Ludwig von Mises Institute-Europe

LVMI-Europe

LVMI – EUROPE Newsletter

Member's Spring Edition 2024

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LVMI-Europe: Agenda

Upcoming events 2024

January 2025 (date tbc): "The political of the Judge in the US, Europe and Israel"

November 2024 **(date tbc)** A conference on Cyber Security (date tbc) with Cyber and Information Security & Risk Management, Orange Cyber Defence.

October 2, 2024

A lecture on « The gold Standard and Sound money ».
Speaker Alasdair Macleod, Gold Money Foundation

September 2024 (date tbc) a Conference: "A Digital Euro or cash money?"

June 12, 2024

A Lecture on Austrian economics, Speaker: Bart Vanderhaegen

Past events

April 17, 2024 A lecture on Austrian Economics "Stimulating the economy is counterproductive and creates tensions". Speaker: Heiko de Boer, The Netherlands

November 29, 2023

Postponed from April 25, 2023

Launch of the book "The Austrian School of Economics in the 21st Century" in Holland House, Rue d' Arlon 20, 1050 Brussels.

November 21, 2023,

Launch of the book "The Austrian School of Economics in the 21st Century" during a round-table sandwich lunch at the Institute of Economic Affairs (IEA) in **London. UK**

November 7, 2023

"Introduction to Austrian economics", a lecture by Bart Vanderhaegen in Holland House

September 27, 2023 Dinner debate with professor Rudy Aernout , University of Ghent in Holland House: 'Towards a new European Impetus Post-Brexit'

June 14 2023, General Assembly

May 17 2023, Board Meeting

January 7, 2023 Publication of the book "The Austrian School of Economics in the 21st Century"

Presidential Address

Newsletter Spring edition 2024

"Shareholders versus stakeholders"

In the year 2000 a discussion was organised on the advantages of a Shareholders society versus a Stakeholder society and vice versa. There -in the model discussed- the stakeholder society contained in the opinion of the defenders of that model all kind of participants, except capital. But what is a company without capital?

The idea has not been on the top of the international agenda, but lately a German economist, living in the US, linked the success of America's economy with the fact that the mentality there is more inspired by the attitude and perception of shareholders than of stakeholders.

Also, Klaus Schwab proposed in his book a "Stakeholder Capitalism", where "companies seek long-term value creation instead of short-term profits; governments cooperate to create the greatest possible prosperity for their people, and civil society and international organizations complete the stakeholder dialogue, helping balance the interests of people and the planet"[1].

Let us take a look at it. The following definition can be given [2]:

"Stakeholders and shareholders have different viewpoints, depending on their interest in the company. Shareholders want the company's executives to carry out activities that have a positive effect on stock prices and the value of dividends distributed to shareholders. Added to that, shareholders would want the company to focus on expansion, acquisitions, mergers, and other activities that increase the company's profitability and overall financial health". In short they have a more short-term vision

Shareholders are always stakeholders in a corporation, but that is not vice versa. A shareholder owns part of a public company through shares of stock, while a stakeholder has an interest in the performance of a company for reasons other than

[1] Klaus Schwab, and Peter Vanham "Stakeholder Capitalism; Making the Case for a Global Economy that Works for Progress, People and Planet" 2021

[2] See CFI Team

stock performance or appreciation. (They have a "stake" in its success and/or failure?) As a result, the stakeholder has a greater need for the company to succeed over the longer term. So, in short:

- Shareholders are always stakeholders in a corporation, but stakeholders not always shareholders.
- Shareholders own a part of a public company through shares of stock; a stakeholder wants to see the company prosper for reasons other than stock performance.
- Shareholders don't need to have a long-term perspective on the company and can sell the stock whenever they feel the need to; stakeholders are often in it for the long haul and have a greater need to see the company prosper.
- Internal stakeholders are employees, shareholders, executives, and partners.
- External stakeholders: Those who are impacted by a company but don't have a direct relationship with it. These are usually customers, suppliers, and community members. And the government.
  For example, when a company wishes to expand and uses a piece of land of a community, the company has to compensate that with another piece of green elsewhere.

