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With the Left now in power, they've by and large reverted to form. The very same people who just a year ago prided themselves on evaluating every Pentagon press release with an air of suspicion and hostility now accept without cavil whatever the Federal Reserve chairman or the Treasury secretary tell them. They'll believe whatever economic superstition, no matter how transparently ludicrous, that happens to be in fashion. Whatever happened to "Question Authority"? Air America host Thom Hartmann is a perfect example. His article on the economic crisis posted at The Huffington Post *gets pretty much everything dead wrong, and yet his point of view is by and large the conventional wisdom.*

Let's start with the economists whose ideas, according to Hartmann, led us to the current crisis. Why, they're "Ludwig Von Mises, Freidrich [sic] Von Hayeck [sic], Milton Friedman, Alan Greenspan, Tom Freidman [sic], Robert Rubin, Larry Summers, and Ayn Rand." Now I'm sporting enough to look past the fact that Hartmann makes two spelling errors in a single economist's name. Still, colour me sceptical that Hartmann knows a blessed thing about the work of F.A. Hayek. (I assume he thinks these people are more or less interchangeable, that Mises = Friedman = Summers = Rubin, that Mises wouldn't have denounced at least several of these figures, and that the differences between them are probably just trivial and not worth mentioning.)

Quiz time, Thom! Name one book on economic theory (so The Road to Serfdom*, if you happen to have heard of it, doesn't count) Hayek wrote that you've read, flipped through, held in your hand, or even heard of. Stumped? How about one article? Stumped again? Then why not do the decent and honourable thing and shut up until you can speak from authority rather than prejudice and ignorance? Sound fair?*

I've summarised the Mises-Hayek position elsewhere (flip to page 13 here, for instance, or see Meltdown, my recently released book on what caused the crisis and why the free market is not the cause but the solution). In a nutshell, when the government's central bank intervenes in the economy to push interest rates lower than the free market would have set them, the result of its tampering is a massive cluster of errors on the part of investors and consumers alike. It goes without saying that a government central bank's intervention into the market to push interest rates lower than the free market would have set them cannot, by definition, be the fault of the free market.

As for the nonsense about FDR's New Deal "stabilising us" – and the perverse argument that our economy will never be stable unless the people are violently expropriated – check out economist Robert P. Murphy's new book The Politically Incorrect Guide to the Great Depression and the New Deal. Its playful title notwithstanding, this book mercilessly bludgeons thoughtless clichés like this.

What it all boils down to is this: one side of our political spectrum favours the central planning of Iraq, while the other favours the central planning of Americans. We can only hope for the continued growth of a third side, one that rejects as unworthy of a free people all the superstitious nonsense about the magical powers of our overlords, whether that power is exercised at home or abroad.

Thomas E. Woods, Jr.
Don't Know Much about Capitalism (28 April 2009)

Poindexter: Philosophical Mediocrity, Economic Illiterate and Evil Political Genius

"Australia," wrote Donald Horne in *The Lucky Country* (1964), "is run mainly by second-rate people who share its luck. It lives on other people's ideas and, although its ordinary people are adaptable, most of its leaders (in all fields) so lack curiosity about the events that surround them that they are often taken by surprise. A nation more concerned with styles of life than with achievement has managed to achieve what may be the most evenly prosperous society in the world. It has done this in a social climate largely inimical to originality and the desire for excellence (except in sport) and in which there is less and less acclamation of hard work. According to the rules, Australia has not deserved its good fortune."

A generation later, virtually all of this passage remains accurate. Yet Kevin Rudd is curious about events and ideas – perhaps because he's genuinely inquisitive, or because he seeks weapons with which to bludgeon his opponents. Ideas matter so much to him that, a year before the ALP defeated the Liberal-National coalition, he wrote Howard's Brutopia: the Battle of Ideas in Australian Politics (*The Monthly*, November 2006). That article described the "real battle of ideas in Australian politics" as the "battle between free market fundamentalism and the social-democratic belief that individual reward can be balanced with social responsibility."

In that article, Poindexter[1] used a variety of fallacies, such as false mutual exclusivity[2] (you either worship the market or favour a balance of reward and responsibility) and prejudicial language (such as "free market fundamentalism"), to reason invalidly to the conclusion that anyone who applauds free trade among consenting adults is a selfish bastard who doesn't give a damn about justice, decency, compassion or one's family and neighbours. A charitable assessment is

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[1] Do you recall as fondly as I do the cartoon character Felix the Cat; Felix's nemeses, including the sinister, mustachioed Professor and his bookish nephew Poindexter; and the plots revolving around the antagonists' unsuccessful attempts to steal Felix's Magic Bag of Tricks? Poindexter (note the physical resemblance to Kevin747) is depicted as a stereotypical scientist: he is intelligent, wears thick glasses and a lab coat, and carries a clipboard. He helps his bumbling uncle to concoct complex schemes. Yet without exception, the canny Felix foils the evil geniuses' ruses.

[2] As *The Australian* (Don't Ever Call Him the Do-Nothing Prime Minister, 9 April) has noticed, false mutual exclusivity is one of the Prime Minister's favourite rhetorical weapons. Either you do as he says, or you do nothing. But the alternative to interventionism "doesn't mean you [do literally] nothing. I mean, we could reform the system. We could return to sound money. We could balance our budget. We could change our foreign policy. We could take care of our people at home. We could lower taxes. There's a lot of things that we can do. But the worst thing that we can do is perpetuate the bad policies that gave us this trouble in the first place, and that is that we no longer, over the last quite a few decades, [believe] in free-market capitalism … And you can't solve the problem of inflation, which is the creation of money and credit out of thin air, by [conjuring] more money and credit out of thin air. We have to change basic policy … What they're doing now, they're propping up a failed system so the agony lasts longer. They're doing exactly what we did in the Depression. What the government is doing now … is trying to prop up prices. You want the price structure to adjust. You want the price of houses to go down. You don't want to fix the price of housing. You can't price-fix. We've had too much of that" (Ron Paul Has Nothing Good to Say About the Wall Street Bailout Plan, *The Los Angeles Times*, 21 September 2008).

that Rudd hasn't read, hasn't understood or has simply ignored a long queue of analyses that refute his assertions – most notably Adam Smith's *The Theory of Moral Sentiments* (1759), Ludwig von Mises' *Socialism* (1922) and *Liberalism* (1927), and Friedrich Hayek's *The Road to Serfdom* (1944) and *The Constitution of Liberty* (1959).[3]

Rudd's ignorance (or is it cynicism?) became even more apparent in August 2008. In an Address to the Centre for Independent Studies' Consilium, he alleged that Hayek's political and economic philosophy underpinned the "brutopia" of John Howard's tenure in office. "We explicitly reject Hayek's view [sic] that society has no obligations to others who are unknown to us, and Hayek's preparedness [sic] to allow fundamental social institutions like the family to fend entirely for them-selves against unrestrained market forces.[4] That is why, for example, we have a different approach to industrial relations, because we believe families need certain fundamental protections in the workplace."[5]

Further, neither "conventional Right or Left paradigms" can resolve today's problems. Implying that others succumb as readily as he does to the fallacy of false mutual exclusivity, Poindexter declared "We simply don't have to choose between Hayek and [former Soviet president Leonid] Brezhnev."[6] He and his followers

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3 "Liberty," said Hayek in *The Constitution of Liberty*, "not only means that the individual has both the opportunity and the burden of choice; it also means that he must bear the consequences of his actions and will receive praise or blame for them. Liberty and responsibility are inseparable." Read-able introductions to this field, that every investor should read so that he can refute the idiotic claims about morals and markets that pervade Australian parliaments, letters to the editor, dinner parties, etc., are *H.B. Acton: The Morals of Markets and Related Essays*, eds. David Gordon and Jeremy Shearmur (Liberty Fund, 1993) and Deirdre McCloskey, *The Bourgeois Virtues: Ethics for an Age of Commerce* (University of Chicago Press, 2006).

4 Rudd's interpretation, of course, is a gross distortion of Hayek's actual position – which is a society based upon voluntary principles including the freedom of thought, association and trade. In such a society, the role of the state is almost entirely limited to the enforcement of the very few rules necessary for individuals to interact peacefully with one another. Hayek's ideas stem from concerns regarding the inherent limits of human knowledge – particularly those of self-righteous politicians. In short, large numbers of free people are likely to know more and act more sensibly than a small group of élites of who claim a monopoly of the "legitimate" use of violence, and arrogate to them-selves the "right" to unleash this violence upon others.

5 Politicians babble relentlessly about the family. But don't be fooled: the family as an autonomous unit of decision-making is a bulwark of a free society – and hence a barrier against politicians' evil schemes of centralised command and control. Some pollies, particularly Greens, overtly despise the family; but most, such as the Liberal-National coalition and ALP, mouth weasel words and adopt a cynical strategy of divide and conquer. They shower largesse upon the family – provided that its members agree to cede their liberty and autonomy to the state. Once upon a time, three generations of a clan often lived under one roof, the middle generation took it for granted that it would directly support both their young and elderly kin, the elders understood that they would help to rear the young'uns – and the government, mercifully, played no role. These days, practically everybody agrees that the two elder generations will live separately, and that the state will subsidise the young and maintain the old. The results, of course, have been disastrous.

6 Has Rudd forgotten that the Soviet Union (and socialism more generally) has collapsed? It also escapes his attention – probably because he has no idea – that Ludwig von Mises foretold its de-mise. Almost ninety years after it was first published, Socialism remains the best analysis by far of the nature and inevitable failure of socialism, and of its cancerous impact upon morality, liberty and prosperity (see also Mises' Economic Calculation in the Socialist Commonwealth).

"believe in a compassionate society that endeavours to pick up those who have fallen down and help them back onto their feet. Not through episodic acts of private philanthropic endeavour, but through the actions of society through the state."

Poindexter claims "We believe unapologetically in the power of market forces as the most efficient and effective means of generating economic prosperity. Just as we also believe in the public goods that constitute the pre-conditions for a market economy to perform efficiently and effectively.[7] We also recognise that markets fail. As a matter of general principle we believe in using market mechanisms and incentives to design innovative approaches to these long-term challenges … This broadly is the philosophical framework we bring to government: recognising the power of markets but recognising equally the limitations of markets … The most productive intellectual and policy debates today often lie at the intersections between market failures and market mechanisms."

Rudd congratulates himself that his values are correct and even righteous; but "liberty" (particularly from the interfering stupidity, criminal cupidity and murderous tyranny of government) and "security of property" are not among these values.[8] Belying his utilitarianism and the coercion that inevitably follows in its wake,[9] Poindexter values efficiency and effectiveness, not liberty and property. In

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7 Rudd is corrupting the concept "public good" so severely that its original meaning is unrecognisable. Rudd seems to imply that certain goods and services that the general public allegedly desires that the government supply, such as "education" (that is, indoctrination of the young), "defence (i.e., aggression upon impoverished foreigners), etc., are "public goods." According to mainstream economists, a public good is a good whose consumption is "non-rival" and "non-exclusive." This means, respectively, that its consumption by one individual does not reduce availability of the good for consumption by others, and that no one can be excluded from using the good. (Note that by this standard, educational and medical goods and services are clearly not public goods.) Again according to mainstream economists, non-rivalness and non-excludability may hinder the production of such goods. Specifically, they lead to "market failure," whereby uncoordinated markets driven by parties working in their own self-interest are unable to provide these goods in desired quantities. National defence is regarded by the mainstream as a public good *par excellence*: because the private sectors allegedly cannot provide it, the state must necessarily do so.

Austrian School economists, of course, have demonstrated from first principles that the concepts "public good" and "market failure" are complete nonsense. In short, what the mainstream typically regards as a failure of the market is invariably a failure of government intervention in the market. For details, see Murray Rothbard, Man, Economy and State (1962), Appendix B; Rothbard, Power and Market (1970); Hans-Hermann Hoppe, The Private Production of Defense (*Journal of Libertarian Studies* 14:1, Winter 1998–1999: 27–52) and *The Economics and Ethics of Private Property* (Ludwig von Mises Institute, 2006) and Jörg Guido Hülsmann, The Political Economy of Moral Hazard.

8 In his "brutopia" speech, Rudd speaks of liberty in pejorative terms: "Neo-liberals speak of the self-regarding values of security, liberty and property. To these, social democrats would add the other-regarding values of equity, solidarity and sustainability." In his speech to the CIS, Rudd did not utter the word "liberty," and only as part of his ad hominem abusive attack upon Hayek did the word "property" pass his lips.

