INTRODUCTION TO THE DUTCH EDITION OF MURRAY N. ROTHBARD'S BOOK, *WHAT HAS GOVERNMENT DONE TO OUR MONEY?*

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The theory of money, bank credit, and economic cycles poses the greatest theoretical challenge for economic science in the first decade of the twenty-first century. In fact, now that a «theoretical gap» has been filled with the analysis of the impossibility of socialism and the study of the contradictions inherent in interventionism (exemplified in the past by the fall of real socialism and the widespread crisis of the welfare state), the least-known, and thus the most critical, sphere has become that of money. Indeed, this field is still rife with methodological errors, scientific confusion, gross ignorance at the popular and political levels, and in consequence of it all, institutional manipulation and systematic coercion by governments and central banks. For the social relationships which involve money are by far the most abstract and difficult to understand, and hence the flows of information and social knowledge they produce are the most massive, complex, and elusive to the individual observer. On the one hand, these circumstances have facilitated systematic coercion in the monetary sphere by governments and central banks, and on the other hand, they have made this coercion far and away the most damaging and detrimental to the spontaneous processes of social cooperation which constitute the market. In fact, the combination of the intellectual lag in monetary and banking theory with the systematic intervention in financial markets by governments and central banks has not failed to exert serious and often traumatic effects on the evolution of the world economy, which well into the twenty-first century, continues to go through severe financial crises and recurring cycles of boom and recession.

Furthermore, it seems as if the very defenders of the market economy were unable to agree in the area of money. Thus, there are many different

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opinions on whether it is necessary to maintain the central bank or whether it would be better to replace it with a free-banking system, and in the latter case, what sort of substantive rules should apply to private bankers (a fractional reserve or a 100-percent reserve requirement on demand deposits). The central bank emerged as a result of a series of coercive government interventions, though on many occasions these were sought and promoted by the agents of the financial sector themselves (especially bankers), who did not hesitate to demand state support to insure the survival of their business ventures in recurrent stages of economic crisis. Does this mean the central bank is an «inevitable» by-product in the evolution of a market economy? Or rather, that private bankers' particular business practices, which at certain points in history have become legally corrupt, have given rise to financial activity that is unsustainable in the absence of a lender of last resort? These and other monetary issues are of vital theoretical and practical importance and should be the object of the most careful analysis. In short, the goal should be none other than to develop a comprehensive research program aimed at clarifying once and for all what monetary, financial, and banking system a free society ought to have.

In this sense, the small book by Rothbard you are now holding in your hands is the best and most brilliant introduction to Austrian monetary theory. A number of special characteristics make this a landmark book, and the reader could scarcely miss them. Nevertheless, while by no means an exhaustive list, the following attributes are particularly worthy of mention:

First, the book is written with great clarity. Indeed, if any trait characterizes Rothbard, it is his ability to present economic theories in a manner perfectly understandable to any person, even one not initially familiar with his method and concepts. For Rothbard, scientific accuracy must never be at odds with clarity and simplicity of exposition. Quite the contrary: despite appearances, obtuse or difficult explanations merely conceal a lack of scientific validity, along with the intellectual confusion of their authors, who, paradoxically, often become surrounded by a false aura of scientific prestige nourished by the reverential fear of all those who do not wish to appear ignorant, though they do not fully grasp what they read. The clarity, freshness, erudition, and even courage of Rothbard's economic analysis contrast sharply with the nature of much of the scientific literature the academic world produces.

Second, Rothbard's constant goal is to seek scientific truth regardless of the expectations of political correctness or acceptability that prevail at any given time. A scientific economist must never betray this principle, if only because a failure to frankly state, with no strings attached, what he believes to be true in any particular instance will mean that no one does, and thus he will be abandoning his very purpose and depriving society and his colleagues of knowledge which in the long run is essential to the advancement of civilization.