  A good example of a shareholder society is the US. A good example of a stakeholder society is Germany.

Peter Johnson[3] starts to speak of value and according to him shareholder value is a result, not a strategy. There are several theories on value. He indicates that the separation of ownership and management has as a consequence that the investors are not interested in the production as such of the company they are investing in.

Capital markets are now more functioning like a meeting place for investors to trade instead of providing capital to a business, which is essential for the company.[4] .

However, in an open economy, companies do not wish to renounce the confidence of investors, because “it is a signal of the overall health of the company and its withdrawal can lead to the company’s operational collapse and make it impossible for the company to raise cash from any sources”[5]. As a result, the aim will continue to be maximizing profits.

[3] Peter Johnson **“Shareholders' gain, society's loss”,** 6 August 2009

[4] Peter Johnson, idem
[5] Peter Johnson idem

Since several years there is a tendence of a transition from the stakeholder society to the shareholder society, but with only the disadvantages that a shareholder society brings, such as the strategy of "touch and go", no continuity and no commitment and connection with the company where the employee works. We can try to return to a stakeholder society without its drawbacks (hence the plea of Klaus Schwab in 2021), such as sticking to the home/work unit, but the question is whether this will be possible.

Let me give just one example. In Frankfurt a/der Oder (Germany) there were at one point a large number of unemployed engineers, while there were about the same number of jobs open for engineers in Berlin. Then it is so clear that in such a case we have to opt for a 'shareholder' solution and these unemployed people simply go to work in Berlin.

At the same time there has been a wave of transition to corporate social responsibility. That was highly actual since 2005.

In their book "Freedom Inc", Isaac Getz and Brian Carney stated, that in "the same way that economic freedom creates growth and innovation and efficiency across an economy, freedom in organizations can have powerful benefits to businesses and employees."[6]

When treated as equals, the employees become more resourceful and show more initiative, and are engaged in their jobs.

That might be so, but the most important question is still the same: who has to take the (corporate) responsibility in the end? Not the stakeholders. That is not what they want, but surely the head of a company.

Stimulating the economy works contra productive and creates tensions

By Heiko de Boer, The Netherlands, Member of the Advisory Board LVMI Europe and edited by Jure Otorepec, Slovenia, Member of the Editorial Board

We are living in an era of unprecedented economic stimulus. The European Central Bank (ECB) responded to the financial crisis in 2008 with unprecedented monetary measures such as negative interest rates. During the Covid-19 pandemic, governments increased their debt to levels previously only seen during war times. These stimulus policies are widely supported by most leading mainstream economists.

The idea behind these policies is that by creating new money and by increasing debt, economic activities can be financed that could otherwise not be sustained. Companies that would otherwise go bankrupt can continue their operations and additional investments can be made. Increasing debts and creating new money are seen as panacea to be applied to eternity. They are believed to stimulate economic growth and result in full employment.

Austrian School

Austrian School economists tend to disagree with these mainstream views. In a series of articles, I will explain the issues with stimulus policies and that as a result societies are not tuned to the requirements of the people, but to the economic growth ambitions of governments and central banks. The Austrian School is giving us important arguments why our current monetary and fiscal policies are counterproductive, based on a thorough theoretical framework.

The basis of the Austrian School is the theory of the price and interest rate mechanism. Prices are determined by supply and demand, step by step described for the first time by Carl Menger in 1871. Menger may have been inspired by the medieval ´School of Salamanca´ and their ideas that prices depend on the subjective value a consumer attaches to those goods.

When people are working together in an efficient manner and more efficient ways of production are being enabled, it is likely that prices will go down. Prices going down are a form of 'profit to society'. Everyone in society benefits from lower prices, because with the same effort and the same salary, more goods and services can be bought by everyone. If a society does generate benefits for all the people, this society will develop in a stable manner.

