



## Episode 821: Learn Economics from the Master – Painlessly

Guest: Shawn Ritenour

**WOODS:** All right, listen to me. This book here, *The Mises Reader*, it fills a huge gap. I have always said that I don't really know what to recommend to people to read by Mises, because either *Human Action* is too much as your first book, or some of his other books, like *Economic Policy: Thoughts for Today and Tomorrow*, I think are so simple as to also be unhelpful. Where is that intermediate-level text by Mises? Hard to find. I'm not sure it exists. So I basically despaired. I just say, Well, become an expert by reading Rothbard and others, and eventually you'll work your way up to Mises. Now you can finally jump in and read a satisfying Mises book. I really mean it. We couldn't have done this before. So congratulations. Did you feel the same way?

**RITENOUR:** Oh, you're too kind. But I would say, in a way, yes. Often people have asked me that question, and it is sort of a dilemma, because I've found that Mises is different than Rothbard. Rothbard, he had a tremendous volume of sort of popular articles that had enough sort of universal economic content. They weren't so tied to the contemporary period that you could point people in that direction. But Mises, it was pretty much sort of the, shall we say for lack of a better word, the sort of timeless economic theory were in these large, great works. And then a lot of his more popular-oriented stuff was actually pretty, I found at least, particular to the circumstances in which he wrote, which made it not always transferrable across time and place.

And so yeah, when Lew Rockwell asked me to edit this volume, I thought what a great opportunity. And it's funny; I should have known this, but one of the great side benefits, however, in preparing this volume, *The Mises Reader*, was just another great excuse to go back and reread classic works of Mises. And I'm just reminded once again what a tremendous intellectual giant and economist he was.

**WOODS:** So you chose all these selections yourself.

**RITENOUR:** That is correct, yes.

**WOODS:** All right, you look at the table of contents, and if you listen to this show and you look at that table of contents, you will not be able to resist reading this. You just won't. I mean, everything's on there. Economic calculation, profit and loss, the nature of money, monetary theory and policy, the interest rate, the business cycle, wages, labor productivity, unemployment, Keynes and Keynesianism, economic method. It's all there. It's really great.

All right, so I want to now go through some of these topics. I've talked about economic calculation on the show a number of times, and I think probably a good chunk of listeners know what that's all about. And if not, I will link to economic calculation episodes at [TomWoods.com/821](http://TomWoods.com/821). So let's skip that. Let's start with the nature of money, which I think a lot of listeners also know about, but I want you to tell me what makes Mises different from economists of his day and economists since his day when it comes to the nature of money.

**RITENOUR:** Well, I would say more than anything – and this is in some sense true of Mises in general – is when he's talking about something, Mises has very – well, I would say no interest – in theorizing about something related to economics in the pure abstract, disconnected from the reality of the nature of the thing. And so when he talks about money, he views money first and foremost – Well, he sees money for what it is, which is a medium of exchange, yes, but also then because of his understanding, building on Menger and how money came about, he understands that money is not something that was just sort of created out of thin air, but that money is a commodity. It is an economic good. And so all of the laws of economics that apply to every other economic good, to consumer goods – to Coca-Colas to laptops and what have you – and also to producer goods – tools, machines, capital goods, land, and labor – all the economic laws that apply to all of those goods also apply to money.

And so that has tremendous implications for monetary policy, because once you understand that money is an economic good, the law of marginal utility applies to it, so if we just start cranking out monetary units or creating more and more money out of thin air, which the central banks including the Federal Reserve are wont to do, then the value of the marginal unit is going to be less. And of course there have been many cases in history, Mises lived through some, where the central banks just devalued money into oblivion through hyperinflation. And so a number of mainstream economists have recognized some of this, but the thing that makes Mises unique is recognizing what money actually is, and therefore understands how to connect it to the broader economic theory.

**WOODS:** So what kind of practical policy implications does something as theoretical as the nature of money have?

**RITENOUR:** Well, for one thing it tells us that people will only use money in some sense if they're willing to use it. In other words, money can't be foisted upon – something that doesn't have any purchasing power can't be foisted upon a populace. People have to be willing to use it. One example I use in class: every time the government every now and then decides they want to create a dollar coin. I remember when, years ago it was a Susan B. Anthony dollar, and then it was the Sacagawea dollar. And they spent gobs of money, the government did – that's a technical economic term, by the way, "gobs."

