whole) to revise his commitments»

KEYNES (1936, 151)

«Investments which are thus 'fixed' for the community are made [by the existence of a stock market] 'liquid' for the individual»

KEYNES (1936, 153)

«Of the maxims of orthodox finance none, surely, is more anti-social than the fetish of liquidity...It forgets that there is no such thing as liquidity of investment for the community as a whole»

KEYNES (1936, 155)

The principle that has come to be known as Say's law is considered to be an essential element of classical economics. Properly understood, there are two aspects to Say's law: 1) there can never be a glut of goods in general; 2) there can be a glut of some goods matched by an insufficiency of other goods. Say himself understood this principle to apply to monetary as well as barter economies. It is the case of monetary economies that is relevant for the purposes of this paper.

Say's Law applied to a monetary economy of  $n$  goods,  $x_1, \dots, x_{n-1}$ ,  $M$ , where  $M$  is the money good. Say (1880) maintains that there can never be a glut of the  $n$  goods combined; however, there can be a surplus of any subset of the  $n$  goods, in which case there necessarily would be a paucity of the goods in the complementary subset. More simply put, there cannot be too many goods in general, but there can be too many of some goods and not enough of others (Sowell, 1972). In such cases, there is a misallocation of resources. Producers have misjudged consumers'



sentiments and produced a suboptimal mix of goods. What is required is a realignment of relative prices such that prices of those goods in excess be decreased relative to the prices of those of which there is a dearth. Of course, that is precisely the way free markets work. The producers of the «glut goods» make actual losses and the producers of «dearth goods» forego potential profits. Their response is to adjust prices altering the structure of prices and reallocating resources more in accord with the desires of consumers. And, it makes no difference if M is the sole good for which there is an insufficiency.

Keynes (1936, 26) misstates Say's Law: «Thus, Say's Law, that the aggregate demand price of output as a whole is equal to the aggregate supply price for all volumes of output, is equivalent to the proposition that there is no obstacle to full employment.»<sup>1</sup>

However, Keynes actually agrees with the correct version of Say's Law. What Keynes disagrees with is the adjustment process when the primary «dearth good» is money. According to Keynes, investment – expenditures on new capital goods - are in effect a crapshoot and subject to sudden and large decreases.<sup>2</sup> In such cases there is a rise in liquidity preference; i.e., a boost in the hoarding of money<sup>3</sup> or, in Quantity Theory terms, a fall in the velocity of money.<sup>4</sup>

In section II we discuss Keynes's theory about money and economics; here we offer the building blocks of his system. Section III is devoted to the problems with the foregoing. The

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<sup>1</sup> Keynes provides no cite to Say's works to support his interpretation.

<sup>2</sup> One hears far less of sudden and large increases from this quarter. «Animal spirits,» evidently, point in only one direction.

<sup>3</sup> Hoarding of money occurs when the weighted-average period between receipt and expenditure of money increases.

<sup>4</sup> Some authors refer to this, incorrectly, as an increase in the demand for money. This is to misuse the technical term, demand. One may refer to the stock of money at a point in time, but if one wishes to use correctly the term «demand» in reference to money, it must be in the plural form, as it is of the essence of a monetary economy that money trades against all other goods. Therefore, in a specific market, say for good X, there is a supply of good X that constitutes a demand for money and a demand for good X which constitutes a supply of money. As money has no market of its own, but rather trades in every market, there are *demands* for money and *supplies* of money, not a, or the, demand for, and supply of money.

burden of sections IV and V are to analyze the views of Lerner and Davidson, respectively, on these issues. In section VI we deal with what might be considered an anomaly: Keynes' concern with money. We conclude in section VII.

## II

### ON KEYNES'S MONEY AND KEYNES'S ECONOMICS

There is no doubt as to what Einstein (1920) meant in his General Theory of Relativity. Although physicists do not accept his General Theory as the last word and are still trying to come to a better understanding of reality, yet *they are not arguing about what Einstein meant* 85 years and more after its publication. However, this is not the case with Keynes' 1936 book *The General Theory of Employment, Interest and Money* (hereinafter, GT). Ever since this treatise was published economists have disagreed as to what Keynes said. Moreover, they have also disputed whether he was essentially correct or incorrect, and as to what, if anything in this book is useful or harmful. Thus, some sixty years and more after its publication, *economists are still arguing about what Keynes «really» meant* in his GT. That is a difference between science and pseudoscience. Or, with apologies to Churchill, «The General Theory is a riddle wrapped in a mystery inside an enigma.»<sup>5</sup>

Consider the complete title of the GT: «The General Theory of Employment, Interest, and Money.»