Side effects of monetary policies

Economists and central bankers are however scared for prices to go down. The task of the ECB is to make sure that prices go up, on average by nearly 2% a year. The ECB maintains that their policies result in a growing economy, as measured by a rise in GDP.

Their policies consist of increasing the money supply and reducing interest rates. In this article, when I am mentioning the ECB, I am referring to all major central banks.

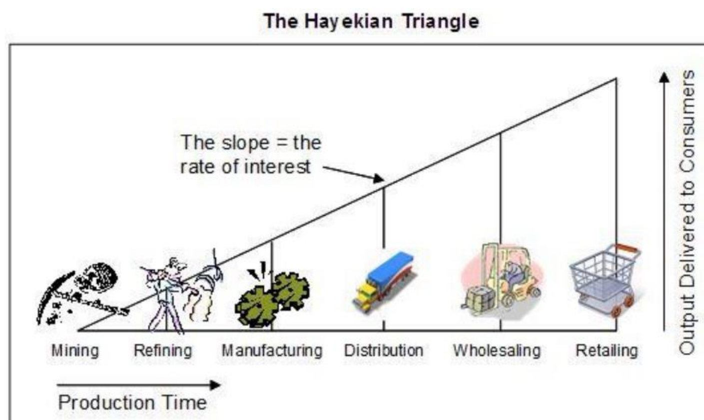
Increasing the money supply and pushing down interest rate have negative side effects. Creating money out of thin air results in boom-and-bust economic cycles and an economy that is not developing in a stable manner. It is merely beneficial to those people or institutions who have access to newly created money first. People who do not have access only experience prices rising, which is the result of creating more money. They see their purchasing power going down. This is the reason people in many societies are complaining about not benefitting from a 'growing economy´.

Whereas it may be true that GDP goes up at first due to monetary policies, it says nothing about an increase in welfare. Nothing can be said about this, because value cannot be measured, let alone be summarised in GDP-statistics. From an accounting point of view, profit can be measured. From a welfare point of view ´society´s profit´ cannot be measured.

There is no need for monetary policies. As given by nature, we have two mechanism that help shape society, benefitting people in society: The Price mechanism and the Interest Rate mechanism. Prices come about in a free marketplace based on preferences of people in society. The interest rate is a compensation for giving up time. The market interest rate comes about in a marketplace, based on the time preferences of people in society.

Prices and interest rates determine the production structure and determine when and how much should be produced. Manipulating prices and interest rates, as central banks as the ECB do, are counterproductive. Prices and interest rates that are no longer in line with preferences of people, will eventually result in tensions in society.

In the next articles I will elaborate on prices and interest rates, how they shape the production structure (depicted below graphically) and society and about the negative side effects of government interventions.



Event Report on “the Free Market Road Show” in Brussels

Title of Event: “The Free Market Road Show”

Event Organizers: BrusselsReport.eu, the Tholos Foundation, the Property Rights Alliance, and the Austrian Economics Center

Date and Time: Tuesday 5 March 2024, 11:00-14:30

Location: Brussels Report's premises, Troonstraat 61 Rue du Trône, Brussels, Belgium

Speakers:

Dr. Jürgen Meindl, Ambassador of Austria to the Kingdom of Belgium and the Permanent Representative of Austria to NATO.

Prof. Em. Boudewijn Bouckaert, former Member of Flemish Parliament and Hon. President of Free Market Think Tank Libera

Michael Jäger, European Economic Senate and Taxpayers Association of Europe

Dr. Barbara Kolm, Director of the Austrian Economics Center and former Vice President of the Austrian Central Bank

Pieter Cleppe, Editor-in-Chief, BrusselsReport.eu

Summary:

The event featured multiple speakers and two main panel debates, “Is European Union regulation out of control?” and “The role of monetary policy in causing inflation.” The Free Market Road Show in Brussels commenced with eloquently-spoken opening remarks by Jürgen Meindl, the Austrian ambassador to the Kingdom of Belgium and the Permanent Representative of Austria to the North Atlantic Trade Organization. Ambassador Meindl spoke briefly about the profound and world-altering innovations in the fields of economic and technological development, specifically mentioning the contributions of Elon Musk to the rapidly-changing global environment.

