

## Rothbard's Ghost Haunting the Halls of the Mises Institute

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In today's Mises Institute daily, William L. Anderson boldly announces that "[Keynes's Ghost Continues to Haunt Economics](#)." Keynes's ghost is not the only one haunting the halls. Rothbard's ghost haunts the halls of the Mises Institute.

Anderson writes:

When the U.S. economy dipped into an inflationary recession in 1969, Murray N. Rothbard in his introduction to the Second Edition of *America's Great Depression* wrote that the Keynesian paradigm could not explain that phenomenon, but Austrian economics could explain what was happening.

Every conscientious student of Austrian economics knows that Rothbard was not the first or foremost to point out the errors of Keynes. It is also not correct literally to say that Austrian economics explains something. *Economists* explain. Economists in the Austrian tradition produce theorems in which the assumptions match, as closely as possible, the conditions that prevailed at the time.

### 1. SCARCITY: THE CRUCIAL ELEMENT

The master of such explanations in the 20th century was Ludwig von Mises. The key is *scarcity*. Monetary and fiscal policy cannot succeed due to scarcity.

Scarcity is the only sound basis for refuting the claims of Keynes and other interventionists. The interventionists assert that they can provide *benefits* to individuals beyond what the entrepreneurs of the "free market" would provide. But they do not know how to trace the *costs*. In many cases, they do not even know how to trace the benefits. Henry Hazlitt wrote that they disregard the long run. In fact, they even disregard the short run because they are deluded into neglecting the costs.

## 2. INTERVENTIONIST PLANS NOT FULFILLED

Mises showed that practically no interventionist plans could achieve the goals that the interventionists set for them, except... Except if other goals that the interventionist cherished even more were sacrificed. Entrepreneurs, he wrote, cannot produce more of one commodity without producing less of another. They cannot cause more goods to be produced for the future generation without causing fewer to be produced for the present generation. They cannot produce bread from stone.

If the entrepreneurs cannot overcome scarcity, the interventionists certainly cannot. An injection of money cannot cause more scarce resources to become available for one purpose without sacrifice. Neither can a shift from private to government spending. Besides, there is the problem of the trade cycle.

## 3. GOVERNMENT IS BAD?

Rothbard certainly learned how to counter the pop-Keynesian proposals of the 1950s and 1960s. But he rejected Mises's science.<sup>1</sup> He did not oppose the Keynesian proposals because they would thwart the purposes stated in the proposals themselves. He opposed them because the policies were implemented by a government. He regarded government as inherently violent and therefore bad. To Rothbard, every government policy was bad.

## 4. ROTHBARD'S DEPARTURE FROM AUSTRIAN ECONOMICS

Rothbard's departure from Mises and from the tradition of Austrian economics is in the introduction to the last chapter of his treatise – *Man, Economy and State*. It is not transparent. He clouded it by using a weasel word. But it is there for the careful student to see.

He writes about what he calls the “free society” or “the free market.” He says that in this free society,

individuals deal with one another only peacefully and never with violence. This is the construct, or ‘model,’ of the purely free market. And this model, imperfectly considered perhaps, has been the main object of study of economic analysis throughout the history of the discipline ([Rothbard 2004: 875](#)).

In fact, Rothbard's free market is his *noninvasive society*.

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<sup>1</sup>See my article “[The New Science of Economics in Mises's Treatise](#).”

## 5. WHOSE PURE MARKET?

Not so fast, Professor Rothbard! Your “purely free market” is not Mises’s “pure market economy.” It is not the imaginary construction of the pure market economy that enabled Mises to eloquently elucidate the problem of scarcity and the problem of economic calculation.

In Mises’s pure market economy, violence is a requirement. Violence by a government is necessary to block individuals who would otherwise employ violence to interfere with private property rights and free enterprise. Also the threat of violence is instrumental in enforcing promise keeping and contracts. Here is how Mises defines the pure market economy.

The imaginary construction of a pure or unhampered market economy assumes that there is division of labor and private ownership (control) of the means of production and that consequently there is market exchange of goods and services. It assumes that the operation of the market is not obstructed by institutional factors. It assumes that the government, the social apparatus of compulsion and coercion, is intent upon preserving the operation of the market system, abstains from hindering its functioning, and protects it against encroachments on the part of other people ([Mises 1966: 237](#)).

Rothbard’s construct is different, as he tells his readers in his 1970 book, *Power and Market*.

In our analysis of the free market in *Man, Economy, and State*, we assumed that no invasion of property takes place there, either because everyone voluntarily refrains from such aggression or because whatever method of forcible defense exists on the free market is sufficient to prevent any such aggression. But economists have almost invariably and paradoxically assumed that the market must be kept free by the use of invasive and unfree actions – in short, by governmental institutions outside the market nexus ([Rothbard 2004: 1048](#)).<sup>2</sup>

These quotations show that, while Mises’s construct has a government; Rothbard’s does not.<sup>3</sup> Their respective constructs of the “free market” are polar opposites in this respect.

Rothbard’s “purely free market” is not the imaginary construction that enabled Mises to refute the claims of the interventionists, including Keynes. Nor is it the object that economists have studied.<sup>4</sup>

## 6. DESTRUCTION BY ROTHBARD; CONSTRUCTION BY MISES

Rothbard is the source of the destructive idea that a truly free market can exist without a government. Mises is the source of the constructive idea that a truly free market requires a government.

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<sup>2</sup>“Scholars” at the Mises Institute have combined Rothbard’s 1960 and his 1970 books into a single unit, which they published in 2004.

<sup>3</sup>For a comparison of the two authors on the subject of the free market, see my article “[Rothbard’s Distorted Image of the Free Market](#).”

<sup>4</sup>See the section “[Economics in the Austrian Tradition or Ethics?](#)”

Rothbard is the source of the destructive idea that all violence is bad or evil. Mises became aware of Rothbard's ideas and provided counters to them late in his life ([See especially Mises 1962: 98-9](#) and the first four pages on Freedom in [Mises 1966: 279-82](#)). So far as I know, Rothbard did not acknowledge these counters. The counters are discussed in depth in Part Two of my essay "[Mises on Freedom and Praxeological Law](#)."

## 7. HOW TO ARGUE FOR PEACE AND PROSPERITY

Those of us who long for peace and prosperity, wrote Mises, must learn how to trace the effects of all market intervention – including socialism – on the amounts of material consumer goods. We must trumpet the fact of scarcity, the [division of labor law](#) and the effects of disrupting the signaling of the entrepreneurs – economic calculation.

If we cannot do that, we have little hope of rallying the opinion leaders and masses to support the free market. And if we cannot rally the masses, we will not be able to [control the government](#).<sup>5</sup> In that case, government really will be BAD (Mises 1956).

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<sup>5</sup>See the section "Capitalism, Government and Democracy" in my essay "[Mises on the Determinants of Public Policy: The Ideology of the Common Man](#)."

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