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What Would Ludwig von Mises Do?

Earlier this week, we had the Cato Institute calling for more inflation based on the arguments of Milton Friedman. Today, WSJ asks, [What Would Milton Friedman Do?](#) Their conclusion:

Friedman would have scoffed at the notion that the Fed is out of ammunition. He believed in the potency of "quantitative easing," or QE—printing money to buy bonds.

"The Bank of Japan can buy government bonds on the open market..." he wrote in 1998. "Most of the proceeds will end up in commercial banks, adding to their reserves and enabling them to expand...loans and open-market purchases. But whether they do so or not, the money supply will increase.... Higher money supply growth would have the same effect as always. After a year or so, the economy will expand more rapidly; output will grow, and after another delay, inflation will increase moderately."...The Friedman logic...makes the case for QE2.

This is all true, the public generally doesn't understand that Friedman was an inflationist.

So have there ever been any true inflation fighters? Not many, but a few. Murray Rothbard comes to mind and his great teacher, Ludwig von Mises.

Let's take a look at how Mises might view the current situation.

First, Mises, unlike Friedman and current Fed chairman Ben Bernanke, understood that the printing of money distorts the structure of the economy, In his *magnum opus* [Human Action](#) (first published in 1949 by Yale University Press), he writes:

The notion of "normal" credit expansion is absurd. Issuance of additional fiduciary media, no matter what its quantity may be, always sets in motion those changes in the price structure the description of which is the task of the theory of the trade cycle...banks and the monetary authorities are guided by the idea that the height of interest rates as the free loan market determines it is an evil, that it is the objective of a good economic policy to lower it, and that credit expansion is an appropriate means of achieving this end without harm to anybody but parasitic moneylenders. It is this infatuation that causes them to embark upon ventures which must finally bring about the slump...The objective of credit expansion is to favor the interests of some groups of the population at the expense of others.

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Ludwig von Mises

Mises taught us that it was the money manipulated boom that plants the seeds of the downturn, and he understood the damage it does to a society. The real estate boom and bust and the current chaos would not have surprised him:

The boom produces impoverishment. But still more disastrous are its moral ravages. It makes people despondent and dispirited. The more optimistic they were under the illusory prosperity of the boom, the greater is their despair and their feeling of frustration.

Yet, he wouldn't be surprised that under these conditions, which show the damage that inflation does, organizations like Cato and WSJ would call for more inflation:

Many governments, universities, and institutes of economic research lavishly subsidize publications whose main purpose is to praise the blessings of unbridled credit expansion and to slander all opponents as ill intentioned advocates of the selfish interests of usurers.

So what would Mises do, under current circumstances? This clear writer left us a full blueprint (in 1949!) of what he would do, and also warned us about the inflation advocates such as Cato, Friedman, Bernanke, Krugman, Mankiw and WSJ:

Out of the collapse of the boom there is only one way back to a state of affairs in which progressive accumulation of capital safeguards a steady improvement of material well-being: new saving must accumulate the capital goods needed for a harmonious equipment of all branches of production with the capital required. One must provide the capital goods lacking in those branches which were unduly neglected in the boom. Wage rates must drop; people must restrict their consumption temporarily until the capital wasted by malinvestment is restored. Those who dislike these hardships of the readjustment period must abstain in time from credit expansion.

There is no use in interfering by means of a new credit expansion with the process of readjustment. This would at best only interrupt, disturb, and prolong the curative process of the depression, if not bring about a new boom with all its inevitable consequences.

...the chief objective of present-day government interference is to intensify further credit expansion. This policy is doomed to failure. Sooner or later it must result in a catastrophe... Continued inflation must finally end in the crack-up boom, the complete breakdown of the currency system.

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