What is the essence of Keynes's theory? Consider the following building blocks:

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<sup>5</sup> On the clarity of the GT, recall the words of future Nobel Laureate Samuelson (1946): «[Keynes' GT] is a badly written book, poorly organized; any layman who, beguiled by the author's previous reputation, bought the book was cheated of his five shillings. It is not well suited for classroom use. It is arrogant, bad tempered, polemical, and not overly generous in its acknowledgements. It abounds in mares' nests or confusions....Flashes of insight and intuition intersperse tedious algebra. An awkward definition suddenly gives way to an unforgettable cadenza. When finally mastered, its analysis is found to be obvious and at the same time new. In short, it is a work of genius.» On the quote from Churchill, see <http://www.phrases.org.uk/meanings/31000.html>

### 1. Animal spirits, not rational risk taking.

States Garrison (1989,15): «the decision to invest is based, in large part, on the groundless expectations held by the business community, or on animal spirits, to use Keynes's own terminology. Not surprisingly, booms and busts occur with the waxing and waning of business confidence.»

### 2. Liquidity preference.

«Social» liquidity can be changed, but only slowly over time; and thus is quite low. It consists in how quickly the real assets; i.e., the capital goods (and durable consumers' goods and, today, we would add, the human capital) of the members of society, can be transformed from their current use to more desirable alternatives. It takes into account the effects of such changes in use on the value of these goods in terms of their ability to satisfy wants directly or indirectly. «Private» liquidity consists in how quickly an individual thinks he can exchange his current stock of assets for other more desirable ones, without loss of value. This, at least in an advanced market society, is usually quite high, but subject to rapid change and thus can become very low. When speaking of individual goods, money is of course the most liquid of all. An extremely specialized good with no feasible alternative uses,<sup>6</sup> it is highly liquid, especially in times when there is a relative abundance of it with respect to the then current and expected future demands for its services. Alternatively, an extremely specialized good with no feasible alternative uses is highly illiquid, especially in times when there is a relative abundance of it with respect to the then current and expected future demands for its services.<sup>7</sup>

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<sup>6</sup> We speak here of fiat currency, not gold. The latter has alternative uses in jewelry, dentistry. Apart from use as wall paper, the former has none.

<sup>7</sup> Although this description might seem to fit money, in fact money is not highly specialized in the sense relevant here. Yes, money is specialized as a medium of exchange, but specialized here refers to a good's abilities to satisfy, directly or indirectly, an individuals' wants. Because money can be used to purchase virtually any good, it can be used to satisfy more wants than any other good. Therefore, in the relevant sense, money is not a highly specialized good.

3. A highly unstable demand for investment goods that is also very interest inelastic.

When businessman's confidence wanes, so does their demand for new capital goods. The decline in demand for new capital goods is experienced in those industries that produce them and the materials necessary to such production. Workers in these industries are laid-off. Moreover, not only do investors reduce their purchases of new capital goods, they also attempt to sell used ones. Alternatively, they may substitute share sales for this latter. This can occur either if, or because for various reasons, the decline in the value of the used goods is not registered appropriately in the stock market, or because they do not have the necessary authority to liquidate them, and those who do have it do not use it. Thus, in addition to decreased production of new capital goods and concomitant unemployment, the decrease in confidence is manifested by declines in the excess demands for existing shares of stocks; their supplies increase relative to the demands therefor, with concomitant reductions in share prices. Bond prices also fall. Investors anticipate a slowdown in the economy with decreased demand for borrowed funds and, therefore, lower interest rates. Consequently, they step up their purchases of bonds in an attempt to lock in the current rates, and in the process bid up prices and depress bond yields. One outcome of all this is a flight to «liquidity and quality.» In the age-old contest between fear and greed, fear reigns, at least temporarily. Investors turn next to short-term securities, especially those perceived as less risky; e.g., short-term Treasuries, and deposits; i.e., money. This is because money is both the most liquid of all goods and also the highest quality, in the sense of lack of default risk. That is, there is an «increase in the demand for money» or, more accurately, an increase in its hoarding.

4. Effects of a change in confidence on liquidity.

A decline in confidence makes society more liquid (in the economic sense) in that the *percentage* of total wealth held in

liquid form is greater than before. This sounds impossible at the outset. Yes, everyone can *attempt* to become more liquid. But, surely, the entire economy cannot *succeed* in this goal, certainly not in the short term. This result thus comes about not by everyone suddenly producing more liquid goods, but by a reduction in the value of less-liquid preexisting goods as the marginal economic actor attempts to unload them.

If one merely looks at the stock of capital goods including human capital in terms of its capability of producing goods without reference to the value thereof, liquidity appears not to have changed at all. Assume as given the size of the stocks of durable consumer goods and durable capital goods again including human capital, relative to current production thereof. Posit that they have a relatively high degree of specialization in terms of the limited range of goods to the production of which they can be reallocated at a cost that does not exceed the benefit thereof. Then, the degree of «physical liquidity» is relatively low – one might venture to say very low. And it changes very slowly over time no matter how frequently and at what terms its ownership changes, save only in the cases of wars and natural catastrophes.

