

# GARY NORTH: A CRITIQUE

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*Fecha de recepción:* 3 de julio de 2012.

*Fecha de aceptación:* 19 de diciembre de 2012.

## I

### INTRODUCTION

In this paper I take Gary North to task for several errors in his recent writings. In section II I address North (2012a). Section III is devoted to a critique of North (2012b). The purpose of section IV is to explore the propriety of criticizing a fellow Austrian-libertarian, with whom I am in agreement in probably 99% of all issues in political economy. I conclude in section V.

## II

### ECONOMISTS VS. THE GOLD COIN STANDARD

North (2012a) is a very, very good essay on behalf of using gold as money. Entitled «Economists vs. the Gold Coin Standard,» it is an utter intellectual annihilation of the mainstream economics profession on this vitally important question.

However, in the course of his essay, he makes several relatively minor mistakes.

But, before I get to them, let me say that I regard them as only minor errors in an otherwise excellent, no, make that magnificent piece. This author explains in great detail why most mainstream

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economists think a full gold (coin) standard will lead to economic disarray. He also unearths in great detail the evils of the fed in suborning most mainstream money-macro economists.

What are the difficulties I see with this piece? There are several:

## 1. Normative and positive economics

North (2012a) states: «Austrian School economists oppose central banking.»

No, Austrian economists can't oppose or favor anything. To say that they do is to violate the normative positive distinction. Austrians are limited to saying that a given policy will have thus and thus effects; they logically cannot say, qua Austrians, that a policy is good or bad, nor may they favor or oppose it, again qua Austrian economists. Certainly, they can do so as citizens, as ethicists, as philosophers, but economics per se is and must be value free, despite the fact that this stricture is all too often violated, as in the present case.<sup>1</sup>

But what about the following objection issued by Marron (2009)?

I have one problem with this distinction, however: it overlooks a great deal of what economists actually do.

Here's one simple example: Congress is considering legislation that would create a cap-and-trade system for limiting emissions of greenhouse gases. Under that system, emitters would have to own enough carbon allowances to cover their emissions.

Congress is also considering using an auction to distribute some of these allowances. As a normative matter, I think that's a great idea (but I wish they would auction even more).

Suppose that Congress decides that the auction should be designed in order to raise as much money as possible for the taxpayer. (Which I also think is a great idea – again a normative judgment.)

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<sup>1</sup> For a debate on this issue, see Block and Cappelli, unpublished.

Question: When economists work to design this auction, are they doing positive economics, normative economics, or something different?

It seems clear to me that these economists are not doing positive economics. After all, they are designing a system, not observing how it works.

However, I don't think they are doing normative economics either. As I've structured the question, the economists aren't engaged in any value judgments. Congress has made the relevant normative decisions (e.g., deciding to use an auction to maximize revenue and deciding how many allowances to give away). The economists are just trying to figure out how to accomplish that goal.

In this case, I think the economists are acting as engineers, not scientists or philosopher-kings. And based on my years in government, I can tell you that there is a lot of economic engineering going on.

So, I am tempted to tell my students (in direct contradiction to the textbook) that there are actually three kinds of economics: positive, engineering, and normative.

But this objection is easily refuted. The normative - positive distinction refers, only, and solely, to statements, not all actions. For example, the utterances «the auction is a good idea,» and «the auction is a bad idea» are both normative. In very sharp contrast, the statements «policy x will raise as much money as possible for the taxpayer,» and «policy y will raise as much money as possible for the taxpayer» both clearly belong in the positive realm. But actually working on x or y are human *actions* (Mises, 1998), not mere declarations.<sup>2</sup> As such, they can be viewed both through a normative lens (this is a good act, this is a bad act), and a positive one (this act will attain its goal, this act will not attain its goal). Thus there is no need to deny the normative positive distinction, nor to invent third categories, such as «engineering.»

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<sup>2</sup> It cannot be denied that speech, too, constitutes human action, but it is a different type. *Making* a statement is a human action. But the statement *itself* is not. The normative - positive distinction applies to statements, not actions, even though the latter can be viewed both on a moral basis and on an efficiency one.