9 Poindexter makes absolutely no bones about it: the individual must bend to the state. His maiden speech to Parliament (11 November 1998), began with these chilling words: "Politics is about power. It is about the power of the state. It is about the power of the state as applied to individuals." In that speech, you will search in vain for the words "liberty" and "property."

his view, the means by which free people exchange goods, services and property are not spontaneous phenomena like languages: somebody consciously creates these means. And as far as he is concerned that "somebody" is the state. Agents of the state create, regulate, reform and abolish markets in order to achieve ends which they dictate. Accordingly, in the name of efficiency or effectiveness ("equity" and "social justice" sound nicer than "monopoly over the 'legitimate' threat of violence") these agents must also break man's natural rights to liberty and property upon the hard rock of the state. In Rudd's view, markets exist in order to impose his will upon others; and when they don't do so efficiently and effectively, they have "failed." Alien to him is the classical liberal and Austrian School conception of liberty, property and exchange. Like the boy's tree house wherein no adult may set foot, freedom of contract and exchange is a bulwark of discovery and liberty. A market is "free" because it doesn't suffer from the choke-hold of government (see in particular Murray Rothbard, *The Ethics of Liberty*, NYU Press, 1984).

Only implicitly does Rudd affirm a link between liberty and market. And like legions before him, he has redefined "freedom" so that it necessitates such pervasive intervention in the market – and thereby bastardises the notion of market and corrupts (when it doesn't destroy) the market's operation. By Ruud's way of thinking, exchanges between consenting adults which the state does not control are capricious and unfair, heartless and even cruel. Why should the family of the man who loses his job bear the consequences? Why should the poor, sick and elderly rely upon the feckless generosity of family, friends and charities? In a free society, each person's standard of living depends upon his ownership of property; but (to the mainstream this is a trump card) not everyone owns much property. As a result, Rudd and his followers sneer, in the free market a rich man's dog receives the milk that a destitute child requires in order to avoid rickets. In an unfettered market, people are "free" only in the sense that they are free to starve.

The truth is that the incapacity of an individual to attain a basic goal (such as a full stomach) or an elevated one (such as happiness) does not demonstrate his lack of liberty. Liberty is absence of coercion: hence the person who is forced to transfer resources to an indigent person is not free; similarly, the destitute man whose life is subject to the whims and bullying of the state's agents is not free. To regard a hungry man as "unfree" confuses poverty and servitude. The existence of an individual who is "free to starve" – in the sense that nobody will force him to starve and nobody will force him to take sustenance – does not condemn freedom of trade; it is simply a fact of nature. Liberty is liberty: it is not equality of start or end point. Accordingly, to assert (as Poindexter does) that policies that equalise life's start and end points reduce individual liberty somewhat but considerably augment some other kind of purported freedom ("social justice," etc.) is a dangerous confusion of terms. From this confusion emerge "progressive" policies that are doubly damaging: they render us less free *and* less prosperous.[10]

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[10] Of course, liberty is poverty's most powerful enemy and government is its best friend. As Hayek put it, "capitalism created the proletariat, but not by making anyone any the worse off; rather by enabling many to survive who would not otherwise have done so." See also Henry Hazlitt, The Conquest of

Poindexter Exploits a Crisis of Socialism by Demanding More Socialism

Late last year, the Prime Minister decreed that "extreme capitalism" had failed comprehensively and that the Commonwealth Government had "to clean up the mess" (PM Blames Extreme Capitalism for Financial Crisis, 15 October):

> What we have seen is the comprehensive failure of extreme capitalism – extreme capitalism which now turns to government to prevent systemic failure. The [same] institutions of government that extreme capitalism spent decades deriding.
>
> The champions of extreme capitalism have been found to have feet of clay. For the first time ever, our people are reading about, and my [sic] government is participating in, decisions to inject trillions of dollars back into an international financial community which has become frozen by fear.
>
> Fear of the unknown, to put it simply, when markets fail, governments must act. And that is the resolve of this government. We know this from history. As a government, as a nation, we must respond to the twin evils which are at the root of this malaise – greed and fear.

Memo to Poindexter: what the mainstream routinely regards as a failure of the market is invariably a failure of government intervention in the market (see for example, Kurgan Failure, Not Market Failure and Kurgan's Intellectual Waterloo). "To under-stand the nature of the worldwide Great Depression and the severity and greater length of the American contraction," said Gene Smiley in *Rethinking the Great Depression: A New View of Its Causes and Consequences* (Ivan Dee, 2002), "one must understand something of the nature and characteristics of money. Three essential features are banks and the creation and destruction of money; the role of the Federal Reserve System in creating and destroying money; and the gold standard and fixed exchange rates." Moving forward 75 years or so and applying these insights, it's crystal clear that sub-prime mortgage lending in the U.S. (and fear and greed, etc.) were not *causes* of the ructions in credit and stock markets: they were *symptoms* and *consequences* of bad policies, namely Keynesianism and fractional reserve banking. In other words, the cause of the financial panic and economic recession – namely damaging and ultimately disastrous policies such as fractional reserve banking – are NOT creatures of the market: they are monsters imposed by the state (for details, see Letter 102-104, Never-Ending Government Lies About Markets by Thomas DiLorenzo and *Meltdown: A Free Market Look at Why the Stock Market Collapsed, the Economy Tanked, and Government Bailouts Will Make Things Worse*, Regnery, 2009 by Thomas Woods).

Like omniscient bureaucrats and "the public interest," "extreme capitalism" is a figment of the statist imagination. It cannot exist in a world dominated by governments and central banks; accordingly, it cannot cause things that do exist (booms and busts). Mark this point well: the mortgage, credit, stock market and

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Poverty; Charles Murray, *Losing Ground: American Social Policy, 1950-1980* (Basic Books, 1995); and Eric Schansberg, *Poor Policy: How Government Harms the Poor* (Westview Press, 1996).

international economic busts are not "free market" phenomena: they are consequences of the pervasive intervention by governments in markets. It wasn't *extreme* capital-ism that caused the panic and bust: it was the *partial, corrupted and bastardised* capitalism of the "mixed economy."

Logic tells us that capitalism subject to the common law rather than the state's all-encompassing intervention and regulation would have done much better. (Absent pervasive, covert and overt intervention by government, the fraud of fractional reserve banking is very difficult and perhaps impossible to sustain.[11]) And history has shown us repeatedly and emphatically that socialism has inevitably failed abysmally. "The market" has not failed: the state has failed – and has sought scapegoats and conducted Stalin-style show trials[12] to distract attention from its failure. The truth cannot be over-emphasised: socialism always has failed, is now failing and always will fail; and the correct treatment for the results of misguided policies is not a more intense dosage of the same old bad policies.

But the PM remains undeterred. Indeed, if anything he's emboldened. Earlier this year he published The Global Financial Crisis (*The Monthly*, February 2009).[13] It contends that "the great neo-liberal experiment of the past 30 years has failed." Further, "neo-liberalism"[14] has caused the economic and financial explosions that

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11 See in particular Vera Smith, *The Rationale of Central Banking and the Free Banking Alternative* (Liberty Fund, 1990) and Lawrence White, *Free Banking in Britain: Theory, Experience and Debate*, 1800-1845 (Institute of Economic Affairs, 1995).

12 If, as American prosecutors alleged, Bernard Madoff has run a Ponzi scheme, then what on earth is the U.S. Social Security Administration? And if "the scope, duration and nature of Madoff's crimes render him exceptionally deserving of the maximum punishment allowed by law, and the guidelines advise a sentence of 150 years," then what maximum punishment do the President, members of the Congress and administrators of the SSA deserve for perpetuating this vastly larger Ponzi scheme since the 1930s? And if, as his sentencing judge declared, "Mr Madoff's crimes were extraordinarily evil," then how do we characterise the mass murder by agents of American, British and other governments of up to one million Iraqis, and the displacement of millions more?

13 In a superb tongue-in-cheek review (A Fake Prime Minister, *Quadrant Online*, 6 April 2009), Hal Colebatch writes "I suspected that sooner or later the political Right would take revenge for the hoaxing of *Quadrant*. It seems to have come sooner than I expected. Wealthy Lefty property developer Marry Schwartz's *Monthly* has published an essay of nearly 8000 words under the apparently sincere belief that it was written by the Prime Minister of Australia. At the moment the identity of the hoaxer is uncertain, save that it is someone lampooning the Prime Minister of our country as a verbose, ignorant, amateur economic and political philosopher, nourished on Fabian Society pamphlets from *circa* 1944. The real Prime Minister of Australia would hardly be likely to spend precious time during an international financial crisis writing a rambling pseudo-philosophical essay … It is fairly clever if crude and heavy-handed satire, rather like something from the heyday of *Mad* magazine, but as an Australian concerned for my country's image I cringe at the idea of anyone overseas picking up a copy and taking this effusion as being for real."

14 The term "neo-liberalism" is used as a rhetorical weapon by today's opponents of economic liberty. Poindexter defines it as "that particular brand of free-market fundamentalism, extreme capitalism and excessive greed which became the economic orthodoxy of our time." (Apparently, in Kevin's World some greed is OK, but "excessive" greed, which resides exclusively outside the state, isn't; alas, Poindexter doesn't tell us where the dividing line between them lies.) But as Oliver Hartwich (PM's Hero a Neo-Lib) reminds us, "the original philosophy of neo-liberalism, of which Rudd seems unaware, was anti-capitalist and the opposite of a laissez-faire free-for-all. The term neo-liberalism was

have detonated since August 2007. "The current crisis is the culmination of a 30-year domination of economic policy by a free-market ideology … The central thrust of this ideology has been that government activity should be constrained, and ultimately replaced, by market forces. In the past year, we have seen how unchecked market forces have brought capitalism to the precipice." In summary, "neo-liberalism has been revealed as little more than personal greed dressed up as an economic philosophy." What, then, to do?[15] According to Poindexter,

> The intellectual challenge for social democrats is not just to repudiate the neo-liberal extremism that has landed us in this mess, but to advance the case that the social-democratic state offers the best guarantee of preserving the productive capacity of properly regulated competitive markets, while ensuring that *government* is the regulator, that *government* is the funder or provider of public goods and that *government* offsets the inevitable inequalities of the market with a commitment to fairness for all (italics in the original).
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> The challenge for social democrats today is to recast the role of the state and its associated political economy of social democracy as a comprehensive philosophical framework for the future – tempered both for times of crisis and for times of prosperity. In doing so, social democrats will draw in part on a long-standing Keynesian tradition. Social democrats will also need to reach beyond Keynes, given some of the new realities we face some 70 years after the publication of Keynes's *General Theory*.[16]

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invented at the time of the Depression in the 1930s. In a speech [German economist and sociologist Alexander Rustow] delivered in 1932, regarded as one of the founding documents of neo-liberalism, he called for a 'third way' between socialism and capitalism. Rustow's speech was titled 'Free Economy, Strong State' and in these four words he summed up the core of the neo-liberal project."

15 Poindexter is hardly the only lefty to use the crisis of interventionism as a pretext for even more interventionism. Unlike our Dear Leader, however, some foreign politicians have offered excellent suggestions. According to Reuters (26 June), "Ecuador's left-wing President Rafael Correa lashed out at capitalism, blaming it for the global financial crisis and suggesting that the International Monetary Fund and World Bank be abolished. Cuban Trade Minister Rodrigo Malmierca Diaz had said on Wednesday that the IMF and World Bank had 'impoverished' nations around the world and should be scrapped." Alas, "representatives of Western developed economies rejected the idea of abolishing the institutions. 'The Bretton Woods institutions have rarely been popular but they have never been so necessary,' Britain's [delegate] said. 'Overall, they have responded quickly, flexibly and in a transparent way to the demands we have all placed on them.'"

The truth, as Steve Hanke wrote in Panic Fallout, is that "the panic of 2008 has sent the political classes into fits of hyperactivity. Their favourite ploy has been to scare the public into supporting gigantic interventionist policies designed to inflate government budgets … After failing to predict a slowdown, let alone a panic, the International Monetary Fund finally issued a scary forecast on March 19 – just in time for the G-20 meeting. This forecast allowed the IMF to peddle its prescriptions. Once the G-20's communiqué was released, doom and gloom were temporarily swept aside. The political classes had just struck a mother lode."

16 Either Poindexter is ignorant of the truth or cynically chooses to suppress it: Hayek and Keynes maintained cordial personal relations. Indeed, Keynes helped to sponsor Hayek's application to become a naturalised Briton; further, during the Blitz Keynes lent to Hayek his room at Cambridge. Partly for these reasons, the Austrian School economist chose not to write a rebuttal to *The General Theory*, which he regarded as incoherent, utterly wrong and an aid to totalitarianism in general and Hetaerism in particular. (In the foreword to its German-language edition, published late in 1936, Keynes stated in his characteristically-clunky prose "the theory of aggregate production that is the goal of the following book can be much more easily applied to the conditions of a totalitarian state than

Large swathes of Rudd's article are – how to say it charitably? – laughable.[17] It's ironic: the ex-Trotskyite, Michael Costa, has written one of the most insightful criticisms of it (Rudd on a Dangerous, Ill-Informed Crusade, *The Australian*, 6 February 2009). In his words,

> Anyone with a rudimentary understanding of economics would be aware the economics of Frederick Hayek and Ludwig von Mises, which explicitly reject activist central banks, are in no way related to the present ruling economic orthodoxy. Mises favoured the gold standard and Hayek believed in the de-nationalisation of money, private money.
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> Rudd's essay displays his superficial reading of economic history. Even in areas where he has a purported expertise such as foreign policy, he fails to comprehend key political distinctions. He makes the extraordinary claim that … Hayek and Mises are "ideological bedfellows" with neo-conservatives. Nothing could be further from the truth. There is nothing more abhorrent for most [paleolibertarians] than activist foreign policy.
>
> If you look at the present size of the public sector and the level of public spending in Britain, the US and Australia, the only fair conclusion you can draw is that neo-liberals failed to successfully implement their agenda. In all cases the public sector is about the same size, and in the case of Britain and the US, public spending and debt have ballooned. Rather than neo-liberal-ism, the past 30 years have seen a form of stealth Keynesianism dominate economic policy.