Following the Ambassador came the first panel debate, a discussion that was designed to provide possible answers to the following titular question: “Is European Union regulation out of control?” The discussion was founded largely on the principles of economic liberalism, emphasizing an undying support of the free market economy. At the center of this conversation was Michael Jäger from the European Economic Senate

and Taxpayers Association of Europe. He boldly stated that the intensive European Union regulation has resulted in "a loss of entrepreneurial freedom [and] individual freedom," and he explained that EU regulation has penetrated every aspect of daily life, ultimately betraying the founding principles of the European Union. Mr. Jäger concluded that the European Union should enact regulations, but only those that are necessary, and that Brussels must be cautious and not institute too many restrictions; otherwise, the European Union might lose its competitive advantage in the global market. Mr. Jäger finished by proclaiming the following: "I am in favor of market solutions! I am in favor of competition!" Ultimately, it was concluded that the answer to the question "Is European Union regulation out of control?" was yes, EU regulation *IS* out of control.

The second panel debate, "The role of monetary policy in causing inflation," was headed by Dr. Barbara Kolm, the Director of the Austrian Economics Center and the former Vice President of the Austrian Central Bank, and Pieter Cleppe, the Editor-in-Chief of BrusselsReport.eu. This particular conversation on monetary policy focused largely on the roles and decisions of the European Central Bank. Dr. Kolm shared her opinion that "inflation is the [European Union's] biggest challenge" and that the European Central Bank has done "too little, too late." She ultimately concluded by making the following important statement: "Keep Brussels and Frankfurt separate!," meaning that politics should not impact monetary policy.

A short explanation of the Theories of the Austrian School of Economics

Annette Godart-van der Kroon

The Austrian school of Economics (Skousen M. 2005) was founded in the late XIX century by Carl Menger, who at the time taught economics at the University of Vienna: he and his best disciples (above all Böhm-Bawerk, Ludwig von Mises and Friedrich August von Hayek) were fervent supporters of free market and free competition, which in turn were both considered as essential requirements in order to guarantee a real **freedom of choice** to any individual. Because they had the Austrian nationality, the school was called "the Austrian School".

This freedom of choice was always in -bedded in the framework of the **Rule of Law,** contract law, individual and human rights. The State was never considered as superfluous. Only its role should not be exaggerated.

However, the 1929 financial collapse and the succeeding years of global slump usually termed as the "Great Depression" severely brought into question the explanatory effectiveness of the *laissez-faire* paradigm and the actual self-recovery ability of the market. **Keynes**' theories were more convenient for governments to develop full employment and his theory has been accepted and been applied during decades. In fact 'Keynes' success was due to the "deficit spending" policies of contemporary governments. In old fashioned language, Keynes proposed cheating the workers" (von Mises 1980 and 1979). It lasted until the eighties of the last century that the balance was going more towards the teachings of the Austrian School of Economics.