**WOODS:** Yes.

**RITENOUR:** They spent lots of money promoting this, but people just didn't want to use it, and so you just don't see them in circulation. And so people will only use, in some sense, what they want to use. And so that fact tell us that money as an

institution is not something that's created by the state, and therefore the state cannot just simply sort of whip up money or a different type of money and say, "Hey, kids, let's just use this," unless people have a reason for doing so.

And then in terms of the money that people are using, what it means is that if the government decides to create more and more and more monetary units and they create more monetary units, more dollars than people actually want to hold, people will discourage this, they will spend it, because they're always constantly comparing the value of one economic good to another. And so you're comparing the value of your dollar to the value of something else you can buy for it. As you accumulate more dollars and you have an excess supply of that money, they'll spend it, driving up prices of consumer and producer goods and decreasing the purchasing power of the dollar.

And so that of course communicates a little bit about the dangers of inflation, but then on the other hand the fact that Mises recognizes that money is a medium of exchange and not itself a producer or a consumer good also tells us that we can't sort of inflate our way to prosperity. Creating more dollars does not create more land, labor, or capital goods, and since you're not creating more land, labor, and capital goods, creating more dollars is not going to create more consumer goods. And so we cannot inflate our way to prosperity.

**WOODS:** Let's stop for just a minute to ask just a structural question about the book. What are your main sources for these different texts of Mises? Are you drawing some from *Human Action* and some from his articles and some from his other books? Where is this primarily coming from?

**RITENOUR:** Yes, it's primarily — I won't say even primarily. There are a lot of selections from *Human Action*, but I have material in the book from what I'd say are his main scholarly works and then a number of his essays. For instance, I do have selections from *Human Action*, from *Theory of Money and Credit*, from *Socialism*, from his methodological work *Theory and History*. I include part of his essay "Profit and Loss." I include the essay on the non-neutrality of money. Then at the same time, I include some shorter works and also some more popular works. I include a selection from *Anti-Capitalistic Mentality*. I include at least two or three of the essays from that volume you mentioned, *Economic Policy: Thoughts for Tomorrow and Today*. I include a couple of lectures from that. I include some of the essays that were collected in a volume called *Planning for Freedom and Other Essays* that are more introductory in nature.

And so it really is an attempt to provide readers both, number one, just a good introduction to the basics of Mises' thought, drawing from excerpts from his great works that might be pretty daunting to just jump into, but then also intermingling with them some of his shorter, more introductory essays that communicate similar ideas. And so it's an attempt to make Mises more accessible, but then also point the way to his more technical works by drawing on that very thing.

**WOODS:** Right, and it's not like *Human Action* is just completely impenetrable and incomprehensible to somebody. It absolutely isn't, especially if you read the section on labor; it's very, very straightforward. But it's a long slog for some people to get to that point, and so it's good.

**RITENOUR:** That's right. I would say that – I mean, my first book that I ever started to read by Mises was *Human Action*. That was the first book by Mises I ever bought. I talk a little bit about that in the introduction. It was through the Conservative Book Club that I got *Human Action*, and I started reading it, and that book sort of – I remember reading that Mises once said he read Menger's *Principles of Economics*, and that's what made him an economist. Well, Mises' *Human Action* is what did it for me.

I started reading that book, but it took me off and on over the course of – I want to say it was several years before I read the last word on the last page. I'd pick it up, read it, have to set it down and chew on it; then I'd pick it up and read it. And this is while I was in college. And intermingling that reading with some shorter essays that was in a book that was also at a college library, that's what really got me going. So from the beginning I sort of recognized this tension, but yeah, I mean, nobody should have the idea that, Well, I just can't understand *Human Action*; I just have to leave that to the specialists. That's just not true. I encourage everybody to pick up a copy of *Human Action* and just dive in and see what they think.

**WOODS:** Of course you can also be helped by that free study guide to it that Bob Murphy prepared –

**RITENOUR:** Oh yeah.

**WOODS:** – and that can help you through any difficulties you may have.

All right, let's go back to this, because there is a section in here on Keynes and Keynesianism. And I always felt – I'll say this because we're among friends here. But I always felt that we should have expected Mises to write more about Keynes. Like, there has been criticism of Hayek that he didn't write a full-blown critique of Keynes, but you know, Mises was a spring chicken at the time. And I see some references to Keynes here and there; I see a popular essay here and there on Keynes. But a really technical takedown of Keynes I don't find in Mises. Now, first of all, am I wrong about that? And secondly, what are the key points against Keynesianism he's making in this collection of yours?