The best riposte to Poindexter's outburst comes from China. Australia's Prime Minister "has been accused by a leading Chinese economist of being 'either short of economic knowledge or misleading his readers' in his famous essay attacking neo-liberalism. In a scathing assessment, Xu Xaonian, economics professor at China-Europe International Business School in Shanghai, lambasts the essay, now translated and published in China, as 'shallow and crude'" (Chinese Give PM Kevin Rudd Lesson on Neo-liberalism, *The Australian*, 19 June). Dr Xu said "Lu Kewen" – Mr Rudd's Chinese name – made a "big, big mistake" in forming his "confident

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the theory of the production and distribution of a given output turned out under the conditions of free competition and of a considerable degree of *laissez-faire*".) Hayek also assumed that, as he had throughout the 1920s and early 1930s, Keynes would change his mind so quickly and diametrically that before long he would disavow *The General Theory*. Perhaps Hayek was right. Keynes read Hayek's *The Road to Serfdom* (1944) soon after its publication, and wrote of it: "In my opinion it is a grand book … Morally and philosophically I find myself in agreement with virtually the whole of it: and not only in agreement with it, but in deeply moved agreement." But by then (Keynes died in 1946), Keynesianism had become so firmly welded to the state that not even Keynes himself could have eradicated it.

[17] Underlying many of Rudd's stupid claims is ignorance about what caused, prolonged and ended the Great Depression. "To understand the failure of neo-liberalism, it is necessary to consider its central elements. The ideology of the unrestrained free market, discredited by the Great Depression." One of the most readable and recent analyses is *The Politically Incorrect Guide to the Great Depression and the New Deal* (Regency, 2009) by Robert Murphy. See also A Response to the "Market Failure" Drones by Thomas Woods and The Great Depression by Hans Sennholz. Even journalists are beginning to realise that the New Deal deepened and prolonged the Depression. See in particular Amity Shlaes, *The Forgotten Man: A New History of the Great Depression* (HarperCollins, 2007).

opinions" based on "the observation that the crisis came as a result of neo-liberalism and the absence of supervision." Dr Xu, who has a doctorate from the University of California and was formerly managing director of his country's biggest investment bank, says it is not time to resurrect Keynesianism, as Mr Rudd proposes. "Instead, it's time to announce Keynesianism's failure, time to announce the emperor Lord Keynes has no clothes."

Dr Xu also stated the Prime Minister "has used electioneering-style tactics to brand neo-liberalism as dogmatic, to paint a clownish portrait of it, seeking to pioneer popular antipathy to this artificial enemy, casting a moral verdict without seeming to care about truth or logic." Moreover, "Lu Kewen defined Alan Green-span as a neo-liberal, and claiming that his failure and that of the neo-liberals is a failure of the market. Lu is either short of economic knowledge or is misleading his readers. Greenspan is a Keynesian, and a thoroughgoing one, not a neo-liberal. Lu smartly transformed a failure of government into a failure of the market – a form of propaganda by him and his social democrat comrades which now looks as if it is working."

The basis of Poindexterism is that People Like Him Know Best (see also Misguided, Would-be Messiah, 7-8 February 2009). The anointed act "rationally," but the unwashed foment "anarchy." Because the élite act in "the public interest," they are blissfully immune to the hated self-interest and greed that plagues the un-washed – especially the Enemies of the People who advocate voluntarism rather than coercion. Hence banks who lend "excessively" are negligent, but governments who borrow unprecedented amounts are responsible. Perhaps Rudd does not understand concepts like anarchy and self-interest; maybe he comprehends them perfectly well, but fears the existence and consequences of liberty; or possibly he's simply a schoolyard bully who craves the control of others. Whatever the motive, he stands for the state and against the individual – and for control of the alleged "excesses" of liberty. Rudd is an exemplar of what his nemesis Fried-rich Hayek dubbed "the fatal conceit" – the idea (which should rest uneasily, to say the least, in a man who purports to follow Christ) that "man is able to shape the world around him according to his wishes."

Like his ideological fellow-traveller, George W. Bush (who used an event caused by interventionist foreign policy as a pretext to proclaim a war upon a reaction to that foreign policy, and then to intensify the very policy that caused the reaction), Poindexter recognises that a "Global Financial Crisis" is a golden opportunity further to strengthen the state vis-à-vis the individual.[18] Hence the PM won't let the "GFC" – a crisis, remember, of the state's making – go to waste (see also PM's Class War Re-election Plan, 20 February 2009). An unanticipated – by the mainstream – event caused by interventionist financial and economic policies

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[18] The best and most readable presentations of this general idea are the books of Robert Higgs. See *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (Oxford University Press, 1987), *Against Leviathan: Government Power and a Free Society* (2004), *Resurgence of the Warfare State: The Crisis Since 9/11* (2005), and *Depression, War and Cold War: Studies in Political Economy* (2006).

provides a ruse for a phony war against something that doesn't exist ("extreme capitalism") and a real war for something that does (the Leviathan state). In effect, Poindexter has announced a War on Extreme Capitalism, and a War for Social Democracy. Capitalism's in crisis, he says, and socialism's the only thing that can save it. He is using a crisis of socialism to demand more socialism – and people who allege that they're not socialists (such as corporate bigwigs, mainstream economists, journalists, etc.) are cheering him until they're hoarse.

Beware Politicians Touting Stimulus

Poindexter controls the Commonwealth Government – or, at any rate, believes that the state is basically a machine whose levers he can push and pull as he pleases, and which will produce the results he desires without unintended and negative cones-quences. Accordingly, he believes that the state unquestionably can and should con-trol "the economy." He and People Like Him must guide and control the actions of the self-interested hoi-polloi who are buying and selling in the market: otherwise greed and anarchy will prevail. From his point of view, the common people are not sufficiently bending their wills to his. Their interactions, he insists, do not produce harmony and stability: some are doing too much of what he disapproves (such as sacking workers and "hoarding" money); and others are doing too little of what he approves (namely borrowing and spending).

How to "correct" the inability or unwillingness of the benighted to conform to the directives of the anointed? The current answer, in a word, is "stimulus." Be-cause spending by consumers and governments allegedly begets prosperity, the expendi-ture by governments ("activist and proactive fiscal policy") including government transfers to households "boosts aggregate demand" and thereby prevents or miti-gates "downturns" (see, for example, "Stimulus Will Help Economy: RBA Boss," *The Australian*, 22 October 2008). In Rudd's words (The Global Financial Crisis), social democrats "stress the central role of the state in maintaining aggregate demand, both for consumption and investment spending, at a time of faltering growth. That is, the state must involve itself in direct demand-side stimulus to offset the large-scale contraction in private demand … This 'growth gap' indicates the dimensions of the fiscal-stimulus task that now lies ahead for governments if the demand-side gap is to be met and massive unemployment avoided. This is classic Keynesianism, pure and simple."

True to his word and as a first instalment, Poindexter declared "Labour will spend more public money if its $10.4 billion economic pump priming package announced yesterday fails to insulate Australia against the global financial meltdown. [Rudd warned] that history showed the best way to respond to market gyrations was 'to act decisively, act responsibly and act early' and 'will do whatever is required' to save Australia's growth. Economists expect the package will fuel a six-month spending spree that will sustain economic activity and allow Australia to maintain economic growth" ("More to Come in PM's $10bn Recession Buster" and "The Recession We Don't Have to Have," 15 October 2008).

According to analyses on that day, "Kevin Rudd and Wayne Swan have adopted the same language and arguments over the Black Friday crash as John Howard used after the terrorist attacks of September 11, 2001 – making 10/10 the new 9/11. Howard justified huge expenditure on security … by saying 'the world has changed forever.' The Labour government is saying exactly the same thing … Rudd and Swan have used the language of the war on terror, saying the world financial crisis is like a 'rolling national security crisis.'" The Leader of the Op-position said "We're not going to argue with the composition of the package. It has our support, [and] it will provide a stimulus for the economy, that's for sure." In its guise as Der Murdochische Beobachter, *The Australian* editorialised ("Ahead of the Curve," 16 October 2008) "the financial crisis [is] changing the world," is "a tsunami is lapping Australia's shores" and "the Rudd Government is showing commendable leadership."

According to the mainstream, "stimulus" boosts confidence, which in turn encourages consumers and businesses to spend. Accordingly, they say confidence is vital to (re)kindle confidence. "The Rudd Government appears to be reversing the biggest collapse of confidence in decades, because of the global financial crisis, with its $10 billion pre-Christmas giveaway … Consumer confidence is the key to success for the Rudd Government's $10 billion economic stimulus give-away to pensioners and families to spend and boost the economy … Yesterday, the Treasurer underlined the importance of confidence in the economy in fighting stock market volatility and global recession and defended the Government's spending strategy. Mr Swan said it was 'absolutely essential' given 'the impact upon confidence'" (Stimulus Reverses Fall in Confidence, 10 December 2008).

In case they didn't read it the first time, "Australians appear to have pulled out of a tailspin of pessimism about the economy. This is good for them, it's good for the economy and it's good for the Rudd Government. There is no doubt confidence is the key to Australia taking best advantage of its relatively strong position in the world economy … World leaders and central bankers are all trying to build confidence and [are] spending trillions to do so" (Spending Spree Has Inflated Morale, 11 December 2008). If fiscal stimulus drives the budget into deficit, even a big one, well, then, so be it. A former governor of the RBA alleged (Swan Puts Deficit through the Spin Cycle, 6 November 2008) "governments' fondness for the terminology of keeping the budget in surplus reflected the wrong analysis that deficits were always a bad thing. 'There's nothing wrong at all with a budget deficit.

The idea is for the government to increase spending to offset and compensate for a reduction in private spending during a time of economic downturn. It's spending that drives economic activity, ultimately.'" A private sector shill added "politicians have demonised deficits in recent years but the worst possible thing we could have now is federal or state politicians being holier than thou about whether the budget is $1 billion in surplus or $1 billion in deficit."[19]

"Stimulus," says the state and its mascots, also "protects jobs." Accordingly, in November Poindexter declared a "war against unemployment" and "called on G20 nations to produce co-ordinated action to stimulate the global economy" (Rudd Going to War on Jobs, 12 November 2008). "The challenge we face is to provide further stimulus," he added on 17 November. "Failure to act on this [there's that fallacy again!] will result in significant joblessness. The need to take fiscal policy action is underlined by the gravity of the employment and growth consequences of the financial crisis. When unemployment hits, it goes up like a lift – very sharply – and it comes down like an escalator."

It's important to emphasise that, according to Poindexter and the mainstream, spending drives prosperity. Thomas Woods (Washington and the Stimulus: A Parade of Blockheads) put the point tartly: "The Keynesian idea behind the so-called stimulus is that prosperity can be restored if the government is allowed to seize enough resources from the private sector and spend them on just about anything." But surely nobody could be that immoral and idiotic? Think again:

> Kevin Rudd has urged the nation's pensioners and families to 'go out and spend the money' as the first wave of his cash handouts plan to avert recession hits bank accounts today. With just over a fortnight to Christmas, the Prime Minister yesterday suggested it was the patriotic duty of recipients to use the money to go shopping, but warned tough times were ahead. And economists admitted it did not really matter what pensioners and families spent the money on, as long as they did not hoard it. "By spending these payments, families and pensioners will help create Australian jobs and strengthen the Australian economy," Mr Rudd said. "I urge families and pensioners who have been

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[19] See also "Don't Fear the Deficit Bogeyman" (*The Courier-Mail*, 7 November), "It's OK to Go into Red: RBA Boss" (*The Australian*, 20 November) and "D-Word Beats R-Word" (*The Australian*, 28 November). The problem, of course, is that it's easy to let the deficit genie escape from the bottle, but extremely hard to recapture it. There is, in other words, no clear limit to what the state should spend to (allegedly "boost" the economy. Late in November 2008, a prominent forecaster prophesied that the Commonwealth budget "should be able to hold on to a surplus of $4.8 billion this year, a deficit of $1.2 billion next year and deficits in excess of $4 billion in each of the following two years." By late January 2009, the estimated deficit for the current (2008-2009) financial year had increased to $22 billion. Three months later, "the Rudd Government is considering breaking its self-imposed $200 billion limit on borrowings as it blows out the deficit to fight off the expected recession. Analysts are expecting debt levels of $300 billion, and warn that unchecked borrowings could jeopardise Australia's triple-A credit rating … The budget deficits are tipped to top $50 billion in 2009-2010, and $60 billion the year after" ("Deficit Spike May Lift Rates," 24 April). By June, the government stridently insisted that its $52 billion stimulus had "saved" 200,000 jobs and prevented the rate of unemployment from rising to 10%. But if so, why not spend an additional $52 billion, "save" another 200,000 jobs and reduce the rate of joblessness to 5%? Why not spend $500 billion, wave a magic wand and banish unemployment from the Land of Oz?