However, economic liquidity is another matter, as it is concerned with the *values* of the capital goods. Those can change, not only very rapidly, but also by huge amounts, whether gains or losses. And, it is values that are important for economics. That is, a society can greatly increase its economic liquidity in a very short period of time. Unfortunately, it can do so only by becoming poorer: by devaluing its illiquid assets relative to its liquid assets. Note that the physical liquidity changes hardly at all, which essentially means that society's capacity to produce goods in terms both of the quantity and the mix thereof is unaltered. However, the value of those goods, and the goods that produce them decrease, although by varying amounts.

5. The increased hoarding (aka an increase in the demand for money) causes a shortage of money.

Concomitant with the increase in demand for money is a decrease in demand for goods. That is, there has been a shift in

demand from those goods that are less liquid to those that are more so, especially toward the most liquid of all goods, money. Then:

- A. There should be a period of adjustment in which prices adjust to the shortage of money / decrease-in-demand-for-goods by increasing the value of the money (relative to goods); i.e., a general deflation, to bring the prices of goods in line with reduced monetary demands therefor.
- B. Even if prices are allowed to so adjust, it takes a considerable period of time as workers resist pay cuts thereby limiting them, the more so if they are unionized; in any case they resist for reasons of «equity.» Result: increased unemployment.
- C. If wages are not allowed to adjust in a downward direction either because of union power or governmental interference in the market, then, price cuts are virtually ruled out. Result: Again, increased unemployment, but in this case more severe.

6. According to Say's Law, beyond a temporary adjustment period, the shift in demand should not have any effect on the level of resource usage, including labor, but only upon the allocation of resources, including labor, to the production of different goods, with resources shifted away from those goods the demand for which has fallen and to those goods the demand for which has increased.

### III PROBLEMS

The problem with the foregoing is not in the nature of the goods experiencing a fall in demand but, rather, in the nature of those experiencing a rise. And this is where the virtually totally neglected part of Keynes (1936, 229-234) having to do with the «essential properties» of money enters.<sup>8</sup>

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<sup>8</sup> The only school of economics which these properties play a role is the Post Keynesian. On this, see the addendum.

Keynes' analysis goes something like this. In general, when demand shifts from one group of goods, A, to another group, B, the market will reallocate resources from production of A to B. That is, the classical model (Say's Law) will work despite perhaps minor adjustment «inconveniences.» However, if B happens to be money, then all bets are off. The classical model doesn't work. Say's Law becomes inoperable. In any case, the labor freed-up because of the reduced production of A is not required for the manufacture of B, or even of substitutes for it in its essential function as a medium of exchange.

In the view of Keynes (1936, 230-231):

The first characteristic which tends toward the above conclusion is the fact that money has, both in the long and in the short period, a zero, or at any rate a very small, elasticity of production, so far as the power of private enterprise is concerned, as distinct from the monetary authority; - elasticity of production<sup>8</sup> meaning, in this context, the response of the quantity of labour applied to producing it to a rise in the quantity of labour a unit of it will command. Money, that is to say, cannot be readily produced; - labour cannot be turned on at will by entrepreneurs to produce money in increasing quantities as its price rises in terms of the wage-unit. In the case of an inconvertible managed currency this condition is strictly satisfied. But in the case of a gold-standard currency it is also approximately so, in the sense that the maximum proportional addition to the quantity of labour which can be thus employed is very small, except indeed in a country of which gold-mining is the major industry. [Footnote text omitted.]

...

The second *differentia* of money is that it has an elasticity of substitution equal, or nearly equal, to zero; which means that as the exchange value of money rises there is no tendency to substitute some other factor for it; - except, perhaps, to some trifling extent, where the money commodity is also used in manufacture or the arts. This follows from the peculiarity of

money that its utility is solely derived from its exchange-value, so that the two rise and fall *pari passu*, with the result that as the exchange value of money rises there is no motive or tendency, as in the case of rent-factors, to substitute some other factor for it.

Thus, not only is it impossible to turn more labour on to producing money when its labour-price rises, but money is a bottomless sink for purchasing power, when the demand for it increases, since there is no value for it at which demand is diverted - as in the case of other rent-factors - so as to slop over into a demand for other things.

It says something about the clarity of Keynes' thought processes and the results thereof that he (Keynes, 1936, 229-230) refers to these very specific qualities as «special characteristics [of the kind of money to which we are accustomed]» and «peculiarities that commonly characterize money as we know it» in Chapter 17: The Essential Properties of Interest and Money, on pages listed in the index under «Money - its essential properties, 222-44, 293,» when only a few pages before (Keynes, 1936, 167, n.<sup>o</sup> 1) in Chapter 13: The General Theory of the Rate of Interest, he maintains that: «Without disturbance to this definition [of the rate of interest], we can draw the line between “money” and “debts” at whatever point is most convenient for handling a particular problem.»

