

Notas

SOCIALISMO Y DESCIVILIZACIÓN

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En las páginas 80 a 83 de mi libro *Socialismo, cálculo económico y función empresarial* (4.^a edición, Unión Editorial, Madrid 2010) explico el proceso de profundización «vertical» y extensión «horizontal» de la división del conocimiento práctico empresarial que permite (y a la vez exige) el aumento de la población, impulsa la prosperidad y bienestar general, y hace avanzar la civilización. Este proceso se basa, como allí indico: 1.º, en la especialización de la creatividad empresarial en áreas cada vez más estrechas y específicas y con un nivel de detalle y profundización cada vez mayor; 2.º, en el reconocimiento del derecho de propiedad privada de los frutos del empresario creador en cada una de dichas áreas; 3.º, en el libre intercambio voluntario de los frutos de la especialización de cada ser humano, intercambio siempre mutuamente beneficioso para todos los que participan en el proceso de mercado; y 4.º, en el continuo crecimiento de la población de seres humanos, que permite «ocupar» y cultivar empresarialmente un número cada vez mayor de nuevas parcelas del conocimiento empresarial creativo que enriquece a todos.

Según este análisis, todo aquello que garantice la propiedad privada de lo que es creado y aportado por cada cual al proceso productivo, que defienda la posesión pacífica de lo que cada uno concibe o descubre, y facilite (o no obstaculice) los intercambios voluntarios (siempre, mutuamente satisfactorios en el sentido de que suponen una mejoría para cada parte) genera prosperidad, aumenta la población, e impulsa el avance cuantitativo y cualitativo de la civilización. Y por el contrario, todo atentado a la posesión pacífica de los bienes y al derecho de propiedad sobre los

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mismos, toda manipulación coactiva en el libre proceso de intercambios voluntarios, en suma, toda intervención del estado en la economía de libre mercado siempre tiene efectos indeseados, destruye la iniciativa individual, corrompe los hábitos de comportamiento moral y responsable, infantiliza y hace irresponsable a las masas, impulsa la decadencia del cuerpo social, consume la riqueza acumulada, y bloquea la expansión del género humano y de la población, así como el avance de la civilización, incrementando la pobreza por doquier.

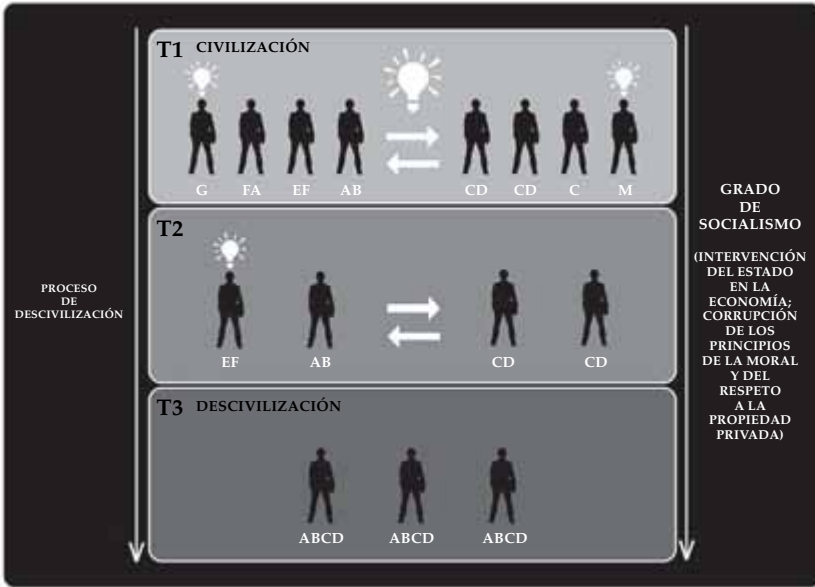
Proponemos como ejemplo, y a modo de ilustración, el proceso de decadencia y desaparición de la civilización clásica romana, pues aunque sus hitos básicos son fácilmente extrapolables a muchas circunstancias de nuestro mundo contemporáneo, por desgracia en la actualidad la mayoría de los seres humanos han olvidado o desconocen completamente esa importante lección histórica y, como consecuencia, no se dan cuenta de los graves riesgos que hoy aquejan a nuestra civilización. En efecto, como explico con detalle en mis clases (y sintetizo en un vídeo de las mismas «sobre la caída del Imperio Romano» que para mi sorpresa en poco más de un año ya ha sido visto en internet por más de 380.000 personas), y siguiendo los estudios previos de autores como Rostovtzeff (*Historia social y económica del Imperio Romano*, Espasa Calpe, Madrid 1981) y Mises (*La acción humana*, Unión Editorial, Madrid 2011) «no fueron las invasiones bárbaras la causa y origen de la caída del Imperio Romano y del ocaso de su civilización, sino el resquebrajamiento de su interconexión económica» (ob. cit., p. 906). En concreto, Roma fue víctima de una involución en la especialización y división del proceso mercantil, al obstaculizarse e impedirse sistemáticamente desde el poder los intercambios voluntarios a precios de libre mercado en un entorno de crecimiento desbocado de las subvenciones y del gasto público consuntivo («panem et circenses») y de control estatal de los precios. La lógica de los acontecimientos es fácil de entender. Sobre todo a partir del Siglo III la compra de votos y popularidad generaliza la subvención de los alimentos («panem») con cargo al erario público a través de la «annona», así como la continua organización de los juegos públicos más fastuosos («circenses»), todo lo cual no sólo termina arruinando a

los propietarios agrícolas de Italia sino que además hace que la población de Roma no deje de aumentar, hasta alcanzar casi el millón de habitantes (¿para qué trabajar duramente las propias tierras si sus productos no pueden venderse a precios remuneradores dado que se reparten casi gratis por el Estado en Roma?). El incentivo obvio fue abandonar el campo de Itálica y trasladarse a la ciudad a vivir a cuenta del Estado asistencial romano, cuyo coste, al devenir insoportable para el erario público, sólo pudo ser financiado reduciendo el contenido de metal precioso en la moneda (es decir, haciendo inflación). La consecuencia fue ineludible: una caída descontrolada del poder adquisitivo del dinero, es decir, una revolución al alza de los precios, frente a la cual los gobernantes reaccionaron fijándolos por decreto a sus niveles previos, e imponiendo durísimas penas a los infractores. El establecimiento de estos precios máximos generalizó la escasez (pues a los bajos precios fijados deja de ser rentable producir y buscar soluciones creativas al problema de la escasez, a la vez que artificialmente seguía incentivándose el consumo y el despilfarro). Las ciudades paulatinamente empezaron a quedar desabastecidas y la población comenzó a abandonarlas volviendo al campo para vivir mucho más pobremente en un régimen de autarquía y de mera subsistencia que sienta las bases de lo que después sería el régimen feudal.

Este proceso de descivilización, fruto de la demagógica ideología socialista, que es propia del estado del bienestar y del intervencionismo gubernamental en la economía, puede ilustrarse gráficamente de manera simplificada y a la inversa de como lo presento en la página 81 de mi ya citado libro *Socialismo, cálculo económico y función empresarial*, en la que explico el proceso de creciente profundización y avance de la división del trabajo (o mejor, de la especialización del conocimiento) y de la civilización.

En efecto, como se observa en el Gráfico 1, empezamos con la etapa t_1 que recoge el avanzado grado de desarrollo al que espontáneamente había llegado el proceso de mercado romano ya en el siglo I y que, como ha demostrado Peter Temin («La economía del alto Imperio Romano», *Procesos de Mercado*, Vol. VI, n.º 2, octubre 2009, pp. 165-190 y *Journal of Economic Perspectives*, Vol. 20, n.º 1, invierno 2006, pp. 133-151) se caracterizó por su notable

GRÁFICO 1



grado de respeto jurídico institucional a la propiedad privada (derecho romano), y por la especialización y generalización de los intercambios en todos los sectores y mercados de factores de producción (especialmente el laboral pues, como ha evidenciado Temin, el efecto de la esclavitud fue mucho menor de lo que hasta ahora se creía), todo lo cual hizo que la economía romana de la época alcanzara un nivel de prosperidad, desarrollo económico, urbanización y cultura que no volvería a verse en el mundo hasta bien entrado el siglo XVIII.

Las letras mayúsculas al pie de cada monigote indican los fines en los que se especializa y a los que se dedica cada actor. Este después intercambia los frutos de su esfuerzo y creatividad empresarial (representada por la bombilla que «se enciende») por los de otros actores, saliendo todos ganando después de cada intercambio. Sin embargo, cuando se incrementa la intervención del Estado en la economía (por ejemplo, con un control de precios), los intercambios se dificultan y disminuyen, por lo que los seres humanos se ven en el momento t_2 obligados a reducir el ámbito

de su especialización, abandonando por ejemplo los fines G y H y centrándose en los fines AB, CD y EF, todo ello con un menor grado de división del trabajo e intercambio y, por tanto, con una menor especialización que obliga a una mayor replicación y redundancia de esfuerzos, que obviamente disminuye la producción final de todo el proceso social, aumentando la pobreza.

El extremo de decadencia y contracción económica sucede en el momento t_3 en el que, ante la creciente presión intervencionista del Estado, el continuo aumento de los impuestos y la agobiante regulación, la gente, para subsistir (aunque sea a un nivel previamente inconcebible de pobreza), se ve obligada a desmontar prácticamente del todo la previa división del trabajo y el proceso de intercambios que constituye el mercado, abandonando la ciudad y volviendo al campo a pastorear y cultivar su propio alimento, a curtir sus pieles y construir sus propios cobertizos, replicando cada uno de forma redundante los fines y actividades que, como mínimo, necesita para subsistir (los que en el Gráfico hemos llamado ABCD). La productividad, como es lógico, se reduce mucho y surgen todo tipo de carencias que disminuyen el volumen de población por falta de recursos: de esta forma el proceso de desurbanización y de descivilización ya se ha completado.

Como indica Mises «las prácticas inflacionarias, unidas a unos congelados precios máximos, paralizaron definitivamente la producción y el comercio de los artículos básicos, desintegrando toda la organización económica ... Para no morir de hambre, la gente huía de las ciudades, regresaban al campo y se dedicaban al cultivo de cereales, olivos, vides y otros productos, pero sólo para el propio consumo ... La actividad económica de las grandes urbes, el tráfico mercantil y el desenvolvimiento de las manufacturas ciudadanas se redujo de modo notable. El progreso de la división del trabajo, tanto en Italia como en las provincias del Imperio se paralizó. La estructura económica de la antigua civilización, que tan alto nivel alcanzara, retrocedió a un nivel que hoy denominaríamos feudal ... Las medidas adoptadas [por los emperadores] resultaron ineficaces puesto que no atacaban la raíz del mal. Apelar a la coacción y compulsión para invertir la tendencia hacia la desintegración social era contraproducente, ya que la descomposición precisamente traía su origen del recurso a la

fuerza y a la coacción [por parte del estado]. Ningún romano, sin embargo, fue capaz de comprender que la decadencia del Imperio era consecuencia de la injerencia estatal en los precios y del envilecimiento de la moneda ...» (Ibidem, p. 907). Y concluye «cualquier sistema social se haya inexorablemente condenado a perecer cuando los actos humanos indispensables para que funcione normalmente son menospreciados por la moral, declarados contrarios al derecho por los códigos y perseguidos por jueces y autoridades. El Imperio romano sucumbió porque sus ciudadanos ignoraron el espíritu liberal y repudiaron la iniciativa privada. *El intervencionismo económico y su corolario político, el gobierno dictatorial, descompusieron la poderosa organización de aquel Imperio, como también, en el futuro lo harán con cualquier otro régimen social*» (Ibidem, p. 908, énfasis añadido).

El análisis de Mises se ha visto invariablemente confirmado no sólo en múltiples instancias históricas particulares (procesos de decadencia e involución descivilizadora, por ejemplo, en el norte y en otras partes de África; crisis acaecida en Portugal tras la «Revolución de los claveles»; el caso de la enfermedad social que afecta crónicamente a Argentina, que llegó a ser uno de los países más ricos del mundo antes de la 2.^a Guerra Mundial y que hoy, en vez de recibir inmigrantes continuamente pierde población; los procesos semejantes que asolan a Venezuela y a otros regímenes populistas de Hispanoamérica, etc., etc.), sino, y sobre todo, con el experimento de socialismo real que hasta la caída del Muro de Berlín, sumió en el sufrimiento y desesperación a centenares de millones de personas. Y también hoy en día, ya en pleno mercado mundial globalizado, las fuerzas descivilizadoras del Estado del Bienestar, del sindicalismo, de la manipulación financiera y monetaria de los bancos centrales, del intervencionismo económico, de la creciente regulación y carga impositiva y del descontrol de las cuentas públicas, amenazan incluso las economías hasta ahora consideradas más prósperas (Estados Unidos y Europa) que se debaten, en plena encrucijada histórica, por desembarazarse de las fuerzas descivilizadoras de la demagogia política y del poder sindical, intentando volver a la senda del rigor monetario, del control presupuestario, de la reducción de impuestos y del desmantelamiento de la maraña de subvenciones, intervenciones y

regulaciones que bloquean el espíritu empresarial e infantilizan y desmoralizan a las masas. De que tengan éxito en este empeño dependerá su destino futuro y, en concreto, si continúan o no encabezando como hasta ahora el avance de la civilización o, por el contrario, ante su fracaso, dejan el liderazgo de la civilización a otras sociedades que, como la chino-asiática, con gran pujanza y sin complejos desean convertirse en los principales protagonistas del nuevo mercado mundial globalizado.

Es obvio que la civilización romana no cayó como resultado de las invasiones bárbaras: más bien los bárbaros vinieron a ocupar fácilmente un proceso social que ya estaba, por causas puramente endógenas, en franca descomposición y decadencia. Mises lo expresa de la siguiente manera: «Los agresores exteriores no hicieron más que aprovechar la oportunidad que la debilidad interna del Imperio les deparaba. Desde un punto de vista militar, las hordas invasoras de los siglos IV y V no eran en modo alguno superiores a aquellos otros fácilmente vencidos por las legiones imperiales poco antes. Roma era lo que había cambiado; su estructura económica y social pertenecía ya al medievo» (Ibidem, p. 906).

Es más, el grado de regulación, estatismo y presión fiscal del Imperio llegó a tal nivel, que los propios ciudadanos romanos en muchas ocasiones aceptaron como mal menor someterse a los invasores bárbaros, si es que no los recibieron con los brazos completamente abiertos. Así Lactancio en su tratado *Sobre las muertes de los perseguidores* escrito en el año 314-315 d.C. nos dice lo siguiente: «Se llegó al extremo de que era mayor el número de los que vivían de los impuestos que los contribuyentes, hasta el punto de que al ser consumidos por la enormidad de las contribuciones los recursos de los colonos, las tierras quedaban abandonadas y los campos cultivados se transformaban en selvas ... Igualmente eran numerosos los funcionarios del fisco, magistrados y vicarios de los prefectos del pretorio cuya actividad en el orden civil era escasa, pero intensa; por el contrario, a la hora de dictar las multas y prescripciones las exacciones de todo tipo eran, no diré yo frecuentes, sino constantes, y los atropellos para llevarlas a cabo insostenibles» (citado por Antonio Aparicio Pérez, *La fiscalidad en la historia de España: Época Antigua, años 753 a.C.*

a 476 d.C., Instituto de Estudios Fiscales, Madrid 2008, p. 313). Como se ve, el paralelismo con la situación actual es muy grande en muchos aspectos, y son ya legión los tratadistas que han puesto de manifiesto que el actual nivel de subvenciones y regulaciones es una carga desmoralizante e insoportable para el cada vez más acosado sector productivo de la sociedad. De hecho, alguno de ellos, como Alberto Recarte, ha tenido la valentía de pedir que se reduzca «el número de empleados públicos, sobre todo el de los que se dedican a regular, controlar e inspeccionar, con disposiciones legales costosas y extremadamente intervencionistas, toda la actividad económica» de cuya producción dependemos todos. (*El Desmoronamiento de España*, Edit. La esfera de los libros, Madrid 2010, p. 126)

Y Salviano de Marsella en *De Gubernatione Dei* (IV, VI, 30) nos indica que «se había llegado a tal extremo de desesperación que muchos, que pertenecían a familias conocidas y habían recibido una buena educación, se veían obligados a buscar refugio entre los enemigos del pueblo romano para no ser víctimas de injustas persecuciones. Iban a los bárbaros en busca de la humanidad romana, puesto que no podían soportar entre los romanos la inhumanidad bárbara. Aunque resultaban extraños por sus costumbres e idioma a los bárbaros entre quienes se refugiaban, y aunque les chocaba su bajo nivel de vida, a pesar de todo les resultaba más fácil acostumbrarse a las costumbres bárbaras que soportar la injusta crueldad de los romanos. Se ponían al servicio de los godos o de los bagaudas y no se arrepentían, pues preferían vivir libremente con el nombre de esclavos antes que ser esclavos manteniendo solo el nombre de libres» (citado en *Ibidem*, pp. 314-315).

Finalmente, el historiador Osorio en sus *Historias contra los paganos* (Edit. Gredos, Madrid, VII, 41-7) concluye indicando que «los bárbaros, maldiciendo sus espadas, se tornaron al arado, y trataron a los romanos que habían sobrevivido, como aliados y amigos, de tal modo que entre ellos se podían encontrar romanos que *preferían soportar entre los bárbaros una libertad pobre más bien que entre los romanos una continuada petición de tributos*» (las cursivas son mías).

No sabemos si en el futuro la hasta ahora floreciente civilización occidental será o no sustituida por la de otros que incluso hoy

podemos considerar como «bárbaros». Pero de lo que debemos estar seguros es de dos cosas: primero, que en la recesión más grave que ha asolado al mundo occidental desde la Gran Depresión del 29, si no se aplican las imprescindibles medidas de desregulación, especialmente del mercado laboral, de reducción de impuestos y del intervencionismo económico, y de control del gasto público y eliminación de subvenciones, nos estamos jugando mucho más que, por ejemplo, el mero mantenimiento del euro (o para los norteamericanos, del dólar como moneda internacional);¹ y segundo, que si definitivamente perdemos la batalla de la competitividad en el mercado mundial globalizado, y entramos en franca y crónica decadencia, ello se deberá, sin duda alguna, no a factores exógenos, sino a nuestros propios errores, culpas y carencias morales.

Postscriptum (tras escuchar el discurso de despedida de su Santidad el Papa Benedicto XVI el 21 de agosto de 2011 en Madrid).

A pesar de todo lo anterior no me gustaría terminar sin una nota de optimismo. Las recesiones son dolorosas y, a menudo, se utilizan como pretexto para criticar al sistema de libre mercado y para aumentar la regulación y el intervencionismo, empeorando aún más las cosas. Sin embargo, las recesiones son también las etapas en las que el cuerpo social se sana, se descubren los errores cometidos y se sitúa a cada uno en el sitio que le corresponde. Son las etapas en las que se ponen las bases de la recuperación y se fuerza la vuelta a los principios básicos fundamentales que hacen posible el avance de la civilización. Es cierto que los desafíos son muchos, que es muy fácil dejarse llevar por el

¹ El proceso social no puede sobrevivir ni desarrollarse sin un marco institucional que discipline y «encorsete» a políticos, sindicatos y grupos privilegiados de interés. Aunque es seguro que nuestros gobernantes no eran conscientes de en qué se metían cuando impulsaron la creación del euro, afortunadamente en las actuales circunstancias el euro está jugando ese papel «disciplinador» al menos en los países periféricos de Europa que se ven, por primera vez en su historia, forzados a tomar medidas estructurales de liberalización económica en un entorno en el que se ha hecho evidente la inviabilidad y engaño en que se basaba el actual Estado del Bienestar. La situación en Estados Unidos es más problemática, pues aunque se constatan esporádicos esfuerzos por limitar el déficit público por parte de movimientos como el del Tea Party y otros, el carácter de reserva internacional del dólar deja mucho margen abierto a la prodigalidad de los políticos y al desenfreno del gasto.

desánimo y que los enemigos de la libertad nos acechan por doquier. Pero no lo es menos que, frente a la cultura de la subvención, de la irresponsabilidad, de la falta de moral, y de la dependencia para todo del estado, también surge de las cenizas con gran ímpetu entre muchos jóvenes (y entre otros que ya no lo somos tanto) la cultura de la libertad empresarial, de la creatividad y de la asunción de riesgos, del comportamiento basado en principios morales y, en suma, de la madurez responsable (frente al infantilismo al que nos quieren condenar nuestros gobernantes y políticos para hacernos cada vez más serviles y dependientes). Para mí es claro quién tiene las mejores armas intelectuales y morales y, por tanto, de quién es el futuro. Por eso soy optimista.

GIFFEN GOODS, BACKWARD BENDING SUPPLY CURVES, PRICE CONTROLS AND PRAXEOLOGY; OR, WHO'S AFRAID OF THE BIG BAD BOOGIE MAN OF GIFFEN GOODS AND BACKWARD BENDING SUPPLY CURVES? NOT US*

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Resumen: ¿Cuál es el status del análisis sobre los efectos de las leyes de salario mínimo? ¿Empírico o praxeológico? Nosotros defendemos lo segundo. ¿Pueden analizarse mejor los efectos de dichas leyes suponiendo curvas de oferta y demanda anómalas (como las de los bienes Giffen)? Como en el análisis tradicional se produce una mala asignación de recursos. En todo caso, tanto tales curvas, como las tradicionales son muy problemáticas.

Palabras clave: Control de precios, praxeología, bienes de Giffen, positivismo lógico.

Clasificación JEL: D0.

Abstract: What is the status of claims about the effects of minimum wage laws? Empirical or praxeological? We claim the latter. How can the effect

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of such legislation be best analyzed under the assumption of mis-behaving supply (backward bending) and demand (positively sloped, based on positing Giffen goods) curves? In the usual manner: resource misallocation still occurs. But this is only *arguendo*. More radically, such curves are themselves problematic. Even more radically, this, too, applies to «well behaved» supply and demand curves as well.

Key words: Backward Bending Supply Curves, Price Controls, Praxeology, Giffen Goods, Logical Positivism.

JEL Classification: D0.

I INTRODUCTION

Card-Krueger (1994) attempted to undermine the claim that minimum wage laws lead to unemployment for unskilled workers. A spate of articles written in response to this finding charged that this research was mistaken.

But a funny thing happened on the way to this particular economic forum. The economic methodology of many of these critics¹ is firmly embedded in the logical positivist philosophy: there is no such thing as absolute truth in economics; all claims in this field are merely hypothesis, which must be tested against empirical reality (Friedman, 1953). One would expect from this sort of background that practitioners would greet a data point such as that furnished by Card-Krueger (1994) with a certain amount of equanimity. After all, if induction is the be all and end all of economics, and economic theory is at best the tail, not the dog itself, then when an unusual empirical finding of this sort emerges, as it does every few years or so, then, perhaps, the attitude we could expect from logical positivists would be along the lines of: «Oh, well, that is interesting. Perhaps economic law operated differently in the last decade of the 20th century than it has before or since.» Or, «Maybe supply and demand simply

¹ See on this Mankiw (2001), Deere, Murphy, and Welch (1995), Neumark and Wascher (1995), Becker (1995).

does not apply to New Jersey» (the area of study of Card-Krueger, 1994).

Instead, a very different sort of reply emanated from this quarter. Mankiw (2001) avers «We can't ignore law of supply and demand.» And in the view of Deere, Murphy, and Welch (1995, emphasis added): «Artificial increases in the price of unskilled laborers *inevitably* lead to their reduced employment.»