> doing it tough to spend their payments in a responsible way to make their family Christmas all the more special" (Cash Recipients Urged to Spend, 8 December 2008).

Like General William Westmoreland, who repeatedly requested that the numbers of American troops in Vietnam be increased in order to achieve victory, who oversaw 16,000 when he arrived in 1964 and 535,000 at the peak in 1968 – and who proceeded to win every major battle but lose the war – too much stimulus is apparently never enough. In January 2009, the IMF suggested that the Rudd Government "at least double the size of its budget stimulus package to more than $20 billion in an effort to hold back the recessionary tide. The Fund's chief economist admits he does not know how effective such spending will be." But no matter: "what is needed is not only a fiscal stimulus now but a commitment by governments that they will follow whatever policies it takes to avoid a repeat of a Great Depression scenario. When he says 'whatever it takes,' he means it. In a new policy paper, the [chief economist] suggests governments should … replace the private sector as a financial intermediary, using funds raised by issuing bonds to finance the private sector" (Rudd Must Double Stimulus Spend To Make It Work, Says IMF, 12 January 2009; see also It's Better to Spend Big Than Err on the Side of Caution, 12 February).

Shortly thereafter, "Kevin Rudd reconvened the cabinet committee that master-minded last year's $10.4 billion economic rescue plan and last night began publicly selling the need for a second stimulus package. The Government has put the cost so far of its measures aimed at jump-starting Australia's stalled economy at $36 billion" (PM Signals Phase Two Rescue Plan, 20 January 2009). *The Australian* (4 February) editorialised "there is almost certainly more [stimulus beyond that already announced] to come, and this [latest] package is best understood as a plan designed for the economic equivalent of wartime, a period in which extreme circumstances require the suspension of policies designed to deliver sustainable economic growth in the long term. A big deficit this year, and the likelihood of a bigger one to follow in 2009-2010, is not acceptable except in these extraordinary times." And so it transpired, and on it goes: "Treasury is preparing the ground for a massive new burst of stimulus in next month's budget, declaring that the measures to date have averted a plunge in consumer spending (Rudd Plans Third Stimulus as G20 Leaders Meet on Economic Crisis, 2 April).

In addition to stimulatory fiscal policy, the central bank's suppression of short-term rates of interest below the levels that would prevail in a free market (the euphemism is "activist and stimulatory monetary policy") allegedly combats recession and promotes prosperity.[20] Borrowing, alleges the mainstream, begets spending; spending

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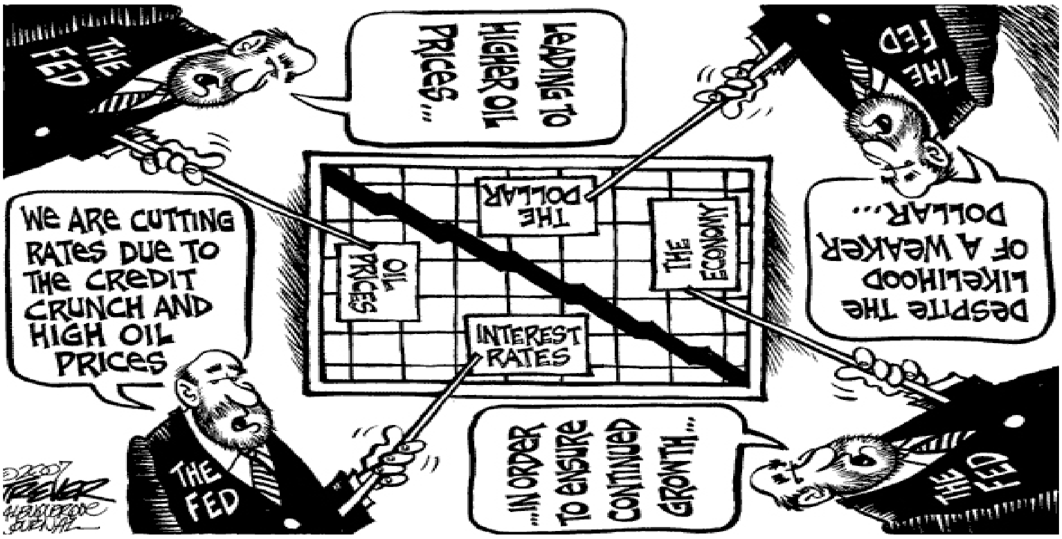
[20] The PM and his party are not the worst offenders in the monetary sphere. The ALP specialises in fiscal bribes in order to create dependence upon income support and thereby cement the votes of more vulnerable and lower-income people; the Coalition, on the other hand, specialises in monetary bribes in order to create dependence upon artificially low rates and artificially rising asset prices – and thereby cement the votes of heavy borrowers, who tend to be higher-income earners.

drives prosperity; hence borrowing is a path to plenty. In December 2008, for example, the RBA "injected $10 billion into the economy through another dramatic 1 percentage point rate cut it believes will be enough to keep Australia out of recession. On the eve of the Rudd Government's recession-busting fiscal stimulus package delivering almost $10 billion into the bank accounts of low-income families and pensioners, the RBA has handed another windfall for homeowners – the fourth rate cut in three months." According to the Treasurer, "these are extraordinary times, so they require extraordinary measures – not just the magnitude of rate reductions, but also the actual level of interest rates" (Reserve's '$10bn Cut' to Stave Off Recession, 3 December 2008).



Monetary mismanagement in Australia has long been bipartisan.[21] At a press conference on 8 December 2003, Mr Costello proudly flew his Keynesian flag. He said "if interest rates come down, people tend to borrow more. That is one of the reasons why you reduce interest rates, incidentally. You reduce interest rates so that people can buy more. It is considered stimulation for the economy. And nobody should be surprised that if interest rates are lower, people buy more; that is what the

Rudd's passage in "The Great Financial Crisis" is not unreasonable: "investors increasingly came to believe that when things went bad, they would be protected by monetary policy in what came to be known as the 'Greenspan put' – [artificially] low interest rates, high liquidity and the protection of asset prices. Easy monetary policy was seen as an elixir that could cure any market instability that arose. In fact, it added yet more fuel to the fire, in the form of cheap money available for lending." Further, "low interest rates brought forth a new class of borrowers in the U.S. who were encouraged by mortgage brokers to buy their own home. As a result, a huge amount of capital rushed into the sub-prime mortgage market, where it was directed towards borrowers with weak credit histories." In Poindexter's own words, poor policies by central banks (which, remember, are creations of the state), particularly the Greenspan Fed, stoked the fire that ignited the conflagration!

21 In Australia there is an evil party (the Australian Labor Party) and a stupid party (the Liberal-National party coalition). Quite often, and these days rather routinely, these two parties unite and do things that are both stupid and evil. They have the hide to call this "bipartisanship." Hence despite all the noise, few matters of principle separate Kevin Rudd and Malcolm Turnbull. Each emphatically agrees that no sparrow may fall from the trees without the knowledge and consent of the state. Their differences are about rhetoric, degree and method – not about the alleged necessity of all-encompassing government intervention.

whole theory of monetary policy as stimulation is all about." He was an intervenetionist then, and remains one today: "Peter Costello last night called for the Reserve Bank to cut interest rates more aggressively to deal with the financial crisis. The former Treasurer also criticised the RBA for having increased interest rates earlier this year – after the sub-prime crisis had hit the U.S." (Costello Suggests Further Rate Cuts, 21 October 2008). A former leader of the Liberal Party agrees (RBA Must Play Catch-Up: Hewson, 21 October 2008).[22]

Stimulating Debt, Malinvestment and Economic Instability

In Australia, as well as Britain, the U.S. and elsewhere, the mainstream has adamantly refused to admit the truth about the past – namely that for decades, people and governments have lived well beyond their means. Relative to their capacity to produce, people and governments have long spent and borrowed too much and saved too little. How long could this continue? Until lenders belatedly realised that slowly-growing income cannot forever service rapidly escalating debt, and began to ration or withhold the supply of new credit – which caused the prices of real estate, stocks and bonds to fall. Similarly, the mainstream stubbornly refuses to face the truth about the future: namely the painful process by which poor policies are repudiated, debt is purged and savings rebuilt – i.e., a recession – is salutary, unavoidable and lengthy.

Instead, the mainstream touts the elixir of "stimulus." It insists that, just as we allegedly could in the past, so we can today and into the future: we can borrow and spend our way to prosperity. Belying its incoherence, welded to *stimulus* is the idea of *stasis*. The state attempts to fix or abolish prices, and hence to muffle and falsify the signals they convey. It also intervenes in order to readdress the failures created by its previous interventions. Hence the bailout of the motor car and car finance industry (the state doesn't like the fact that Australian manufacturers can't profitably produce the vehicles that Aussies want to buy at prices they're prepared to pay), "RuddBank" (too many property developers have borrowed too much and paid inflated prices, and thus face insolvency), the First Home Owner's Grant (the state ignores the fact that its policies have inflated the prices of residential real estate into a bubble, such that young adults who could once afford to buy houses

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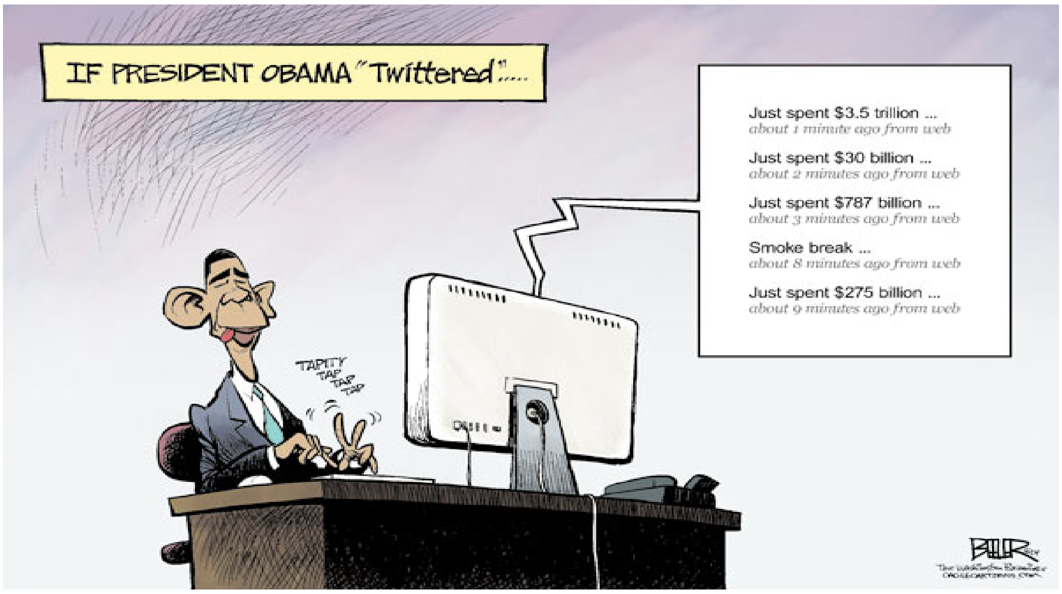
[22] As further evidence that monetary stupidity in Australia is multi-partisan, consider the question: what do Pauline Hanson and Kevin Rudd have in common? The UK's The Independent quoted her in 1998: "She is calling for high tariffs to protect Australian producers from foreign competition, and the establishment of a "People's Bank" to lend to farmers at just 2 per cent interest. Her most fanciful proposal is to fund such a bank by printing more money, the classic recipe for hyper-inflation."