Let me take another hack at this. Marron (2009) avers: «It seems clear to me that these economists are not doing positive economics. After all, they are designing a system, not observing how it works.» But why should positive economics be limited to «observing.» These economists, in any reasonable understanding of positive economics, are doing precisely that: stringing together a bunch of positive economic statements, with the goal of creating an «auction to maximize revenue.» Again, there is no valid argument leading to the denial of this distinction, nor any need for a third category.

## 2. Anarchism

According to North (2012A):

[Mises's] disciple Murray Rothbard promoted 100% reserve banking. But, because he [Rothbard] opposed the existence of the state, his call for 100% reserves was not a call for legislation requiring 100% reserves.

Murray Rothbard (1973, 1982) of course opposed the state.<sup>3</sup> But, according to North (2012a), Rothbard would therefore have to oppose all legislation or laws. Yet, clearly, Rothbard (as a libertarian, not an Austrian economist), favored laws against murder, rape, etc. In his view, they would be implemented not by the government, but by private defense agencies. It is a misconstrual of free market anarchism to say that advocates of this philosophy oppose all laws.

Au contraire: libertarians are *supporters* of proper law, i.e., laws upholding individual rights and private property. Indeed, the criticism of the government from this quarter is that it violates such proper law.

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<sup>3</sup> On normative grounds, he thought it immoral, since it necessarily violated the libertarian non aggression principle. On positive grounds, he denied that it was conducive to human well being.

### 3. Free banking

States North (2012a):

As far as I can see, operationally speaking, his [Rothbard's] position was the same as Mises's position: free banking.

No, Rothbard (1988) opposed (again, as a libertarian, not an Austrian) the free banking system; for example, that of Selgin (1994) and White (1992, 1995).

States Rothbard (1988, footnotes deleted) in this matter:

Professor White's *Free Banking in Britain* has already had a substantial impact on the economics profession. The main influence has been exerted by one of the book's major themes: the «wonderful» results of the system of free banking in Scotland, a system that allegedly prevailed from 1716 (or 1727) until suppressed by the Peel Act in 1845. White's Scottish free-banking thesis consists of two crucial propositions. The first is that Scottish banking, in contrast to English, was free during this era; that while the English banking system was dominated by the Bank of England, pyramiding their notes and deposits on top of the liabilities of that central bank, the Scottish system, in stark contrast, was free of the Bank of England... The second part of the syllogism is that this free system in some way worked much better than the English. Hence, the triumphant conclusion: that free banking in Scotland was far superior to centrally controlled banking in England. White claims that the salutary effects of free banking in Scotland have been long forgotten, and he raises the hope that current public policy will heed this lesson.

The influence of White's thesis is remarkable considering the paucity of his research and the thinness of his discussion... White's thesis on Scottish banking has been hastily and uncritically accepted by many diverse scholars, including the present writer. This has been particularly unfortunate because, as I shall demonstrate, both parts of Professor White's syllogism are wrong. That is, the Scottish banks were (1) not free —indeed, they too pyramided upon the Bank of England— and (2) not surprisingly, they worked no better than the English banks.

#### 4. Graduate School in Economics

In the view of North (2012a):

There has been a glut in Ph.D.s since 1969. It has gotten worse every year. But, because university departments are paid more by the university for graduate students than for undergrads, the faculties have an incentive to recruit students into graduate school. He was sucked in. He did not see my debate (North versus Block, 2011) on why it is not a good idea to get a Ph.D. in economics.

I don't put this error of his in the same category as the other three. Those were objective mistakes. This one I merely disagree with. With regard to that debate, North took the position that no one should go to graduate school for a doctorate in this field, whereas I took the far more moderate position that while to be sure this is not for everyone, surely it is an appropriate decision for some.<sup>4</sup>

I find this article of North's frustrating, as I did that debate at the Mises University (North v. Block, 2011). In both cases, my intellectual opponent merely plows ahead with his views, and pretty much totally ignores his critics, me in this case. Several times during that event in 2011 I asked him, explicitly, to reply to my points. He did not. With regard to my point 4 mentioned supra regarding this article of his I am now discussing (North, 2012a), I had previously criticized his viewpoint (Block, 2008). Did he condescend to respond to the points I made counter to his thesis? He did not. That procedure of his does not seem to me to be a particularly scholarly one. The essence of this enterprise, at least as I understand it, it to get to the Truth. How can we scholars do so if we do not come to grips with the views of those who disagree with us?