Third, as we have already indicated, Rothbard always writes from the theoretical viewpoint of the Austrian school of economics. This European school of continental origin runs counter to the Anglo-Saxon tradition of the English classical school. The Austrian school began with Carl Menger in 1871 and reached its highest level of development at the hands of Ludwig von Mises and Friedrich A. Hayek during the second half of the twentieth century. Today the Austrian approach is the chief scientific alternative to the neoclassical paradigm in its different versions (Keynesianism, Walrasianism, the Chicago school, etc.), which share a research focus on equilibrium models and overlook the dynamic market processes entrepreneurship drives. Such processes are the focal point of Austrian study. Rothbard was an ardent disciple of Mises, whose praxeological perspective on economics and subjectivist methodology, in contrast with positivism and social engineering, he adopted almost to the letter.[1] Today the Austrian school has entered an exciting phase of expansion worldwide, and the publication of this first Dutch edition of Rothbard's book is one more sign of the much-needed paradigm shift which is leading away from the unrealistic assumptions and obsessive mathematical analysis of equilibrium models and toward the much more realistic, dynamic, and multidisciplinary analysis of market processes that characterizes the Austrian school. In this context, the criticism which, at various points in his book, Rothbard directs at the analysis and monetary recommendations of the Chicago school in general, and of Milton Friedman in particular, is especially relevant. This is so mainly because the identification, at a popular and even at an academic level, of both the Austrian and Chicago schools as defenders of the free market and the capitalist free-enterprise economic system (though with clearer and more consistent principles in the case of the Austrian school, when compared with the greater ideological «tepidness» and tendency toward political compromise in the case of the Chicago theorists) has led many people to mistakenly believe the two schools somehow coincide in their methods, theoretical developments, and conclusions. However, nothing could be further from the truth. From

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[1] On the differences between the neoclassical mainstream and the Austrian paradigm, see J. Huerta de Soto, *The Austrian School: Market Order and Entrepreneurial Creativity* (Cheltenham, UK: Edward Elgar, 2008).

the Austrian standpoint, Chicago theorists have fallen into the clutches of a narrow, reductionist, maximizing approach which, in the search for «operational» solutions, ends up justifying a sort of social engineering lethal to the free functioning of the market. To put it another way, Chicago theorists' defense of the market is theoretical flawed. We must defend the market because it is a process which continually fosters creativity and entrepreneurial coordination, and not because it is in equilibrium (which is never reached), nor much less because it is «perfect» or Pareto efficient, as Chicago theorists mistakenly believe, thus exposing countless flanks to facile, self-interested criticism from all enemies of a free economy.[2] Moreover, as Rothbard skillfully reveals in this book, the prescriptions of the Chicago school in the monetary sphere (monetary nationalism and free floating exchange rates) have proven particularly unfortunate and have on a broad scale exerted a corrupting influence on the course of economic events (international monetary chaos, competitive depreciation as a trade weapon, and the loss of the function of money on an international level).

Fourth, we should note the importance Rothbard attaches to the history of economic and monetary events as an illustration and application of the theoretical analysis. In fact, his book is divided into two very distinct parts. In the first, he sets out the theoretical basis for money and the critical analysis of state intervention in the monetary sphere in general, and of the privileged exercise of fractional-reserve banking in particular.[3] In the second, he applies the lessons taught in the first to explain in a logical, connected manner the way in which the state has destroyed step by step the monetary system which had spontaneously emerged in the market following a prolonged period of evolution. Rothbard considers nine successive phases which run from the height of the classical gold standard in 1815 to the destruction of the Bretton Woods system and the emergence, beginning in 1973, of international monetary chaos based on floating exchange rates. The conclusion to be drawn from this review of past events in the monetary

[2] Hayek himself went so far as to assert that Keynes's *General Theory* and Milton Friedman's *Essays in Positive Economics* are equally dangerous books. See F. A. Hayek, *Hayek on Hayek: An Autobiographical Dialogue*, eds. Stephen Kresge and Leif Wenar (London and New York: Routledge, 1994), 145.

[3] On the corruption of general legal principles which accompanies fractional-reserve banking, and on the way in which this practice provokes recurring cycles of boom and recession and makes the appearance of a central bank inevitable, see (firmly rooted in Rothbardian thought) Huerta de Soto, J., *Money, Bank Credit, and Economic Cycles* (Auburn, AL: Ludwig von Mises Institute, 2006; 2nd revised edition 2009).

sphere is truly depressing, and it more than justifies the attractive title Rothbard gave to his work: *What Has Government Done to Our Money?* The conclusion is especially depressing in light of the fact that today, well into the twenty-first century, even following the nearly worldwide collapse of real socialism and, at least in theoretical terms, of economic interventionism and the welfare state, the monetary sphere, as we indicated at the beginning, continues to suffer forceful intervention, monopolization, and planning by central banks and governments, which continually generate cycles of boom and recession that systematically destabilize and discoordinate the world economy.