At the time, Hanson was (rightly) ridiculed. But that was then and this is now: substitute "Rudd-bank" for "People's Bank" into the quote and viola: the Red Chippie from Ippie was actually years ahead of her time! And what of the sentence about printing money being a "fanciful proposal" and the "classic recipe for hyper-inflation"? Well, The Powers That Be have diametrically changed their tunes. To wit, Stephen King, managing director of economics at HSBC: "while I think the Bank is doing the right thing by moving towards quantitative easing [printing money], it needs to offer more details of how the policy is meant to work."

now can't), the guarantee on bank deposits (the state abhors the reality that its policy of fractional reserve banking creates heavily-leveraged and hence rickety banks vulnerable to "runs"), the intensified regulation of the labour market (the state angrily denies that the demand curve for labour slopes downwards) and all the sordid rest which throw good money after bad.[23]



So never mind the rhetoric: Poindexterism and Obamunism are antitheses of change. Their purpose is to avoid, delay and deny the necessity of readjustment and retrenchment, and indeed to fight it tooth and nail on every front. It cannot be emphasised enough: "stimulus" is socialism and socialism inevitably collapses. Stimulus is simply a doomed attempt to reflate the collapsed bubbles of failed interventionism. "Activist and proactive fiscal policy" does not *replace* expenditures by individuals and businesses: instead, it *displaces and discourages* private initiative. "Activist and proactive fiscal policy" does not encourage productive investment: it spawns Mali vestment and the damaging cycle of boom and bust. *Stimulus, in short, doesn't make things better. Quite the contrary: it makes things worse.*[24]

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23 William Graham Sumner was a perceptive student of American business cycles. In 1896 he observed "for three hundred years our history has been marked by the alternations of 'prosperity' and 'distress' which are produced by the booms and their collapses. When the collapse comes, the people who are left long on goods and land always make a great outcry and start a political agitation. Their favourite device always is to try to inflate the currency and raise prices again until they can unload … [But] no scheme which has ever been devised by them has ever made a collapsed boom go up again." Sumner identified why all of these efforts had failed: "the most far-reaching vice in all these [inflationist] schemes was that they led the people to believe that the methods of a 'boom' could be successfully employed in the place of the methods of thrift." Then and now, in other words, inflationists claim falsely that a recovery necessitates no need to save, liquidate and retrench. Instead, they assure us, the government need only print large amounts of money, lavish much of it upon itself and favoured groups and lend the remainder at sub-market rates.

24 See also Henry Ergas, Don't Confuse Excess with Success; Robert Higgs, Recession and Recovery: Six Fundamental Errors of the Current Orthodoxy; Lew Rockwell, The Government's War on Recession; and Thomas Woods, Beware of Obamanomics.

Kevin Rudd, Meet Robinson Crusoe

A venerable approach, Crusoe Economics, helps to demonstrate these vital truths. Used to great effect by Eugen von Böhm-Bawerk and modern Austrians such as Israel Kirzner and Murray Rothbard, it removes from analysis what for our purposes are needlessly complicating factors such as social, cultural, political and interpersonal relations.[25] It isolates the essential elements of human action and traces their consequences. We cannot observe these essentials directly, and there-fore we cannot measure them and subject them to statistical analysis. By stripping our analysis of social and cultural context, not only can we detect much more readily the inescapable importance of (for example) time preference; we also see the ubiquity of the laws of economics across culture and history.

Consider, then, a hypothetical and solitary individual who confronts the forces of nature on an isolated, uninhabited and virgin island. Robinson Crusoe washes ashore with no more than the clothes on his back. In this respect our Crusoe resembles Daniel Defoe's. But our rendering differs in several important ways. First, there is no Friday. Second, our Crusoe will have descendents. Third, a well-armed tribe inhabits a neighbouring island. Its members agree to keep their distance from Crusoe and to impose themselves in only one way: in return for his unrestrict-ed use of the island and protection from any invaders, each month Crusoe will render to them a quantity of fruit and berries equal to the amount he can collect with his own hands and without any assistance during a single day.

Production Precedes Consumption, and Dearth of Capital = Lack of Time

Crusoe's initial days and weeks on the island severely test his brains, brawn and fortitude. He must find enough food, water and shelter to ensure his immediate survival; and during the next several months he must also find (or grow or catch) and store enough food and water to survive both regular occurrences (such as storms and winters) and irregular calamities (such as droughts, cyclones, extended cold, fires, etc.) to which the island might be prone. In order to maximise his chances of survival, Crusoe must combine his labour with the island's resources and any tools and instruments – i.e., *capital goods* – he can devise.

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[25] By abstracting from these various complications, Daniel Defoe's book presented man's relationship to nature and to God in a new light. It demonstrated that man, deprived of almost all material goods and benefits of civilisation except those which he can imagine in his mind and produce with his own hands – deprived, in other words, of everything except his relationship to God – need not sink into that "State of Nature" in which (as Thomas Hobbes had described it not long before) the life of man is "poor, nasty, brutish and short." Defoe's book and the methods of Crusoe Economics thus possess profound moral and religious implications.

These implications do not, however, corroborate the so-called Protestant Work Ethic, which has sometimes been called the "Puritan Work Ethic" (a term that was coined by Max Weber in The Protestant Ethic and the Spirit of Capitalism. Capitalism does indeed owe an incalculable debt to Christian-ity. But as Rodney Stark shows (*The Victory of Reason: How Christianity Led to Freedom, Capitalism and Western Success*, Random House, 2006), capitalism predated the Reformation. Accordingly, Protestantism cannot cause something (or be credited for something) that predated it.

First things first: Crusoe does not wish to die of exposure, hunger or thirst. Yet they will occur within days or at most weeks if he does not act immediately. Accordingly, he must either forego capital goods entirely or satisfy himself with crude (i.e., easily and quickly devised) capital. It is likely, for example, that he will either use his bare hands to pick berries from shrubs and fruit from small trees, or content himself with a long stick to knock fruit from the lower limbs of taller trees. For similar reasons his first living quarters, hurriedly assembled from branches, leaves, mud and straw, will be extremely rudimentary. Under these circumstances Crusoe cannot make (say) fishing gear and a bow and arrow, and thus cannot catch fish and consume meat. Even less feasible is the construction of a well. These capital goods are out of the question not because Crusoe lacks *knowledge,* but because he lacks *time*. Crusoe is acutely aware that production precedes consumption. As a result, he knows that the hours required to create capital goods like bows and arrows are hours that cannot be devoted to the production (in this case, collection) of basic consumption goods. In the absence of a stockpile of basic consumption goods (i.e., a "pool of funding") sufficient to ensure his survival during the time required to create capital goods, Crusoe simply cannot create capital goods. Hence Ludwig von Mises' vital insight, in *Human Action* (1949)*,* that "lack of capital is dearth of time."

Already, we can glimpse the foolhardiness of governments' "economic stimulus packages." They presuppose that prosperity is a consequence of consumption; that is, the more one consumes, the more prosperous one becomes. Crusoe knows that this is a recipe for disaster. The more he consumes today, *without having taken steps yesterday to increase his production*, the more precarious tomorrow's con-sumption becomes. If he eats his accumulated surplus and seed-corn, then he may not survive the winter; moreover, the more he depletes his surplus, the more he must produce (and, without more capital goods, the longer and harder he must work) in the future in order to replenish the surplus. The contemporary economic, financial and political mainstream is not just wrong: it is diametrically wrong. Consumption is a *consequence* of production, and production is a *cause* of prosperity; that is, the more one saves and successfully invests, the more one can produce; in turn, the more one produces, the more one can save, invest and consume – and therefore the more prosperous one becomes. *Ultimately, it's saving, investment and production – not consumption – that drives economic activity.*

Meagre Capital, Low Living Standards and High Time Preferences; Saving Necessarily Precedes Investment and the Formation of Capital

During his first days and weeks on the island, Crusoe will devote all of his waking hours to the satisfaction of his most basic material needs; further, the satisfaction of these needs provides no more than the barest standard of subsistence. The reality is stark: the less one produces, the less one can consume; and the less one consumes, the more materially impoverished is one's existence. Absent the conditions necessary for the creation and accumulation of capital (i.e., secure rights to property, time and saving, a pool of funding, technical knowledge and successful experimentation), in other words, Crusoe's existence will remain at or close to the barest subsistence.

More generally, the smaller and the less productive is one's pool of funding and stock of capital, the lower is one's sustainable material standard of living.

At this stage of his "economic development," Crusoe cannot utilise "capitalistic" (that is, what Böhm-Bawerk labelled "roundabout") methods of production. The urgency of his immediate needs occupies all of his time; hence his lack of time precludes the creation of more advanced capital goods that might significantly increase the quantity, quality and diversity of the consumption goods at his disposal. Given his limited ability to produce, Crusoe's "pool of funding" will be meagre. It's also likely to be perishable and thus temporary. Initially, then, Crusoe must focus upon production and consumption today, and is strongly averse to the sacrifice of consumption today for the sake of greater consumption tomorrow, next month and more distant points in the future. His hand-to-mouth existence severely constrains his ability to delay gratification; accordingly, Crusoe's time preference must necessarily be very high. When he's barely surviving, the opportunity cost of foregoing consumption today in exchange for the possibility of greater consumption tomorrow is prohibitively great. *On Crusoe's island at this primitive stage of development, in other words, "rates of interest" are necessarily high.*

Let us say that after several months, as well as much privation, Crusoe is able to secure his most basic material needs. He locates a reliable source of (albeit modest quantities of) fresh water; using crude implements he is able to access enough fruits and berries, and also discovers edible plants, seeds, roots, nuts and the like to ensure his survival; and his rude hovel is hardly comfortable but is able to shelter him from life-threatening elements. Indeed, whether by entrepreneurial search-and-discovery or sheer good fortune – that is, nature's liberal endowment of the island with flora and fauna, potable water, mild climate, etc. – Crusoe is able to secure a supply of food and water that modestly exceeds the amounts he requires in order to survive (and pay taxes). Further, given his proclivity towards discipline and frugality, Crusoe resolves that he will not immediately consume everything that he is able to produce; instead, he will live below his means and invest his modest surplus. How does Crusoe invest? His possession of a modest and perish-able surplus ("pool of funding") puts him in a temporary position to allocate some of the time hitherto required to secure his survival towards the creation of the capital goods that might improve his material standard of living.

Given a habit of savings and a modest pool of funding, Crusoe can devote some time today to trial-and-error experimentation whose purpose is to produce more consumer goods in the future. Crusoe strives to create fruitful capital goods (investments); remunerative investments, in turn, enable him to produce more, more advanced and more varied consumer goods. Whether for Crusoe or for us, saving – foregoing some consumption today – enables investment (i.e., the accumulation of capital goods). And productive capital goods eventually enable one to consume more, better quality and more varied goods and services – or to enjoy more leisure – than would be possible without the saving and investment.

Savings and Entrepreneurship Beget Capital

Let us say that after a few years, many of Crusoe's experiments succeed. He discovers, for example, an accessible deposit of copper and (using primitive tools) is able to mould the copper into less rudimentary tools such as an axe, saw and nails. He also discovers a herd of beasts of burden, and is able to capture and domesticate one. He then uses the axe to fell trees and hew logs, the horse to transport the logs, the saw to produce timber and the nails to erect a weather-proof house. Crusoe uses a variety of producer goods in order to produce ever more and more varied consumer goods. That's right, Virginia: Crusoe's residence is a consumer good – not a capital good. It is not, in a rigorous sense of the term, an "asset" or "investment." Housing is the *consequence* of saving, investment and the accumulation of capital. It is not a *cause or creator* of wealth: it is a *consequence and creation* of wealth.[26]

Crusoe's accumulation of capital has another important attribute: not only does it enable him to produce a greater quantity of better-quality consumer goods; many of his capital goods can be put to such a variety of uses that they increase Crusoe's productivity – that is, they augment ability to accumulate still more capital goods. For example, the construction of a boat requires many of the same implements that Crusoe required to build the house. He can use the same axe to fell the timber, and he can redeploy the same horse to transport it (obviating the need to catch and train another). Each of these "round-about" steps actually spares Crusoe much time and effort. So too – because it enables Crusoe to catch more fish in less time – does these steps' end result (the boat). Generally speaking, the more "roundabout" is the capital, the more productive is the capital. By accumulating more capital, Crusoe becomes more productive. As a result, he can more easily save and accumulate a bigger and more durable pool of funding, create more and more sophisticated capital, put this increased capital to increasingly productive purposes – and over time consume considerably more. If this process proceeds over an extended period of time, then Crusoe may reasonably aspire to reach goals which he could only dimly imagine during his first days and months on the island.

Remember that not all of Crusoe's experiments succeed; accordingly, some of his pool of funding does not lead to the production of consumer goods. On the other hand, some of his experiments succeed so well that they render superfluous portions of his stock of capital. And regardless of the results of his experiments, he

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[26] This basic error spawns a swarm of other fallacies and damaging policies. "The U.S. economy will not regain its strength until the price of houses stops falling," *The War Street Journal* (25 June 2009) falsely intoned. (It added, more plausibly, "and that day has not yet arrived.") Hence the titanic series of attempts in that country – thus far futile – to stem the decrease of the price of residential real estate. "'The crisis cannot end fully until home prices in the U.S. are at least stabilising,' says Alan Greenspan." How so? First, "for two-thirds of American families who own their homes, a house is their biggest asset [sic]. The lower house prices go, the less wealthy they are [sic] and the less they can spend and borrow." Second, "for home builders, the lower home prices go, the newer new homes they will build and the fewer workers they will hire." Third, "for many banks and financial institutions … the lower house prices go, the less their [mortgage backed securities and other investments] are worthy and the weaker the foundation of the financial system."

must maintain the capital that he has accumulated. If he does not, then it will fall even more rapidly into desuetude and his overall stock of capital – which, after all, is the basis of his ability to consume and thus the source of his wealth – will thereby "disaccumulate." Crusoe thus harbours few illusions. Wishing to maintain his present standard of living, he cannot rest upon his laurels; in particular, he must always save a significant portion of what he produces.