The obvious retort of the true blue logical positivist would be: «The *law* of supply and demand, forsooth?» There is no such thing as an invariable *law* in economics. Any supposed «law» is only as good as the most recent econometric regression equation. Why, then, should we doubt Card and Krueger, who are, supposedly, reputable economists? And what is with this «inevitable» business? Yes, the economic theory of supply and demand strongly suggests that placing a minimum wage above the equilibrium point will create unemployment, but the proof is in the empirical pudding, not in «blackboard» economics.

It is our contention, however, that these anti minimum wage law retorts are quite proper. If they are incompatible with the logical positivist vision, then so much the worse for the latter (Block, 1999, 2003). If there is a «tension» (e.g., logical contradiction) between the avowed but mistaken methodology of economists such as Friedman, Mankiw, Deere, Murphy, Welch, Neumark, Wascher, Becker, on the one hand, and on the other their correct supply and demand based analysis of minimum wages, then it is the *former* that must be jettisoned.

What, then, is the proper ontological status of the analysis of the critics of Card and Krueger? It is the contention of the present paper that it is praxeology (Block, 1973, 1986, 1999, 2003; Batemarco, 1985; Bohm-Bawerk 1994 [1890]; Bostaph, 1978; Buchanan, 1982; Cowan and Rizzo, 1996; Cubeddu, 1993; Gordon, 1993a, 1993b; Hoppe, 1989, 1990, 1995; Hulsmann, 2000; Huerta de Soto, 1998; Kirzner, 1976a, 1976b; Menger, 1960; Mises, 1976, 1978, 1985, 1990, 1998; Rizzo, 1979; Rothbard, 1951, 1957, 1976, 1993, 1997; Selgin, 1988; Smith, 1996), not empirical economics. Briefly, praxeology is the view that economics is not a branch of the empirical sciences, such as physics or chemistry, but rather can best be understood as a deductive discipline, along

with such callings as mathematics, geometry and logic. Starting with such basic and undeniable upon pain of self-contradiction premises as man acts purposefully in order to render the future more to his liking that would otherwise obtain, the «tests» of this science are its solely the internal logic of its argumentation. Empirical evidence can *illustrate* apodictic necessary economic law, but cannot *test* it. If a regression equation appears to conflict with, say, the law of supply and demand that a price pegged above equilibrium will create surpluses (e.g., unemployment in the case of wage minima), then it is the former that must be rejected, not the latter. In the same way, if it appears that there is a triangle of other than 180 internal degrees, or a calculation which «demonstrates» that the Pythagorean theorem does not apply to right angled triangles, we ignore the former, not the latter.

In the present paper, we attempt to deal with one challenge to our thesis. The objection is that the standard model of perfect competition assumes downward sloping demand curves, and upward sloping supply curves. However, we cannot blithely assume this to be the case. To wit, there is always the possibility of Giffen Goods and Backward Bending Supply Curves.²

In section II we address the issue of misbehaving supply and demand curves. Section III is devoted to an exploration of price controls in the context of upward sloping demand and downward sloping supply curves. Section IV maintains that misbehaving supply and demand curves are internally contradictory and in section V we make the case for the invalidity of supply and demand curves, whether misbehaving or not, from an Austrian perspective. We conclude in section VI.

² Another challenge to our thesis stems from the so-called market failures of monopoly and monopsony. However, in this paper we abstract from the claim that monopoly and monopsony can render problematic the praxeological status of price control analysis. For a critique of neoclassical monopoly theory, see Anderson, et. al. (2001), Armentano (1972, 1982, 1991), Armstrong (1982), Block (1977, 1982, 1994), Boudreaux and DiLorenzo (1992), DiLorenzo (1997), DiLorenzo and High (1988), High (1984-1985), McChesney (1991), Rothbard (1970), Shugart (1987), Smith (1983). For an explicit critique of neoclassical monopsony theory see Block and Barnett (unpublished).

II MISBEHAVING SUPPLY AND DEMAND CURVES

It is a basic premise of all schools³ of economic thought that price controls cause shortages or surpluses, assuming minimum prices above equilibrium and maximum prices below that point. But is this finding merely an empirical claim which can upon occasion be rendered false, or is it a praxeological one, which must of necessity always prevail?

If we can but rely on the well behavedness of supply and demand curves, according to one line of reasoning, it cannot be denied that suitably placed price minima will engender surpluses and maxima, shortages. However, in this view, no such premises may be relied upon, given that Giffen goods foster upward sloping demand curves while backward bending supply curves (BBSCs) result in, as their name implies, supply curves which slope downward or fall forward. This, alone, would not present insuperable problems for the theory, provided, only, that only one of these curves «misbehave» at a time, and that these conditions still apply: $S > D$ above equilibrium and $D > S$ below.

For example, in both 1 and 2 these conditions obtain. Despite the «misbehavior» of one curve in each case, in these two diagrams the usual analysis applies. That is, $D > S$ implies a price rise, and $S > D$ a fall, both in the direction of where the two curves cross, or equilibrium. However, in 3 and 4 only one curve slopes the «wrong» way, and, we arrive at an unstable «equilibrium»: any deviation in price from the intersection of supply and demand will result in either an infinite or a zero price.⁴ In diagram 5, both S and D slope in «improper» directions, to this same end.

So much for the simple cases; next, we consider the more complicated ones. Diagrams 6 and 7 illustrate cases featuring a BBSC and, respectively, cases where D «behaves» and then

³ We include Austrianism and neo-classical economics under this rubric. We know little, and care less, about the views on price controls of the Marxists, not considering them as economists.

⁴ Similarly, any deviation in quantity from the intersection of S and D will result in either a zero or infinite amount of product being offered for sale.

«misbehaves.» Take 6 first. Point A is an unstable one, while B is stable. The identical result obtains in 7. So, for our purposes, it does not matter which one is first reached in the market. More strictly speaking, A in both cases is stable. If ever the market were to stumble onto this point, there is no reason it could not continue to remain there, provided only that no other changes took place in either this market or in any other related ones. However, this is impossible, praxeologically, as human action (Mises, 1949) must always occur in an economy.

The point of the foregoing is that, according to the line of reasoning we are calling into question, when both S and D slope in their usual directions, or, no more than one of them are vertical and/or horizontal at the extreme, or, even in some cases, when one misbehaves but not the other (e.g., as depicted in 1 and 2), then, if we also abstract from the cases of monopoly and monopsony, it is apodictic that price controls create shortages and surpluses. However, when these assumptions cannot be made, then all bets are off in this regard. It still may be that price controls have these deleterious effects, but any such contention is no longer a matter of praxeology; now, it is purely and entirely an empirical matter, and while, based on our experience these results are still highly likely, they are only just that: probable, but not necessary.

III

PRICE CONTROLS WITH UPWARD SLOPING DEMAND AND DOWNWARD SLOPING SUPPLY

Let us look at these contentions more carefully. Take diagram 5 as a case in point. If regulations set the price above (below) «equilibrium» there will still be forcibly opened a wedge between S and D. Only now, instead of a surplus (shortage) there will be a shortage (surplus). The obverse occurs with a price set below «equilibrium.» But so what. It is still true, praxeologically, not merely empirically, that these (opposite) wedges will be opened up as a result of such laws. We must of course agree that, rather than there being a market tendency for price to approach

«equilibrium» the very opposite will occur. But, again, so what? Price controls, even in the alternative universe, still misallocate resources, create havoc and dis-coordination in society, no matter the shape of the S and D curves.

IV MISBEHAVING SUPPLY AND DEMAND CURVES ARE INTERNALLY CONTRADICTORY

We now call into question the weird shapes of the S and D curves we have so far, *arguendo*, been positing to exist. If we do so, successfully, then the arguments against our claim that price controls create shortages and surpluses can further be established as an apodictic matter, not merely an inductive one.

It is easy enough to dispose of these misbehaving functions as an empirical matter. We do not, as a matter of fact, witness the wild swings in price (and/or quantity) that are implied by upward sloping demand, and/or downward sloping supply of the sort depicted in 5. Prices do not vary between zero and infinity, and then back again, in bewildering fashion. Therefore, such situations can be dismissed on inductive grounds.⁵

If there were all there were to the matter, however, we would have to concede to the very proposition against which we are arguing. These «misbehaving» curves seemingly⁶ overturn our traditional case against price controls, and we can only disregard them as an empirical matter. Therefore, we cannot make our case against price minima and maxima on praxeological grounds. Happily, though, for our own side of this debate, we can do better: we can dispose of these mischievous and misbegotten curves not only on inductive grounds, but also as a matter of praxeology.

How so? Curves such as those illustrated in diagram 5 imply either infinite or zero prices. But entertaining either notion is to commit an internal self-contradiction. Thus, each may be dismissed

⁵ Garrison (1985) maintains that the Giffen good entails a built-in violation of the *ceteris paribus* assumption.

⁶ Apart from the considerations mentioned in section III, above.

on *logical* grounds. An infinite price, on the one hand, is on its face, an utter impossibility. Under such a condition, all resources and human effort, literally, would be sunk into this one product, and there would be no room for anything else. To wit, no further human action would be possible, since all of it would be sucked up by this one good. But human action is the be all and end all of economics. Without the former, there can *be* no latter. Thus we can ignore this option as even a logical possibility.

Similarly with a zero price. Here, what was previously a good can no longer be considered as such. At a zero price, a good ceases to be a good. It now becomes «a general condition of human welfare.»⁷ But if it is no longer a good, it need not anymore concern us. We are interested, solely, in scarce items, and this simply does not apply to things without a price.

An identical analysis applies to the quantity dimension, in which «misbehaving» S and D curves, once we move away from «equilibrium» and we must, since human action implies no less, result in either zero or infinite amounts. The problem with the former is that if there is nothing of a good at all produced, it is hardly an economic good, and therefore no longer concerns us. The difficulty with an infinite amount of a good is that, like a black hole, it sucks literally everything down into the vortex with it. As in the case of the infinite price, an infinite quantity is logically incompatible with finite human action, the *sine qua non* of economics.

V

THE INVALIDITY OF SUPPLY AND DEMAND CURVES FROM AN AUSTRIAN PERSPECTIVE

There is yet another ground upon which to object to the thesis that Giffen Goods and BBSCs obviate the praxeological status of

⁷ This is instead of «free good» to denote a desirable element of the environment that is in superabundance and therefore is not the object of action. We owe this point to Joe Salerno. See on this <http://www.mises.org/humanaction/chap4sec1.asp>; <http://www.mises.org/rothbard/mes/chap1a.asp>

the claim that price controls play havoc with the economy: supply and demand curves, strictly speaking, are incompatible with human action. In our view (Barnett and Block, unpublished) choice is essentially binary. We can either produce or consume, there is no third option.⁸ Further, if one consumes, one can only consume A or non A. All options other than A fall into the latter category. Even with regard to any one good, A, binaryism still applies: one can either purchase it, or fail to do so, at a given price.

How to reconcile this binary Austrian way at looking at economics with supply and/or demand curves? In a word, it cannot be done. Either of these collections of dots in price quantity space is as incompatible with the binary vision as is a fish riding a bicycle. These loci of points are (at least theoretically) composed of an indefinitely large number of price quantity combinations. As a heuristic device, as a pedagogical tool, they are unexceptionable; even, helpful. But, just as the dog must wag the tail, not the other way around, we must not allow ourselves to be controlled and misled by theoretical constructs of our own devising. As Mises (1949, 45) says: «Human life is an unceasing sequence of single actions.»

According to the thesis we are contending against, when we cannot rule out the presence of a Giffen good or a BBSC, supply and demand curves do not slope in their usual directions. This being the case, the standard analysis of price controls, predicated upon the well behavedness of these curves, can only be believed contingently, not as a matter of praxeology. The point we are making in this section is that supply and demand functions are good heuristic devices, but theoretically problematic. If (misbehaving) supply and demand curves will not allow us to draw our standard theoretical conclusions about price controls on a synthetic apriori basis, then so much the worse for using such geometrical figures. Their pedagogical benefits are outweighed, at least in this case of misbehavior, by ontological considerations.

Nor are supply and demand curves needed in order to establish the effects of price minima or maxima. We know as a matter

⁸ Barnett and Block (forthcoming) demonstrates that money does not constitute a third alternative.

of apodictic certainty, for example, that when a minimum wage is imposed, those with marginal revenue products (MRPs) below that stipulated level will tend not to be employed, at least in the long run. That if they are, despite this economic law, then firms which recklessly do so will court bankruptcy. If supply and demand analysis can illustrate this conclusion, well and good. If it cannot,⁹ then so much the worse for this sort of examination. It was not for nothing that not a single solitary set of supply and demand curves appeared in all of Mises (1998). This author could say just about everything worth saying in economics without utilizing these equations in geometric form. In some cases, they are no doubt useful tools. But if¹⁰ they clearly mislead us, for example, by appearing to indicate that price controls have no effect at all, or, worse, benevolent effects, or, seem to conflict with our knowing this on an apodictic basis, then it is time, it is long past time, that we jettison these tools of «analysis.»

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⁹ This is a concession we have *not* made; we have only done so arguendo.

¹⁰ Note, we do not say «when.»

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DIAGRAM 1

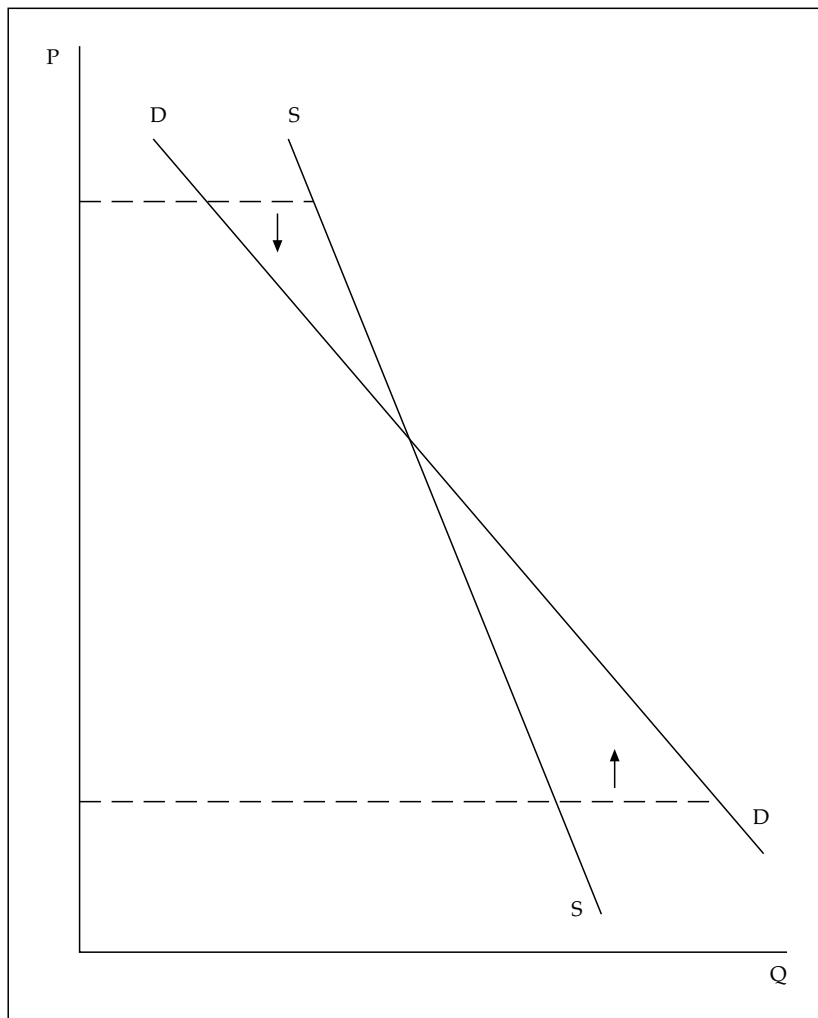


DIAGRAM 2

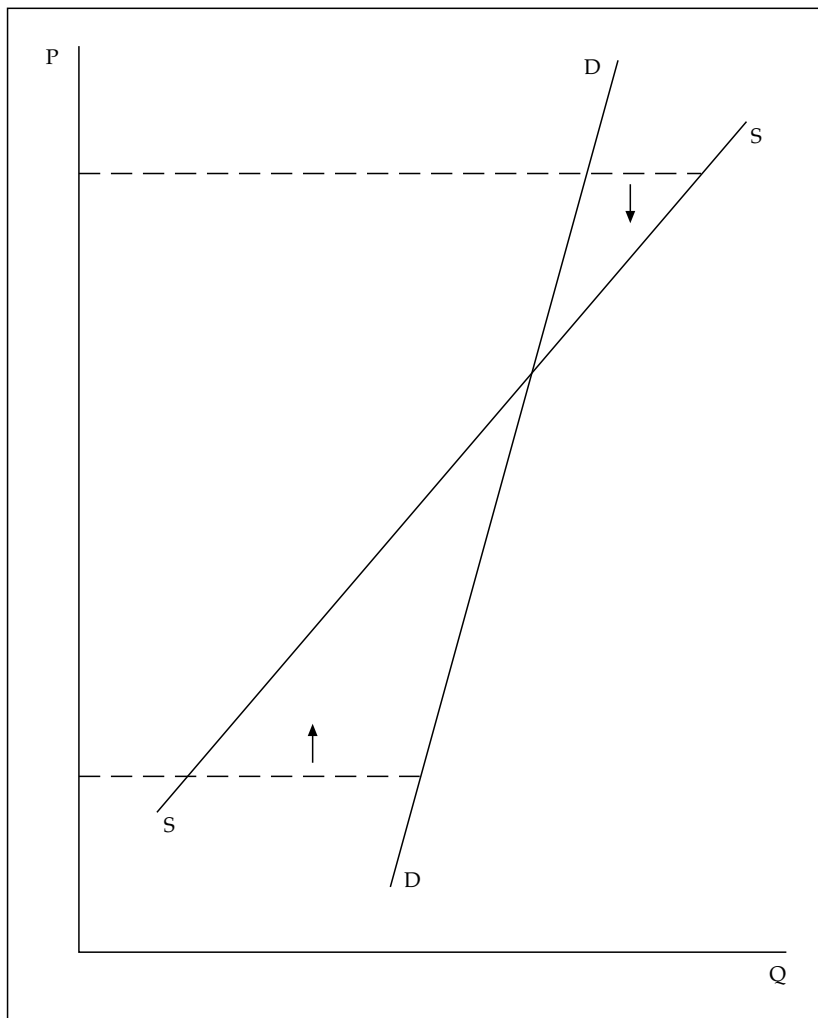


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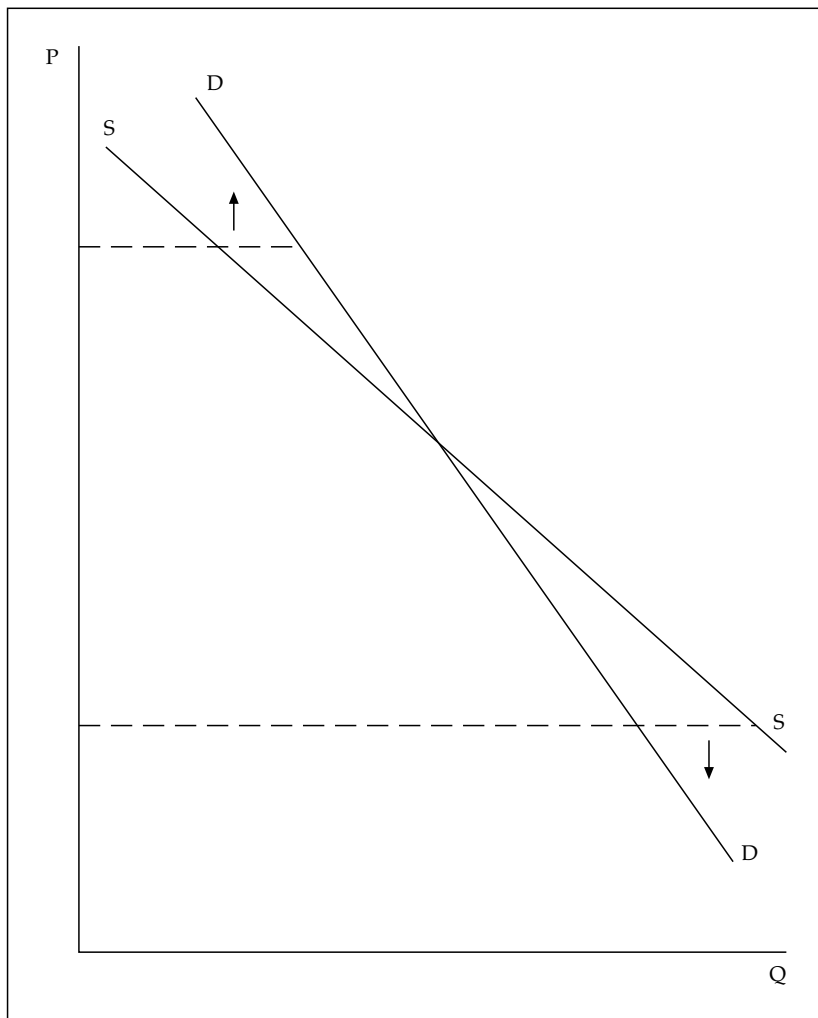


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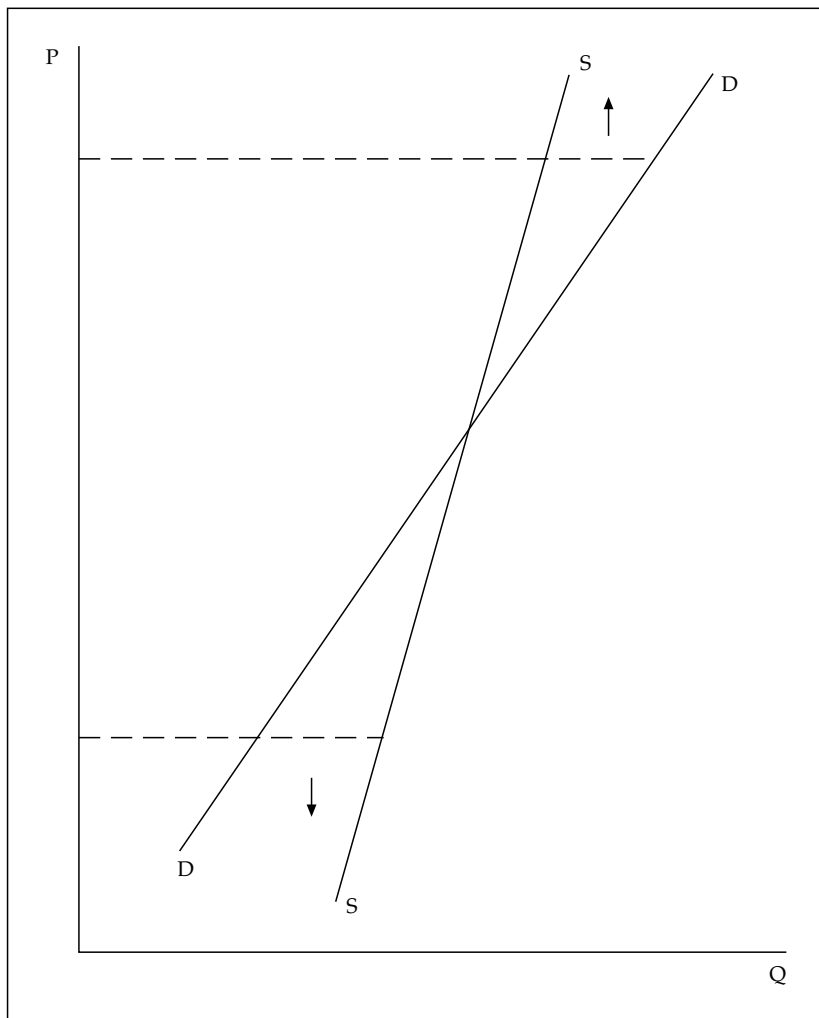