In fact, the Austrian School of Economics :

- claims for the absolute inviolability of private property;
- supports the Adam Smith's views, but the concept of *laissez-faire* was abandoned already in the beginning of the 20st century. The expression of the "free hand" was however used only once in his book called "An Inquiry into the Nature and Causes of the Wealth of Nations".
- disagrees with Marxist ideas of alienation, exploitation and anti-capitalism;
- defends free trade and globalization;
- opposes the cumbersome presence of the State into the economy and claim for the abolition of controls on exchanges, prices, rents and wages;

- speaks in favor of privatization denationalization and deregulation and rejects any form of central planning;
- The “Welfare State”. criticizes deficit spending, progressive taxation and, more in general the whole idea of a “Welfare State”.
- Disagrees with Socialism not on the goal, “which likewise professes to strive for the good of all, but by the means that it chooses to attain that goal”. (von Mises L (1927) 2005)

In connection with this, the Austrian School has the following items:

1. The adoption of different methodological approaches:
   1A The “Methodenstreit” between Carl Menger and Gustav Schmoller
   1B The different approaches
2. The quest for the fittest monetary standard;
3. The proper role of the Government within a free market system;
4. The interpretation of the business cycle;

All these above- mentioned “hot” topics will be therefore further discussed.

1. THE METHODOLOGICAL APPROACH4

1A The Methodenstreit

The quest for the best methodological approach probably represents the most relevant source of disagreement between Vienna and the Historical School in the 19th century and between Vienna and Chicago after 1950. Generally speaking, the Austrian school has always favored the so-called “radical apriorism”, which rests on purely deductive reasoning. Following such an approach implies a complete rejection of the resort to both historical experience and mathematical models in order to support theoretical findings and assumptions. This controversy between the Austrian School and the Historical School was called the “Methodenstreit” (Carl Menger versus Gustav Schmoller), which left the outcome of inductive method and deductive method open (Popper {1945} 1980).

Another controversy in the 20th century took place between “Vienna” and “Chicago” in the sixties of the 20th Century.

To understand the controversy between “Vienna” and “the Chicago School” a good starting point could be offered by Milton Friedman (founder of the Chicago School) himself, who had distinguished between three different basic methodological approaches, usually known as “history without theory”, “theory without history”, and “theory and history” (which is

obtained through the combining of the two previous theories).

The **history without theory** approach had been embraced during the XIX century by a pretty large number of economists coming from the German "***Historische Schule***" (Schmoller, Wilhelm Roscher, Bruno Hildebrand, Karl Knies and others): unlike the most renowned supporters of Laissez-Faire , such As Adam Smith and David Ricardo, the aforementioned scholars all strongly denied the existence of scientific economic laws separate from politics. Moreover, when **Carl Menger** (nowadays considered as one of the founding fathers of the Austrian school) published the "*Grundsätze*", a ponderous treatise in which he elaborated on some milestone microeconomic concepts like "marginal utility" and "opportunity cost", they completely ignored him and his attempt aimed at proving the existence of autonomous economic laws. The Chicago School was also opposed to Keynes, while Friedman did not agree with those who had seen in the 1929 crisis an outstanding example of "market failure", since he preferred thinking of the Great Depression as of a "Government failure". (Skousen M, 2005)

The **theory without history** approach was introduced by David Ricardo in the XIX century. Ricardo is nowadays considered as the inventor of contemporary "econometrics". Nonetheless, during his whole career, he always kept the mathematical models he outlined clearly separate from actual experience and history: in fact, this was the main reason why his harshest critics made short work of his findings, labeling the latter as nothing but "blackboard economics". However, the methodological precepts of Ricardo also had an abiding influence within the economic profession. Among the others, Ludwig von Mises adapted from him the same emphasis on abstract reasoning, although he always rejected any resort to mathematical models and formulas in order to explain and support his theoretical findings. From his standpoint, mathematics could lead an economist into a sort of vicious circle: in fact, if one tries to build a model starting from fallacious assumptions, then the latter will certainly produce false conclusions. Nonetheless, thanks to von Mises, the "theory without history" approach was soon embraced by the whole Austrian school.