More and Better Capital Enables Higher Living Standards and Lower Time Preferences

This process of disciplined savings, successful investment and resultant accumulation of capital causes Crusoe's initial burden of material poverty to ease greatly. In this respect we must not forget that he is the fortunate subject of a remarkably (and clearly absurdly unrealistically) benign government: the fruit-and-berry tax levied by the neighbouring tribe is not increased (indeed, relative to his increased capacity to produce goods for consumption, it decreases substantially), no additional taxes are levied and his land and capital stock are not threatened with molestation or confiscation. Under these benign conditions the elapse of time and the habits of frugality and successful entrepreneurship enable Crusoe to "lengthen the period of production," save time, accumulate ever more complex capital and create an increasingly complex structure of production.

Given his greatly increased ability to produce consumption goods, Crusoe's actual store of consumption goods – i.e., his "pool of funding" – becomes much bigger and less perishable than it was during his early days and months on the island. As a result, Crusoe no longer needs to concentrate upon production and consumption today, and becomes less averse to the sacrifice of current consumption in favour of greater consumption tomorrow, next month and more distant points in the future. His much more comfortable existence provides the means with which to delay gratification; accordingly, Crusoe's time preference falls. At a comfortable standard of living, the opportunity cost of foregoing consumption today in ex-change for the possibility of greater consumption tomorrow lessens.

On Crusoe's island, in other words, "rates of interest" tend to decrease. Over time and given the results of his frugality and record of successful investment, Crusoe's preference for present versus future consumption – that is, time preference, falls appreciably. *Note, then, that low rates don't lengthen time horizons; nor do lower rates per se enable investment. Rather, longer time horizons and successful accumulation of capital tend to place downward pressure upon rates. The mainstream, in other words, once again gets things exactly backwards. Low interest rates – particularly the artificially-low rates ginned by a central bank – are not a cause of plenty: the low rates that emerge in a free market are a consequence of plenty.*

Meet Crusoe's Heir

Let us now carry the analysis beyond Crusoe's natural life. Mixing his intelligence, capacity to work and desire to survive with the island's endowment of natural resources, Crusoe sacrificed, saved and created a pool of funding. He then combined this pool, his capacity for thought and his flair for entrepreneurial risk-taking, and created productive capital goods. By extending and elaborating this process over time he created for himself a dramatically higher and more secure standard of living. Reflecting upon his accomplishments, Crusoe wishes to perpetuate them – and ethics that underlie them. He realises, as the sole inhabitant of the island, that upon his death the forces of nature will before long lay waste to all that his diligence and ingenuity have created. That prospect is decidedly distasteful. In addition to a desire for companionship, then, Crusoe needs heirs who will recognise and build upon his achievements.

Crusoe therefore decides to adopt a son from the neighbouring island. From a purely economic standpoint his wish has no obvious negative consequences. Crusoe's long-term campaign of capital accumulation thus refutes Thomas Robert Malthus: whatever its capacity at the time when Crusoe first set foot upon it, the island can now support a greater population at a higher material standard of living. Crusoe adopts a son and teaches him the tacit and technical knowledge and the values that comprise the Robinson Crusoe Ethic. Crusoe II learns incidentally to consume and primarily to save, undertake entrepreneurial activities, create capital and thereby to produce. Like his father, Crusoe II is frugal, resourceful, diligent and intelligent. By the time he attains early adulthood he has shown that he is able to preserve and extend his father's legacy. When Crusoe I dies, he is content with his accomplishments and is secure in the knowledge that his existence will endure vicariously through his adopted son.

Crusoe II has learnt well. He maintains the livestock, boat, implements and other capital goods bequeathed to him. But he does not merely rest upon his father's laurels: he accumulates more and more productive capital goods. He clears fields in order to cultivate additional crops for himself and his livestock; he builds fences and pens for domesticated animals and fowl; he digs deeper and better wells; and he devises means to store fruit, vegetables and meat for extended periods. Because Crusoe II inherited an existing stock of productive capital, he did not need to repeat from scratch his father's long and painful process of creating capital. Accordingly, although Crusoe II follows the same steps as Crusoe I, the son accumulates capital more quickly and enjoys a higher standard of living than the father.

Crusoe II's good fortune (i.e., inheritance of productive capital goods and a government which, like a local mafia, taxes him lightly and otherwise leaves him alone) and wise habits (i.e., the maintenance of existing capital, savings, successful investment and creation of new and more-productive capital) allow him to spend time in ways far removed from the modest possibilities available to his father. He extends the size and amenities of his father's house; he paints and puts to paper scientific and philosophical observations; he plays music and writes his memoirs; and he records his recollections of his father's tribulations, triumphs and ethics. Crusoe II can do these things because his work is very productive work. Thus he becomes not just a wealthy man but also a cultured and civilised man.

The Third-Generation Curse: Robinson Crusoe III

Let us now suppose that Crusoe II marries a woman of noble lineage from the neighbouring island. Again, this is not surprising: since the level of capital accumulation on the island has reached an "advanced" stage, Crusoe II can support a wife with great expectations. The stock of capital at his disposal, in other words, enables the island to support a greater population which lives at a relatively high standard. Alas, Crusoe II is a much better saver, capitalist and entrepreneur than parent. Further, from an economic point of view his choice of spouse is not optimal: his wife regards labour as demeaning and frugality as unnecessary – and spares no opportunity to instil these opinions into her son. Crusoe II attempts but largely fails to transmit to Crusoe III the tacit and technical knowledge, values and wisdom learnt from his father and which served both so well. Crusoe III thus learns incidentally to produce, constantly to whinge and primarily to consume.

Indeed, unlike his father and grandfather, and much to the dismay of his father, Crusoe III is spendthrift, self-indulgent, unimaginative, indolent and complaisant. He has neither the ability nor the inclination to maintain the livestock, boat, fields, paddocks, sheds, stores, wells, implements and other capital goods bequeathed to him. He eats and drinks excessively, spends much of the day aimlessly, writes nonsense, paints drivel and on frequent and prolonged visits to the neighbouring island acts boorishly, disturbs the peace and otherwise makes a nuisance of him-self. He awaits impatiently his inheritance of a life of leisure. Crusoe I, whose resting place is increasingly unkempt, rolls in his grave.

Our allegory now approaches its unhappy end. With the death of Crusoe II, Crusoe III assumes the mantle of the estate. Thanks to the considerable stock of capital accumulated by Crusoes I and II, it takes some time for the negative consequences of Crusoe III's values and actions to manifest themselves, but eventually they become apparent – and by that late stage, his attitudes are so deeply ingrained that meaningful change is exceedingly difficult. The boat, for example, springs a leak and is not repaired. As a result, far fewer fish can be caught and the store of dried and cured fish depletes. Crusoe III's capacity for *joie de vivre* also suffers: only under very favourable weather conditions (which by definition occur irregularly) can he travel freely between his and the neighbouring island. This imposition upon Crusoe III's lifestyle, and his perceived right thereto, causes great consternation.

Similarly, fewer crops are sown and those which are sown are ineptly harvested. As a result, far less produce can be consumed and the store of dried and pre-served fruits and vegetables diminishes. Livestock break through the fences and are not recaptured, and the fences are not mended. Accordingly, far less fresh meat and milk are available and the stock of salted meat shrinks. Crusoe III's inability to consume large quantities of fresh food causes him great irritation, and he regards the impending depletion of the wine cellar as an intolerable outrages. Do you see the underlying problem? The stock of capital and complex structure of production bequeathed to Crusoe III presupposes a low time preference – one which requires investment today and defers consumption today in favour of more consumption tomorrow. But Crusoe III's has a high time preference – he prefers consumption today rather than tomorrow.

There's a mismatch: his time horizons are distorted away from disciplined saving and entrepreneurial activity in the present for the purpose of consumption in the future, and are directed almost exclusively towards current consumption. As a result, Crusoe III's stock of capital and his pool of funding (i.e., his capacity to replenish and create new capital, which is the source of his ability to consume) stagnates and perhaps shrinks. In an extreme case, as time passes the rate at which he shrinks his capital accelerates. As time passes, in other words, his ability to maintain his desired future standard of living decreases. The consequence of this process of "decivilisation" is that at the time of his death Crusoe III is not wealthier than Crusoe II was when he died.

The Reckoning Eventually Comes: a Depression on Crusoe III's Island

It is important to emphasise that Crusoe III's decline into the decadence of excessive consumption and aimless leisure at the expense of hard work, thrift, sensible risk-taking and sobriety seems at first to cause few overt problems. Because he is able to draw for a considerable period of time from the pool of funding established by his grandfather and greatly expanded by his father, for a long time Crusoe III's standard of living seems superficially to remain unchanged. To the outside observer nothing appears amiss. We can see, however, that (literally as well as figuratively) Crusoe III has been consuming his seed-corn. To us, but not to him, it's obvious that eventually this squandering of capital will produce a rude awakening: whether he likes it or not (undoubtedly he won't) Crusoe III will be forced, suddenly and drastically, to restrict his consumption, live well beneath his much-reduced means, save and replenish his pool of funding.

Not only must Crusoe III reduce his consumption to a level compatible with his impoverished pool of funding and less productive structure of production: his belt must remain tightened until he has rebuilt the pool and structure. But that requires aggressive saving (which, in turn, demands the very discipline which Crusoe III lacks) and successful entrepreneurial activity (which requires the technical and tacit knowledge he largely lacks). *How best to encourage saving? Market (in this case high) rather than artificially low rates of interest.* Until these changes occur, he will have at his disposal fewer consumption goods and less (and less productive) capital than did his father. Further, his children, if and when he bears them – his chastened circumstances militate against it – will be obliged to restrict their consumption even more significantly, and to save and invest more aggressively, if they hope to enjoy a standard of living approaching that of Crusoe II. Born to expect in perpetuity the local equivalent of long lunches, long leave and lattés, Crusoe III and his offspring must henceforth live on less. The return to the living standards to which he is accustomed (to say nothing of their improvement) requires a much higher rate of savings and level of capital formation than he has hitherto evinced. It will also require a significant amount of time.

The unresolved – and probably unrecognised – tensions between complaisant expectations of a secure and prosperous future, the unwillingness to save for it (to say nothing of a rainy day) and the reality of a much less secure and prosperous fate than the one he complacently envisaged perplexes and irritates Crusoe III. He knows nothing and cares less about the immutable laws of economics; but he correctly senses that he is somehow – oh, the unfairness of it all! – subject to them. His distemper must resolve itself either through lower expectations, greater savings and capital formation or some combination of the two. A return to the Robinson Crusoe Ethic is one means of redressing this tension. Crusoe III's sudden and incomplete realisation of this tension and the unpalatable choice which follows from it, together with the resentment the necessity of the choice imposed upon him by the cumulative effects of his own irresponsible behaviour, encapsulates the Distemper of Our Times.

Liberty, Property and the Robinson Crusoe Ethic

The method of Crusoe Economics forcefully reminds us about the fundamentals of human action that the contemporary mainstream obscures, ignores or denigrates. Crusoe I, left to his own devices, has a strong incentive to allocate his time sensibly among short- and long-term goals: if he miscalculates then he bears the full brunt of his error, and if he blunders badly then he imperils his survival. Crusoe thus has a strong incentive to allocate time and develop his property with a view towards long-term survival and prosperity. Given Crusoe's proclivity to frugality and industry, a beneficent endowment of the island by Nature and a benign government on the neighbouring island, Crusoe was able to save, generate a pool of funding, innovate and otherwise orient his activities towards the accumulation of capital.

Left to his devices, then, Crusoe emphasised and epitomised abstinence, thrift, diligence, patience and calculated risk-taking. But Crusoe was no mere accumulator: despite his solitary existence for much of his time on the island, he left to his heirs a vigorous culture as well as a productive structure of production. By emphasising the patterns of thought and behaviour that help to secure material prosperity, the Robinson Crusoe Ethic has played an indispensable role in the advance of civilisation – and its denigration has unleashed an extremely damaging process of "decivilisation."

This ethic has also played a significant part in the erratic progress of liberty. On Crusoe's island the ownership and control of property are inextricably connected. Unlike today's Organisation Man, Crusoe is simultaneously owner and manager. Hence the separation of ownership and management, a vexation of our age, is not just absent from but also alien to Crusoe's world; accordingly, agency problems and other conflicts of interest did not corrupt Crusoe's ethics. He ran his business and builds his estate according to his own calculations and desires, subject only to the vicissitudes of nature and the outcomes of his entrepreneurial active-ties. He was thereby responsible for his fate to an extent unimaginable to today's Organisation Man.