In other words, according to Keynes, rises in the demand for money do not call forth additional labor to produce it. Moreover, this is true whether we are talking about paper money, bank money, or, even, a commodity money, save for one circumstance. That exception, and one not likely to be of import in the real world: only if the mining of the monetary commodity is a major industry of the relevant country, will there be much scope, if any at all, for additional employment opportunities.

Moreover, as the value of money increases there is no substitution of other goods to satisfy the wants for which it provided. If the price of beef goes up in consequence of increased demand therefor, people tend to substitute other goods; e.g., pork, for it. Therefore, even if there were no possibility of shifting labor to the production of beef, jobs would still open up in the



hog industry. But, according to Keynes, this cannot happen with respect to money. It is impossible for other goods to substitute for it. The essence of money is that it is a generally accepted medium of exchange and means of final payment. No other goods serve these functions; had they, they would be money itself now, and before the onset of the liquidity problems. He does allow for this possibility under a gold standard, that there might be some shift of gold from non-monetary to monetary uses, but this would not entail the use of much labor.

Keynes' reasoning referring a commodity-money economy is fatally flawed. Suppose, again, that demand shifted from capital goods to liquid assets. In such an economy, even if it had no mineral deposits of the money commodity at all, there would still be no problem, apart from short-run adjustments. For resources, labor most specifically included would be shifted to the production of those goods offering the best opportunity for sale internationally. In other words, the commodity-money need not be produced domestically, it can be imported in *exchange* for other goods that can be produced domestically. Any country can take advantage of this possibility, it being of most importance to those that do not have a significant gold mining industry, or the potential for one. A country need but produce more of those goods in which it has a comparative advantage and export them. If they do so, then, Keynes very much to the contrary, they will not suffer the slings and arrows of the detriments attached to his «liquidity trap.» In fact, there will not be one.<sup>9</sup>

It turns out, then, that Say was correct, at least with respect to a commodity-money economy; to wit, if people's demands shift away from other things and to gold, then either the labor

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<sup>9</sup> Keynes (1936, 230-231) notes this opportunity: «...whereas if money could be grown like a crop or manufactured like a motor-car, depressions would be avoided or mitigated because, if the price [sic] of other assets was tending to fall in terms of money, more labour would be diverted into the production of money; - as we see to be the case in gold mining countries,» and then immediately disparages it, continuing. «though for the world as a whole the maximum diversion in this way is almost negligible.» Of course, for «the world as a whole» to be relevant, one would have to assume that the sudden, irrational, failure of nerve, that manifests itself as Keynes' fetish of liquidity, is truly massive – on an international scale.

unemployed by the shift will, after a short adjustment period, become employed either in the gold mining and processing industries, or in industries that produce for export. There would be no general glut of goods, rather a surplus of some and a shortage of others. This would be dealt with by the market process through price adjustments and consequent factor reallocations.

But what of the case of a fiat money economy? It turns out that Keynes' concept of the liquidity trap is a possibility in a world of inconvertible paper currencies and deposits backed by them. For it is precisely such monies that have the two characteristics discussed above. Therefore, a decrease in the demand for capital goods that manifested itself, *inter alia*, as an increase in the demand for fiat money would neither create employment to increase the supply in response thereto – it really does not take much labor to increase the quantity of such monies by any amount - nor would demand shift to other goods to be used as substitute monies for the fiat currencies. So there would be no creation of demand for labor on that account. A Keynesian type liquidity trap is then possible in a fiat currency economy. There can, then, be a general glut of goods in a fiat money economy. If demands shift away from other goods and to the fiat money causing unemployment, the supply of the currency can be increased without increasing the demand for labor. By virtually instantly and at almost zero expense (adding a few zeroes to the currency), the supply of currency can be increased to meet the demand, so that there is no shortage of money to offset the surplus of other goods.

We entertained these notions only *arguendo*. We now explicitly reject the key assumption that drives Keynes' analysis of this scenario. Keynes' reasoning is correct with respect to the effects a significant shift in demand from capital goods to liquid assets would have in a paper- and/or banknotes-money economy. The flaw, and it applies to commodity-money economy with the same strength, is his assumption about the initial cause of the problem: Keynes assumes that in a free market economy of profit seeking entrepreneurs/investors/businessmen investment demand is volatile because «the decision to invest is based, in large part, on the groundless expectations held by the business community, or

on animal spirits, to use Keynes's own terminology» (Garrison, 1989, 15).<sup>10</sup>

However, the fact that an economy does not have commodity money logically implies that it is not entirely a free market economy (Rothbard, 2005; Block, 1999).<sup>11</sup> Should the government, or the government in conjunction with the banks, increase the supply of money, this could cause a false boom, crisis, and bust (Rothbard, 1963. Mises, 1998; Garrison, 2001). But in that case the cause and course of the bust would be very different from that theorized by Keynes. And, *a fortiori*, policy implications would be very different from those proposed by Keynes and his followers.