DIAGRAM 5

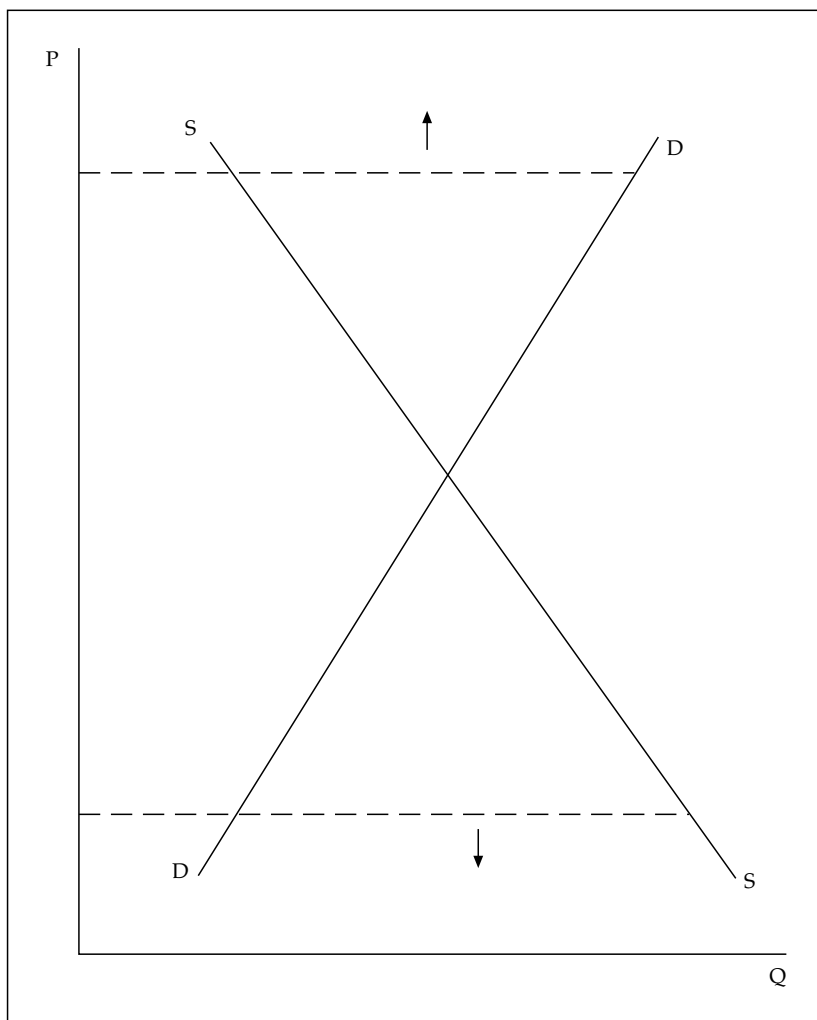


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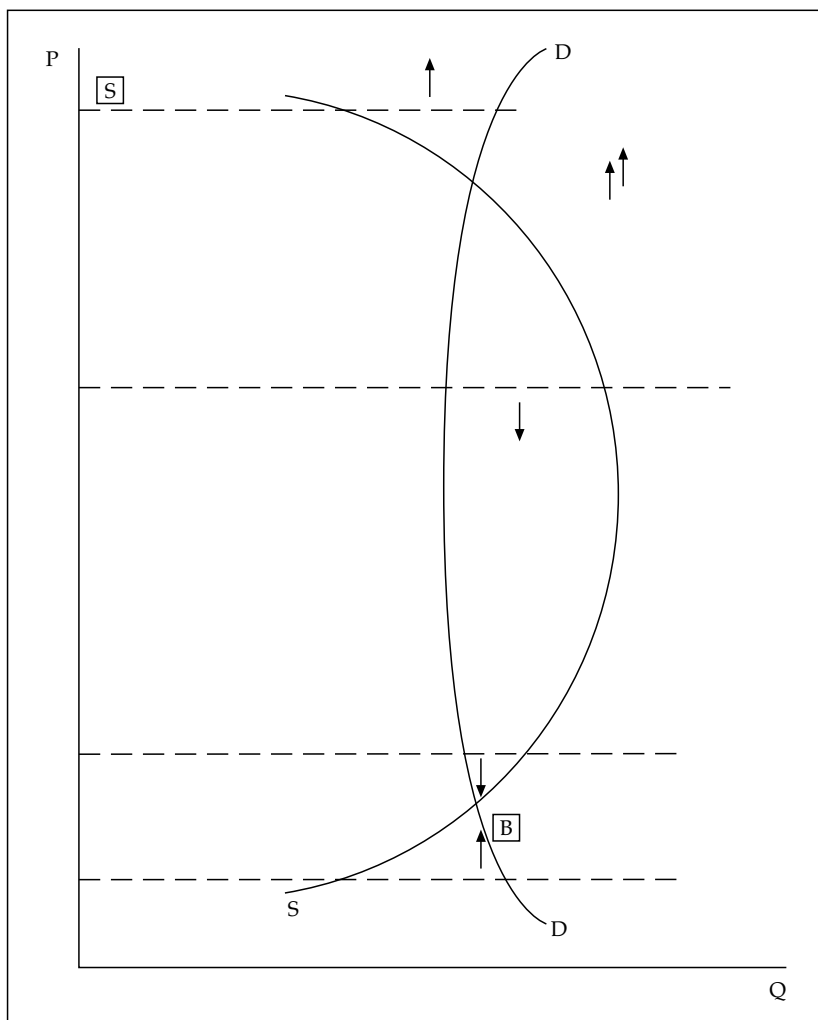
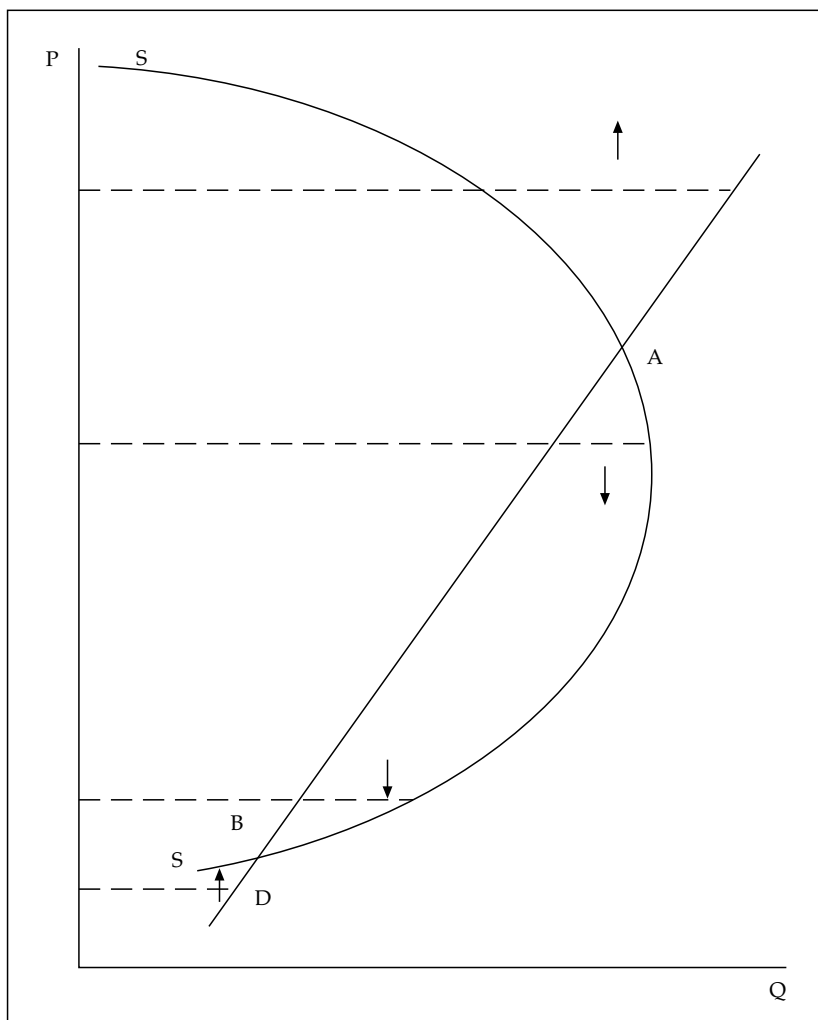


DIAGRAM 7



LA PARADOJA DE LOS INDIGNADOS*

AXEL KAISER

I HESSEL Y LOS INDIGNADOS

Una ola de convulsiones sociales atraviesa el mundo. En Occidente, la prensa ha llamado a los manifestantes «indignados». El término ha sido tomado del panfleto *Indignáos! (Indignez-vous!)* del intelectual francés Stéphane Hessel. La indignación por la situación política y económica de Occidente es justificada. Tanto en Europa como en Estados Unidos, la brecha entre élites financieras y el resto de la población se ha extendido mientras la clase política se ha convertido en una suerte de nobleza de estado completamente desconectada de la realidad del hombre común. La corrupción del sistema ha llegado a tal punto, que no es una exageración sostener que las democracias han fracasado en asegurar un juego limpio entre los diversos actores sociales, poniendo así en peligro su propia subsistencia.

II UNA AMENAZA AL PROGRESO Y LA LIBERTAD

La percepción de que algo se encuentra fundamentalmente descompuesto en las sociedades occidentales explica por qué Hessel ha logrado vender millones de copias de su provocativo panfleto detonando movimientos sociales en Francia y España. También explica el surgimiento de Occupy Wall Street en Estados Unidos,

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Movimiento que declara oficialmente inspirarse en las acampadas españolas. El efecto galvanizador del panfleto de Hessel nos ha recordado que los intelectuales, como insistió Karl Popper, deben ser especialmente cuidadosos con las ideas que difunden. Jamás se debiera olvidar la advertencia de Isaiah Berlin de que «cuando las ideas son descuidadas por aquellos que han de atenderlas —es decir, aquellos que han sido entrenados para pensar críticamente acerca de las ideas—, en ocasiones adquieren un incontrolable impulso y un poder irresistible sobre las multitudes que puede llegar a ser demasiado violento como para ser afectado por la crítica racional.»¹ Esta es una lección de la historia del marxismo y del nacional socialismo que no debiéramos olvidar.

Peligrosamente, Hessel ha endosado la misma actitud que condujo al comunismo y el nacional socialismo, a saber: el colectivismo. En efecto, tanto el nazismo como el marxismo derivaron de un rechazo a la filosofía individualista que sentó las bases de la civilización occidental. Por individualismo debe entenderse en este contexto, el que cada persona es considerada única, un fin en sí misma como diría Kant, lo cual implica que esta es libre de perseguir sus propios fines. Un individuo es libre entonces, sólo en la medida en que no es coaccionado por otros para perseguir fines ajenos, sean estos particulares o colectivos. La libertad consiste así, como afirmó John Locke, en «encontrarse libre de restricciones y de la violencia de otros».² Este reemplazo de la coerción por los acuerdos voluntarios de los diversos individuos persiguiendo sus intereses es esencial para que el progreso pueda florecer. No es una coincidencia el que los grandes logros de la humanidad hayan sido el producto de la libertad de perseguir fines individuales: ninguna ópera o invento tecnológico significativo ha sido jamás creado bajo coerción.

¹ Isaiah Berlin, «Two Concepts of Liberty», In Isaiah Berlin, *Four Essays on Liberty*. (Oxford: Oxford University Press, 1969), p. 1. Accessed from: http://www.wiso.uni-hamburg.de/fileadmin/wiso_vwl/johannes/Ankuendigungen/Berlin_twoconceptsliberty.pdf on 3.07.2011.

² John Locke, *Second Treatise of Government*, (Indianapolis: Hackett Publishing Company, 1980), p. 46.

La idea de que los individuos deben gozar de la libertad necesaria para perseguir sus propios fines es exactamente lo que el colectivismo rechaza. Para el colectivista, el interés individual debe encontrarse subordinado a la abstracción del bien colectivo. El llamado de Hessel a crear un «orden racional en el que el interés individual se encuentre subordinado al interés general» sintetiza perfectamente la esencia de la actitud colectivista. Una vez que esta idea es aceptada ya no existen límites para la intervención estatal. De ahí en adelante, quienes detentan el poder pueden, bajo el pretexto de servir el bien común, forzar a los individuos a seguir cursos de acción que no son los que estos han elegido, destruyendo la libertad y con ella la fuente del progreso.

III LA FICCIÓN DEL ESTADO

La tragedia de intelectuales honestos de izquierda como Hessel, que apoyan movimientos como Occupy Wall Street, es que, sin percatarse, suelen indignarse por situaciones que en gran parte son la criatura de sus propias ideas. El mejor ejemplo es el mismo Hessel. Él cree que los principios fundamentales de una sociedad libre, humanitaria y democrática han sido desplazados por un sistema en que la maximización y el capitalismo financiero predominan. En un mundo mejor, insiste, el interés económico individual estaría subordinado al interés general. Para lograr esto según Hessel, el Estado debiera tener un mayor rol en la economía.

Lo primero que uno debiera preguntar es qué le hace pensar a Hessel y a quienes defienden similar postura, que al gobierno realmente le importa el bien común. ¿No son los políticos y burocratas personas como cualquier otra después de todo? ¿Estaba equivocado acaso Lord Acton cuando afirmó que el poder corrompe y que el poder absoluto corrompe absolutamente? Y si no estaba equivocado ¿es razonable pensar que aquellos que se encuentran en el poder —y están por tanto ya corrompidos— pondrán su interés de lado para servir a un abstracto ideal llamado interés general? Incluso Hessel denuncia que hay lobistas hasta en las «más altas esferas del gobierno». Sin embargo, parece creer que si los

mismos políticos y burócratas capturados tuvieran mayor control sobre la economía privada, los efectos destructivos de la corrupción desaparecerían. En otras palabras, para Hessel y sus seguidores, si transferimos más poder a quienes controlan el Estado, menos corrupto será el sistema. La historia sin embargo, muestra de manera implacable que Lord Acton tenía razón: a mayor poder concentrado en las pocas manos de los gobernantes, mayor corrupción. El mejor ejemplo de esto lo constituye el socialismo. Su principal fracaso no consistió en haber traído miseria económica a las masas que supuestamente estaba destinado a beneficiar, sino en haber establecido el sistema de clases más violento y rígido jamás visto en Occidente. La máxima central del socialismo, la igualdad, fue traicionada tan pronto los líderes de la revolución se hicieron con el poder estatal. Explotando la consigna igualitarista crearon un sistema de dos clases sustentado en la coerción sistemática: de una parte se encontraban los líderes revolucionarios y amigos del partido gozando de todo tipo de lujos —en gran parte importados del mundo capitalista—, y de otro se encontraba el resto de la población, reducida a la servidumbre y la lucha por la supervivencia.

Todavía podría preguntarse qué pasaría si contáramos con líderes políticos incorruptibles. ¿Funcionaría entonces la idea de Hessel? Supongamos por un momento que James Madison estaba equivocado y que fuéramos gobernados por ángeles, esto es, por seres incorruptibles que usaran su poder únicamente para servir al bien común. Asumamos además que estos ángeles cuentan con todos los medios materiales para lograr su noble propósito. Aquí debemos preguntarnos, ¿constituye la nobleza de las intenciones una garantía respecto a la calidad del resultado de los actos que estas inspiran? ¿Estarían hombres moralmente intachables en condiciones de saber realmente qué es mejor para nosotros que nosotros mismos? Y más importante aún, ¿estaríamos dispuestos a aceptar que hombres moralmente superiores o incluso ángeles nos forzarán a hacer aquello que estiman mejor para nosotros? Aquí se torna aún más evidente que los argumentos de Hessel se basan en una ficción: la idea de que el bien común es algo distinto a la suma de los diversos intereses individuales y que el Estado es una entidad separada de la sociedad que,

mediante la coerción, puede elevarla a un grado más alto de perfección moral y felicidad. Pocas ideas en la historia han mostrado ser más seductoras y a la vez más destructivas que esta. Aquellos que, como Hessel, la defienden, ignoran el hecho de que los mayores males usualmente no son causados por personas malignas intentando dañar a otros, sino por personas bien intencionadas buscando ayudar a otros que ni siquiera conocen. Henry David Thoreau perfectamente advirtió esto cuando escribió: «Si supiera con certeza que un hombre se dirige hacia mi casa con el propósito consciente de hacerme el bien, correría por salvar mi vida».³ Si ángeles hubieran de gobernarnos, ninguno de nosotros escaparía de la muerte en nombre del bien mayor.

La ficción de que el gobierno puede resguardar un bien común que trasciende el diverso y complejo mundo de los intereses individuales, conlleva la idea de que el Estado puede también proveernos en nuestras necesidades. Esta falacia es el origen del fatal mito del estado de bienestar originado en el liberalismo racionalista francés. Este tipo de liberalismo, como advirtió Friedrich von Hayek, no vio límite alguno en el poder de la razón humana para planificar la vida social y la economía, convirtiéndose así en predecesor de movimientos colectivistas como el nazismo y el socialismo.

Nadie entendió las implicancias de este mito de manera más clara que Frédéric Bastiat, intelectual francés apenas conocido en su país. Escribiendo a mediados del siglo XIX, Bastiat observó que a diferencia de los norteamericanos, que no esperaban nada más que de sí mismos, los franceses habían transferido a la abstracción del Estado la responsabilidad de elevar la sociedad a un mayor grado de moralidad, felicidad y bienestar material. Como ejemplo de ello Bastiat citó el preámbulo la constitución de 1848, el que declaraba: «Francia se ha constituido en república con el objeto de elevar a sus ciudadanos a un mayor grado de moralidad, ilustración y bienestar». Bastiat observó que había una «creación quimérica de la cual los ciudadanos podían demandar cualquier cosa». Esta quimera era Francia, encarnada en el Estado. Para

³ Henry David Thoreau, *Walden and Civil Disobedience*, (New York: Barnes & Noble, 2003), p. 61.

Bastiat, esto solo podía conducir a recurrentes crisis y revoluciones: «Sostengo que esta deificación del Estado ha sido en el pasado y será para siempre una fuente fértil de calamidades y revoluciones. De un lado se encuentra el público y de otro el Estado, como dos entes distintos; el primero obligado a proveer al segundo, y el segundo con el derecho a reclamar del primero todos los beneficios humanos imaginables.»⁴

IV LAS CAUSAS DE LA CRISIS ACTUAL

Las palabras de Bastiat resultaron ser proféticas. El mito del estado de bienestar se esparció desde Francia y Alemania al resto del mundo occidental llevando a una explosión de las transferencias sociales y a un aumento equivalente de las expectativas del público en lo que se han llamado «derechos sociales». La autonomía fue progresivamente reemplazada por una mentalidad de derechos sin obligaciones dando paso a una profunda desconexión entre lo que las personas están dispuestas a pagar en impuestos y lo que estas esperan en beneficios de parte del gobierno. Conscientes de que un aumento honesto de la carga impositiva para financiar dichos beneficios no habría sido tolerada por el público, los políticos comenzaron a contraer deudas para financiar los programas benefactores prometidos. Eventualmente los estados llegaron a un punto de endeudamiento insostenible. Entonces vino la crisis financiera de 2008, causada esencialmente por intervenciones del Estado en la economía: programas benefactores para hacer realidad el sueño progresista de la «home ownership society» crearon las condiciones estructurales para el crash. Entidades semi gubernamentales como Fannie Mae y Freddie Mac, que cubrieron cerca del 50% del mercado hipotecario norteamericano, ofrecieron los instrumentos financieros necesarios para transferir la riqueza y la Reserva Federal proveyó el dinero barato para financiarla.

⁴ Frédéric Bastiat, «Government», in *The Bastiat Collection*, Vol. II, (Auburne, Alabama: Ludwig von Mises Institute, 2007), pp. 101-102.

En Europa la situación no fue muy distinta. La creación de una moneda común, nuevamente una decisión de los Estados que en muchos casos no fue sometida a la aprobación popular por medio de un referéndum, permitió a países como Grecia, Portugal y España endeudarse a tasas de interés extraordinariamente bajas. El mercado correctamente asumió que si alguno de estos países llegaba a ser incapaz de pagar sus créditos, Alemania y Francia saldrían a rescatarlos. Esto explica por qué los bonos soberanos griegos fueron considerados igual de seguros que los alemanes por los inversionistas. Aprovechando esta oportunidad única, los políticos de estos países cayeron en una orgía crediticia para ganar elecciones mediante el otorgamiento de nuevos beneficios sociales y subsidios de todo tipo. Mientras tanto, el Banco Central Europeo, otra agencia estatal, mantenía tasas de interés artificialmente bajas creando burbujas inmobiliarias en países como Irlanda y España. Por un tiempo la fórmula pareció funcionar para todos: los políticos eran reelegidos, el público accedía a nuevos beneficios todos los años, los banqueros hacían enormes ganancias y la economía experimentaba un boom. Era todo una ilusión. Cuando reventó la burbuja inmobiliaria en Estados Unidos quedó rápidamente claro que también la situación económica y fiscal de Europa era insostenible.

Ahora ha llegado el tiempo de pagar por la fiesta de gasto fiscal excesivo y política monetaria irresponsable. Inevitablemente, esto implica una dramática reducción en nuestra calidad de vida. Puesto que el público ignora que la causa central del problema ha sido el Estado, como Bastiat predijo, este sale a protestar a las calles demandando todavía más intervencionismo estatal. He ahí la paradoja de los indignados.

Hessel muestra idéntica ignorancia que aquellos que protestan en las calles en contra de las reducciones del gasto público y de los beneficios sociales cuando exige más derechos sociales y más intervención del Estado en la economía. Para fundamentar su argumento, Hessel sostiene que no puede ser efectivo que no exista el dinero para financiar los programas que demanda porque hoy hay mucha más riqueza que hace cincuenta años. Es cierto que el capitalismo ha traído un enorme progreso a pesar de los problemas mencionados. Pero lo que Hessel parece no

entender es que no importa qué tan rico sea un país, si este vive por encima de sus posibilidades quebrará. Ese es exactamente el problema en Europa y Estados Unidos, donde los gobiernos han gastado sistemáticamente más de lo que han recolectado en impuestos. Pocos países de la Unión Europea respetan el límite establecido en el tratado de Maastricht, que fijó un 60% del PIB como límite a la deuda pública y un 3% del PIB como límite al déficit fiscal para los países miembros. Así, el problema no es que no existan suficientes programas de bienestar como aduce Hessel, sino demasiados. El dilema benefactor se torna aún más grave cuando se considera el valor presente de las obligaciones sociales. En Estados Unidos estas «unfunded liabilities» alcanzan siete veces el PIB mientras en la EU estas superan cuatro veces el PIB.⁵ Existen pocas dudas de que tanto Europa como Estados Unidos van a caer en default respecto de estas obligaciones en el futuro.