Crusoe's *modus operandi* was highly individual, and so too was the composition of his estate and the source of his income. Buying from and selling to himself, borrowing from and lending to himself, calculating present and future values, Crusoe was in effect a financier, merchant, manufacturer, broker, and *rentier* rolled into one. His position was utterly incomparable to the white-collar manager, technocrat or professional salary-earner in today's legal, medical, educational, civil service or manufacturing factories. The Robinson Crusoe Ethic and its associated culture promote lengthy time-horizons, entrepreneurial behaviour, productive capital and a series of virtues that promote prosperity and liberty. In sharp contrast, the ethics of Organisation Man (of whom Poindexter is the exemplar) promote short time-horizons, parasitic behaviour, dependence and poverty.

Crusoes I and II versus Crusoe III and Organisation Man

In Australia today, most people discount, disregard or denigrate the Robinson Crusoe Ethic. Despite their myriad differences, what unites them is their status as occupants of salaried positions within large bureaucratic organisations. This attribute helps to explain the ignorance and disapproval verging upon hostility of Crusoe, his life and accomplishments. Unlike Crusoe, members of this salariat are another's courtiers. Their incentive is not to save, take calculated risks, create capital and thereby secure their prosperity and independence; rather, more often than not it is to maintain and increase the security of their positions at court. To do so they must minimise the risk that they displease their Sovereign; and to the extent that they please the Sovereign they can securely display their status (i.e., engage in conspicuous consumption) and rely upon the Sovereign's soft compassion rather than their own hard capital.

Given these incentives, time horizons shorten (capital, as Crusoe showed us, can be bequeathed to heirs; salary cannot). Decades ago in Western countries, as the ranks of salary earners eclipsed those of independent business owners, farmers and artisans, sources as philosophically diverse as Joseph Schumpeter and C. Wright Mills noted that salary earners tend to be less willing to save and invest, and are generally more concerned with current gratification and immediate con-sumption. Unlike Crusoe, whose fortunes depend upon the results of his thoughts and deeds, salary earners' paycheques at best stem indirectly (and often not at all) from their actions. Hence salary earners expect to receive a steady income regard-less of the ebb and flow of wider economic tides. Politicians strengthen this expectation by promising to protect them from the ups and downs of the market-place, and from natural, personal and other vicissitudes. Accompanying their high time preference, salaried earners often display a psychological distance from the balance sheet, profit-and-loss statement – and frequently from commercial reality.

Since they draw a regular salary, salary earners have less incentive than Crusoe to appreciate the causes of swings of the business cycle. Their superficially protected position affords them little direct participation in and hence personal knowledge of entrepreneurship and the creation of profits, losses and capital. Further, thanks to poor government policy salaries ratchet up but rarely down; and "merit" – which everyone allegedly knows but practically no-body can define – rather than ability to identify and satisfy consumers is regarded by most salary earners as the proper determinant of status and income (which for many salary earners are synonyms). For these reasons – and like the traditional bureaucrats with whom they share many attributes – salary earners tend to value credentials and to distrust market rewards. The salaried position of most members of the modern middle class, then, creates set of incentives, attitudes and time preference that Crusoe would find alien and incomprehensible.

Further, salary earners' high time preference and distance from the balance sheet often manifest themselves in a misunderstanding of and contempt for the roles of private property and shackled government, savings and investment, entrepreneurship and capital accumulation. Like Crusoe III, so too many of today's white-collar workers: each regards his income as an annuity rather than the conditional fruit of service to consumers; borne of this attitude (and encouraged by governments), each is tempted to eat his seed corn; each, therefore, is prone to sudden shocks caused by miscalculated time preference which can suddenly, drastically and often permanently decrease his standard of living; and each, lacking direct knowledge and experience of the process of capital accumulation, is apt to respond to these shocks with incomprehension, disbelief and anguished demands for compensation. Like Crusoe III, so too many of today's white-collar workers: they are susceptible to The Distemper of Our Times.

The Distemper of Our Times: Five Major Traits

Attribute #1: The Fetish for Fiscal Stimulus (Government Spending)

The vast majority of Australians are salary earners, and people who depend upon salaries, relentlessly encouraged by their rulers, tend to have high time preferences. They tend, in other words, to live for today and ignore long-term costs.[27] Not surprisingly, a phalanx of politicians, bureaucrats, economists and lobbyists (salary earners all) tirelessly encourage the government to live for today and let tomorrow take care of itself. Government expenditure, its proponents insist, "saves jobs," "creates jobs" and thereby encourages greater spending; more jobs and expenditure, in turn, drive prosperity, counteract recession and hasten an eventual return of prosperity; hence more government spending neutralises recession and hastens the resumption of good times – which, of course, are characterised by "healthy" consumption and borrowing.

The method of Crusoe Economics, the examples of Crusoes I, II and III and a moment's reflection are sufficient to demonstrate the foolishness of these assertions. Let us say that Crusoe III suggests to the tribe on the neighbouring

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27 See Letter 75; The Political Classes and High Time Preference; Bureaucracy (Yale University Press, 1944) and The Anti-Capitalistic Mentality (Van Nostrand, 1956) by Ludwig von Mises; Deirdre McCloskey, *The Bourgeois Virtues: Ethics for an Age of Commerce* (University of Chicago Press, 2006); and Hans-Hermann Hoppe, *Democracy, the God That Failed: The Economics and Politics of Monarchy, Democracy and Natural Order* (Transaction Publishers, 2002).

island that a new boat (replacing the one which Crusoe I built with his own savings and labour and which Crusoe III's neglect has ruined) be built. Lacking the requisite pool of funding, inclination and knowledge to build it, Crusoe III promotes this project as a "government-supported" initiative that will "create jobs" among the members of the tribe, and "stimulate" its boat-building industry. Hence this "boat owners' grant" is allegedly "in the public interest."

Among these fair-sounding phrases, two hard questions intrude. The first is "who benefits?" Crusoe omits to mention it, but it hardly escapes the attention of the tribe's elders, that Crusoe will be the boat's primary user and beneficiary. The second question is "who pays?" Perceiving who benefits, the elders agree to the construction of the boat *on condition that an additional tax, to be levied upon Crusoe, will finance it*. He readily agrees: given his high time preference he discounts the present value of the taxes he will have to pay into the indefinite future.

Notice, then, that the costs of this "stimulus" program (namely the taxes levied upon Crusoe III over time) will be at least as great as its benefits. One day the boat will fall into desuetude; but will the additional taxes levied upon Crusoe III in order to finance it ever disappear? More generally, government cannot *create* new economic activity: it can only *redistribute* income and wealth created by the private sector. This redistribution can occur either between different industries at a given point in time, or within a sector across time. *Hence what is seen (the labour and capital required to build this boat) distracts attention from what is unseen (the labour and capital that cannot simultaneously dig a well or mend fences or clear fields).*

Accordingly, the well-digging jobs that are destroyed (or are never born) offset the boat-building jobs that are allegedly created or preserved. Obviously, the result is no net increase of employment. Further, the boat built today is the boat that need not be built tomorrow; accordingly, either the net impact upon the overall number of boats – and boat-building jobs – over time is zero, or else the stimulus program risks creating a glut of boats and a shortage of wells or arable land, etc. Further, because savings do not finance it, this boat building grant does nothing to accumulate capital and thereby reduce Crusoe III's time preference. Quite the contrary: it is a consequence of his pre-existing and already-damaging short-term time horizon. The boat's construction does nothing to cause Crusoe's (or anybody else's) savings to grow. Indeed, given his increased tax burden and continued or even increased consumption, Crusoe's pool of funding – the source of the productive capital goods he requires in order to restore his standard of living to the level enjoyed by his father – will shrink. Government spending, then, does nothing to improve Crusoe III's fortunes, and over time will worsen them (see also Nineteen Neglected Consequences of Income Redistribution by Robert Higgs, Short-Term Fixes Help Nobody in the Long Run by Stephen Kirchner, and It's All Down to the Market).

Attribute #2: The State's Fetish for Infrastructure Spending

Given his high time preference, Crusoe envisages the boat as a consumer good (i.e., a means of travelling to the neighbouring island and resuming his carousing) and not as a capital good (i.e., a means of catching more fish and replenishing his pool of funding). Crusoe could conceivably use the boat as a capital good. Alas, he has forgotten or never learnt much of what his father knew about fishing. Not only has he imperfect technical knowledge about how to catch: his tacit know-ledge about which fish can be caught at which place and at which time of the day or night is sorely lacking.

Accordingly, even if it were utilised as a capital good the boat would not be very productive in Crusoe III's hands. In this respect it is likely that the boat will be bigger, more lavish, etc., than the boat built by Crusoe I for the purpose of capital accumulation. *Government "infrastructure investment", then, is consumption and not investment; and to the very limited and infrequent extent that it might be construed as investment it is wasteful investment.*[28] What politicians invariably laud as "investments," in other words, consume rather than create capital. Why, then, should Kevin Rudd's boondoggles meet a fate different from John Howard's?[29]

It is worth emphasising, whilst reflecting upon the sorry state of contemporary public policy and the fallacious thinking that underlies it, not only that little of value has been learnt in recent decades: even worse, much of great value bequeathed to us by our forebears has been unlearnt, repudiated and consigned to the dustbin. According to John Stuart Mill's *Essays On Some Unsettled Questions of Political Economy* (1844), for example,

> The utility of government expenditure for the purpose of encouraging industry is no longer maintained. Taxes are not now esteemed to be like the dews of heaven, which return in prolific showers. It is no longer supposed that you

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[28] Almost a decade ago, the $1.3 billion Adelaide to Darwin rail project, for example, a boondoggle that no previous Commonwealth government – not even Gough Whitlam's! – had ever been willing to underwrite, received $200 million of direct support from Canberra and more from South Australia; Rio Tinto's $1.5 billion aluminium refinery in central Queensland received a $137 million interest-free loan from the Commonwealth and $150 million from the Queensland Government; Australian Magnesium Corp.'s $1.3 billion plant, also in central Queensland, secured at least $250 million of government loan guarantees; the Commonwealth extended $356 million of support to the $1.5 billion Western Sydney Orbital Road, and on and on.

These projects were not investments: they were malinvestments. From 2003 to 2005, the capitalisation of Australian Magnesium Corp., plunged by 95% and the company (now called Advanced Magnesium Ltd) nearly collapsed into administration. The construction of the Adelaide to Darwin railway commenced in July 2001 and concluded in September 2003. The first train reached Darwin in January 2004. Alas, these trains failed to generate a profit. Hence Freightlink, the owner of the railway, resolved in May 2008 to sell it. But it was unable to reach agreement with creditors on the terms of a sale, and in November 2008 Freightlink entered voluntary administration.

[29] Despite one report after another exposing the profligacy and waste of the Commonwealth Government's military procurements, people continue to imagine that it can manage infrastructure projects. Alan Wood (*The Australian*, 15 April 2008) begs to differ: "the history of Australian governments' attempts to manage the provision of the nation's infrastructure is not a happy one … When Aus-trailing politicians talk of nation-building and drag in the Snowy Mountains Scheme, taxpayers are well-advised to hang on to their wallets, because another great waste of public money is usually in the offing." So does Michael Costello ("Canberra's Castles in the Air," *The Australian*, 13 February 2009). "For political reasons, governments favour mega-projects with dubious cost-benefit assumptions [or, lately, no CBA at all!] that have a tendency to become white elephants very quickly."

> benefit the producer by taking his money, provided that you give it to him again in exchange for his goods. There is nothing [to commend the doctrine] that the more you take from the pockets of the people to spend on your own pleasures, the richer they grow; that the man who steals money out of a shop, provided that he expends it all again at the same shop, is a public benefactor to the tradesman whom he robs; and that the same operation, repeated sufficiently often, would make the tradesman a fortune (see also Bastiat Explains Why Government 'Stimulus' Programs are a Scam and a Fraud).

It's embarrassingly simple, and thus derided by the mainstream as "simplistic," but it's true: the money governments spend must come from somewhere, and that "somewhere" is individuals and businesses. A government must raise revenues either via immediate taxation or deferred taxation (i.e., borrowing or inflation). Whatever the method of expropriation, not only does its expenditure create no new wealth: it forecloses the possibility of otherwise creating new wealth.[30]

Attribute #3: The Fetish for Monetary Stimulus (Inflation)

Most Australians are salary earners; earners of wages tend (unless they're unusually disciplined) prefer to consume today rather than invest today and (perhaps) consume more in the indefinite future; and some consumer goods, such as houses in fashionable suburbs, late model motor cars, overseas holidays and the like have high price tags. Hence the pervasive practice of paying a small fraction of their price with current income, acquiring credit and mortgaging the remainder to future income; hence the very high levels of mortgage, motor car and other consumer debt in Australia; and hence the very large numbers of politicians, bureaucrats, academic economists and lobbyists (who tend to be salary earners) who celebrate the creation by government of vast amounts of credit not backed by savings.

This is an innately good thing and also as a means of combating this policy's unintended negative consequences. According to its proponents, the suppression by governments of short-term rates of interest below the rates that would otherwise prevail in the market (thereby scrambling the time preferences of creditors and debtors and confusing the market signals they transmit to one an-other) enables businesses and individuals to incur debt cheaply; this debt, in turn, enables them to purchase goods that they could not otherwise afford; these purchases "create jobs" and encourage spending; and more jobs and spending counteract recession and hasten an eventual return of prosperity. Hence the contention that the creation by government of vast amounts of credit not backed by savings will mitigate (or even forestall) recession and hasten the resumption of good times.