We have been employing the *arguendo* method in a second sense, all throughout this paper. Implicitly we have been assuming the Keynesian collapse of confidence scenario, unless new jobs can be found somewhere to offset those that a gold mining industry

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<sup>10</sup> To quote Keynes directly: ... it is probable that the actual average results of investments ... have disappointed the hopes that prompted them ... If human nature felt no need temptation to take a chance, no satisfaction (profit apart) in constructing a factory, a railway, a mine, or a farm, there might not be much investment as the result of cold calculation. (Keynes, 1936, 150)

Even apart from the instability due to speculation, there is the instability due to the characteristic of human nature that a large proportion of our positive activities depend on spontaneous optimism rather than mathematical expectations, whether moral or hedonistic or economic. Most, probably, of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as the result of animal spirits - a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities (Keynes, 1936, 161-162)

... human decisions affecting the future, whether personal or political or economic, cannot depend on strict mathematical expectation, since the basis for making such calculations does not exist ... it is our innate urge to activity that makes the wheel go around ... (Keynes, 1936, 162)

<sup>11</sup> It cannot be denied that there are some «free banking» Austrian economists who think that fractional reserve banking could and would exist in a fully *laissez faire* system, and that it would not be fraudulent under the proper institutional arrangements. For example Selgin, 1988; Selgin and White, 1996; White, 1989. However, in our view this is mistaken. See on this Block and Garschina, 1995; Callahan, 2003; Cochran and Call, 1998; Hoppe, et. al. 1998; Hoppe, 1994; Hulsmann, 2002a, 2002b; Rothbard, 1962; Sechrest, 1988, 1993; Shah, 1997; de Soto, 1995, 2001, 2006.

would offer, then unemployment is the inevitable result. But to do so would be to ignore that lesson that Hazlitt (1979) offered us: employment can always take care of itself in the free market.<sup>12</sup> What we want as a society are not jobs, per se, but, rather, the goods and services created through labor. Keynes, in other words, looks at this matter wrong side out. And how does the marketplace create this «miracle» of no involuntary unemployment? Simple. Through adjustments in various wage rates, both with respect to other wage rates and especially with respect to prices. For even if given or specific wage-rates are in their proper relationship with other wage rates, if they are too high relative to prices, unemployment will ensue.<sup>13</sup> If they are «sticky» in a downward direction on a permanent basis, then we have left the realm of economic freedom. But then it is this lacuna, not anything unique about money, that is responsible for our economic plight.

#### IV LERNER

Lerner (1952, 184) analyzes Keynes' essential properties of money as follows: «Section III [of Chapter 17 of GT] considers three reasons why *money* may be the culprit.» The culprit, in this context is «any asset (e.g., money) whose 'rate of interest' refuses to fall enough, [such that] we will find ourselves without the investment on which prosperity depends» (Lerner, 1952, 182, footnote omitted).

Lerner (1952, 184, reference omitted) continues:

The marginal efficiency of money refuses to fall because:

i) Its elasticity of production is negligible, i.e., it cannot be 'grown

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<sup>12</sup> Free should be taken, here, to mean in every way, save for the use of a fiat currency.

<sup>13</sup> If wage rates are too low relative to prices, unemployment will also ensue. However, competition among employers in a free market economy will quickly eliminate such a situation as they would bid up wage rates in order to acquire more employees.

like a crop or manufactured like a motor car.' ... This has two consequences. In the first place there is no *direct* increase in investment when there is an increase in demand for money, and in the second place there are no increases in its stock to lower the marginal efficiency of holding it.

Money is not the only asset that is thus fixed in supply (apart from government action) ...»

But, this is exactly the point we deal with in the text. Yes, if we are considering a fiat money economy, the elasticity of production of money is zero, and increases in demands for it will not call forth additional labor to produce more of it. Moreover, if such an economy is also characterized by interventionism such that wages, prices, and interest rates are not free to adjust to changes in supplies and demands, then significant unemployment, in terms both of the numbers of people unemployed and the lengths of their periods of unemployment can come into existence. Indeed, these interventions, *not* the zero elasticity of money production with regard to employment, are responsible for the joblessness. However, as we saw above, even with a fiat money; i.e., one with a zero elasticity of production, significant unemployment will not result without interventionism. Moreover, except in the case of a fiat money; i.e., in cases of commodity monies, the elasticity of production will *not* be zero. At least, it will not be zero if we allow for «indirect production.» Lerner, *supra*, says: «there is no *direct* increase in investment.» But, for employment and unemployment; i.e., to employers and employees, as a group, it is irrelevant if an increase in investment is direct or indirect.<sup>14</sup> Lerner, then is talking of a fiat money economy; «fixed in supply (apart from government action).» But, in a commodity money economy, the elasticity of production is *not* zero. This holds directly, if there is a significant gold industry,

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<sup>14</sup> This, of course, is not to deny the existence, importantly, of distribution effects; i.e., who benefits more relatively, from a direct v. an indirect increase in investment. But, in terms of the economy as a whole, it is irrelevant.

or indirectly, through production of goods for export in exchange for gold.<sup>15</sup>

Unemployment for Lerner, and according to him, Keynes, then, results from a liquidity trap. But liquidity traps are in turn dependent upon money fiat money.