En lo que respecta a la «dictadura» de las élites financieras denunciada por Hessel y movimientos como Occupy Wall Street y Occupy Frankfurt, esta es también esencialmente una criatura de los gobiernos. El sistema bancario en la actualidad puede funcionar del modo que lo hace solo porque se encuentra basado en dinero papel y respaldado por Bancos Centrales, esto es, órganos de planificación central monetaria creados por los gobiernos. Los bancos centrales proveen la liquidez que permite a los bancos privados expandir la masa monetaria de manera coordinada creando así los booms inmobiliarios y las burbujas bursátiles. Pero más importante aún, estos entregan a tasas de interés artificialmente bajas el dinero con el que se especula alrededor del planeta. El incremento dramático de los precios de los commodities desde 2008 es fundamentalmente el resultado de la inflación creada por los bancos centrales bajo el pretexto de combatir la recesión. Como todo proceso inflacionario, este ha tenido el perverso efecto de transferir riqueza desde la clase media y los más pobres del planeta hacia las élites financieras y los gobiernos, para quienes la inflación funciona como un impuesto encubierto. John Maynard Keynes, uno de los más grandes

⁵ See: Jagadeesh Gokhale, *Measuring the Unfunded Obligations of European Countries*, National Center for Policy Analysis, Policy Report N.º 319, January 2009.

proponente de la intervención estatal, entendió esto perfectamente bien. Poco después de la Primera Guerra Mundial, Keynes escribió:

A través de un continuo proceso de inflación los gobiernos pueden confiscar secretamente y de manera inobservada, parte de la riqueza de sus ciudadanos. Mediante este método, ellos no solo confiscan, sino que lo hacen de manera arbitraria y, mientras el proceso empobrece a muchos, de hecho enriquece a algunos. La observación de este cambio arbitrario de las riquezas golpea no solo la seguridad, sino la confianza en la equidad de la existente distribución de riqueza. Aquellos a quienes el sistema trae ganancias más allá de lo que merecen e incluso más allá de sus propias expectativas, se convierten en los ganadores, siendo el objeto de odio de la burguesía, a quien la inflación ha empobrecido no menos que al proletariado.⁶

Aquellos que se declaran indignados por la desigual distribución de la riqueza debieran prestar más atención a la inflación creada por los gobiernos, pues ella de por lejos una de sus causas centrales. Es de hecho sorprendente que los así llamados «indignados» pasen por alto el rol distorsionador y destructivo que juegan los bancos centrales en la economía mundial. Ellos no solo crean dinero de la nada desatando procesos inflacionarios y crisis financieras que empobrecen todavía más a los pobres de este mundo, sino que adicionalmente desempeñan la función de «prestamistas de última instancia». Esto significa que cuando un banco ha sido administrado irresponsablemente o de manera deficiente, en lugar de dejar que este quiebre como ocurriría a cualquier empresa en la economía real, es rescatado. Para empeorar las cosas, actualmente los bancos operan con un sistema de «reserva fraccional» que les permite funcionar con bajísimos niveles de capital propio. El rol de rescatista del Banco Central y el sistema de reserva fraccional combinados generan poderosos incentivos para que la banca realice actividades especulativas altamente

⁶ John Maynard Keynes, *The Economic Consequences of the Peace*, (New York: Harcourt, Brace, and Howe: 1920), p. 92. Accessed from <http://oll.libertyfund.org/title/303/27982/699023> on 2011-06-17

arriesgadas y rentables para sus managers y dueños e igualmente dañinas para el público, que finalmente termina pagando los costes a través de rescates con dineros fiscales e inflación.

Nada de esto por cierto puede ser atribuido al libre mercado. De hecho, el capitalismo consiste en lo contrario: competencia abierta entre los bancos sin un órgano de planificación central monetaria, quiebra de aquellas empresas y bancos que han sido mal administrados, dinero estable y rechazo a todo arreglo corrupto entre gobiernos y élites económicas.

Otra fuente de pobreza y desigualdad son los impuestos y la regulación estatal. Altos impuestos y regulaciones excesivas obstaculizan la productividad y la competencia destruyendo los incentivos para la creación de trabajo. Y mientras las personas adineradas pueden escapar de estas cargas sacando su dinero e invirtiéndolo en otros países, la clase media y los más pobres deben sufrir las consecuencias de menos trabajos, menor productividad y menores ingresos. La libertad económica es así una condición necesaria para mejorar la calidad de vida de las mayorías. No es una coincidencia que los más pobres en los diez países con mayor libertad económica en el mundo tengan un ingreso diez veces superior a los pobres en los diez países con menor libertad económica en el mundo.

V DESIGUALDAD E INDIGNACIÓN

He argumentado que la inflación y la ausencia de libertad económica son causas centrales de la pobreza y la desigualdad. Hessel no reconoce estos hechos declarándose indignado por la desigualdad en general. Considera escandaloso que en países pobres gran parte de la población viva con menos de dos dólares al día. Dos cosas deben ser respondidas a estas afirmaciones. En primer lugar, existe razón para indignarse solo cuando la desigualdad es producto de la confiscación arbitraria, fraude de cualquier naturaleza o mala política económica. Pero cuando la desigualdad emerge como resultado de la libertad no hay razón alguna para la indignación, especialmente cuando todos tienen suficiente. Solo

la envidia puede explicar que algunos se escandalicen con la riqueza que otros han logrado acumular legítimamente. Lo que quienes abogan por la justicia social no entienden, es que aquellos que han logrado enriquecerse por medios honestos han servido a la sociedad más que cualquier otra persona. Bill Gates por ejemplo, por mucho tiempo el hombre más rico del mundo, mejoró la calidad de vida de millones de personas con sus inventos. Nosotros hemos decidido libremente adquirir productos de Microsoft porque nos son útiles, es decir, porque nos resultan beneficiosos. De la misma manera, cuando compramos pan en la panadería de la esquina todos se benefician: el panadero pues ahora cuenta con dinero para adquirir otros bienes y servicios necesarios para él y su familia, y nosotros que contamos con pan para comer. El hecho de que el panadero se enriquezca no hace ninguna diferencia. Más aun, esto significa que hace un buen trabajo debiendo expandir su negocio para satisfacer la nueva demanda. ¿Por qué debiéramos indignarnos si este panadero, alguna vez humilde, se hace millonario en el proceso? Debiera ser lo contrario: debiéramos celebrar a este hombre por su prosperidad, pues gracias a ella ha creado más puestos de trabajo y provee de más pan a más personas a precios convenientes. Desde todo punto de vista, el panadero millonario está realizando una función social.

De la misma manera, Bill Gates ha incrementado la productividad de la economía mundial sacando a millones de personas de la pobreza. Aquí entramos en la segunda afirmación de Hessel. Es efectivo que aun millones de personas viven bajo la línea de la pobreza en el mundo. Lo que debiera también decirse, es que no existe otro periodo de la historia de la humanidad en que menos personas, como proporción de la población total, hayan vivido en esas condiciones. Solo en China cientos de millones de personas han superado la pobreza en los últimos treinta años. India, Chile, Perú, Brasil, Rusia y Vietnam, entre muchos otros países, han experimentado evoluciones similares en las últimas décadas. Ello se debe a las políticas pro mercado introducidas en estos países, el mismo tipo de políticas que explica la mayor calidad de vida en Estados Unidos, Japón y Europa.

Finalmente, debe recalcarse que no existe nada reprochable en la desigualdad en sí misma. Es mucho más deseable una sociedad

con mayor desigualdad donde todos tengan más a una con mayor igualdad donde todos tengan menos. La igualdad no es un fin en sí mismo, si lo fuera debiéramos destruir toda nuestra riqueza para ser todos igualmente pobres. Algunos países pobres del África tienen niveles de igualdad mayores a países avanzados europeos. Difícilmente alguien estaría dispuesto a defender que la situación de esos países africanos más iguales es preferible a la de los países europeos más desiguales. La pregunta no consiste así en evitar que algunos tengan mucho más que otros, sino en crear las condiciones para que todos puedan tener más. Esa es la diferencia entre un orden social basado en la verdadera solidaridad y la libertad y una basada en la envidia y la coerción.

IV INDIGNACIÓN INFORMADA

Hessel tiene razón cuando afirma que la indignación es necesaria para la acción y la resistencia. Más importante sin embargo, es entender las razones en las que la indignación debe fundarse. Si las personas se indignan por las razones equivocadas, inevitablemente exigirán las soluciones equivocadas empeorando el problema. Especialmente en los tiempos actuales de convulsión social, no es responsable llamar a la resistencia sin realizar antes un análisis serio de qué es lo que anda mal y cómo debiera ser resuelto el problema. Este es el rol de los intelectuales y de los líderes de opinión. Si un falso mensaje logra instalarse, solo la ruina emergerá de la indignación. Hessel ha hecho su mejor esfuerzo. Desafortunadamente, su visión, enraizada en viejas actitudes colectivistas, solo puede conducir a más problemas. Él tiene el mérito de haber denunciado una situación que efectivamente es indignante, pero ha fallado completamente en todo lo demás.

Lo que necesitamos es indignación informada. Las personas deben entender por qué y cómo se llegó al punto crítico en que nos encontramos hoy. Deben entender que otorgar más poder a políticos y burócratas sólo empeorará la situación. La posibilidad

de un futuro mejor no radica en el Estado sino en la responsabilidad individual, la creatividad y la libertad. Se requiere coraje para ser responsable por sí mismo y no esperar beneficios ilimitados del gobierno. Pero ese es un camino mucho más fértil y digno que el actual, y es además la única alternativa viable a la indignante situación actual.

AUSTRIAN BUSINESS CYCLE THEORY: ARE 100 PERCENT RESERVES SUFFICIENT TO PREVENT A BUSINESS CYCLE?

PHILIPP BAGUS*

Economists in the tradition of the Austrian school have shown that one type of maturity mismatching can cause maladjustments and business cycles.¹ When banks expand credit, by granting loans and creating demand deposits, they generate immediately withdrawable liabilities to finance longer-term loans. The newly created demand deposits do not represent a reduction of consumption, i.e., that characterized by real savings. As a consequence, interest rates are artificially reduced under the level they would have been in a free market reflecting real savings and time preference rates.² Thus, entrepreneurs are prone to engage in more and longer projects than could be financed with the available supply of real savings. Before all projects that are financed by the credit expansion are finished, a bust occurs. An absence of real

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¹ On Austrian Business Cycle Theory (ABCT) see: Bagus (2007, 2009), Garrison (1994, 2001), Hayek (1929, 1935), Huerta de Soto (2006), Hülsmann (1998), Mises (1998), and Rothbard (2000, 2001).

² This is not necessarily so, as Hülsmann (1998) has pointed out. If entrepreneurs anticipate the effects of credit expansion on prices, they will bid up interest rates including a price premium. This is also implied by the «Lucas Critique» (1976) and by rational expectations theorists (Muth 1961; or Sargent and Wallace 1975).

savings to sustain the factors of production in the production processes and to produce complementary and necessary capital goods becomes evident. As a result, malinvestments are liquidated and the structure of production is brought in line with consumer preferences again. This is the Austrian Business Cycle Theory (ABCT) in a nutshell.

As a remedy Austrian economists such as Selgin (1988) and White (1999) have argued that a free banking system would be a means to inhibit the excessive credit expansion that causes business cycles. They maintain that the competition between banks would limit the credit expansion of the banking system effectively. Other Austrians such as Rothbard (1991) and Huerta de Soto (2006) have gone further and advocate a 100 percent reserve banking system ruling out credit expansion altogether.³ In this article it is argued that a 100 percent reserve system can still bring about artificial booms by maturity mismatching if there is a central bank or government support and guarantees for the banking system. *Even if we accept the case for a 100 percent reserve requirement, we see that the maturity mismatching of liabilities and assets (borrowing short and lending long) is itself perilous—and in the same sense that fractional reserves are perilous.*

I THE «GOLDEN RULE»

At the core of the traditional Austrian business cycle there is maturity mismatching in the term structure of the assets and liabilities of the banking system. In the process that underlies the business cycle, banks use short-term liabilities with zero «maturity» (i.e., demand deposits)⁴ to finance long-term projects

³ The present author (Bagus, 2007; and Bagus and Howden, 2009) has also argued in favor of a 100% reserve requirement. In this article it is shown that the 100% reserve requirement is not sufficient to prevent business cycles if other government interventions into the financial system remain intact.

⁴ Strictly speaking demand deposits do not have any maturity. They are available on demand and do not mature. In contrast, loans mature and have a maturity. For the difference between loans and deposits see Huerta de Soto (2006).

via longer-term loans. However, the current economic turmoil is marked not only by massive maturity mismatching in the form of fractional reserve banking, but also by maturity mismatching on the part of investment banks via structured investment vehicles (SIVs), that use short-term repurchase agreements or short-term financial papers to finance longer-term investments. Naturally, the following question comes to mind: If one kind of maturity mismatching, i.e., the use of demand deposits to finance loans, can cause the business cycle, would not other kinds of maturity mismatching have similar effects, i.e., the use of funds obtained from the issue of short-term commercial paper to finance longer-term loans.

In fact, Mises himself came close to considering this question as early as 1912. As Mises (1953, 263, citing Knies (1876, 242)) states about maturity mismatching in general:

For the activity of the banks as negotiators of credit the golden rule holds, that an organic connection must be created between the credit transactions and the debit transactions. The credit that the bank grants must correspond quantitatively and qualitatively to the credit that it takes up. More exactly expressed, «The date on which the bank's obligations fall due must not precede the date on which its corresponding claims can be realized.» Only thus can the danger of insolvency be avoided.⁵

Mises shows that maturity mismatching violates the golden rule of banking that goes back to Hübner (1853). When a bank or other financial entity takes on short-term liabilities to invest them for a longer term, it violates the «golden rule.»⁶ Yet Mises does not follow up with an investigation concerning the effects of the violation of this institution with respect to the structure of production.

⁵ Mises should have written «illiquidity» instead of «insolvency.»

⁶ This procedure is occasionally referred to as borrowing short and lending long. However, the downside of this terminology is that demand deposits could be considered as short-term borrowing. Yet, it is questionable that demand deposits are loans in a legal sense. See Huerta de Soto (2006, ch. 1-3).

In a similar way, Murray N. Rothbard comes close to an analysis of maturity mismatching (2008, p. 98):

Another way of looking at the essential and inherent unsoundness of fractional reserve banking is to note a crucial rule of sound financial management—one that is observed everywhere except in the banking business. Namely, that the time structure of the firm's assets should be no longer than the time structure of its liabilities. (Italics in the original)

Rothbard also regards the practice of maturity mismatching as unsound and even puts it on par with fractional reserve banking. Yet, he neither investigates if maturity mismatching absent from fractional reserve banking, i.e., with 100 percent reserves, could distort the structure of production nor if the changes induced by it are sustainable. In this article, I try to close this theoretical gap by analyzing the effects of maturity mismatching. I will first argue that the time dimension of savings is a very important factor for the structure of production and its sustainability. The role and nature of maturity mismatching in a free market is discussed. This analysis is then contrasted with the role of excessive maturity mismatching in a hampered economy, showing fractional reserve banking as a special case of maturity mismatching and fractional reserve banking, central banking, and government guarantees as promoters of this practice.

1. The Time Dimension of Savings

The time preference schedules of all individuals in society determine the proportion of savings to consumption. Real investments are limited by real savings. The savings, like the investments, have a time dimensions as well as a magnitude.

This can be illustrated by an example from the Robinson Crusoe world. In Böhm-Bawerk's (1921, 136-39) famous example, Robinson Crusoe accumulates berries-his savings. These real savings are able to sustain him for a certain amount of time. Robinson Crusoe needs this time in order to build his bow and

arrow, i.e., capital goods, which will enable him to hunt more effectively. His time preference determines if he will have accumulated enough berries to finish his project. Not only the amount of berries he saves is important but also their quality, i.e., the nutrition they contain. It is an entrepreneurial task to estimate how long Crusoe's savings can sustain him. When his savings are depleted Crusoe may want to increase consumption. In fact, Robinson Crusoe only saved in order to consume more in the future.⁷ If Crusoe's time preference increases before the bow and arrow are built, then he must abandon the project and start collecting berries again to provide for his consumption. It is therefore essential that Robinson Crusoe correctly anticipates future changes in his time preference schedule to correctly finish the project.

The same is true for a monetary economy with one important difference. In a monetary economy, savings are usually in monetary terms. Individuals abstain from consumption and accumulate money in order to invest directly or to lend to an investor. As in the case of Robinson Crusoe, the essential point is how long they are willing to save and abstain from consumption before they desire to increase their consumption. This implies that not only the amount of money that is saved is important, but also the term that this money is saved for and not demanded to increase consumption. Monetary savings have, thus, two dimensions: the nominal amount and the duration. Only the nominal amount is visible and observable. The time length depends on the invisible time preference schedules. In contrast, in the Robinson Crusoe economy both dimensions are integrated as the real savings of berries lasts for a certain period of time.

⁷ Thus, Böhm-Bawerk (1901, p. 49) writes:

When Crusoe on his island saves up a store of provisions in order to gain time for the fashioning of better weapons, with which he hopes later to secure a much larger quantity of provisions, these relations are all clearly discernible. It is obvious that Crusoe's saving is no renunciation, but simply a waiting, not a decision not to consume at all, but simply a decision not to consume yet; that furthermore there is no lack of stimulus to the production of capital goods nor of demand for the consumption goods subsequently to be produced by their aid.

The importance of the time dimension of savings is clear in the Crusoeian world. Yet, there has not been much emphasis placed on the time dimension of savings in a monetary economy. As savings thus have a dual-nature—a magnitude in the present, and an availability in the future, it is for certain purposes misleading to portray the world as if there was only one term for savings.

In the loanable funds model of Roger Garrison (2001) there is only one market for loanable funds. Implicitly, all savings have the same maturity. However, in reality there are markets for loanable funds of different maturities. For instance, there are various loanable funds markets: the market for savings accounts, the 3 month commercial paper market, time deposits of 6 months, 1 year loans, 30 year bonds, etc. To simplify and assume that there is only one market for loanable funds, might be legitimate for certain theoretical questions or as a simplifying heuristic assumption. However, in this way, an important question disappears. Indeed, it is precisely this question that we want to answer in this paper: Assuming a constant money supply (and 100 percent reserves for demand deposits), does maturity mismatching cause distortions in the structure of production? With a constant money supply in Garrison's framework (2001), the supply of loanable funds remains the same. Nevertheless there are important changes in the economy if there is an additional dimension manifested through maturity mismatching.

The prices paid in the different markets for loanable funds comprise the yield curve. The yield curve is usually upward sloping, which means that interest rates are higher the longer the term of the loan. This is so, as the longer someone lends money the higher is the loss of availability and the risk of loss, hence, the interest rate must increase to compensate for this loss and risk. The longer the time dimension of savings, the higher the compensating interest rate will tend to be. Changes in the supply and demand in the different time markets affect the different interest rates. Therefore, if banks use short-term loans to finance long-term credits, *ceteris paribus*, short-term interest rates will rise and long-term interest rates will fall, *even with a constant money supply*.

II MATURITY MATCHING AND SAVINGS

Now let us assume that there is a world of matched maturities.⁸ Lenders reduce consumption for a certain period of time, granting loans to investors who invest in projects expected to have the same duration to completion. The transaction between lenders and borrowers can be direct or indirect via banks, defined as negotiators of credit. Thus, the structure of production is sustainable and coherent with consumer time preferences.

Now let us suppose that the social time preference rate is reduced. Savings are increased relative to consumption. This can reflect itself in two forms. First, the amount of real resources saved for a given period can increase without a decrease in savings for another period. For instance, *ceteris paribus* the supply of one-year loans may increase. This enables lenders to sustain more one year investment projects. Individuals restrict their consumption for one year in order to have command over more consumption goods in following years. Second, the duration the real resources are saved for may increase. Individuals restrict their consumption for a longer time than they did before, granting more time for the projects to amortize and increase the supply of consumer goods. For instance, the supply of one-year loans decreases in favor of the supply of five-year loans. This means that savers do not demand to increase their consumption after one year, but only after five years. Effectively, in a monetary economy with a separation of lenders and investors an increase in savings could

⁸ The methods of financing would be very different than in our world of maturity mismatching. There would be probably more financing with equity and less overall indebtedness. Cash balances and liquidity would be temporarily invested at the stock market. As Huerta de Soto (2006, 460-61, fn 60) points out, the stock market has lost importance due to credit expansion. However, it has also lost importance due to maturity mismatching. Financing with equity eliminates the roll-over problem inherent in maturity mismatched loans. The roll-over problem consists in the necessity to renew the short-term borrowing until the long-term lending matures. Furthermore, without credit expansion there would be probably a greater amount of longer-term loans, as in the form of standardized long-term bonds. For example, standardized 20 year and 30 year bonds could be traded continuously and provide ample liquidity.

reflect itself either as an increased amount of loans of a certain maturity or in a conversion of shorter-term loans into longer-term loans. In both cases the increased or longer abstention from consumption allows for more roundabout production processes—those that yield a higher quantity or quality of consumer goods when complete.

III MARKET MATURITY MISMATCHING

Let us now turn to the case of maturity mismatching in a free market. If future changes in time preference rates are correctly anticipated, maturity mismatching is not problematic. To illustrate this point, we contrast maturity matching and mismatching in a non-monetary economy. Consider the case of Robinson Crusoe who restricts his potential consumption of 10 berries a day to 5 berries in order to save 5 berries per day. After 20 days he has saved 100 and can engage in the production of the bow and arrow, which he expects to take him 20 days to complete.

Now consider that Robinson is financed by a loan from Friday. He gets 100 berries for a 10 day period. However, it will take him 20 days to complete his project. After 10 days Crusoe has to pay back the loan even though his project is not completed yet. He has to renew Friday's loan in order to be able to complete the project. There is a mismatch between the time structure of the savings and the investment. We see, therefore, that maturity mismatching does not lead to unsustainable change in the structure of production, when savings are renewed or «rolled over» and this is correctly anticipated by entrepreneurs.

In a monetary economy the process would be similar. A company can finance itself with a loan that is as long as the project lasts (or longer or, alternatively, with equity), i.e., until it amortizes; this will imply matched maturities. Alternatively a company can finance itself with a loan of a shorter maturity than it needs to amortize the project. In this case, the company will need to renew or roll over the loan until the project amortizes. If people are willing to renew the credit under the same conditions, and are

willing to restrict their consumption for a longer term, the change in the structure of production is sustainable.

Entrepreneurs can, of course, successfully forecast the future availability of funding. They can and must, for example, forecast future time preference rates and the stability of the real savings available. By correctly anticipating the amount of future savings they make short term funds available for long term projects. There is no particular reason why entrepreneurs in a free market would systematically under- or overestimate the future availability of savings.

IV LIMITS TO MATURITY MISMATCHING IN THE FREE MARKET

Now we shall examine what restricts the amount of maturity mismatching in a free market. First, maturity mismatching is a risky and speculative venture, as it relies on rolling over saved funds. Entrepreneurs usually try to avoid such risks and therefore try to avoid partaking in such behavior. Thus, rules of sound finance demand a maturity match as Rothbard (2008, 98) points out and a positive net working capital. A maturity mismatch, in fact, puts in danger the success of the whole project. If there is an unanticipated increase in time preference rates and funds are not rolled over, the investment project cannot be finished as planned. In fact, sudden increases in social time preference rates due to wars, natural catastrophes, etc., cannot be discarded as irrelevant for this very reason. These events can lead to panics and cause mismatched banks and companies to find themselves in financial troubles. A bankruptcy of a bank can induce more fear and cause people to refrain from rolling over loans. Because of this risk of mismatching, there has evolved a «rule» in finance, that assets should be financed with liabilities of the same or longer-term (i.e., duration matching). Therefore, entrepreneurs have usually preferred to rely on matched finance durations when planning for investment projects.