**RITENOUR:** Well, that's a good point. I've always sort of felt that way. You would like, for instance, in some type of later work or an essay where he talks about the economics of Keynes and Keynesianism and just sort of lays it all out and smashes it. But I think that Mises speaks against what we would call Keynesianism in various aspects, speaking of specific types of policy in general. For instance, all of his work on inflationism and the business cycle speaks against Keynesianism. All of his work on the destructive nature of interventionism through income redistribution all speaks against Keynesianism without going after Keynes' theory in particular.

So I think in some ways, when you read it you almost get the impression that Mises is in a way kind of baffled that so many people would take this so seriously, that they would take Keynes so seriously. If you read "Lord Keynes and Say's Law" or "Stones into Bread: The Keynesian Miracle," which are the two more popular essays that I include in this volume, he speaks to the core of Keynes' problem, which is the idea that we can essentially abolish scarcity by creating more money. He sort of shows how fallacious that is, but as you read it I just get the impression that he just is – in some sense that

he was shocked in a way that, perhaps not the masses, but certainly that people that called themselves economists would be led astray by this.

**WOODS:** I like your answer about Keynes and Mises, in that Mises doesn't necessarily write a full-blown response, but the response is really to be found in his commentary on a wide variety of subjects. Implicitly it's there.

**RITENOUR:** Yes.

**WOODS:** He does have a section, in fact, in this book, *The Mises Reader*, that you've prepared on contracyclical or countercyclical economic policy, which is also a response to Keynes. And I'd like you to take a minute to talk about that, because that's an area that is never probably going to go away. I mean, if you look back at *Economics in One Lesson*, by Hazlitt, there are some arguments in there that he's dealing with that are a little dated today. But countercyclical economic policy carried out by governments and central banks, unfortunately it doesn't seem like it's ever going to be dated, so let's talk about that.

**RITENOUR:** Right, well, so the idea of countercyclical policy is the idea that either we can prevent recessions or we can cure recessions by doing the right policies to counteract the recession. So for instance, if we've got an economy that is approaching the doldrums or is in the doldrums, the ideas of course, the conventional Keynesian understanding of this is we've got insufficient aggregate demand. We don't have enough people spending enough money on goods, and so the demand for those goods are flagging, the prices of those goods then fall a little bit, and that causes low profits, and people have to be laid off, and all these bad things happen. And so that's a problem.

Well, how do you fix that? Well, the Keynesian approach – and I must say it's not just limited to Keynes. The monetarists are like this too: we need to stimulate spending somehow. To prevent recessions, we need to keep spending at an adequate level. If we're in the recession we need to boost spending. And so typically it comes out through increases in the money supply. An increase in the money supply is going to encourage people to spend more money on consumer goods in households. It's going to encourage more businesses to invest in more equipment and land and labor, etc., etc., and that increased spending will get us out of the recession.

Now, if there's a case of we created more money but people wanted to hold on to money because in Keynes' mind they're so shook up they don't want to invest, that's when the government then, in their mind, has to step in, and they need to increase government spending. I remember back in 2008 or '09, once the meltdown hit, I think it was Paul Krugman said, Look, right now somebody needs to spend beyond their means, and right now it has to be government. And Paul Krugman never met a deficit-spent dollar he doesn't like. So that's sort of the argument.

Now, Mises' point is something that goes beyond saying, Look, this doesn't work because what we need is sound economic investment, and, as I said, just increasing the money supply doesn't create more wealth. And that's all true. But Mises makes a fundamental point that, Look, the reason we have a recession is because of mistakes and malinvestment in the past. People were led astray en masse. Entrepreneurs were

led astray en masse to invest in the wrong things. And we cannot undo those wrong investments simply by triggering another round of malinvestment.

In other words, if there are businesses that are in trouble because they forecast incorrectly, and therefore the price that they can sell their products for is lower than what they anticipated, we can't simply write that by creating more money in general. We have absolutely no reason to believe that if we create more money in general then the new dollars are going to be spent in precisely those industries where there were malinvestments to begin with.