One might ask why Lerner is included in this article. The reason is, he seems to be the first major economist to focus on Keynes' view on the essential properties of money. It is the position of the present authors that although not a Post Keynesian himself, Lerner was interested in, though critical of, some of the same ideas of Keynes that are central to the Post Keynesians.

## V DAVIDSON

More directly on point is Paul Davidson, undoubtedly the leader of the Post Keynesian movement in the U.S., if not globally.

In a recent article Davidson (1998, 824, emphasis added, reference omitted) states:

Keynes ... recognized the *need* to 'throw over' these classical axioms. The resulting unemployment model [of Keynes in the GT] has four *fundamental* attributes that are missing from classical models but are relevant to money-using, market oriented economies:

The fourth *fundamental* attribute (Davidson, 1998, 827-828) is:

4. *Money provides liquidity because it possesses two essential elasticity properties* (Keynes, 1936a [The GT], ch. 17, see especially p. 241,

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<sup>15</sup> It would be entirely possible to have significant unemployment in a commodity money economy if it had no gold industry and if there were intervention in export markets such that because of tariffs, etc., they were prevented from exporting, or using their export earnings to import gold. Indeed, this would be by far the most likely outcome.

n.º 1). First, its elasticity of production is (approximately) zero, i.e., *money does not grow on trees*. Readily producible goods (i.e., things with high elasticities of production), therefore can never fill the liquidity role played by money.»

For Keynes (1936, 230, footnote omitted), «elasticity of production mean[s] in this context, the response of the quantity of labour applied to producing it to a rise in the quantity of labour which a unit of it will command.»

We include, here, the footnote of Keynes' that Davidson especially wants us to consider; to wit:

«The attribute of liquidity» is by no means independent of the presence of these two characteristics. For it is unlikely that an asset, of which the supply can be easily increased or the desire for which can be easily diverted by a change in relative price, will possess the attribute of «liquidity» in the minds of owners of wealth. Money itself rapidly loses the attribute of «liquidity» if its future supply is expected to undergo sharp changes.

Before going any further, it is interesting to note that these fundamental attributes and the central role they play in Keynes' system are found in chapter 17 of the GT, about which Hansen, perhaps the leading American Keynesian (but by no means a Post Keynesian) of his generation, had this to say (Hansen, 1953, 159): «Immediately after the appearance of the *General Theory* there was a certain fascination about Chap. 17, due partly no doubt, to its obscurity. Digging in this area, however, soon ceased after it was found that the chapter contained no gold mines.»<sup>16</sup> Immediately thereafter, he damns it with faint praise: «Still the discussion (though it certainly could be improved) is not altogether without merit, and some interesting bits can be extracted from it; *yet, in general, not much would have been lost had it never been written.*» So says Hansen, about the chapter in which Keynes explicates his two essential properties of money, which, taken together, Davidson

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<sup>16</sup> This is a particularly inelegant metaphor, given the attitudes of Keynesians of all stripes and varieties, toward the yellow metal.

maintains are one of the four fundamental attributes «missing from classical models but [which] are relevant to money-using, market-oriented economies.»

Davidson (1998, 827-828) then goes on to discuss Keynes' second essential property of money. This, along with the first, constitutes the fourth fundamental attribute:

Second the elasticity of substitution between all liquid assets (including money) and the *products of industry* is (approximately) zero. The private sector will not reallocate labor from producing goods to harvesting money from the money tree if people decide to spend less of their income on the products of industry and plan to use the resulting saving to become more liquid; i.e.; by storing the saving in the form of money or other liquid assets and thereby raise the price of nonproducibles [sic] liquid assets relative to producibles. Hahn (1977, p.39) implicitly utilises these elasticity properties when he demonstrates that the existence of any 'nonreproducible asset [i.e., a durable that has a zero elasticity of production] allows for a choice between employment inducing and non-employment inducing demand. But, of course in a monetary economy money is an important nonreproducible asset'. The only necessary condition for the existence of involuntary unemployment equilibrium is that there are 'resting places for saving [in] other than reproducible assets' (Hahn, 1977, p. 31), i.e., producibles are not substitutes for money (or liquid assets) for storing value (saving) and therefore the gross substitution axiom is not applicable.