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30 Somebody please tell Poindexter: it's quite possible that, in the final years of his life (he died in 1946) the notoriously-inconsistent Keynes had ceased to be a Keynesian! According to Mario Rizzo, "by the late 1930s, Keynes was NOT an advocate of many of the countercyclical policies being advocated today … [he] did not think that public works expenditure was very effective in countering existing or impending recessions. For one, he believed it was difficult to get the timing right; it would take a long time to plan and execute the appropriate projects (indeed many of the projects would not take effect until the pressing economic problem was inflation and not recession) … [Keynes's] strong but not rigid preference was *against deficit financed public works*" (italics in the original).

Prosperity, Poindexter insists, will return once the government restores the bountiful flow of cheap credit. The opposite is closer to the truth: efforts by governments to encourage or even mandate the provision of artificially cheap credit will weaken the economy and impoverish Australians. Poindexter does not understand that, *just as consumption is a consequence of production, genuine credit is a consequence of real savings*. To see this, imagine a barter-based economy comprising three individuals: a butcher, a baker and a candlestick maker. If the candlestick maker wants bread or steak, he produces candles and trades them. The candle-stick maker always wants food, and he can satisfy his demand for food only if he makes candles. If he does not produce candles, or does not produce enough to sate his appetite, then he goes hungry. *His ability to supply candles, in other words, equals his effective demand for food.* (The mere fact that he desires bread and steak is meaningless.)

Let's now assume what virtually all Australians implicitly assume – namely that that credit can take the place of production – and follow this fallacy (as does Peter Schiff in Obama Puts the Economic Cart before the Horse) to its damaging conclusions. Why produce in order to consume if borrowing can finance your consumption? Suppose the butcher has produced considerably more steak than he can consume on a daily basis. Knowing this, the candlestick maker asks to borrow some steaks from the butcher – some of which he intends to trade to the baker for bread. Notice that in order that his transaction occur, the butcher must first produce steaks which he did not consume – in other words, the butcher must have savings. He then lends his savings to the candlestick maker, who issues the butcher a note promising to repay his debt in the form of candlesticks.

In this economy, the butcher's production of steak enabled the candlestick maker to buy bread, which the baker had to produce. *The fact that the candlestick maker was able to access credit did not increase his demand – that is, his ability to supply – or otherwise bolster the economy. In fact, by using credit instead of candles to finance trade, the economy now has FEWER candles, and the butcher now has FEWER steaks with which to buy bread.* What has happened is that, through his savings, the butcher has lent some of his purchasing power, created by his production, to the candlestick maker, who used it to buy bread.[31] The existence of credit does not *increase* total consumption with-in this community: it merely *temporarily alters* the way consumption is distributed. The only way that aggregate consumption can increase is for the production of candlesticks, steak, and bread to increase.

Genuine (i.e., savings-based) credit can beget genuine growth. Let us say that the candlestick maker borrows bread and steak for sustenance and, rather than produce candles, improves the productive capacity of his candlestick-making equipment. If successful, he can repay his loans with interest from his increased production, and everybody benefit from the greater productivity. *The under-consumption of the butcher*

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31 Similarly, the candlestick maker could have offered "IOU candlesticks" directly to the baker. Again, the transaction could only be successful if the baker actually baked bread that he did not consume and was therefore able to lend his savings to the candlestick maker. Since he lent his bread to the candlestick maker, he can no longer trade that bread to the butcher for steak.

and baker enables savings to accumulate, which were then lent to the candlestick maker to finance capital investments. Had the butcher and baker consumed all their production, no savings would have accumulated and no credit would have been available to the candlestick maker, thus depriving society of the increased productivity. On the other hand, had the candlestick maker merely borrowed bread and steak to sustain himself while taking a break from candlestick making, society would gain nothing and there would be a good chance the candlestick maker would default on the loan. *In this case, the extension of consumer credit squanders savings which are now no longer available to finance other capital investments.*

What would happen if a natural disaster destroyed all of the equipment used to make candlesticks, bread and steak? Poindexter and his ilk would "stimulate" the economy by handing out pieces of paper called money and guaranteeing loans to whoever wants to consume. Would these pieces of paper cause goods magically to appear? The mere introduction of paper money into this economy only increases the ability of the butcher, baker, and candlestick maker to bid up prices once goods are actually produced again. The only way to restore actual prosperity is to repair the destroyed equipment and start producing again.

Over the decades, governments' poor policies stimulated consumption and discouraged savings, entrepreneurship and production. Today, binge economic policy ("stimulus") is magnifying these damaging effects. "Injecting" ever-larger amounts of phony credit will do nothing except decrease purchasing power. It will raise the prices of goods and services, but will not cause the production of more goods and services. Australians must accept basic truths: production under-pins consumption and savings underpins credit. Yet Poindexter encourages us believe, in effect, that we can relax all day relaxing whilst cheap and plentiful credit works for us. The problem comes when we rise from our idleness, go to the dinner table and see that the only thing on our plate is an IOU for a steak.

Attribute # 4: The Denigration of Savings

Classical and Austrian School economists showed that a policy of savings that advantages one individual also advantages other individuals. Part and parcel of the eclipse from the mainstream of classical and Austrian School economics is the glorification of consumer and government expenditure. This deification, whether through fiscal or monetary stimulus or other means, manifests itself in a denigration of private savings. Lord Keynes did not commence this scorn, but his *General Theory of Employment, Interest and Money* (1936) both cloaked it in theoretical garb and did much to popularise it. Accordingly, most contemporary economists allege the existence of a paradox of thrift. In the words of William Baumol and Alan Blinder (*Economics: Principles and Policy*, 1988), "while savings may pave the road to riches for an individual, if the nation as a whole decides to save more, the result may be a recession and poverty for all." This vilification of saving regularly appears in the popular press. According to Martin Crutsinger, for example (Households Stashing Their Cash, But More Spending Would Help Economy, Associated Press, 27 June 2009),

> Households pushed their savings rate to the highest level in more than 15 years in May as a big boost in incomes from the government's stimulus program was devoted more to bolstering nest eggs than increased spending. The higher savings rate is healthy in the long term, economists said. But without vigorous consumer spending, the government may have to do more to revive the economy, possibly through further tax breaks and spending.

"This," according to Karen De Coster, "is the idiot line we are given: that saving, while necessary in the long run, is bad in the short run. When does the long run arrive? We are never told. Nor is there any explanation of how spending [everything] you have or can borrow, and everyone else doing so, is the way to wealth versus bankruptcy. Thank goodness people are no longer being fooled by the Fed, at least in this correction. But savings are still way too low. We need Japanese and Chinese levels: 20%, 30%, 40%. Sound economics as well as self-interest dictate that we save every penny we can, and pay no attention to Keynesians."

Attribute # 5: The Fetish about Technology and Productivity

Time preference, savings and the pool of funding are necessary conditions for entrepreneurial experimentation and hence of capital accumulation. Technology, then, is an "intervening variable" whose depth and breadth is to some extent explained by savings and the pool of funding and which in turn helps to explain the depth, breadth and structure of capital. Accordingly, technology is not (as is usually assumed) an exogenous variable with a life and importance of its own.

Confusion with respect to the role of technology arises because it is seldom recognised that there will always be superior inventions, productive techniques, etc., that are available "on the shelf" but unused by entrepreneurs. This is because the supply of savings is far more finite than the number of inventions and techniques. If the demand for savings outstrips the demand for new knowledge, as it must, then the imputed market value of savings will exceed that of technology.

It is the present structure of capital goods that determines which of the various "on the shelf" techniques (i.e., those that are known but not used) are likely to be taken "off the shelf" and put into use. A demonstrably-superior technique may well not be utilised because the opportunity cost of the plant and equipment it requires is prohibitively high. It is thus the generally-higher opportunity cost of to-be-created capital goods vis-à-vis already-existing capital goods that prevents entrepreneurs and investors from removing inventions and more productive techniques from the "shelf" in a willy-nilly manner. On the other hand, the expectation that much higher profits will be derived from new plant, new location, etc., will increase the demand for inventions and techniques.

This conception of the structure of production, which stresses the time preference of buyers and sellers and creditors and debtors, the knowledge-generating functions of markets and the intricate linkages between capital goods, thus accords a much more modest role to technology than does the conventional wisdom. The received wisdom ignores the complexity of capital and gives us the "knowledge class" of salaried scientists, technicians, managers, etc. This class requires massive subsidies. Like most public sector expenditure, and as detailed in Terence Kealey's outstanding book *The Economic Laws of Scientific Research* (Macmillan, 1997), this class and its views about technology breed bureaucracy, per-varsity and profligacy.

You Bought It, Now You Wear It

From this analysis emerge three grim conclusions. First, not surprisingly (he makes no attempt to hide it) Kevin Rudd is a Keynesian. Hence a point that Henry Hazlitt made about John Meynard Keynes's *The General Theory of Employment, Interest and Money* also applies to Rudd's articles – and to his economic ideas more generally Hazlitt concluded "I have been unable to find in it a single import-ant doctrine that is both true and original. What is original in the book is not true; and what is true is not original. In fact, even much that is fallacious in the book is not original, but can be found in a score of previous writers."

Keynes was influential not because he made any sense, but because he told politicians precisely what they wanted to hear: namely, that they were a *sine qua non* of stability and prosperity. The fact that they are nothing of the sort – that in fact they invariably foment volatility and costly mishaps – seems to trouble very few people. Keynes anointed politicians as benefactors of consumption and as guardians of employment; he clothed their armed robbery in the garb of civic virtue; and above all he commanded them to do what the typical politician always strives to do – spend, spend and spend, which means expropriate, confiscate and steal.

Second, Poindexter may be a political genius, but so what? He and his henchmen may well destroy everyone and everything that the Liberal-National coalition throws at him,[32] but – no matter how hard he tries – he can neither ignore nor countermand the laws of economics. Poindexter may, for all I know, be a successful (in terms of longevity of tenure) PM; but his policies, like all interventionist policies, will inevitably fail to achieve their objectives. Equally inescapably, they will also spawn myriad unintended and costly consequences. The point is not whether, as he claimed during the 2007 election, he's an "economic conservative" – the point is that he's clearly an economic illiterate.

Since March of this year, astonishing naïveté about government intervention in general (and improbable expectations about the effects of massive handouts to consumers and bailouts of laggard businesses in particular) have created what I believe is a false dawn. Having declared that their policies of binge economics have achieved their intended results, governments are now allegedly pondering "exit strategies" – that is, when and how to stem the torrent of stimulus. Alas, the

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32 In fairness to Rudd, all Australians should acknowledge (I certainly do) his signal achievements and contributions: namely terminating the political careers of the evil John Howard and the idiotic Brendan Nelson, and (at least for the moment) spiking the guns of the pompous Malcolm Turnbull. Now what the country needs is some patriot who sends Poindexter packing …

narcotic of dependence upon the state is easy to inject but very difficult to with-draw. Using another analogy, after the most recent alcoholic binge – designed to delay the hangover from earlier binges – will come an even bigger hangover. What happens when the superficial "stimulus" fades and the underlying reality resurfaces? When its inflationary consequences become apparent? And who'll reverse the deficits and repay the debt? One day, Australians will understand the horrific cost of Poindexterism. Well before then, the realistic dejection that a rerun of the 1970s is in the cards will replace the euphoria that a repetition of the 1930s has been avoided. And it'll all be for naught: very few Australians realise that the losses sustained in stock and bond markets in the 1970s were more severe and extended than those suffered in the 1930s.

Thirdly, politicians, bureaucrats, academics and others stridently insist that there is, but the plight of growing numbers of Australians demonstrates that there is nothing automatic about the maintenance of gilded living standards. Crusoe III's incomprehension about the cause of his plight (i.e., high time preference, poor savings, depleted pool of funding and decadent lifestyle), together with his demand for and the government's supply of fiscal and monetary actions that over time will worsen that plight, also indicate that an accurate diagnosis of and treatment for The Distemper of Our Times will take a very long time.

The remedy is easy to understand but difficult to implement: Poindexter, Crusoe III and their legions of followers must abandon their state- and expenditure-centric mentality, and embrace the Robinson Crusoe Ethic. If they did, the prices of goods, services, financial assets and labour would decrease, consumption (particularly debt-financed consumption) and borrowing would fall, and saving and entrepreneurship (as opposed to rent-seeking and corporate welfare) would re-bound. At the moment, real changes such as these are difficult to envisage. Hence an irony lies at the heart of The Distemper of Our Times. Despite their fictional status, isolated existence and unfashionable habits and attitudes, Crusoes I and II clearly live in the real world and conform to natural and economic law; in sharp contrast, and precisely because they adhere slavishly to modern mores, Crusoe III, Australia's political and economic mainstream inhabit Fantasy Island.

Chris Leithner