It is truly disheartening to realize that from the very last time Rothbard was able to examine his book for reprinting until now, little or no progress has been made. During this period, particularly for readers in the European area, the most significant development has undoubtedly been the introduction of the euro as the single currency of a large part of Europe ten years ago. In this context, we must emphasize that criticism of the European Central Bank and the European single currency must rest, in keeping with Rothbard's thinking, on their distance from the ideal of a pure gold standard with a 100-percent reserve requirement for banking,[4] and not, as many «free market» theorists (influenced chiefly by the erroneous teachings of the Chicago school) assert, on the fact that they preclude the survival of disruptive monetary nationalism with floating exchange rates. For although the accomplishments of the European Central Bank over the last ten years leave much to be desired, a single monetary standard for all of Europe, one which is as rigid as possible, besides being a healthy move toward the ideal of a pure gold standard as the single international monetary system, may help to complete the institutional framework for the European free trade system, by preventing monetary interference and manipulation on the part of each member state and obliging the members, especially the most rigidly structured ones, to implement the flexibilizing reforms necessary to remain competitive in an environment in which it is no longer possible to resort to an inflationary national monetary policy to accommodate institutional rigidities. If the euro is to have a brilliant, promising future, it will have to rest on its total separation and independence from the monetary recklessness and laxity which, under the pretext of a poorly understood pragmatism

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[4] See Murray N. Rothbard, *The Case for a 100 Percent Gold Dollar*, 2d ed. (Auburn, AL: Ludwig von Mises Institute, 2005). This work contains a preface in which Rothbard himself offers his interpretation of monetary events between 1973 and 1991 (a period which could be considered phase 10 of his historical interpretation), a study which perfectly complements the book we are now commenting on.

based invariably on theoretical error, have become typical features of monetary policy in the Anglo-Saxon world since the creation of the Federal Reserve in 1913 and the triumph of macroeconomics, first the Keynesian and then the Chicago-school version, from World War II onward.

Finally, it is fitting to wrap up these introductory remarks with a brief biographical sketch of the work's author. Murray Newton Rothbard was born in New York in 1926, into a family of Jewish emigrants from Poland. He earned his doctorate at New York's Columbia University under the direction of Joseph Dorfman and the mentorship of his neighbor, the famous economist Arthur Burns. A coincidence brought him into contact at a very young age with the seminar Ludwig von Mises was leading at the time at New York University, and Rothbard immediately became one of his most brilliant and devoted disciples. Rothbard would later become a Professor of Economics at New York Polytechnic Institute and subsequently, the S. J. Hall Distinguished Professor of Economics at the University of Nevada, Las Vegas. Rothbard was one of the most consistent and tenacious champions of freedom on all levels and of its grounding in the philosophy of natural law. He wrote over twenty books full of great clarity, freshness, erudition, and even good humor, qualities which pervade the most profound and rigorous theoretical analysis. His primary contributions to economic theory are his economic treatise, *Man, Economy, and State* (1962), and *Power and Market* (1973). Among his chief writings on the history of economic thought and events, we find important works such as *The Panic of 1819* (1962), *America's Great Depression* (1963), a history of the American colonial period in four volumes entitled *Conceived in Liberty* (1975-1979), and the extraordinary two volumes published posthumously under the title *An Austrian Perspective on the History of Economic Thought* (1995). His main contributions to political philosophy, in which he lays the foundations for the anarchocapitalist system, include his books *For a New Liberty: The Libertarian Manifesto* (1973) and *The Ethics of Liberty* (1982), as well as hundreds of articles and essays. Rothbard played a key role in the founding of the American Libertarian Party and was also a co-founder of the Cato Institute, the Ludwig von Mises Institute (which publishes the *Quarterly Journal of Austrian Economics*), and the Center for Libertarian Studies (which publishes the *Journal of Libertarian Studies*). Endowed with a great capacity for intellectual pursuits, vast erudition, multidisciplinary scientific knowledge, along with a superb sense of humor, Rothbard has become one of the classic names in the defense of liberty in the second half of the twentieth century. He died of a heart attack at the office of his ophthalmologist in New York on January 7, 1995. With his death, the world lost one of its intellectual giants whose work, like that of Tocqueville, Acton, Mises, and Hayek, will endure, bear fruit, and be remembered always with particular admiration and reverence by all those who love liberty and grasp its crucial importance.