Ludwig von Mises made a clear distinction between "physical" and "social" sciences. The former exist in order to explain the behavior of animals and things, which is mechanical and predictable, and can therefore be subjected to predetermined laws. Social sciences (and, consequently, economics), on the other hand, are related to the realm of human beings, whose behavior is far more unpredictable, since they think, reflect, adopt values, make choices and learn lessons from previous experience. In the light

of these considerations, von Mises (soon followed by other libertarian economists, such as Hayek and Rothbard) repeatedly underlined the fundamental contribution that could be offered to the economic profession by **praxeology** (von Mises L 1998 p.100-101), that is the study of human action: otherwise, the human free will could never be caged into preordained rules and laws, as it happens in the domain of physical sciences. According to von Mises, human behavior is unforeseeable, since a man can ceaselessly change his mind in any moment: in other words, within the complicated process of human action, the principle of **causality** (according to which for every cause there is only one possible effect) is systematically overwhelmed by the principle of **uncertainty**. Given these assumptions, the Misesian firm refusal of socialism and, more in general, of any kind of central planned economy should not be surprising. Other representatives of the Austrian school (such as Hayek, Rothbard and Kirzner) were probably less "radical" than von Mises, since they sometimes resorted to graphs, at least during their lectures. However, they shared the same aversion against the involvement of mathematics into economic reasoning.

Nonetheless, on the other hand, empirical methods also have their own "dark side", since sometimes data can be false, inaccurate, or they can be simply misused or misinterpreted: in such cases, even the most painstaking analysis will inevitably lead to false conclusions and fallacious predictions.

In fact, nowadays the importance of supporting hypotheses with huge empirical evidence has been gradually admitted even by a pretty large number of Austrian economists

The theory and history approach.

Friedman therefore proposed a monetary policy rule based on the control of the growth of the money supply, in order to guarantee price stability and the neutrality of the currency. Furthermore, Friedman argued that the demand for money depends on people's permanent income, that is, on their expected lifetime income, and not on their current income. This theory implies that transitory changes in income have little effect on consumption and the demand for money.

Paradoxically, Friedman, wanting to limit the weight of monetary expansion, has pushed people to believe that this is the essential element of growth and inflation, much more than fiscal policy. So, Friedman disempowered political power and gave celebrity and enormous influence to central bank governors. From this point of view, he was a true enemy of democracy and the herald of technocratic rule. In this purely negative sense,

he is perhaps the most influential figure of the second half of the 20th century and the first twenty years of the 21st century.

2. A MONETARY STANDARD

The **Austrian school** claims for a reliable non-inflationary framework depending primarily on a wise management of monetary policy. On the one hand, this represents an important point of common ground against **Keynesianism,** which (in the wake of the trade-off outlined by the well-known Phillips Curve) has usually tended to consider a higher inflation rate as the price to pay in order to achieve full employment. On the other hand, however, a deep disagreement persists on what the ideal monetary standard is: in broad terms, the Austrian school has repeatedly showed a preference for the implementation of a **full-fledged gold standard** (von Mises 1998, 468) framework (or, more in general, for any kind of commodity-based standard).

As **counter argument** it could be maintained that gold alone is not able to guarantee the same level of stability, mainly because of the occasional "gold rushes" that, should a full-fledged gold standard framework be implemented, could then provoke huge and dangerous fluctuations in money supply. Moreover there is a danger of a useless waste of the resources that has to be employed in order to extract and gather further amounts of gold, before any increase in money supply might be authorized.

On the opposite side, the Austrian school strongly rejects any kind of "artificial monetary inflation", even though the latter is aimed exclusively at enhancing economic growth. In fact, from the Austrian standpoint, such measures are nothing but "political" (rather than merely "economic") means the State systematically resorts to in order to deceive its own citizens by diminishing the purchasing power of their wages. Hence, given these premises, the only workable solution is represented by a full-fledged gold (or commodity-based) standard: in fact, when every single banknote is backed by gold, or silver, or any other previously agreed commodity, the Government has much less room for manoevre, while the interests of the consumers can subsequently be far better safeguarded. This is the main reason why the Austrian school (from Carl Menger on) has usually labeled both gold and silver as **"honest money"** or **"sound money"**, since such commodities had turned into a commonly used medium of exchange through a completely spontaneous process, while, on the other hand, paper money is essentially an invention of the State. In other words, the basic idea is that, within a full-fledged gold standard framework, neither inflation nor deflation would ever occur, because gold

by its own nature helps creating a far more stable and reliable monetary environment.