Speaking of condescension, in personal correspondence I tried to communicate my misgivings about North's (2012a) article with him, regarding the first three points mentioned above. His

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<sup>4</sup> They don't call me Walter Moderate Block for nothing.

response? He stated: «Walter you ignore the obvious: At zero price, my time is in greater demand than supply. I must pick & choose my responses, writing 9 articles a day (paid subscribers), and being in the final phase of updating my 31 volumes» and referred me to more of his very voluminous (and for the most part very excellent) publications. Namely, he failed to come to grips with my criticisms, as all too often is his wont.

Well, happily, I have a job that allows me the time to engage with fellow scholars, and not only during the summer break from university. Perhaps this is but one more bit of evidence that the academic life, for which a Ph.D. is required, is not all that bad, at least for some of us. If any readers are considering going to graduate school in economics and want some free advice, please e-mail me at [wblock@loyno.edu](mailto:wblock@loyno.edu). I'll have sufficient time to try to help you out with this decision.

### III

#### LET THE EURO DIE . . . SOON

In North (2012b), he states the following:

De Soto begins with a summary of the Austrian theory of the monetary system. He begins with Rothbard's position: 100% reserve banking. This means that banks may not legally issue warehouse receipts to gold or silver that they do not have in storage. They may not legally issue checks for more money than they have as deposits.

This restriction is opposed in theory to the rule proposed by Ludwig von Mises. Mises believed in free banking. He did not believe that the government should establish any reserve requirement for the commercial banks, because he did not trust the government to make a judicial ruling that would apply to all banks. He did not trust politicians' ability to make a judgment regarding the correct percentage. He believed that the banking system, through competition, and through the enforcement of contracts, would establish the proper reserve ratio.

Rothbard promoted 100% reserve banking. But there is something that is never mentioned by the Rothbardians in relation to

banking: Rothbard was an anarchist. He did not believe that the state should even exist. Therefore, in his ideal banking system, it is impossible for the state to impose a 100% reserve requirement, because there is no state. There is no agency with the legal right to send an agent with a badge and a gun to tell a banker how much gold or silver he should have in reserve for accounts.

This means that, in practice, Mises's system of free banking is the operational standard for those people who are followers of Rothbard on the issue of banking and civil government. If there is no state to impose 100% reserve banking, then the system must operate in terms of a market-enforced banking system. While the two systems are opposed in theory, they would be the same in practice.

But this is an error.

If Dr. North were correct, it not only follows that in the Rothbardian system there would be «no agency with the legal right to send an agent with a badge and a gun to tell a banker how much gold or silver he should have in reserve for accounts.» Another logical implication is that there would be «no agency with the legal right to send an agent with a badge and a gun to tell a» rapist to stop his depredations, e.g., to forcibly stop the rapist. There would be «no agency with the legal right to send an agent with a badge and a gun to tell a» murderer to cease and desist, e.g., to forcibly stop the murderer.

Now this is highly problematic. Did Dr. North not ever hear of private defense agencies that Murray Rothbard (1973) wrote about again and again? Of course these private police would stop murderers and rapists and thieves and their ilk, and of course private courts would punish them, according to libertarian theory, *à la* Rothbard. And the same goes for criminals who engage in fraud, whether by writing bad checks, trying to counterfeit credit cards, or by engaging in fractional reserve banking!<sup>5</sup> So Professor Jesus Huerta de Soto is entirely correct

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<sup>5</sup> For the argument that fractional reserve banking constitutes fraud, see Bagus (2003), Bagus, Howden and Block (forthcoming), Barnett and Block (2005b, 2008, 2009), Baxendale (2010), Block (2008), Block and Caplan (2008), Block and Garschina (1996),



on this particular dispute between them, and Dr. North is in error.