In a free banking system there are limits to the practice of maturity mismatching by banks besides the wish to comply with

the wisdom of the principles of sound finance and secure financing sources. These limits are similar to the limits of credit expansion for banks in a free banking environment as shown in the free banking literature most notably by Selgin and White (1987), Selgin (1994, 2000), Dowd (1996a, 1996b) and White (1984, 1999). In a free banking system, a bank that expands credit too aggressively or issues too much currency is confronted with redemption demands. As a consequence, the bank might be forced to suspend payments. In order to prevent this from happening banks tend to hold high and liquid reserves as a precautionary means. In other words, in a free banking system clearing transactions threaten the reserve base of banks and put limits on the credit expansion. Moreover, banks can try to drive their competitors into bankruptcy. This strategy in relation to bank notes has been called «note dueling» (Selgin 1987). Banks collect notes of a competitor and present them for redemption in specie at a competitor at once in order to force the competitor to suspend payments.

A similar procedure limits the amount of maturity mismatching in a free banking system. Thus, extreme cases of mismatching can lead to a sudden end to roll-over options by creditors. For instance, more sound competitors or speculators might lend to the maturity mismatched banks on a short-term basis.⁹ Then they wait until the bank lends out the funds on a longer term basis. Together they could initiate a run on the bank in the sense that they suddenly refrain from allowing the bank to roll over with fresh loans. Moreover, they could spread rumors of its insolvency. This would place a considerable check on the amount of maturity mismatching in practice.

Additionally, speculators could assume a position as a short-term lender to such banks and simultaneously short the bank's stock. By eliminating or reducing the amount of maturity roll over, the maturity mismatched bank can suffer severe liquidity problems, resulting in a falling stock price and benefits reaped by the speculators. A «white knight» may even step in at some point and buy the maturity mismatched bank at a discount.

⁹ If a business is mismatching, a business competitor could do the same through a middle man.

Another check to maturity mismatching is provided by bank customers. Bank customers estimate the risk of maturity mismatching. As a result of the inherent forces of a free banking system, banks mismatch as much as their customers want. They earn profits as a reward for the risk taking, if maturity mismatching is successful (Selgin and White 1996). Competitors and customers restrict maturity mismatching within narrow limits. As a result, banks cannot deviate too far from maturity matching. Banks are also forced to maintain an adequate level of bank capital. The greater the mismatches, the higher level of capital (i.e., assets minus liabilities) banks will have to maintain—to keep problems of illiquidity from becoming problems of insolvency. In case of a roll-over stop, bank capital may support the long term lending.

V

EXCESSIVE MATURITY MISMATCHING

1. Credit expansion as a special case of maturity mismatching

The practice of credit expansion, i.e., the granting of credits with demand deposits, is a special case of maturity mismatching. A fractional reserve bank assumes short-term liabilities that are due instantaneously on demand, and lend them for longer terms. Furthermore, fractional reserve banks engage in interest rate arbitrage. They take on short-term liabilities increasing the interest paid for them. In fact, without the arbitrage the depositors would have to pay the bank for the safekeeping service of the deposited money. Now, depositors gain a positive interest rate, due to the high demand of interest arbitrage. At the same time the supply of longer-term loans is increased which indicates to investors that long-term savings have increased and are available to finish long-term projects.

Thus, fractional reserve banking is maturity mismatching *in extremis*, as it relies on liabilities with zero maturity and the need to roll them over continuously. As Huerta de Soto (2006, 412) points out, credit expansion by granting credits out of demand

deposits leads to an unsustainable lengthening of the structure of production. This is so, because the monetary income of the factors of production increases, and if they do not increase their ratio of savings and consumption, they will bid up consumption goods' prices. The relative increase in consumer goods prices triggers the bust as profits in the consumption sector rise relative to profits in capital goods industries. However, if all the newly created funds made available by the credit expansion are saved when they are received by their ultimate holders (the owners of factors of production), then it is possible to lengthen the structure of production. This is tantamount to a reduction in time preference rates. In other words, if the created funds are rolled over continuously a lengthening of the structure of production is sustainable. As Huerta de Soto expresses it:

However unless the entire process is accompanied by a simultaneous, independent, and spontaneous increase in voluntary saving of an amount at least equal to the newly-created credit banks extend ex nihilo, it will be impossible to sustain and complete the new, more capital-intensive stages undertaken, and the typical reversion effects we have examined in detail will appear, along with a crisis and economic recession. (2006, 412) [Italics in the original]

Only if all the generated income is saved may the lengthening of the structure of production be sustainable (Hayek 1941, p. 394.) In this case, financial intermediaries and entrepreneurs would have anticipated correctly a decrease in time preference rates (Hayek, 1935, p. 153). If they do not anticipate it correctly, engaging in the expansionary boom was an entrepreneurial error. This insight applies to other kinds of maturity mismatching. If all short-term savings are rolled over and saved until the projects are finished, a lengthening of the structure of production is sustainable. In other words, if all short-term credit created by interest rate arbitrage is saved for the term of the financed projects, the lengthening works out fine. Entrepreneurs anticipating the future roll-over, which also means a decrease in time preference in regard to the non roll-over situation, can engage successfully in the completion of their projects.

The difference between fractional reserve maturity mismatching and other forms of maturity mismatching is that via fractional reserve banking the money supply is increased. More specifically, the amount of demand deposits is increased. These demand deposits can be used again for granting longer-term loans. Via the banking system, an initial demand deposit can increase the money supply several times. This is different for other kinds of maturity mismatching where the amount of demand deposits is not increased. Only short-term funds are increased, thus the money supply is not affected.

Another difference between fractional reserve banking mismatching and other mismatching is its legal and ethical status. Some authors, such as Huerta de Soto (2006), Rothbard (1991), and Hülsmann (2000, 2003) have argued that fractional reserve banking is of dubious legal legitimacy and unethical. This is so, because the nature of the demand deposit contract is not clear. It is not clear if the depositors transfer the availability of the funds to the bank. Other maturity mismatching, however, is not problematic. Bagus and Howden (2009) have shown that borrowing short and lending long does not violate the rights of the short-term lenders.¹⁰ They transfer the full availability of the funds for the term of the contract to the long-term lender. Thus, while fractional reserve banking rests on shaky legal grounds, there is no similar argument contra maturity mismatching between deposits and loans.

2. Fractional Reserve Banking as a Promoter of Excessive Maturity Mismatching

Fractional reserve banking boosts the use of maturity mismatching by increasing overall liquidity and financing opportunities. Financing through interbank lending reduces the risk of the practice of maturity mismatching (Freixas and Rochet 2008, 4). The roll-over risk is reduced, as banks can use demand deposits

¹⁰ In contrast, Barnett and Block (2009) maintain that any maturity mismatching is illegitimate.

to finance short-term liabilities if it is necessary. In a world without fractional reserve banking, banks who want to mismatch maturities, have to attract real short-term savings. Economic agents must restrict their consumption, at least in the short-term. Yet, in a fractional reserve banking system this restriction of consumption may not be necessary as new funds can be easily created by credit expansion. If short-term loans cannot be rolled-over, not fully loaned fractional reserve banks can fall back on demand deposits as a substitute. As an alternative they can get loans created by other fractional reserve banks through the use of demand deposits (interbank lending). Moreover, the inflation of the money supply produced by fractional reserve banking decreases the roll over risk in the future as an increase in available funds in the future can be expected. Thus, fractional reserve banking acts as an immense amplifier of maturity mismatching.

3. Central Banking as a Promoter of Maturity Mismatching

Central banking as a lender of last resort reduces the roll-over risk for maturity mismatched banks, including the risk of holding fractional reserves. By creating money a central bank acts as a roll-over lender of last resort. The existence of the central bank also boosts the interbank market that can be helpful with roll-over problems. When banks mismatch maturities, they borrow short and invest in long term assets. If the central bank accepts those long term assets as collateral against new loans, the risk of maturity mismatching is reduced. When individuals do not roll over anymore, the central bank might just accept assets of banks and discount them. Thus, the central bank provides banks with liquidity acting as a roll-over substitute. In addition, the central bank may actually create a safe secondary market for government debt (Palyi 1961, 16-17) as well as other otherwise more illiquid assets.

Effectively the central bank removes the limits to maturity mismatching in general and credit expansion in particular that exist in a free banking system. Competition between banks must not be feared anymore as the central bank is there to assist. For

bank customers mismatching is no longer of great importance, because banks can be regarded as generally safe if there is a central bank willing to assist.

Without the central bank, in the case of a reduction in roll over availability, banks might be forced to conduct a «fire sale» of their assets. If the bank suffers losses from these sales, it draws down its equity. These losses might cause a loss of confidence in the bank and cause even more clients to stop rolling over—a bank run on the short-term assets ensues. The loss of confidence can spill over to other banks and cause roll over problems for the whole financial system. The possibility of such a panic situation is greatly reduced by the existence of a central bank that can buy assets of banks in such a situation. Alternatively, the central bank can discount banks' assets creating a market for troubled assets that otherwise would not exist. Central banks can step in to roll over in the case that bank lenders and depositors refrain from rolling over.

It should be noted that while central banks in a fiat monetary system might be able to save banks in case of trouble, they cannot create *real* savings. When there are malinvestments committed due to maturity mismatching this cannot be made undone by bailing out banks. When people stop rolling over deposits, consumer goods' prices tend to increase relative to capital good prices, which leads to a tendency to shorten the structure of production. The fact that the central bank renews the loans to the banks only saves them from illiquidity. Yet, it does not create the real savings necessary to maintain the structure of production.

4. Government Guarantees as a Promoter of Maturity Mismatching

Government guarantees can also enhance the amount of maturity mismatching. Thus, government guarantees help to remove the limits to maturity mismatching that exist in a free banking system. When a government guarantees, explicitly or implicitly, the liabilities of public institutions or banks deemed too big to fail, moral hazard ensues. Banks or financial institutions will mismatch

maturities more than without this guarantee, because if they get into roll over problems, the government will step in and roll over the financing. This is what happened recently in the U.S. with government sponsored agencies (GSEs) like Freddie Mac and Fannie Mae. As these financial institutions were sponsored by the government they were thought to have an implicit promise of bailout. The consequence of this moral hazard was a risky maturity mismatching practice. The GSEs financed long-term mortgages with short-term loans (which were in turn financed by credit expansion of the banking system). The result of bailout promises is a greater maturity mismatch.

Investment projects are undertaken, even though there was no abstention from consumption for the same term. Interest rate arbitrage paved the way for these investments. These investments cannot be finished, if not all funds are rolled over, including the demand deposits. Moreover, by cartelizing the industry and bailing out failing banks, the guarantees together with fractional reserve banking and central banking remove the limits to maturity mismatching that were set by competition on the free market via runs on short-term assets and short-selling.

VI CONSEQUENCES OF EXTREME MATURITY MISMATCHING

Borrowing short and lending long is a very attractive business. Banks can induce maturity mismatching by exploiting the yield curve, namely, by taking advantage of the fact that short-term interest rates are normally lower than longer term interest rates. Thus, banks offer slightly higher interest rates in order to attract short-term loans and demand less long-term loans. People then might decrease their long-term savings and invest in short-term loans. A restructuring of the term length of savings take place. Of course, these short-term loans are expected to be rolled over.

In doing so banks exploit the yield curve; they engage in interest rate arbitrage. Banks increase demand for short-term funds

and the supply of long-term funds. Interest rates for short-term obligations tend to increase as banks demand these funds to invest them for longer-terms. The supply of long-term loanable funds increases and tends to depress longer-term interest rates. The demand for short-term credits pushes short-term interest rates upwards while the increased supply of longer-term loans pushes long-term interest rates downward. By increasing the supply of longer-term credits above the amount that has been saved for the same terms, longer-term interest rates are reduced below the level that would have otherwise obtained. This relative reduction of interest rates indicates to entrepreneurs an amount of savings that in fact might not be available over the course of the investment project if banks cannot roll-over their funding—an artificial boom may result. It is important to note that as a result of maturity mismatching the yield curve tends to flatten. Taking on short-term obligations and investing long-term leads to a tendency of rising short-term and falling long-term interest rates. In fact, maturity mismatching provides the linkage between short-term interest rates and long-term interest rates. If a central bank manages to reduce short-term interest rates, there is a tendency that banks increase maturity mismatching leading towards the tendency of falling long-term interest rates.

If the short-term savings are not rolled over, excessive maturity mismatching has occurred. This process has detrimental effects for the structure of production. Banks have made more funds for investment available for a particular period than there have been real savings for the particular period. The supply of credits for certain terms has increased, even though people did not save or reduce consumption in the same amount for the same or longer terms. Consequently, the supply of credits did not reflect accurately the development of time preference rates which has instead evolved into a distortion. Entrepreneurs invested as if savings and the corresponding resources would have been available to finish their long-term investment projects. Yet, consumers were not willing to continuously reduce their consumption until these projects were finished. The only way, the longer term projects could have been finished, would have been to continuously roll over the short-term loans. There has been an

unsustainable boom and malinvestment if it turns out that savings are not renewed before projects are finished.

VII A 100 PERCENT RESERVE BANKING SYSTEM AND EXCESSIVE MATURITY MISMATCHING

At this point, it is easy to see that there can be economic cycles without the credit expansion of a fractional reserve banking system. Even with 100 percent reserve banking¹¹ and a constant money supply there can be economic cycles, when banks engage in excessive maturity mismatching induced by the existence of government guarantees or a central bank that can step in at times of roll-over problems.

A central bank or a government can induce moral hazard in maturity mismatching. Banks borrow short-term and lend long-term, arbitraging the yield curve. For instance, they attract funds saved for one year and lend them for 10 years. Therefore, banks decrease long-term interest rates, even though there is no increase in savings. There is the illusion that via maturity mismatching, reduction of long-term interest rates and central bank bail outs, investments can sustainably be increased.¹² Entrepreneurs consequently engage in longer investment projects than are possible with the available savings. Banks do engage in this behavior, because there is a central bank or the government ready to bail them out, when they suffer losses or have roll-over problems.

¹¹ It is also possible that banks hold 100 percent reserves and expand the money supply in a central banking system. For instance, in a fiat paper system, banks might grant new loans and the central bank provides the banks with the reserves by granting them loans backed by the new created loans. If maturity mismatching is involved in this procedure, a business cycles is possible. I thank Juliusz Jablecki for helping me arrive at this conclusion.

¹² In allusion to Hülsmann (1998) we can speak of the possibility of a maturity mismatching illusion cycle.

VIII CONCLUSION

We have seen that the time dimension of savings is essential to understanding the business cycle. This dimension can vary and have effects on the structure of production. Entrepreneurs can anticipate future decreases in time-preference rates and the roll-over of short-term savings. In a free market, the inherent risk of this practice will have customers striving for safety and competition putting harsh limits on maturity mismatching.

In a hampered market the extent of maturity mismatching increases out of several reasons. First, and most importantly, fractional reserve banking raises incentives for maturity mismatching as financing through the creation of demand deposits becomes possible. Expected increases in the money supply increase maturity mismatching. Second, central banks enhance credit expansion and fractional reserve banking. Central banks can also bail out banks, in cases where a roll-over is not possible. This effectively removes the limits that competition sets to maturity mismatching in a free banking system. Third, government guarantees can increase the amount of maturity mismatching, as its risk is effectively socialized. Maturity mismatching greatly increases the distorting effects that a fractional reserve banking system alone has. Building on the distortions of fractional reserve banking, additional long-term funds are offered even though time preference rates have not decreased, an incident that makes people stop rolling over, leading to a break-down of the mismatched structure. This incident is provided by the economic crisis that maturity mismatching in a hampered market itself provokes.

Maybe the most important conclusion of our analysis is that not only fractional reserve banking can lead to an Austrian business cycle. Even with 100 percent reserve requirements for demand deposits and a constant money supply, excessive maturity mismatching induced by government guarantees and central bank lending of last resort can lead to unsustainable booms. Future research should be directed on the question how excessive maturity mismatching and the business cycle could be effectively prevented. Our conclusion indicates that a 100 percent reserve

requirement in a free monetary system would prevent excessive maturity mismatching. In light of these considerations, excessive maturity mismatching helps to explain the extent and length of historical boom and bust cycles like the current crisis.

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HETEROGENEOUS ENTREPRENEURSHIP AND THE SUNDAY TIMES RICH LIST

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TOBY BAXENDALE**

I INTRODUCTION: HETEROGENEOUS ENTREPRENEURSHIP

It may appear surprising that economists devote such little attention to the heterogeneity nature of entrepreneurship, however there are several possible explanations. The concept represents a well-known tension between typical economic theory and the concept of entrepreneurship itself. When Baumol (1968) and Kirzner (1973) wrote their seminal works they were attempting to respond to a perceived neglect of the entrepreneur within neo-classical economics. The explosion of entrepreneurship research since then has not been comfortably reconciled with formal models, and indeed empirical studies have a tendency to lapse into psychological profiling. It might be argued that such profiling (be it in terms of gender, race, age, experience, education, IQ, marital status, employment history, etc) *does* make *entrepreneurs* heterogeneous, however this differs from the way in which we use the term. «Heterogeneity» does not merely mean «differentiated» but ties into a deeper methodological debate about the nature of scientific analysis. In short, heterogeneity is an aspect of the broader concept of subjectivism. At a basic level subjectivism implies

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that individuals can interpret events in different ways, and as a consequence of this we expect a diversity of action that is glossed over when people are modelled as homogenous agents.

Having said this, it's important to recognise the diversity of approaches and methodologies within the economics profession. For example, although the neoclassical system is liable to eschew premises that aren't tractable, Austrian-school economists do tend to emphasise subjectivism and heterogeneity. But whilst this is strikingly evident in capital theory (see Lachmann 1956) it is curious to note that a similar attitude towards *entrepreneurs themselves* is underplayed. In short, since Austrians emphasise the functional qualities of entrepreneurship they treat *entrepreneurs* as homogenous blobs. This paper intends to strike a middle ground between homogeneity and psychological particularism by deconstructing the entrepreneur (Evans and Baxendale 2008).

Such a middle ground ultimately rests on knowledge assumptions.¹ Foss (1994) suggests an approach to the theory of the firm that takes entrepreneurship seriously, focusing on knowledge. He argues that when economic agents acquire new knowledge they can sell their service through a contract, utilise it for arbitrage, or start a new firm. However such contracts would always be incomplete – mainstream economists might point to asymmetric information, whilst subjectivists would also stress the inherent intersubjectivity of knowledge. Thus Foss shows that in many cases firms are the institutional mechanism through which knowledge is acted upon – potential entrepreneurs compare their market wage to the expected returns from launching a new venture, and then use contracts for the more straightforward task of hiring labour. This essentially leads to a clearing process as agents choose to either initiate their own plans or to form part of the plans of others.

Chu (2001) provides a general equilibrium model in which «entrepreneurial skill» is incorporated, defined as «the intrinsic ability in capturing market opportunity and organizing a human network to deliver a product» (p.4). Rather than using education

¹ Note the distinction between knowledge assumptions and cognitive capacity. It is the latter that leads to the sort of psychological particularism that typifies most entrepreneurship studies and to which we seek to avoid.

as a measure of this form of human capital, the author creates what is in essence a sorting model, whereby agents become entrepreneurs if their managerial skill set exceeds a certain level. Whilst this introduces a certain degree of heterogeneity, it amounts to little more than claiming that different people possess different skills. Landerretche (2006) introduces heterogeneity by modeling entrepreneurs with different endowments of wealth and «quality of entrepreneurial ideas» (p. 4).

Shleifer and Summers (1990) provide a simple means to extend the concept of entrepreneurship by distinguishing between two «types» – arbitragers and «noise» traders. Although they focus on financial markets as opposed to entrepreneurs more generally, it is this utilisation of *types*, as opposed to empirical detail, that helps to retain methodological subjectivism.

Howden (2010) uses the concept of information cascades, arguing that second-order users of knowledge have less direct knowledge of credit conditions. We can augment this by recognising that one form of knowledge that is relevant to entrepreneurs is knowledge of economic theory with regard to monetary policy. In other words, we do not expect money illusion and the signal extraction problem to affect all entrepreneurs uniformly. It is possible that some entrepreneurs do recognise a credit boom, and although they play with the easy money they do so cautiously, and with an expectation that it will run out and they will need an exit plan. Of course this doesn't mean they will not be burnt, but it does imply a distinction between those who are in the market *despite* easy money, and those who are there *because* of it.

The basic theory is that expansion of the money supply by the central bank creates «cheap money» that otherwise wouldn't be available for lending. We can demonstrate when these periods occur, but our interest is in comparing those cycles to the changing fortunes of individual entrepreneurs. We believe that there's a type of entrepreneur who's relatively insensitive to interest rate changes, and therefore makes consistent profits, whilst another type of entrepreneur can only enter the market when cheap money's available, and they'd therefore be most likely to go bust when conditions change. Credit expansion (or «loose monetary policy») entices marginal entrepreneurs into the market, and the

very same ones will be the first to leave when monetary policy tightens.² Rather than the rational expectations story where interest rates affect borrowers uniformly, the boom and bust is caused by the actions of a small number of marginal entrepreneurs, who're only in the market because of mixed signals (i.e. not because they're «irrational»).

We have a large, relatively stable population of entrepreneurs who take advantage of cheap credit but have the capacity to keep an eye on the chairs when the music stops. But there is also a small, volatile subset of entrepreneurs who are enticed into a market that cannot sustain them (Evans and Baxendale, 2008, p. 91).

By taking a more heterogeneous approach to entrepreneurship we are able to draw attention to the *driver* of economic activity. In this case the marginal entrepreneur is the one who is only able to acquire resources when interest rates are artificially low.

II HISTORY OF MEASURING WEALTH

Despite a widespread fascination for wealth, the systematic study of the wealthy is a relatively new phenomenon. Forbes magazine produce an annual list of the world's richest people, with publicly available data going back to 2000.³ Whilst this remains perhaps the more famous, alternative rich lists have emerged across the world with most major countries having at least one definitive version. There are also regional lists, such as Central and Eastern Europe's «Najbogatsi Europejczycy Europy rodkowej i Wschodniej,»⁴ and the «World's 50 richest Arab businessmen &

² Although we present the argument in terms of heterogeneity of entrepreneurs, it might be better to view it as heterogeneity of entrepreneurial plans. In other words it is the entrepreneurial calculation that is the focus and not the entrepreneur per se.

³ See «Forbes rich list: ten years of top tens» *The Guardian*, March 11th 2010 [<http://www.guardian.co.uk/news/datablog/2010/mar/11/forbes-rich-list-top-ten-carlos-slim>].

⁴ <http://najbogatsieuropejczycy.wprost.pl/>

women» compiled by Arabian Business.com.⁵ The appendix provides a thorough list of national rich lists.