But the re-establishment of a full-fledged gold standard system within the present economic context, although undoubtedly beneficial in the long run, would probably turn out to be extremely complicated. (Skousen 2005, 141-151)
Hayek introduced the idea of "**Denationalization of money".** He proposed to reduce the role of the state in case of money creation. That was in 1976 and it sounded a quite impossible idea. Nowadays there are the possibilities of Cryptocurrencies (like Bitcoin or Solana), where the role of the state is not so decisive anymore.

3. THE PROPER ROLE OF THE GOVERNMENT

The 1929 financial collapse and the following Great Depression put the *laissez-faire* framework in the midst of a theoretical crossfire. Both Marxists and Keynesian economists attacked the theories of the Austrian School.

It was therefore not by chance that, in the same period, Edward Chamberlin and Joan Robinson (two economists coming from the Cambridge University) introduced the idea of **"imperfect"** or **"monopolistic"** competition as a possible distorted effect of *laissez-faire*: in such a context, from their point of view, the State should feel obliged to intervene in order to break up big businesses and corporate trusts. According to Chamberlin9 and Robinson, this was the only workable way towards the implementation of a **"perfect competition model"** (from then on also known as the **"Cambridge model"**), characterized by the presence of only small firms, which should offer homogeneous products to the consumers.

Vienna challenged these assumptions and suggested their own interpretations. All the most renowned Austrian economists soon labeled the "Cambridge model" as the death of all competitive activities: first of all, as Hayek correctly pointed out, should the model outlined by Chamberlin and Robinson be fully implemented, then, it would seriously damage the interests of the consumers, since it envisaged the de facto elimination of product differentiation.

In the second place, according to von Mises, it could be extremely difficult to determine what the optimal number of firms within an industrial system should be. Last but not least, as Schumpeter sharply underlined, competition should be always considered, by its own nature, as a **dynamic** process, and not as a kind of **static equilibrium**, as it happened in the "Cambridge model" framework.

4. THE INTERPRETATION OF THE BUSINESS

As far as it concerns the Austrian school, Ludwig von Mises suggested a convincing explanation of the "Great Depression", drawing upon the earlier works of several renowned economists of the past. More specifically, he recalled:

- The **"capital theory"** of Menger and Böhm-Bawerk (two founding fathers of the classical Austrian school of Economics), according to which an inflationary boom can "deceive" the whole production process and create a sort of "bubble" of overproduction. In such cases, since the firms usually realize in great delay that they have put into the market an amount of commodities which is excessive if compared to the **real** demand, they cannot easily recover because they need quite a time to adjust their production rhythms to the new downsized conditions;
- the **"natural rate of interest hypothesis"** of the Swedish economist Knut Wicksell, which suggested that the ideal interest rate should be determined through a wholly spontaneous process, since it should correspond exactly to the saving rate of any single community of people. In the light of this assumption, Wicksell had therefore maintained that every time a Government tries to artificially push the interest rate below its "natural" threshold through huge injections of money into the market, then the unavoidable consequence is nothing but the triggering of an inflationary spiral, which in turn provokes an increase even in the natural rate of interest itself;
- the **"specie flow mechanism"** outlined by Hume and Ricardo, which supported the idea that, within an international gold standard framework, an inflationary boom cannot last long, since it is doomed to result soon in a huge global recession wave. More specifically, the vicious circle that Hume and Ricardo had envisaged is supposed to act as follows: domestic inflation always provokes a deficit in the balance of trade, since the imports tend to exceed the exports because of the internal price increase; this in turn causes an outflow of gold, a contraction of the national gold reserve and, subsequently, a decrease in money supply; hence, at this stage, recession is absolutely certain. In the light of these premises, it should therefore be plain as day to what extent the effects of an inflationary boom may prove to be far more lethal under an international gold standard system.