Where to begin? There is enough error in the preceding page and one-half almost to-warrant an entire monograph. Consider, first the issue of the elasticity of production. Davidson says money's elasticity of production is zero or «*approximately*» so [our emphasis]. In Keynes' (1936, 230) view money has a «zero, or at any rate a very small, elasticity of production.» Moreover, Keynes (136, 241) states that: «For it is unlikely that an asset of which the supply can *easily* be increased or the desire for which can be *easily* diverted by a change in relative price [sic] will possess the attribute of 'liquidity'...» But liquidity is an essential



quality of money for Keynes. And, Davidson quotes Hahn: «But in a monetary economy money is an important nonreproducible asset,» and then in an aside tells us that a nonreproducible asset «has a zero elasticity of production.» It would appear that all of this is an attempt to have your cake and eat it, too.

They maintain that assets are either nonreproducible; i.e., have a: zero [Davidson], or «*approximately*» zero elasticity [Davidson], or «*very small*» [Keynes] elasticity of production, or for which resources cannot be «*easily*» diverted; i.e., a very small [Keynes, again] elasticity of production, or else, by implication it is very large. That is, the implication is that assets are either nonreproducible with a zero elasticity of substitution or they are reproducible with a very high elasticity of production; they seem to rule out the possibility of reproducible assets having an elasticity of production that is neither very small nor very large, but rather of in an intermediate range. However, goods with high elasticities will not do for money for Keynes (1936, 241, n.<sup>o</sup> 1): «For, it is unlikely that an asset, of which the supply can be easily increased or the desire for which can be easily diverted by a change in relative price, will possess the attribute of 'liquidity.'» But liquidity is an essential quality of money.

So there you have it: either an asset is «nonreproducible» or nearly so, in which case it can serve as money; or it is readily or easily reproducible, in which case it cannot. And what of a commodity like gold, that is reproducible but not readily or easily? Could it serve as money? Well, according to Keynes, «Yes, but...» Its elasticity of production is so low, save in a country of which it is an important industry, that it is very similar to fiat money in that it cannot be much counted upon to increase the need for employment. If, then, the difference between gold and fiat money is truly negligible (apart from gold producing countries such as Russia and South Africa), then why rely on the barbarous metal for money? Instead, it seems more sensible to use paper and conserve the gold for important uses such as jewelry, etc.

The idea of the zero elasticity of production is to focus our attention on fiat money. The last thing Keynesians of any sect want

to be money, or a monetary standard, is gold<sup>17</sup> (that barbarous relic). No, they want the media of exchange to be under the policy control of government - they are, essentially, socialists. But the elasticity of production of gold money is neither zero (nor even approximately so) like fiat money nor is it very high. Rather, it occupies an intermediate range, one that Keynes and Davidson want to ignore into nonexistence. That is, if the elasticity of production of gold, (directly, or indirectly via production for export markets) is neither so low as to be a sinkhole for liquidity demand nor so high as to make it unsuitable for liquidity purposes, then gold is a viable alternative to fiat money; in fact, because fiat money *is* a sinkhole for liquidity demand, and gold money is not, the latter is the money par excellence.

But there is more to the story. Davidson engages in a non sequitur when he states that: «the elasticity of production of money is (approximately) zero, i.e., *money does not grow on trees.*» But, this is exactly backward, or at least it is if the phrase «money does not grow on trees» has its usual meaning. The ordinary language connotation is that if «money grows on trees,» it is free; i.e., it is not costly to acquire (in this context, produce) money; if in contrast it «does *not* grow on trees,» then it is costly to acquire (produce). But, for money to have a zero elasticity of production, «money must grow on trees;» i.e., it must be able to be produced costlessly; i.e., without employing labor. Davidson's misuse of a metaphor confuses the issue.

And then there is Hahn's: «producibles are not substitutes for money.» This runs counter to correct theory; i.e., a good which is producible can be used as money, but will not be if it is so

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<sup>17</sup> This is more than passing curious, given that Post Keynesians are hard and fast advocates of fixed exchange rates (Davidson, 1998, 818-821), and the gold standard is the ultimate in fixed exchange rates. In fact, with a true gold money, in contradistinction to a gold standard, exchange rates do not even exist, and, therefore, the issue of fixed exchange rates is moot. Moreover, because gold money eliminates exchange rates, it eliminates any and all uncertainty that arises when they exist. And because it is precisely for the reason that they wish to eliminate uncertainty arising from exchange rate fluctuations that Post Keynesians advocate fixed exchange rates, one would expect that gold would be the ne plus ultra money for them.

easily producible as to not have much value per unit of weight and/or bulk; i.e., if it is not easily portable.<sup>18</sup> Then there is Hahn's statement: «the only necessary condition for the existence of involuntary unemployment equilibrium is that there are 'resting places for saving [in] other than reproducible assets.» But this too is incorrect. Old Masters, rare stamps, etc., as well as paper money and bank deposits are *potential* «resting places for saving;» however, in an economy that also has gold money, their mere existence is not sufficient for the existence of involuntary unemployment; rather, what is required is interventionism, such that wages, prices, and interest rates are not free to adjust to changes in freely offered demands and supplies of goods, including money.

Thus, we see that the Post Keynesians, the only group to take Keynes at his word, both that money is important and what are the essential properties thereof, get it wrong. For that matter, this assessment applies to Keynes, himself.