Since our focus is on the UK economy we have decided to use the Sunday Times Rich List. It first appeared in 1989⁶ and as of 2010 compiles estimates of the wealth of the 2,000 richest people in the UK.⁷ It is important to recognise the drawbacks of using rich lists more generally, and this one in particular. The fact that these are estimates cannot be emphasised enough, and we acknowledge that they will differ significantly from actual wealth. We do not make an assumption that error terms are likely to cancel out, and therefore need to be vigilant to the potential that there are systematic tendencies to over or underestimate wealth. Despite utilising a large degree of estimation (when sufficient evidence exists), The Sunday Times list will leave out individuals that almost certainly should be included. In this regard it is an inherently conservative measure, and should be viewed as a lower bound,

This list is based on our estimates of the minimum wealth of Britain's 1,000 richest people or families. The actual size of their fortunes may be much larger than our figure.

The Sunday Times Rich List 2010: Rules of engagement» *The Sunday Times*, April 23rd 2010.

The compilers do not have access to personal bank accounts, and therefore exclude these from the measure. However one of the chief criticisms of the rich list is not applicable to our use - that there is a high degree of ambiguity as to who is eligible to appear on the list. As the «Rules of Engagement» state,

The 1,000 include people who may not be British citizens, such as Hans Rausing from Sweden, but who live and work in Britain. In this age of globalisation, where London is regarded as the centre

⁵ <http://www.arabianbusiness.com/richlist?r=1&r=1>

⁶ Although in 1988 the forebear was produced for «Money» magazine, see «fResource talks to Philip Beresford» [<http://www.thinkresource.org/node/1427>].

⁷ At a regional level the Midlands Business Insider, North West Business Insider, South West Business Insider, Yorkshire Business Insider and Birmingham Post all provide well-respected rich lists.

of a new financial elite, we also include people who are married to Britons, who have strong links with Britain, estates and other assets here, or who have backed British political parties, institutions and charities, and often seem more British than the British.

The Sunday Times Rich List 2010: Rules of engagement» *The Sunday Times*, April 23rd 2010.

For our purposes the fact that it isn't constrained to British citizens is not important, as our chief concern is the strength of commercial interests within the UK. Indeed this encompassing approach helps to mitigate a possible problem of capturing too much inherited wealth. We are not claiming that such rich lists perfectly capture the concept of «entrepreneurship», and would not define everyone on the list as an «entrepreneur». In this regard the lists are really picking up «funds» rather than measures of an entrepreneur's fortunes. This might suggest that a better measure would be venture capital (VC) data or other sources that focus on start-ups or business owners. We avoid this on the grounds that we wish to retain a functional approach to entrepreneurship, whilst retaining a methodologically individualistic attention to agency. It is true that by only looking at the «richest» we have a selection bias that precludes the genuinely «marginal» entrepreneurs. However we feel this top down approach is an appropriate place to start.

We are not the first to make use of such data sources. Hazledine (1997) appears to be a pioneer of this approach, utilising the National Business Review's New Zealand Rich List as a data base to conduct quantitative analysis on whether fortune accumulation is more likely to stem from «competitive» industries. Beaverstock, Hubbard and Short (2004) perform a more qualitative study of the «super-rich», arguing that whilst much empirical work is undertaken on people living below the poverty line, considerably less attention is given to the very wealthy. They acknowledge the difficulties of using such lists, but argue,

While the way these estimates of net worth are compiled leaves some margin for error, in many ways they are a useful barometer of the levels of wealth accruing to the super-rich (Beaverstock, Hubbard and Short 2004, p. 404).

Ultimately we feel that despite these drawbacks The Sunday Times Rich List remains the definitive version and provides a valuable source of information for researchers. Given that we anticipate researchers making increasing use of this data, we feel the admittedly sparse and qualified nature of its current form shouldn't preclude its use in a pilot study. Since it uncovers the rise (and fall) of individual wealth it can be compared to underlying economic conditions. This helps us to understand the *types* of entrepreneur that prosper during a recession, and those who get weeded out.

III METHODS

The data was compiled using a mixture of online information and hard copies. The Sunday Times has resisted making an electronic version of the Rich List available, out of an understandable fear that rivals would mimic the methodology and data. However they do have online, searchable records for the richest 1,000 for 2002-2007,⁸ and at the time of writing the richest 2,000 for 2010 are available behind a pay wall.⁹ We utilised hard copies of the 2006-2010 Rich Lists to verify data and cover the missing period. Since the database itself is not publicly available we created a shadow database manually.

We began by entering the top 100 richest people in 2006, and then used our data sources to complete this for 2007, 2008, 2009 and 2010. We then went through the top 100 for 2010, added any new people, as well as tracing everyone's wealth back through 2006. Finally we completed the top 100 for 2002, and followed their wealth until 2005. This leaves us with a database of 168

⁸ <http://www.timesonline.co.uk/richlist/start/0,,2002-1,00.html>
<http://www.timesonline.co.uk/richlist/start/0,,2003-1,00.html>
<http://www.timesonline.co.uk/richlist/start/0,,2004-1,00.html>
<http://www.timesonline.co.uk/richlist/start/0,,2005-1,00.html>
<http://www.timesonline.co.uk/richlist/start/0,,2006-1,00.html>
<http://www.timesonline.co.uk/richlist/start/0,,2007-1,00.html>

⁹ <http://features.thesundaytimes.co.uk/richlist/live/>

people – everyone who has been one the top 100 richest people in the UK in 2002, 2006 or 2010 (these three years act as our markers).

Of course we could go into more detail, and we anticipate future studies of this sort to extend the range of data in several directions. The intermittent years could be investigated, to take into account those who entered into the top 100 and then left again between our markers.¹⁰ The data can be extended chronologically, to take into account the years preceding 2002 (which do not currently have electronic records) and indeed should be updated for subsequent years going forward. Also, and perhaps most importantly, the scope can be extended to include all those in the top 1,000, which would increase the dataset by an approximate factor of 10.

As a pilot study we feel that the boundaries we have set are appropriate. As previously discussed, the quality of the rich list has been increasing over time, so we would be concerned about extending it back any further (especially since errors are not corrected retrospectively). Given that our focus is on the 2008/09 financial crisis and that this is intended to be an illustrative study we feel that the gain in coverage would be offset by a decline in the average quality of data. We also believe that the quality of the wealth estimates is higher for people higher up on the rich list. This point requires some clarification.

It is true that if there is a margin or error in each estimate, these will be amplified for people with higher wealth. Indeed such people are likely to hide more of their wealth and thus we might expect (and indeed observe) large quantity adjustments from year to year. However it seems clear that more effort is applied to dealing with these cases than with the wealth of people lower down the list. This can be seen by the fact that for people with

¹⁰ For example Odfjell was a new entry in 2010 and since they do not appear in the top 100 in 2002 or 2006 we estimate their wealth for 2002-2009. However they do appear in the 2008 rich list, and therefore we could use their actual value if we were looking at intermittent years. We note that our estimate (£755m) is significantly different from the actual value (£150m) but in this case since the person counts as an immigrant they are excluded from the data set anyway.

relatively low levels of wealth their «estimate» is rounded and shared by a number of other people (for example in 2002 there are about 38 people with wealth of £35m). Indeed this demonstrates an important fact about rich lists – they are examples of investigative journalism rather than established data sources. We have previously justified why we believe this should not preclude their use, but we face an important choice. One option is to ignore this fact, build as large a database as possible, and use the law of large numbers to compensate for errors of compilation. An alternative option – and the one we take – is a more cautious approach that strips away contestable data points to leave us with a smaller sample. Since this is a pilot study we proceed conservatively and therefore require a dataset that is manageable on a case-by-case basis. If we increased the data set by a factor of 10 we would not be able to conduct additional research on every single member of the database.

Such individual analysis is required to ensure we are picking up changes in actual wealth, as opposed to changes in residency, computational errors, or other such factors. Therefore our database serves as a basis from which several important adjustments are made. Firstly, it is obvious that one of the main explanations for new entries into the rich list is foreign nationals that move into the UK. Whether they formally immigrate or not their entry does not reflect an increase in their wealth, but changes in their residency status that alerts the compiler of the rich list to start including them. Consequently we take the conservative decision to exclude those who fit our definition of «immigrants».¹¹ Similarly there are those who drop out of the rich list, not due to a decline in wealth, but because of their residency status. We define these as «emigrants» and similarly exclude them.¹² Deaths present a similar challenge, since we do not wish to imply that these people leave the list for financial reasons. Consequently in the case of people who have passed away, we exclude them from the list

¹¹ These are Abramovich, Al-Tajir, Berezovsky, Bertarelli, Blavatnik, Bronfman, David/Leventis, Gandur, Gutseriyev, Hamied, Hines, Kim, Odfjell, Oppenheimer, Said, Seabra, Shvidler, Usmanov, and Zabludowicz.

¹² These are Bredenkamp, Picasso, Hinduja.

for all periods.¹³ The final rationale for excluding people is what we label «missing in action». These are people who leave the list but we find no evidence for them either emigrating or passing away. We believe it would be misleading to make estimates of their wealth, therefore exclude them altogether.¹⁴

Having compiled the database in the manner described, there remained a number of incomplete data points. We made estimates based on the following criteria. For those who fall outside the top 1,000 but then make a subsequent appearance as a new entry we estimate their intermediate wealth based the midpoint of known data points.¹⁵ We feel this may underplay the amount of volatility however deem it more appropriate than assuming their wealth falls to zero. In the case of bankruptcies we mark their subsequent wealth as 1 (this avoids calculation problems if we were to use a zero value).¹⁶ For those who come into the top 100 but fall out again, we estimate their wealth based on the threshold required to enter the top 100.¹⁷ For those who fall out of the top 1,000 altogether we make the conservative assumption that their future wealth is equal to the threshold to enter the top 1,000.¹⁸ Finally, there are those who enter the top 100 as a new entry to the rich list. In these cases we estimate their prior wealth as being equal to the threshold to join the top 100.¹⁹ Once these amendments are made we are left with a data set of 135 people.

¹³ These are Manton (2006), Van Vlissingen (2006), Landon (2008), Templeton (2008), and Sorensen (2010). Although Raymond also died his wealth was bequeathed to James who remained on the list, and we therefore condense them into one entry.

¹⁴ These are Khan, Florier-Destezet, Khalili and Mantegazza.

¹⁵ This is utilised for Blavatnik (2007 & 2009) Bromilow (2009), Panayiotoutou (2009) and Shifrin (2009). In the case of Ratcliffe (2009) we note his exclusion is due to a write down of assets and thus use the threshold for the top 1,000, «As negotiations with banks extended over the period of the 2009 Rich List, we took the 57-year-old out of our calculations, but he convinced most of the 230 banks owed money to change the loan terms» The Sunday Times, [<http://features.thesundaytimes.co.uk/richlist/live/richlist/view/main/1/rank/-/ratcliffe#list>].

¹⁶ These are Bjorgolfsson, Halabi and Hunter.

¹⁷ These are Cha, Christodoulou.

¹⁸ These are Gubay, Johnson, Quinn.

¹⁹ These are Agarwal, Asfari, Calder, Coombs, De Leon/Parasol, Dikshit, Elman, Frederiksen, Goyal, Grant/Gordon, Green (Peter), Howard, Knaster, Lemos, Miller, Moritz, Parker.

Since our database rests on the validity of the underlying rich lists, it is appropriate to highlight several things that subsequent research might need to correct – aspects involved in the compilation that hamper efforts to use this for our purposes. Firstly is the atypical acquisition or liquidation of assets. In a large enough sample one might suspect these effects to be downplayed, but it is obvious that larger changes in an individual's wealth represent unique events as opposed to endogenous factors.²⁰ Secondly is the treatment of joint wealth. Since many individuals put part of their wealth in the name of other people (e.g. wives or family members) events such as divorce can have a large impact, as can the compiler's judgment regarding when to treat family members as part of the same unit.²¹ Where possible we reduce the impact of such changes in the individuals, conscious of the fact that we are really focusing on funds (with individuals as proxies) and less concerned on actually understanding the net wealth of a given person. Thirdly, there are noticeable changes in wealth that do not have obvious explanations, indicating that they represent a change in data compilation (such as counting a hitherto unknown source of wealth or alteration of methodology) rather than any organic change. In such cases we make efforts to validate the findings ourselves, but ultimately remain in the hands of the rich list compilers.²²

²⁰ Coombs and Livingston seem to provide examples of big asset deals that skew their results.

²¹ For example, Bernie and Sylvie Ecclestone divorced in 2009 and therefore one data point splits into two separate ones. In addition, prior to 2009 Lord Rothschild and Nat Rothschild account for a joint entry, and after this receive their own (and consequently their wealth is seen to plummet). We compensate for this by treating them as one entity throughout the study. We also note that David Thompson's wealth is combined with Richard Thompson's in 2004/5 accounting for the observed spike.

²² Consider the halving of Sainsbury's wealth from 2002 to 2003, or the rise of Reuben's wealth in the same period. We also note the fact that Gaston Murray disappears from the list, but we utilise the Birmingham Post's rich list as an estimate for the missing periods, see <http://www.birminghampost.net/birmingham-business/richlist/richlist2010/2010/02/03/1-12-jacques-gaston-murray-480m-625m-65233-25755724/>

IV FINDINGS

There is little doubt that Rich Lists demonstrate the broad contours of a credit boom and bust. In the 2009 Forbes Rich List there were 793 billionaires, 656 of whom lost money during the course of the preceding year, with just 44 becoming richer.²³ The average net worth of billionaires that are under 40 fell 30% from 2008 to 2009.²⁴

The wealth of Irelands richest 250 people fell by 25% in 2009, the sharpest fall in its history.²⁵ In Ukraine, the combined wealth of the top 50 fell to \$28.9bn, which is \$2bn *less* than the wealth of the richest person in 2008.²⁶

When our dataset is analysed, we find that such is the volume of activity it is impossible to gage general impressions. Indeed this is compounded by the fact that whilst rapid accumulations of wealth are clearly observable (the maximum growth rate has no upper bound), rapid dissolution is masked by the fact that growth rates cannot be negative once someone is bankrupt (i.e. there is a clear lower bound).

Despite this we have several results. Firstly, figure 1 shows the relationship between two wealth thresholds, mean wealth, and our measure of the money supply, MA (see Evans and Baxendale 2010 for details on compilation).

Threshold 100 is the level of wealth required to break into the top 100 richest people, for each given year. Threshold 1,000 is the amount to reach the list itself. The mean is the average net wealth of everyone in our database. Percentage changes are shown to mitigate differences in scale. Changes in MA (shown on the secondary axis) is our measure of credit conditions.²⁷ As can be seen,

²³ «Roman Abramovich down to his last £3billion as credit crunch cuts world's biggest fortunes by a quarter» Daily Mail 12th March 2009.

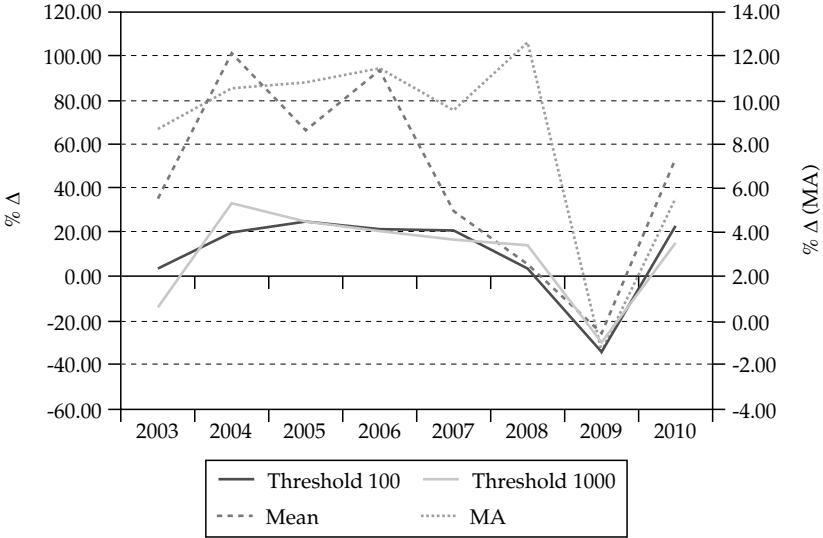
²⁴ See «Youngest billionaires lose money» *BBC News*, April 30th 2009.

²⁵ Note also that this was only the third year on record that the combined wealth had fallen. See «Bonfire of the billionaires strikes at Irish fortunes» by Colm Murphy and Colin Coyle, *The Sunday Times*, April 26th 2009.

²⁶ See «50 Richest Ukrainians» by Mark Rachkevych, *Kiev Post*, June 11th 2009.

²⁷ Since the Sunday Times Rich List is compiled in January of each year we take the January year-on-year measure of the money supply.

FIGURE 1



not only is there a clear correlation between the various thresholds and mean wealth, this coincides with the changes in the money supply. The correlations between the percentage changes are given in the table below (Figure 2):

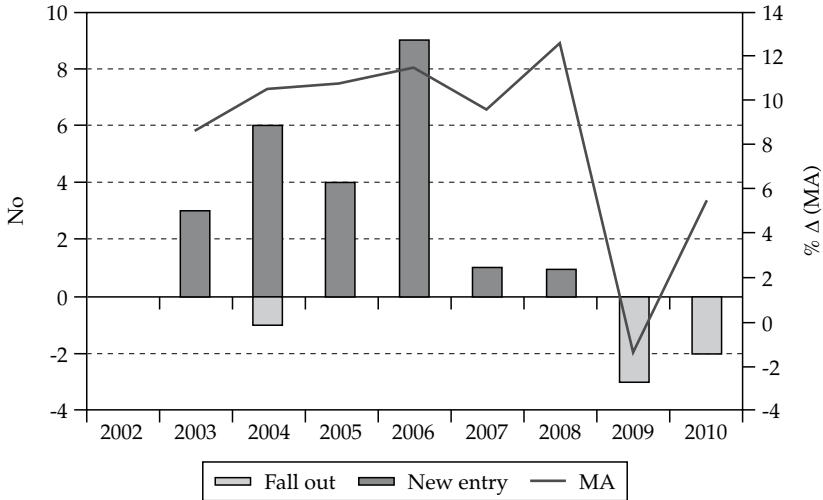
FIGURE 2

<i>Variable Y</i>	<i>Variable X</i>	<i>r</i>
THRESH 100	MA	0.755958906
THRESH 1,000	MA	0.772210172
MEAN	MA	0.59375762

Figure 2 takes a more focused approach and shows how the change in the money supply coincides with movements in and out of the database.

We show the number of new entries and the number of people who fall out of the list in each year. Although the numbers are small, of the 3 fallouts of 2009 2 of them were new entries into

FIGURE 3



the top 1,000 previous years.²⁸ Of the 2 fallouts in 2010 1 of them was a new entry into the top 100 in previous years.²⁹ Therefore of the 5 fallouts in 2009 and 2010 only 2 of them had been in the top 100 since 2002.³⁰

We could extend this analysis further, and look at the fallout from the top 100, but these findings are revealing. They demonstrate that those who fell out of the top 100 as a consequence of the credit crunch were disproportionately likely to have been recent new entries.

V CONCLUSION

This paper is admittedly modest in its aims. Due the general dearth of research based on rich lists we have constructed from

²⁸ Björgolfsson in 2006 and Halabi in 2004.

²⁹ Quinn in 2003.

³⁰ Hunter and Gubay.

scratch a modified database taken from The Sunday Times' published information. We made numerous adjustments in light of issues with the data quality and use them to present preliminary results. Clearly much more work can be done to expand the quality and scope of this kind of data, but as a method to uncover how entrepreneurs have fared in light of the recent boom and bust cycle our results are telling. If such results can be replicated, modified and extended, we can strengthen our understanding of who the marginal entrepreneurs are, and continue to deconstruct the homogeneous nature of entrepreneurship to create a genuinely heterogeneous approach.

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APPENDIX:
A SELECTION OF 2009 RICH LISTS

<i>Country</i>	<i>Title</i>	<i>Publisher</i>
Australia	Australian Rich List/ Rich 200	Business Review Weekly
Austria	Die Liste der 100 reichsten Österreicher	Oe24.at ³¹
Canada	Canadian Rich List/Rich 100	Canadian Business Online ³²
Denmark	Danmarks Rigeste 2009 ³³	Business.dk
Estonia	Eesti rikaste TOP 500	Aripaev ³⁴
Finland	Suomen 1000	Kaytannon Maamies
France	Les Plus Grandes Fortunes	Challenges ³⁵
Germany	10 Richest People	Manager magazin
Greece	Greek Rich List	Greek Rich List Publications ³⁶
Holland	Miljonairs	Quote ³⁷
New Zealand	New Zealand Rich List	National Business Review
Norway	Kapitals 400 rikeste ³⁸	Hegnar
Poland	100 Najbogatszych	W Prost ³⁹
Russia	Рейтинг российских миллиардеров 2009	Finance Magazine ⁴⁰
South Africa	Rich List	Sunday Times ⁴¹
.../...		

³¹ <http://www.oe24.at/wirtschaft/Das-sind-die-100-reichsten-Oesterreicher-0503242.ece>

³² <http://list.canadianbusiness.com/rankings/rich100/2009/intro/Default.aspx?sp2=1&d1=a&sc1=0>

³³ <http://www.business.dk/bny/danmarks-rigeste-2009>

³⁴ http://www.ap3.ee/?PublicationId=31503ED6-39D4-4163-9D98-74AA1E3959CE&code=4443/uud_uudid_x_444301

³⁵ <http://www.challenges.fr/classements/fortune.php>

³⁶ <http://www.greekrichlist.com/>

³⁷ <http://www.quotenet.nl/lijtjes/>

³⁸ http://www.hegna.no/andre_tjenester/rikeste400/

³⁹ <http://100najbogatszych.wprost.pl/>

⁴⁰ <http://www.finansmag.ru/94502/>

⁴¹ Download here: <http://www.scribd.com/doc/22780147/November-1-2009>

APPENDIX:
A SELECTION OF 2009 RICH LISTS (continuación)

<i>Country</i>	<i>Title</i>	<i>Publisher</i>
Spain	Los 100 ricos de España	Elmundo Magazine ⁴²
Sweden	Rich List	<u>Veckans Affärer</u>
Switzerland	Die 300 Reichsten 2009	Bilanz ⁴³
Ukraine	50 Richest Ukrainians	Korrespondent magazine / Kiev Post ⁴⁴
United Kingdom	Sunday Times Rich List	The Sunday Times ⁴⁵
United States	Forbes 400	Forbes ⁴⁶

⁴² <http://www.elmundo.es/suplementos/magazine/2008/480/1228301893.html>

⁴³ <http://www.bilanz.ch/leserservice/300reichste.asp?Session=34E9FA58-518E-4F01-ABD6-D9002291CF1A&CID=110&CPID=0>

⁴⁴ <http://www.kyivpost.com/news/nation/detail/43241/>

⁴⁵ <http://www.thesundaytimes.co.uk/sto/public/richlist/>

⁴⁶ <http://www.forbes.com/forbes-400/>

MONEY CREATION AND THE REVOLUTION

Along the Path to Real Change

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When you store your belongings in a private locker, does the owner of the locker pay you? On the contrary, you pay the owner, for he is providing you with a service called safe-keeping. In effect, the owner holds your belongings safe until you take them back. So, why is it that you accept money from a bank to hold your money for you?

The obvious answer is that the bank is not holding your money; it is lending it out and rewarding you with a portion of what it collects in interest. If you are happy with this arrangement, you have likely sought out a bank in your neighborhood that provides you with the greatest return on your deposit. Unfortunately, there are several things very wrong with this type of transaction. Most important is that you are engaging in a transaction that is commercially unsound.