#### IV THE PROPRIETY OF ARGUMENTATION, EVEN WITHIN THE FAMILY

In this section I attempt to deal with several objections to the foregoing. These are not so much with my substantive points (under Rothbardian anarchism, law would exist and law-breakers would be punished, etc.) as to query, Why am I attacking North in the first place? Isn't he one of our best economists and philosophers? Why don't I save my venom for the likes of Keynes, Krugman, Obama, Romney, etc? This objection might even take this piquant form: I hate it when two of my favorite people fight; Mommy and Daddy, please don't quarrel. Let me say the following in response

1. I *greatly* respect Gary North as a libertarian theorist and as an Austrian economist. I would go so far as to say I regard him as a friend, colleague and fellow traveler as an Austro libertarian. I said as much in the outset of this debate of mine with him (North versus Block, 2011) over whether or not we should encourage at least some young members of our movement to seek Ph.D.s in economics and go on to careers in academia. Moreover, I have learned a lot from reading his many, many books and articles and his numerous public speeches. Let me single out two of them here for special praise: North (1992, 2002). I myself have a long paper trail in terms of criticizing Coase (Barnett and Block, 2005a, 2007, 2009; Block 1977, 1995, 1996, 2000, 2003, 2006, 2010A, 2010b, 2010c,

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Block and Humphries (2008), Block and Posner (2008), Davidson (2008), Davidson and Block (2011), Hanke (2008), Hoppe (1994), Hoppe, Hulsmann and Block (1998); Huerta de Soto (1995, 1998, 2001, 2006, 2010), Hulsmann (1996, 2000, 2002a, 2002b, 2003, 2008), Murphy (2010), North (2009), Polleit (2010), Reisman (1996, 2009), Rothbard (1975; 1990, 1991, 1993), Salerno (2010a, 2010b, 2011).

- 2011). I regard Dr. North as one of my chief allies in this very important venture. Not only is he one of the most productive members of our own movement, I think it is fair to say that he has probably written and published more merely in terms of quantity than perhaps any other economist or philosopher of his age. And not only is he to be congratulated for the quantity of his contribution. He writes beautifully, scintillatingly, and right to the point. His critical assessments of Coase and the Chicago School (I trust these are still legitimate targets for criticism?) are among the best that have ever been penned.
2. There is nothing wrong and virtually everything right about close allies such as the two of us having at it with each other on the rare issues on which we disagree. How else are we to learn from each other, and get that proverbial one millionth of an inch closer to the Truth? (For a previous publication of mine along these lines, see this: Block (2010d).<sup>6</sup> We are, after all, not a Randian cult (Rothbard, 1987). There, no disagreement is ever allowed. If any follower of Objectivism criticizes and leader of this movement, even in the most polite way imaginable, he is summarily booted out and boycotted by all the others. This is personally obnoxious and stultifying. It is no wonder that the influence of their group has been limited by these practices. In stark contradistinction to them, we are permitted, nay, I claim, encouraged, to disagree with each other, even given that we all start from the same Austrian and libertarian basic premises. On several occasions, Murray N. Rothbard criticized his revered teacher and mentor Ludwig von Mises (see Rothbard, 1962, ch. 10, Rothbard, 1982, ch. 26C; Modugno, 2010, 108-110).<sup>7</sup> This is in the finest traditions of academia; it is precisely (part of) what it means to be an intellectual: a pursuit of truth wherever it leads.
  3. Of course, disagreements within our family have to be measured. They must be respectful. Ideally, there must be as little ego involvement in them, and as much disinterested seeking

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<sup>6</sup> For a brilliant and scintillating exegesis on the importance of argumentation for philosophical proofs, see Hoppe (1995) on the «a priori of argumentation.»

<sup>7</sup> I owe this latter cite to Doug French.

after truth as we fragile and imperfect humans are capable of. Name calling, nasty disparagement should never be used, even against our intellectual enemies who espouse Marxism, totalitarianism, socialism, fascism, liberalism, conservatism, feminism, (anti private property) environmentalism and other such despicable philosophies. Even more so is this important within our own group, which certainly includes North and me. But, surely, I have not exceeded these bounds, or even come close to doing so in any of my criticisms of him. I shudder at the thought that I have been guilty of any such thing.<sup>8</sup>

## V CONCLUSION

Gary North has made signal contributions to Austrian economics and libertarian political theory. Yet, no one is perfect. We can all learn not only from the positive contributions of others, but also from their mistakes, if they are pointed out. That has been the burden of the present paper: to correct several errors made by this philosopher-economist-historian with regard to Rothbardian free market anarchism, the normative-positive distinction, graduate school education and civil discourse.

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<sup>8</sup> For a rather different analysis of the propriety and requirements of discourse and dialogue, see North, 2012C.

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