It also behooves us not to fall into the trap of thinking that if gold were but available in most or all countries (and we could ignore the beneficial effects of international trade which obviate this need in the first place), then its advantage would be that it would create jobs when the demand for money increased. As long as government does not place any obstacles to a fall in prices and wages, additional jobs are by no means needed in gold, or, indeed, in any other single industry. Very much to the contrary, Say (1880) was entirely in the right and Keynes (1936) completely in the wrong. Whenever there is unemployment in an industry, wages fall relatively to those in others. And when they do, *ceteris paribus*, more employment slots open up. If there is still joblessness at any given time, this indicates, only, that wages have not decreased sufficiently. And this phenomenon is totally divorced from the type of money (gold, fiat, whatever) in circulation at the time.

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<sup>18</sup> And then there is the exception, even to this, of the stone money of Yap. Of course, this is irrelevant to our discussion.

## VI KEYNES ON MONEY?

The very concept, «Keynes' money,» sounds awkward to the modern (economic) ear. After all, it was followers of Keynes who denigrated the public policy implications of money («pushing on a string»)<sup>19</sup> while it was the erstwhile *opponents* of Keynes, the members of the Chicago School, who insisted that «money matters.»<sup>20</sup> There are several fallacies and infelicities locked up in these claims; that is, the majority of the economics profession has a tin ear in this regard.

First of all, the word «money» appears in the very title of Keynes (1936). Moreover, several of the chapter headings in this book feature the «m» word. Say what you will about Keynes, and his critics (Hazlitt, 1959, 1960) have had much to say on this score, no one has accused him, let alone made it stick, that he would so grievously and almost fraudulently choose such a misleading title for his work. No, Keynes was interested in money, and thought it important.<sup>21</sup>

Secondly, the Chicago School is by no means an opponent of Keynesianism. Very much to the contrary, at least if one of its leaders, Milton Friedman can be believed, who stated «we are all Keynesians now.» Money may indeed «matter» for them, but that cannot gainsay this claim.<sup>22</sup>

It cannot be denied that there is a *difference* between the «monetarist» and non monetarist wings of the Keynesian movement in terms of the importance of money. For the Chicago school Keynesians, «money matters» means that monetary policy is the favored tool of interventionist choice.<sup>23</sup> Money matters, also, for the non Chicago New Keynesians; however, rather than the

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<sup>19</sup> Hoey, 2001; North, 2001, 2004; Piger, 2003.

<sup>20</sup> Bordo and Schwartz, 2003; Friedman and Schwartz, 1963; Kudlow, 2002; Salerno, 2004.

<sup>21</sup> If evidence of this contention other than Keynes' 1936 work is required, his publications of 1913, 1923, 1930a, 1930b will suffice.

<sup>22</sup> See on this Block (1999, fn. 16), Gillis (2003), Samuelson (1967, 210, 1970, 193), Skousen (2001).

<sup>23</sup> For a critique of interventionism, of whatever stripe or variety, see Ikeda, 1997; Lavoie, 1982; Mises, 1969; Rothbard, 1970; 1982.

passive, (quantity) rule based policies of the Monetarists, they favor discretionary monetary policies. The Post Keynesians, are also concerned about money, but in a different, or negative way. Production of additional amounts of it cannot be relied upon to solve unemployment in the face of weakened «animal spirits» on the part of entrepreneurs.

Thus, it is a bit over the top for the monetarist Keynesians to claim that the non Chicago Keynesians have no interest in monetary theory, or think money unimportant. For example, it is a staple of their writings that Friedman has «reminded Keynesians that 'money matters.'»<sup>24</sup> While we of course hold no brief for either wing of the Keynesian movement, we must protest.

## VII CONCLUSION

The problem of Keynes' we discuss in this paper regards hoarding. If entrepreneurs increase their demand to hold money (reduce their rate of investment) to a greater degree than Keynes thinks warranted, he maintains this will lead to unemployment. If people decrease their purchases of an «ordinary» good, and shift their demand to some other similar item, employment losses in the first case will be offset by gains in the second. However, there is one exception for Keynes. When the shift is toward money, it does not enhance employment. Extra zeroes can be added to the currency with very little effort, and analogous steps may be taken in an electronic age, again without requiring any more than trivial extra labor services. Keynes makes an exception for gold mining countries, but rules out the possibility of international trade into his analysis.<sup>25</sup> When this option is taken into account, we realize that a country entirely without a gold mining industry can still increase its employment merely by trading for gold with its own domestic products.

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<sup>24</sup> See <http://cepa.newschool.edu/het/profiles/friedman.htm>; <http://www.cooperativeindividualism.org/friedmanbio.html>; <http://www.webenetics.com/hungary/nobel.htm>. Search for «reminding Keynesians.»

<sup>25</sup> On this point, see footnote 10, *supra*.

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*Notas*