I NON-BINDING AGREEMENT

You and your bank engage in a legally non-binding agreement when, on the one hand, your bank promises to return your deposit on demand, and on the other hand, loans a portion of it to others for a specified period of time. Contractually, these two acts are incompatible, as the same money cannot be both a demand deposit and a loan simultaneously. Either, you deposit

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your money, reserve the right to demand it back at any moment, and pay the bank for holding it on your behalf. This is called a *demand deposit*. Or, you surrender your right to your money for a specific period of time, permit your bank to lend it to others, and receive interest for your risk and sacrifice. This is called a *time deposit*. Commercially, treating your *demand deposit* as money that can be loaned to others is not an

enforceable contract, for the law insists that there must be *mutual assent* when two parties enter into an agreement. You and the bank are simply at odds when you expect to retrieve your money at any moment on demand, and the bank lends a portion of it to others for a fixed period. Legally speaking, both parties to the transaction do not agree to the same contractual terms in the same sense.

Unfortunately, you do not realize the weakness of this transaction until your bank tells you one day, «I am sorry sir, but your money is currently unavailable», and «We will notify you ma'am as soon as we are able», and then shuts its door until the government rescues it from dissolution.¹

II FRACTIONAL RESERVE BANKING AND COUNTERFEITING

We dislike people who counterfeit money for good reason; they are able to purchase things that we are unable by simply printing money for which we, in contrast, sacrifice time and effort in the work place to obtain. Now, banks counterfeit when they create money *ex nihilo*² and loan it into existence. This *illicit* procedure

¹ Jesús Huerta de Soto (2012): *Money, Bank Credit, and Economic Cycles*. 3rd Edition. Chapter 1 - The Legal Nature of the Monetary Irregular-Deposit Contract. Translated by Melinda A. Stroup. Auburn, Alabama: Ludwig von Mises Institute, pp. 1-36.

² The term *ex nihilo* is Latin. It means *out of nothing*.

is called *fractional reserve banking* and is sanctioned by government statute around the world.³ In brief, for every dollar (or other currency) you deposit in your bank, your bank is permitted to loan some very large fraction of it to someone else. What is left in the bank is called the bank's *fractional reserve*.

By way of illustration, say you deposit 100 dollars with your bank in the form of a *demand deposit*. Further assume, for the sake of simplicity, that the fractional amount that the bank is permitted to lend to someone else is 90% of what you deposit, and that you are the other person. This means that you can now spend 190 dollars where before you had only 100 dollars. If you were to take the 90 dollars received from your loan, and deposit it with the same or another bank, you could now borrow 90% of the 90 dollars that you just deposited—namely, 81 dollars. Repeating this process until there were nothing left to borrow, you could obtain access to 1000 dollars with your original deposit—ten times more than what you originally deposited!

At the end of each loan period you would have to return to the bank what you borrowed, and throughout the loan period you would have to pay the bank interest on the same. In addition, you would receive some of your interest payments back in the form of interest on each new deposit. Important is that for some period of time you would have access to somewhat under 900 dollars of additional money to spend in the market place. Also important is that the bank would retain some of your original deposit after you repay your debt with interest. «So, where is the counterfeit», you may ask, «After all, I pay back everything that I borrow plus interest.»

In order to understand the *act of counterfeit* in which your bank engages consider what happens when you return your money

³ In the United States the central bank that oversees fractional reserve banking is not a single bank, but a group of 12 banks called the Federal Reserve System. The government body that oversees this system is the Federal Reserve Board, and its current chairperson is Ben Shalom Bernanke. In the US this entire system is commonly known as the FED. The photographic images displayed in this article are those of the Eccles Building in Washington, D.C., and the Federal Reserve Banks of San Francisco, St. Louis, and New York, respectively. The Eccles Building is where the Federal Reserve Board meets; it is the headquarters of the FED.

to the bank. It does not disappear! Rather, the bank loans out the same 900 dollars to someone else, and does this as many times, as it is able, provided your deposit remains with the bank and the bank can find a borrower. Not only does your bank make a profit with each new loan, but there are 900 more dollars in circulation than there were before you left your money with the bank for *safe-keeping*. Now, multiply this 900 dollars times 240 million employed US workers, and you can readily determine a very conservative estimate of the number of *counterfeit* dollars in circulation. This *counterfeited* money is a portion of our nation's *money supply*, and the system that produces it is called *fractional reserve banking*.

Setting aside government statute for the moment, there are only three *commercially legitimate* forms of money that a bank can lend: money that belongs to the bank, money that the bank borrows from others, and money that has been entrusted to the bank by its owners for the purpose of investment. *Demand deposits* fit into none of these three categories.

Money that belongs to a bank is money that the bank earns from the provision of services and the fees that it collects for their provision. For example, a bank legally lends money that it receives when you pay it to safeguard your valuables, cash a check, pay your bills, or perform any of a large number of other services. Other legitimate bank income is money received from the management of pooled funds whose owners bare the risk and reap the rewards of the investments that the bank manages on their behalf. These funds are called *mutual funds*. In both examples the bank receives

income for providing a service that it can then spend, save, or invest just like any other income earner.

Money that a bank borrows and then lends to others is also legitimate, but very different, because the bank's ownership of the money is temporary and must be returned after a fixed period of time. Money obtained by banks in this fashion is a risky business for both the depositor and the borrowing bank. It is risky to the depositor, for the bank



could default or not pay the depositor in a timely fashion. It is risky to the bank, for the bank must not only pay the interest in a timely fashion, but must also repay the depositor when the loan principal becomes due no matter the behavior of those to whom the bank has further lent the money. This is the nature of a *time deposit*.

III REAL AND NOMINAL WEALTH

Money, whether it be created *ex nihilo* and lent into existence by a private or central bank, or created *ex nihilo* and spent into circulation by a private individual or government as legal tender, is not wealth *per se*. Rather, it is a *nominal* claim on wealth. This claim is what economists commonly call *nominal wealth*, *financial capital*, or *purchasing power*. In contrast, *real wealth* includes tangible *consumer goods*, *real capital* (the machines, equipment and materials used in the production of other goods and services), *human capital* (the skills, talent, and knowledge of the owners, managers, and workers who produce these goods and services), *tradable information*, and *natural resources* such as land, water, mineral deposits, fossil fuels, and the like. An individual or group of individuals who hold money exercise a *claim* over any form of *real wealth* whose owner is willing to sell, and that the holder of money has a sufficient amount to buy.

IV MONEY CREATION AND THE REDISTRIBUTION OF STOLEN WEALTH

The creation of money *ex nihilo* has the effect of diverting the *ownership* of *real wealth* from the anonymous many to a selected, nameable, but secretive few. This diversion is not obvious, for, if it were, most people would have demanded an end to it a long time ago.

As the amount of *real wealth* does not change when new money is created, the value of all existing claims to this wealth is



diminished. Accordingly, there are now more *nominal claims* to the same amount of *real wealth*, and some people enjoy a larger proportion of these claims than they did before. Indeed, with more money in circulation prices are bid up, and everyone requires more units of currency to purchase the same amount of goods and services (inflation).⁴ As the amount of currency that most of us holds is the same, most of us are poorer. Only those who are eligible to

borrow from a bank have more, are able to purchase more, and thus command a greater proportion of our nation's wealth. Now, the borrower's eligibility for a loan depends on his ability to make good on his interest payments to the bank and to return the loan's principal when the borrowed sum becomes due; it does not depend on the borrower's contribution to the community on whose wealth the bank and the borrower have laid additional claims. Finally, the money that is lent into existence is nearly always invisible, as only the borrower and the lending bank are usually privy to what is borrowed and lent. This veil of secrecy also applies to the relationship between the lending depositor and the borrowing bank.

V

BANK PRUDENCE, MARKET SHARE, AND THE FALLACY OF COMPOSITION

Like other firms banks compete among themselves for customers by offering the best quality and service for the lowest possible price. The product that banks sell when they lend money into existence is *loans*; they make their product attractive to consumers

⁴ Although visible, inflation is neither readily perceived, nor always felt depending on the flexibility of market prices. Typically, those on fixed incomes such as hourly wage earners and retirees are negatively effected.

by making it easy to borrow and pay back. Typically banks do not lend to anyone for any reason, because they must have a reasonable chance of getting back what they lend in a timely fashion. As a result, banks are expected to be *prudent*. For example, they usually lend to people with a good credit rating and avoid those with a bad one. Further, banks are more likely to loan money borrowed for the purpose of buying tangible, recoverable objects, or to lend to borrowers who can produce collateral as a guarantee for repayment. Although a lack of *prudence* on the part of a bank is likely to lead to failure, prudence is no guarantee that a bank will not fail. Indeed, there are a whole host of negative market factors called *externalities* to which individual banks contribute when they create and lend money into existence.

Since what is not deposited in one bank is likely deposited in another, banks that offer the highest interest rate of deposit tend to attract more depositors and larger deposits. As a result, these banks have the potential to lend more money into existence and capture a larger share of the loanable funds market. Furthermore, since governments typically insure the money of depositors, they encourage these latter to place their money with banks that pay the highest interest rate of deposit no matter the risk to themselves or the banks at which they deposit their money.⁵ As a consequence, these banks incur higher costs and greater risk, because the interest payments to their depositors must be paid no matter the bank's ability to make good on the sale of additional and larger loans. Finally, if a bank does not lend money, its likelihood of meeting its obligations to its depositors will necessarily decrease for lack of sufficient revenue. For this reason banks have a built-in incentive to loan money whenever it is *profitable* to do so, even when the implied risks are not always clear.⁶ As the market conditions that prevail at the time a sum

⁵ This is an example of *moral hazard* created by government intervention.

⁶ Profitable in this context means that the interest received on money lent is *sufficiently* higher than the interest paid on money borrowed (eg. time deposits). In the short-run, *sufficient* means that the difference between these two rates covers, at minimum, the transaction cost of receiving and holding deposits and dispersing, monitoring, and retrieving loans. In the long run, the cost of maintaining the banks' physical assets and return on equity must also be covered.

of money is lent and those that prevail at the time the money must be paid back are subject to change, the risks are many. Similarly, the situation of individual depositors and borrowers does not remain the same over time.

What makes the *fractional reserve system* and the creation of money *ex nihilo* so pernicious is that all banks tend to behave similarly under similar economic conditions. When a borrower goes to one bank for a new loan and not to another, it deprives the other banks of potential revenue and profit. In order to prevent this from occurring the other banks are pressured into making their deposit and loan opportunities more attractive as well. Accordingly, if many banks are operating in the same community, and all banks lower their lending requirements simultaneously, then many more borrowers enter into the market. This, of course, increases the amount of money in the system, as well as the level of spending.⁷ This induced spending increase is called the *nominal wealth effect*, and the joint competitive behavior that brings it about is a *fallacy of composition*. The pernicious effect of these phenomena will soon be made clear.

VI

THE PRICE OF, AND MARKET FOR LOANABLE FUNDS

When we borrow, we bet our future against the present in the belief that the future will be as good, if not better than when we bet. This is a gamble that not everyone can take at the same time, because borrowers consume more in the present than what they produce. In short, others must consume less than what they produce in order to fund the borrowers. This latter is called *saving*. As we save, we accumulate *nominal claims* (money) to *real wealth*. We set these claims aside to spend at a later date or for others to borrow in the present. The money that we set aside for ourselves

⁷ If the fractional reserve system were always operating at its peak — i.e., every bank were always lending everything, but its required fractional reserve —, then there would be no change in the *money supply*. This, of course, is a condition that no central bank or government can ever guarantee.

can be used for future transactions, emergencies, or retirement. What we set aside for others is generally used for the purchase of current factors of production. These factors of production are typically used by firms to produce even more *real wealth* for the future.⁸ This latter use of our *savings* is called *investment*; it is what permits the maintenance and sustainable growth of the *real economy*.

The price of borrowing and lending is determined by the demand for, and supply of loanable funds — investment and saving, respectively. In the absence of *fractional and federal reserve*



*lending*⁹ the nominal worth of traded loanable funds is equal to the amount of *real savings* that savers are willing to invest and firms are willing to borrow. The *equilibrium price* that results from the tug-of-war between the demand for, and supply of *loanable funds* is called the *real rate* of interest. When the *real rate* of interest is high, savers are willing to lend more, and investors are willing to borrow less. When the *real rate* of interest is low, savers are less willing to lend, and investors are more willing to borrow.

When firms borrow, they do so in the belief that their future revenue will cover their immediate and future costs. When

⁸ Consumers who purchase real estate and durable goods, such as automobiles and household appliances, also engage in a form of investment. This is because most of the benefits received from the purchase of a home, automobile, or household appliance are not immediate, but accrue long into the future.

⁹ Just as private banks loan money into existence, so too, do central banks. In the United States this is achieved when the US Treasury issues new debt and sells it to the Federal Reserve system in exchange for cash. Typically, this same debt is further sold by the FED to large commercial money banks and then traded in the private sector. These sales absorb the new money injected into the economy by our government when it spends the money raised from the issue of the new debt. By absorbing the new money, the money supply is held relatively constant and rampant inflation is avoided. The downside of these sales is lower bond prices, higher bond yields, and higher interest rates that make it more difficult for the private sector to borrow. The government is said to *choke out* private investment.

consumers borrow, they believe that their current and future benefit flows will exceed the cost of their regularly paid installments. In both cases, the borrowers assume that they will be able to meet their interest payments and return the principal when it becomes due. These are very important assumptions that depend on many factors some of which are well beyond the control of investors — hence, the *gamble*. In the absence of *inflation* wise investors use current and historical factor and product prices and the current and likely future cost of borrowing as their guides for estimating their future revenue, benefits, and costs. Their profit or return on investment is based on the difference between these benefits and costs. When the cost of current borrowing is low relative to other costs, firms can expect higher profits and consumers a better return on their investment.

Now, when banks lend money into existence they increase the supply of loanable funds above the level of *real savings* available for lending. In effect, they signal to investors that there is more *real savings* in the economy than there truly is. As a result, investors borrow and invest more than savers are willing to lend, and another, but different tug-of-war ensues between *real investment* and *real consumption*. It is this latter tug-of-war that necessarily ends in disaster.

VII

THE EVER RECURRING BOOM AND BUST CYCLE

Booms usually begin when banks lend into existence money that exceeds the value of *real savings* at *current prices*. This can occur whenever there exists within the banking system cash reserves that exceed the *minimum reserve requirement* set by central banks, *and* banks perceive an opportunity to increase their market share and profit through increased borrowing and lending. Obviously, perhaps, such opportunities are numerous and not limited to those mentioned in the previous section.¹⁰ As a result, *booms* and

¹⁰ Though the innovative packaging of already existing claims to a nation's *real wealth*, banks can create *nominal wealth* that exceeds even that available through the

their inexorable counterpart *busts* are inevitable under a fractional reserve system. Not only are they inevitable, but they pass through predictable stages that typically begin when firms first borrow in excess of *real savings*. Important is that the *inflation* that results is not ubiquitous at first, as it takes time for it to work its way through the system. Moreover, the path that it takes is crucial.

Firms use their borrowed money (*nominal claims to real wealth*) to purchase already, or not yet employed *real factors of production* for use in their new investment projects.¹¹ In order to draw these factors away from their current use firms offer prices that exceed these factors' current market value. Firms can afford these prices because they obtain their loans below the market's *real rate of interest* — in other words, at the rate of interest charged by banks when they issue new money in excess of the current market worth of *real savings*. The sale and purchase of the aforementioned higher priced factors injects this money into the *real economy*. This nominal wealth is then used by the previous owners of these factors to increase their *nominal savings*¹² and *real consumption*. This increase in *nominal savings* is further used by banks to provide still more ready cash in excess of their *fractional reserves*. In addition, the increase in consumption draws down existent merchant inventories and new product orders follow. This necessarily results in increased demand for other, already or not yet employed factors of production in other market sectors. To the extent that there is an increase in the number of *real goods and services* produced, these goods and services are rarely sufficient to satisfy the needs of both the new investment projects and the increase

fractional reserve system. This is the reason that all *nominal claims to wealth* that exceed the level of *real wealth* must be prohibited — not just those generated through the *fractional reserve system*.

¹¹ Although we generally assume that *all* employable factors of production are already employed, this need not be the case. Important is that the factors crucial to the success of the new investment projects are already employed.

¹² *Nominal savings* are the money that income and revenue earners deposit with banks. Once again, these are only claims on *real goods, property, and services* that may or may not be already employed. In order for new, sustainable investment to take place, there must also be a rise in *real savings*. This implies a decrease in *real consumption* — not an increase!

in *real demand* in the rest of the economy. As much time is required before the new investment projects can bear fruit, a shortage of everything results, and the prices of all goods and services are bid up.¹³

In order to meet the higher price of everything the original investing firms must now borrow additional money. Eagerly, banks rally to their call by creating and lending still more money into existence, but at ever higher rates of interest, as they exhaust their reserve potential. Soon these firms realize that they can no longer afford to borrow. There is simply not enough *real savings* in the system to satisfy both the *real* needs of their projects and the increased demand for *real* final goods and services in the rest of the *real economy*.¹⁴ The result is devastating.

The factors of production that were not consumed by the new investments become idle, and the owners of these factors find themselves surrounded by higher prices and no income. Their demand for final goods and services falls, and with this decrease the inventories of final goods begin to rise. Workers who have been working overtime to meet the higher demand in all goods and services return to their normal schedules; the resulting fall in income causes a further drop in demand for many other *real goods* and *services*. This general fall leads to decreased revenue and profits for many firms. In an effort to maintain their current rates of return firms begin looking for ways to cut costs. Additional

¹³ Roger W. Garrison (2001): *Time and Money: The Macroeconomics of Capital Structure*. London and New York: Routledge. This book is an excellent introduction to the theory of the Austrian business cycle (ABC) developed by Friederich Hayek and his mentor Ludwig von Mises. It is a great resource for anyone with a solid foundation in Keynesian macroeconomic theory and the Monetarist School. For those with little economic background Jesús Huerta de Soto's book *Money, Bank Credit, and Economic Cycles* may provide a more easily understood introduction.

¹⁴ Across-the-board *inflation* is not an inevitable result of an ever increasing money supply. During the *Roaring Twenties*—the boom period that preceded the *Great Depression*—the general price level remained relatively stable. This is because the boom was accompanied by a simultaneous rapid growth in real goods and services brought about by the rapid introduction of technological innovation. Had there been no increase in the money supply, the price of goods, services, and factor inputs would have fallen. The over supply of *nominal claims* on our nation's wealth did eventually surface in the stock market where stock prices continued to rise until just before the onset of the bust.

workers are laid off and the owners of other factor inputs experience a fall in income. Firm revenue continues to falter. Fallen income and revenue also mean falling *nominal savings*. Banks retire whatever loans that they are able, and no additional loans are made. The *money supply* shrinks, and previous *claims* on the nation's output begin to disappear. Firms that were reluctant to lower prices as inventories rose, now find it necessary to lower prices in order to bolster sales and stave off fallen revenue. In some cases this strategy works, in others it does not. More fallen revenue and cuts in production result, and the employment of workers and other factors of production diminishes further. *Nominal savings* continue to decline, as consumers struggle to meet their interest payments on durable goods purchases that they can no longer afford. Banks find it difficult to meet their *fractional reserve requirements*. The *money supply* (claims on *real wealth*) shrinks further, everyone feels poorer (*nominal wealth effect*), and the economy experiences a general slowdown. For many, the result is catastrophic.

VIII THE LOSERS AND THE WINNERS

Though most everyone loses during an economic downturn, the damage is uneven and there are some *real* winners.

Those most hurt are, of course, *workers* who suddenly find themselves in the streets without employment. Unemployment insurance is rarely enough and households begin to dig into their *nominal savings*. By the time the recession is over many *workers* have drained their *nominal savings* and sold some of their *real assets* just to survive — this, despite important cuts in consumptive spending. If workers are fortunate, able to ride out the storm, and can find new employment when the economy recovers, the cycle repeats itself. Like *Sisyphus*¹⁵ workers save during each *boom*

¹⁵ Sisyphus was punished in Hades for his misdeeds. His sentence was the eternal and repetitive task of rolling a large stone to the top of a hill only to watch it roll back down.

only to watch their savings disappear with each inevitable and subsequent *bust*. By the time they leave the work force permanently there is little left for them and their children. Unable to build lasting claims to their nation's output, a lifetime of work leaves them with little satisfaction.



In stark juxtaposition *firms* that are able to survive the inevitable downturn are able to gobble up the assets of less fortunate *firms* at bargain prices. When the economy buoys they are well poised to produce *real wealth* and earn profits at levels higher than they were able before the downturn began. If they are fortunate, they can repeat this process with each new boom and bust cycle. When the owners and managers of these firms reach retirement they are much better off than when they started early in life, have provided well for their children, and can bequeath these latter with a sizable inheritance. In time a sizable income gap grows between those who are able to save and those who are not.

The owners of our private banks are the most consistent winners as they retain their profits from the *boom* and reap the rewards of taxpayer bailouts from governments that depend on the money that banks create in order to subsidize their often enormous deficits.

IX THE ROLE OF GOVERNMENT

Many people rightfully look to government to rectify the above social injustice, but unfortunately for the wrong solution. The cure for the above calamity and perversion is to prevent the *boom and bust cycles* that bring these about.¹⁶ The only way that this can

¹⁶ The extraordinary wealth of America's top one and top one tenth of one percent is still another story and no less important. Though both stories are rooted in financial and government corruption, the story told in this essay is much better and well-documented in Jesus Huerta de Soto's *Money, Bank Credit, and Economic*

be achieved is by denying, rather than subsidizing the *counterfeiting* of money in the name of unsustainable *real growth* and illusory social and economic progress for most workers.

By eliminating the *statutory privilege* granted by our central governments to banks and other financial institutions these latter would no longer be able to create money *ex nihilo* and lend it into existence. Further, by preventing our central governments from printing money in excess of the value of *real savings* at current prices the ever increasing *income gap* and pernicious *boom and bust cycles* that contribute to this gap would end.

¡BASTA!

(A propósito de la Nota de Justicia
y Paz de Octubre de 2011)

JOSÉ MARÍA DE LA CUESTA RUTE*

Escribo estas letras desde mi confesada pertenencia a la Iglesia Católica a la que profeso el verdadero amor de un hijo a su madre en la que ve una solicitud permanente por la felicidad de todo el género humano como corresponde a su condición de depositaria, y hasta cierto punto administradora, del misterio de la fe.

Escribo desde mi convicción del deber que a todo cristiano nos alcanza de participar en la evangelización de todas las gentes y en la necesidad urgente de proceder así en todo momento, como nos aconseja San Pablo.

Escribo sintiéndome urgido por la enseñanza de la propia Jerarquía eclesiástica, particularmente de Su Santidad Benedicto XVI, acerca del alcance universal del mandato evangelizador que alcanza a todos los hijos de la Iglesia y no sólo a los miembros de su jerarquía.

Escribo estas letras persuadido de que con ello enlace con la más pura tradición de la Iglesia que desde siempre se ha aplicado a instruir a los más necesitados a fin de que pudiesen vivir de la fe, en la que ella es maestra.

Escribo estas letras sin la menor pretensión de pasar por sabio ni de dar lecciones, pero sí con el convencimiento de que la complejidad de la vida actual y la especialización científica que lleva consigo nos hace a todos ignorantes en todas las ramas del saber en las que no hemos recibido instrucción ni ejercido aprendizaje. Y esto vale para todos los miembros de la Iglesia, tanto para los clérigos como para los laicos y ya ejerzan potestad por formar

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parte de la jerarquía ya pertenezcamos al pueblo de Dios que iremos a su presencia después de la gran tribulación y por su misericordia infinita. Y digo esto con plena conciencia de la sabiduría de la Iglesia en humanidad y de que esa sabiduría se media por el magisterio de la Iglesia ante el que todo el pueblo de Dios, todos los fieles no somos más que discípulos que hemos de estar atentos a sus enseñanzas.