In the wake of such preeminent theoretical supports, von Mises harshly blamed the Federal Reserve for having tried to push the US interest rate below its natural level

during the 1920s through a kind of **“cheap credit policy”**: in fact, the inflationary boom that followed was doomed to trigger a general collapse of the world economy, since its effects were weighed down (as it happened in the model outlined by Hume and Ricardo) by the simultaneous presence of the international gold standard system. Moreover, as Menger and Böhm-Bawerk had foreseen, the inflationary boom had also distorted the whole US production process, since it had encouraged an increase in investments which was never matched by a tantamount growth of consumptions.

The search for the fittest **“business cycle theory”**. On the Austrian side, both von Mises and Hayek have always maintained that, within a business cycle, each recession must be seen as the direct consequence of a previous inflationary boom, since the bigger (and the longer) has been the latter, then the bigger (and the longer) is expected to be the former. In other words, “the higher you climb, the greater you fall”.

Yet, despite all these praiseworthy theoretical efforts, over the following decades history has undoubtedly given Vienna the upper hand, in the wake of at **least three outstanding examples**:

- the case of the United States during the hardest years of the Vietnam War (from the mid-1960s until the mid-1970s);
- the case of Japan during its “lost decade” (namely the 1990s, after the burst of a huge real estate bubble);
- the case of the four “Asian Tigers” (South Korea, Taiwan, Singapore and Hong Kong) in 1997.

In fact, in all the above-mentioned cases, the severity of the final collapse has been proportioned to the euphoria previously instilled into the financial market by both inflation and overinvestment, which in turn have been responsible for the creation of a sort of “bubble”, whose burst, in the end, has seriously damaged the whole internal economic system. In the light of these premises (and, above all, in the light of recent history), the Austrian approach to macroeconomics has therefore proved to be more sophisticated and more effective as a means of forecasting”(Skousen M 2005, 171-181).

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Karl Popper “The open society and its enemies”, Part 1 and ll. , Routledge Keagan Paul London (1945) 1980

Mark Skousen “Vienna & Chicago. Friends or Foes”, Capital Press Washington DC, 2005, p. 179-181

“Thoughts for today and tomorrow”(Chicago, Ill. Regnery Gateway Report of the event “Europe Whole and Free: Priorities for 2024”

Title: “Europe Whole and Free: Priorities for 2024” via zoom

Event Organizer: The German Marshall Fund of the United States

Date: 25 January 2024, hour:

Location: The German Marshall Fund of the United States, Washington, District of Colombia, United States of America

Summary:
The event featured a moderated discussion between Heather A. Conley, President of the German Marshall Fund of the United States, and James O’Brien, U.S. Assistant Secretary of State for European and Eurasian Affairs. During the timespan of around an hour, these two experts conversed on various different contemporary and profound topics, asking and answering questions that are instrumental to the future of the United States, the European Union, and the global community as a whole. Among the topics discussed were the Russo-Ukrainian War, the enlargement of the North Atlantic Treaty Organization (NATO), and the emergence of new revolutionary technology.

Focusing mainly on the tensions plaguing Eastern Europe, Assistant Secretary O’Brien concluded his commentary by stating the following: “Before the fall of the Berlin Wall… the line that [Winston] Churchill saw – [the line that] sat on the Baltic to Trieste on the Adriatic – was still roughly the line… [Now,] that line is erased. We do not want to draw a new line… and that is a pretty remarkable accomplishment for one generation of policy!” By ending a largely bleak conversation about conflict, violence, and Russian aggression with a note of optimism and success, Assistant Secertary O’Brien leaves his audience hopeful about the future of Europe.

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