Pero precisamente por eso la primera enseñanza que debemos practicar es la que se deriva del «dad al César lo que es del César y a Dios, lo que es de Dios». Que, por lo que se refiere a las ciencias y, en general, a las disciplinas humanas, la Iglesia como tal carece de una competencia especial; todos sus miembros, del Rey abajo, y ya estén incardinados en las estructuras organizativas, y por eso inevitablemente burocráticas, de la Jerarquía eclesial ya se muevan fuera de ellas en su respectiva esfera laica, pueden expresar sus ideas y sus opiniones que, si indudablemente deben guardar coherencia con las enseñanzas de la fe, por su propia naturaleza resultan más aceptables cuanto sean más acordes con los principios y la metodología propias del saber de que se trate sin consideración a las circunstancias subjetivas que concurren en la persona que las sostenga.

Muy particularmente es importante atenerse a esta enseñanza en el terreno de la ambigua Doctrina Social. Debe subrayarse que en todos los documentos que a ella se refieren, incluso los emanados de los sucesivos Pontífices, se hace la salvedad expresa e inequívocamente de que esa doctrina no puede suministrar soluciones técnicas a los problemas y cuestiones que aborda; con ello se pone en evidencia que la búsqueda de tales soluciones corresponde a quienes cultiven la disciplina o las disciplinas que sean pertinentes en cada caso.

No resulta infrecuente sin embargo que, en dichos documentos y al hilo de la argumentación sobre los principios evangélicos, que de suyo debería constituir la marca, el límite o la frontera del territorio dentro del que ejercer con seguridad doctrinal la tarea científica o artística que en cada caso corresponda, se olvide la prudente monición citada y se incurra en apuntar soluciones que no pueden calificarse sino de «técnicas». Con todo respeto diré que eso ocurre incluso en alguna Encíclica. Pero donde ya se manifiesta

sin veladura alguna es por lo general en los documentos que dimanen de los Dicasterios o Consejos Pontificios. Así sucede escandalosamente en la Nota emanada el pasado mes de octubre del Consejo de Justicia y Paz.

Nótese que, en la mayoría de los casos, semejantes Documentos se producen en virtud de la tarea de asesoramiento o consulta que a la Santa Sede corresponde como miembro de los Organismos seculares Internacionales en los que interviene con plena legitimidad. Pero sucede, como es lógico por la dificultad intrínseca de distinguir entre los distintos planos, que esos documentos se toman como documentos que expresan la doctrina de la Iglesia en su condición de tal y, en consecuencia, se considera que forman parte del corpus doctrinal de la fe de los católicos.

Diré que además los que se consideran a sí mismos buenos católicos y los que por ello los toman admiten sin la menor acribia crítica esos documentos y endosan su contenido a la fe de la Iglesia. Incluso se llega a considerar católicos desviados a los que por sus saberes científicos y técnicos se permiten criticar tales documentos.

No es impertinente, me parece, recordar aquí que la Iglesia ha celebrado, manifestándolo así en multitud de ocasiones, la pérdida de los Estados Pontificios ya que así se purificaba de todo poder temporal; también se alaban los Pactos de Letrán en cuanto que, mediante el reconocimiento del Estado Ciudad del Vaticano, se puede mantener al Romano Pontífice exento de cualquier jurisdicción soberana, con la garantía que ello representa para poder custodiar y transmitir la integridad del mensaje evangélico.

Pero no es dudoso que esa finalidad del reconocimiento simbólico de la soberanía pontificia, lleva a la confusión —humanos todos, al fin— respecto de la actuación de las burocracias vaticanas que están al servicio de la dimensión temporal del Vaticano, con la consecuencia de que lo que no es sino producto temporal puede —y suele tomarse— por parte de la fe de la Iglesia.

Es ahí donde radica el mal sin paliativos que me impele a decir BASTA. Basta ya de emitir documentos de significado ambiguo pero que por el carácter de las Oficinas que los emiten se considera que resumen doctrina católica. Basta porque se confunde a los católicos que, por preparados que puedan estar en otras materias,

no lo están en la economía o el derecho y que sin embargo, por su sencillez de espíritu y su fidelidad a machamartillo —aunque, a mi juicio erróneamente formada— aceptarán sin la menor duda las argumentaciones y conclusiones, cuando menos discutibles, de los documentos burocráticos a que me refiero; argumentaciones que, de acuerdo con el proverbio eclesial clásico y precisamente por tratarse de materias discutibles, deben expresarse como meras opiniones frente a las que cabe manifestar otras con plena libertad (*en lo discutible, no unidad sino libertad*). Lo mejor sería sin embargo que tales opiniones no se formularan bajo el membrete oficial de cualquiera de las oficinas vaticanas, y que quien quisiera hacerlo por ser suyas lo hiciera con su nombre y apellidos así fuese incluso cardenal porque siendo opiniones personales su autor y sólo su autor debe responsabilizarse de ellas asumiendo lo que puedan tener de erróneas. Así se protegería a los «sencillos», como ha sido preocupación constante de la Iglesia.

Pero también BASTA porque meras opiniones personales, sometidas cuando menos a la libre discusión, se atribuyen a la Iglesia con grave injusticia y probablemente no menor daño.

Que, como suele ser usual y desde luego sucede en la Nota que suscita este escrito, las recomendaciones se orienten según los principios intervencionistas y demás martingalas inspiradoras del socialismo, no excluye que, en general salvo escasas excepciones, quienes militan en los Partidos Socialistas y desde luego en el español tengan a la Iglesia como enemiga; la práctica no es útil, pues ni siquiera como coartada o camuflaje que, por otra parte, no sería en modo alguno admisible. Mas la cuestión se hace más intolerable cuando parece aceptarse que una ideología tan negativa para la realización en libertad de los proyectos del hombre, *imago Dei* como tan a menudo nos recuerda Benedicto XVI para quien debe centrarse en el hombre toda la ciencia y el arte, se presente como la apropiada para los católicos.

Por todas estas razones y con la conciencia de rendir un verdadero servicio a mi madre la Iglesia con el ejercicio de un derecho que corresponde a todo miembro del Pueblo de Dios levanto mi voz para decir BASTA, BASTA YA.

¿QUÉ HUMOS IDEOLÓGICOS HAN ENTRADO EN EL PONTIFICIO CONSEJO DE JUSTICIA Y PAZ?

ANTONIO PANCORBO DE RATO*

No es ninguna pregunta retórica. Realmente uno se acerca a los documentos del **Pontificio Consejo de Justicia y Paz** y, por un lado, encuentra reflexiones morales de máxima utilidad sobre temas sociales y económicos. Pero por otro, encuentra entreveradas una serie de propuestas técnicas, sobre las que la **Doctrina Social de la Iglesia** reitera no tener competencia, pero que el Pontificio Consejo de Justicia y Paz no duda en proponer de todas formas. Soluciones técnicas donde la organización coactiva de la economía por el Estado se antepone a una reflexión que dé primacía a la conciencia libre de los individuos (de la cual parece desconfiar) y a la actuación de los grupos intermedios en los que los individuos se articulan en sociedad, empezando por la familia.

La última Nota que el Pontificio Consejo de Justicia y Paz ha preparado para *estimular el debate* en la próxima **reunión del G20** (Cannes, 3 y 4 de noviembre de 2011) es un buen ejemplo. El título puede haber dejado atónito a más de uno (puede que incluso al mismo Papa): **«Por una reforma del sistema financiero y monetario internacional en la perspectiva de una Autoridad pública con competencia universal»** (texto de la Nota, traducción no oficial). Una vez más, las soluciones técnicas que proponen hablan de más Estado. Ante la deriva que están tomando los Estados modernos en la promoción de la justicia y la paz, la Nota propone una «Autoridad con horizonte planetario», «dotada de

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estructuras y mecanismos adecuados». No lo llama «Estado Supranacional», pero sí le aplica el principio de *subsidiariedad*, propio de las relaciones de los ciudadanos con el Estado, y el símil que hace entre los individuos y los Estados con esta nueva Autoridad hacen pensar que se está proponiendo un «**Estado de competencia planetaria**».

La Doctrina Social de la Iglesia es parte de la teología moral, y no puede dar recetas de técnica política y económica. Los obispos, por tanto, no tienen por qué saber mucho de economía. Pero tampoco se pueden dejar aconsejar por seudoeconomistas, **aprendices de brujos con la varita mágica del poder invasivo del Estado** que todo lo resolverá por decreto legislativo, sin esfuerzo ni trabajo.

I

¿NO ES JESUCRISTO EL REY DEL UNIVERSO?

Lo primero que llama la atención es que una propuesta del Magisterio sobre una «Autoridad pública con competencia universal» no gire en torno a la idea de que la **única «Autoridad» con competencia universal es Dios**, y de ahí llegar a las conclusiones que sean. «Decid entre las gentes: ¡Yahvé es rey! El orbe está seguro, no vacila; Él gobierna a los pueblos rectamente» (*Sal 96, 10*). Esta idea, por supuesto, no debe conducir a plantear ningún tipo de régimen teocrático, pero sorprende que ideas como **Jesucristo, Rey del Universo**, o el derecho natural no solo no sean la base del razonamiento, sino que estén ausentes de la Nota.

El Pontificio Consejo habla de «**crear**», de «**constituir**» una **Autoridad pública mundial**, no de descubrir y reconocer por todos los pueblos las leyes que Dios ha inscrito en el corazón del hombre. La propia Nota se puede considerar un buen ejemplo de la denuncia que ella misma hace sobre «la cerrazón a un más allá, comprendido como algo más, respecto a la técnica».

II PROPUESTAS TÉCNICAS MUY DISCUTIBLES

Una de las propuestas de la Nota que más eco ha tenido en la prensa ha sido la de crear un «**Banco Central Mundial**», «que regule el flujo y el sistema de los intercambios monetarios con el mismo criterio que los bancos centrales nacionales». La Nota denuncia que «en la última parte del siglo anterior, la moneda y las actividades financieras a nivel global crecieron mucho más rápidamente que las producciones de bienes y servicios». Sin embargo, es conocido que este crecimiento desmesurado de la moneda y el crédito encuentran su origen, nada más y nada menos que en la lógica de los bancos centrales nacionales actuales para expandir la moneda y proteger a los bancos comerciales para que, a su vez, expandan el crédito. La misma lógica que los autores dicen que quieren replicar pero a escala universal como solución a los problemas creados por los bancos centrales nacionales. No es que estemos en contra de los bancos centrales. Tienen su función como garantes de la estabilidad de la oferta monetaria, banqueros del Estado y reguladores bancarios. Lo que ponemos en duda es la oportunidad de querer replicar a escala planetaria, sin ningún tipo de cambio o replanteamiento, unas instituciones que claramente han fracasado en el control de la moneda y el crédito, y esperar ver en esa mega-institución la solución, con la acumulación de poder político y económico que tal mega-institución acarrearía.

La Nota apunta con acierto a la expansión del crédito, mucho más rápida que la producción de la economía, la excesiva cantidad de moneda y la espiral inflacionista como las tendencias más perniciosas para la economía global y origen de la actual crisis financiera mundial. ¿Qué ha hecho que esto haya sido posible, solo razones éticas o también ha habido razones técnicas que han debilitado la ética y exacerbado la codicia ante la posibilidad para algunos de hacerse con los recursos de todos los demás? ¿Qué ha ocasionado que se formen las bolsas excesivas de liquidez y las burbujas especulativas que denuncia? ¿Ha jugado algún papel **el diseño de las actuales instituciones públicas y privadas** que dan soporte al sistema crediticio y monetario, o este

diseño era el que demandaba la justicia y la paz, y lo que ha faltado han sido estructuras políticas y monetarias de la misma naturaleza y diseño, pero con poder planetario como las que propone la Nota?

En el proceso que propone la Nota de «recuperar la primacía de lo espiritual y de la ética y, con ello, la primacía de la política, responsable del bien común, sobre la economía y las finanzas», los autores incluyen como ejemplo las siguientes dos sugerencias:

- **«Medidas de imposición fiscal a las transacciones financieras».** Está claro que los autores no están por la labor de reducir el Estado, sino de seguir aumentándolo. «Dicha imposición sería muy útil para promover el desarrollo global y sostenible, según los principios de la justicia social y de la solidaridad; y podría contribuir a la constitución de una reserva mundial de apoyo a los Países afectados por la crisis, así como al saneamiento de su sistema monetario y financiero». Es discutible que ese nuevo impuesto pueda conseguir en la práctica todas las ideas grandilocuentes que proponen los autores.
- **«Recapitalización de los bancos, incluso con fondos públicos».** Recapitalizar los bancos con fondos públicos está muy bien, pero primero habría que sanear a esos bancos, liquidar los no viables, y cambiar a los gestores del resto que necesitan ayudas públicas, ¿o pasamos directamente a la recapitalización con fondos públicos, esos que tanto necesitamos todos y de los que el Estado dispone con tanta generosidad? Condicionando el apoyo [público] a comportamientos «virtuosos» y finalizados a desarrollar la «economía real». Ya ha habido recapitalizaciones con fondos públicos. ¿Han sido éstas causa de comportamientos virtuosos por parte de los banqueros o han vuelto a las andadas? ¿Se ha desarrollado la economía real o escasea el crédito más que nunca? Agradecemos las buenas intenciones de los autores, pero un poco de realismo también es necesario.

III PROPUESTAS INCOMPLETAS Y CONFUSAS

La Nota indica que «vale la pena recordar que, entre el 1900 y el 2000, la población mundial casi se cuadruplicó y que la riqueza producida a nivel mundial creció en modo mucho más rápido» (gracias sobre todo al libre mercado). Pero a la vez, denuncia que, «sin embargo, **no ha aumentado la equitativa distribución de la riqueza**; sino que en muchos casos ha empeorado». ¿Qué ha impedido una distribución más justa de la riqueza, para privar a quien trabaja y produce de los frutos de su trabajo, sino la ausencia de **respeto a los derechos de propiedad**, como nos enseña el Catecismo (n. 2.431)? Ahí donde el colectivismo, el estatismo y la corrupción han conculcado los derechos de propiedad es donde las desigualdades injustas en el reparto de la riqueza claman con más fuerza al cielo.

Pero puede que los autores de la Nota no vayan por ahí. Esa nueva Autoridad pública de competencia universal está llamada a realizar «una distribución igualitaria de la riqueza mundial, incluso mediante **formas inéditas de solidaridad fiscal global**». Adiós a los derechos de propiedad; adiós a la solidaridad verdadera. No se puede hablar de amor si no hay libertad, ¿o la verdadera solidaridad a la que aspira el pensamiento social cristiano se impone? ¿Es utópico fundar soluciones técnicas pensadas para un hombre hecho por y para el Amor? ¿Son necesarios eufemismos socialdemócratas, como «solidaridad fiscal», para presentar un pensamiento social cristiano?

Tampoco está claro qué quieren decir los autores cuando entienden que en los orígenes de la crisis se encuentra «una ideología, de una forma de **“apriorismo económico”**, que pretende tomar de la teoría las leyes del funcionamiento del mercado y las denominadas leyes del desarrollo capitalista, exagerando algunos de sus aspectos.» ¿Dónde ven los autores «apriorismo económico» cuando precisamente todo el pensamiento económico moderno, que nos ha traído a esta crisis, está fundado en el empirismo y en el positivismo? Otra cosa es que la teoría económica con la que los economista empiristas y positivistas explicaban sus observaciones de la realidad estuviesen equivocadas, precisamente por ser

de naturaleza intervencionista y tratar al hombre como una pieza dentro de una maquinaria social que es fácilmente manejable con modelos matemáticos. Un «buen apriorismo», sin embargo, es necesario si realmente queremos descubrir las leyes inscritas (por Dios, si me permiten) en la propia dinámica social. Ciertamente apriorismo es también necesario si creemos que la Autoridad mundial debe estar regida por la Ley Natural.

IV

PROPUESTAS QUE OLVIDAN LA REALIDAD

La Nota entiende que «**un liberalismo económico sin reglas y sin supervisión**» ha impulsado al mundo en esta dirección extremadamente problemática incluso para la Paz. ¿Es posible que los autores puedan afirmar tal cosa, y en particular de un sector financiero hiper-regulado e hiper-supervisado por los poderes públicos? Otra cosa es con qué fin se hiper-regule y con qué fin se hiper-supervise, pero junte Ud. las páginas de regulación que son necesarias para cualquier actividad económica, no digamos si es una actividad que los poderes públicos pretenden privilegiar en favor de unos grupos y en contra de todos los demás, como la banca, y podrá levantar torres de varios pisos de altura. Junte Ud. todos funcionarios, comisión, agencias, consejo, grupo de coordinación nacionales e internacionales que supervisan el sector financiero, por ejemplo, y verá que son legión.

Piden los autores una Autoridad pública de competencia mundial **que gobierne la economía y las políticas de desarrollo**. ¿No es suficiente la evidencia del colapso económico de los regímenes colectivistas en el gobierno de la economía? ¿No está siendo suficiente la evidencia de la ineficiencia de las políticas de desarrollo gobernadas por los Estados?

Esta **falta de realismo** de los autores está presente cuando pide que esta Autoridad pública con competencia universal se cree de forma voluntaria, que los países se adhieran por convicción. Esto puede ser así, pero sería entonces el final de un proceso de acercamiento mutuo, no el resultado de un diseño creado desde una burocracia internacional.

V

¿UNA NOTA CON SESGO IDEOLÓGICO?

Todo hace pensar que sí, por ejemplo, cuando dice: «A la base de las disparidades y de las distorsiones del desarrollo capitalista, se encuentra en gran parte, además de la **ideología del liberalismo económico**, la **ideología utilitarista**». ¿Qué se pretende al mezclar el liberalismo económico, el modo más eficaz de generar riqueza en beneficio de todos (y más humano que el «socialismo económico»), con la ideología utilitarista, una patología del comportamiento humano que niega cualquier espíritu de solidaridad que trascienda la utilidad personal?

Apunta la Nota que en los años veinte «**algunos economistas** ya habían puesto en guardia para que no se diera crédito excesivamente, en ausencia de reglas y controles, a esas teorías, que hoy se han transformado en ideologías y praxis dominantes a nivel internacional.» Sería muy revelador para conocer el sustrato intelectual de esta Nota saber a qué economistas se refieren los autores.

Muchos católicos se acercan de buena fe a las enseñanzas sociales del Magisterio, y ante ciertas soluciones técnicas planteadas desde ideologías concretas dejan de seguir considerando los textos. Entienden que tales soluciones técnicas no les obligan moralmente. Otros católicos que su amor a la Iglesia lo extienden también a defender cualquier cosa que salga de los entresijos clericales vaticanos, tratan de reinterpretar los textos para que digan lo que no dicen pero que les gustaría que dijeran. Propuestas de actuación política y económica, discutibles desde un punto de vista moral y económico, cuando se representan como parte de un texto vaticano de sana doctrina y sabio magisterio, hacen daño.

VI

UNA NOTA QUE NOS COMPROMETE

En este artículo solo he querido tocar algunos de los puntos que trata la Nota. Las propuestas y matices son numerosísimos y comentarlos uno por uno extendería demasiado este artículo, que ya es largo.

Pese a que esta Nota pueda no representar el pensamiento ni las aspiraciones sociales de muchos católicos, no es un documento para olvidar. Es un documento para comprometerse en la línea en la que pide la misma Nota: «las comunidades de creyentes deben en primer lugar **preguntarse si los medios de los que dispone la familia humana para la realización del bien común mundial son los más adecuados**». La Nota nos compromete a todos a llevar a cabo un programa de trabajo que dé respuesta a esta pregunta, y las propuestas que plantea al G20 el Pontificio Consejo de Justicia y Paz indican claramente que este programa de trabajo es urgente.

THE VATICAN'S MONETARY WISDOM

ROBERT A. SIRICO*

On Monday, the Vatican released an 18-page document titled «Toward Reforming the International Financial and Monetary Systems in the Context of a Global Public Authority.» Since then, it has been celebrated by advocates of bigger government the world over.

What's ignored is that the document —released to stimulate debate, not offer official doctrine— embraces a sound economic theory concerning the cause of the world financial crisis: the breakdown of the postwar Bretton Woods monetary system and the unleashing of fiat currencies and central-bank printing presses.

Let's look at a representative passage, while keeping in mind several important markers: 1971 was the year that the Nixon administration killed the gold standard, and along with it Bretton Woods and hard currencies; in the early 1980s, financial deregulation in many countries removed the last major barriers to virtually unlimited amounts of credit; and the 1990s was the decade when the drive to suppress interest rates became the common policy of central banks around the world.

Since the 1990s, we have seen that money and credit instruments worldwide have grown more rapidly than revenue, even adjusting for current prices. From this came the formation of pockets of excessive liquidity and speculative bubbles which later turned into a series of solvency and confidence crises that have spread and followed one another over the years.

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A first crisis took place in the 1970s until the early 1980s and was related to the sudden sharp rises in oil prices. Subsequently, there was a series of crises in the developing world, for example, the first crisis in Mexico in the 1980s and those in Brazil, Russia and Korea, and then again in Mexico in the 1990s as well as in Thailand and Argentina.

The speculative bubble in real estate and the recent financial crisis have the very same origin in the excessive amount of money and the plethora of financial instruments globally.

Under the gold standard, there was a check on the whim of financial masters. The Vatican seems to understand this.

This is sophisticated economic analysis. People are occupying Wall Street, blaming capitalism, speculation and greed, but rare is the analysis that traces all these problems back to the structural change in money that was brought about in the early 1970s.

We went from a hard-money regime, in which there were restrictions on the power of central banks and financial institutions to create money and credit, to one where money became purely paper. There were no restrictions remaining on the power of governments to finance unlimited debt. Banks could create credit seemingly without limit. Central banks became the real power in the world economy.

None of this was true under a gold standard. That system limits the expansion of credit by an indelible physical fact. There was a limit, a check, a rule that went beyond the whim of financial masters and politicians. The Vatican seems to understand this.

But discerning the disease and finding the cure are very different undertakings, and here the document falls short. It imagines a new world central bank and political authority that will rule without «any partial vision or particular good» but rather seek «the common good.» Its decisions should «be made in the interest of all, not only to the advantage of some groups, whether they are formed by private lobbies or national governments.»

Somehow, with an intelligence never before discovered in government bureaucracies, these proposed global authorities would create «socio-economic, political and legal conditions essential for the existence of markets that are efficient and efficacious.»

Contrary to what is being said, this document presumes the existence and continuation of «free and stable markets.» The problem is that the Vatican imagines that a «world central bank» and a «global public authority» can do this with more competence than national governments that have a checkered history in this regard.

It was centralization that caused this mess in the first place. Central banks created paper money, easy and limitless credit, and the moral hazard that accompanies them. Why should we believe that more centralization is the solution when experience suggests precisely the opposite?

Many people who favor free markets worry about the implications of the Vatican document. And there is no question that it will be used around the world to stir up political mischief. It will also be used to convince the Catholic faithful that big-government solutions are morally justified. But let's not forget that there are really two parts to the document: the diagnosis and the prescription. We should embrace the former and eschew the latter.