And on top of all of this, the problem remains for Mises that the capital goods and economic factors of production are scarce resources. And so we don't get more of these resources just by creating more money, and therefore, if we're in a recession because resources were directed to the wrong parts of the economy, some of those resources are sunk. Some capital goods are so specific that they can't just easily be transferred. Well, we don't get those back just by creating more money. There has to be actual savings and investment and accumulation of more capital, and all of that requires entrepreneurs using market prices to calculate effectively. And that whole economic calculation problem that you mentioned before, that is hampered by further government intervention. So these countercyclical policies, not only do they not even not help the problem, they make everything worse.

**WOODS:** Shawn, let's take a minute to talk a little bit about economic method. I don't want it to be the whole episode, just a bit. Just one question. Because that is one of the things that distinguishes Mises, not only from other, let's say, 20th century economists – it doesn't distinguish him, by the way, from a lot of the great 19th century economists who would totally have agreed with him on this –

**RITENOUR:** Sure.

**WOODS:** – but it distinguishes him from them and even from other Austrian economists, some of whom view his methodological explorations as something of an embarrassment – you know, the crazy old uncle you've got to keep hidden in some other part of the house.

**RITENOUR:** (laughing) That's right. I hope that he stays quiet when guests come.

**WOODS:** Yeah, exactly. But I find his stuff on this absolutely great, and I find your colleague Jeff Herbener's defense of it to be totally persuasive.

**RITENOUR:** Yeah.

**WOODS:** I like it a lot. So I want to talk about it, because I think a lot of people who listen to this show who may not have read a whole lot of Mises, what they have heard is that Mises derives economics from human action. And that just sounds like a nothing statement. Like, what does that even mean?

**RITENOUR:** Yeah.

**WOODS:** So tell us what that does mean and why that is significant.

**RITENOUR:** Well, I tell you, it's significant at least in my life, because that was the main thing that made me see Mises as so compelling. When I was in college I had no idea what I was going to do with my life. I took an econ class, because I thought I might want to do something in business, and I immediately loved economics. It was a microeconomics class. I immediately loved the nature of the class. But the one thing that started nagging me in the back of my mind was, okay, this is interesting, we're talking about interesting things; however, these models, are they really reflective of how things are, or are they just sort of constructions based on some arbitrary assumptions?

Well, thankfully I bought Mises' *Human Action*; I began reading, and his beginning with realistic human action – not sort of hypothetical, ideal human action, but real human action – really opened the door to my understanding of the nature of economics and saying yes, this really is real. It is something worthy of devoting your life to studying. Because what human action is is essentially just purposeful behavior. It's the application of certain means to achieve certain ends according to the ideas that the actor has. That's what action is, and that's all it is.

And when you understand that that is the nature of action, that then shows you that, okay, these economic concepts such as value, for instance, they're not artificial constructs. When you go to decide what am I going to do for the next hour, there's a host of things you can do for the next hour, so you have to choose. And when you choose you are acting based on, Okay, I want to do this rather than that. So you immediately make a preference, and so the concept of economic value, of economic cost, of profit and loss, those are all concepts that are bound up in the nature of human action. They're not things that we just sort of arrive at through artificial and arbitrary assumptions.

And another thing that is understanding that economics is rooted in human action is that it's common to all people. Every human engages in purposeful behavior, and so that means the laws of economics that are derived from this premise, these are universal laws. That's one thing that Mises said again and again. We don't have, say, one type of economics for the bourgeois and another type of economics for the proletariat. We don't have one type of economics for men and one for women. We don't have –

**WOODS:** Or for that matter, one type for Germans and one type for other people. That was the debate with the German historical school.

**RITENOUR:** Exactly. Exactly, right. You can't say, Oh, well, of course you think that, because you're reading Ricardo, who was in Manchester in 1810 or whatever. This is Prussia, and it's the 1890s; get with it, man. Well, no. The laws of economics are indeed economic laws. And so that to me was crucial in convincing me that economics is something worthy of study. It's not just an intellectual game. It's not just sort of fun for solving puzzles at cocktail parties. It's not something that just allows us to feel "with it" and hip. It's something that is reflective of the way things are in reality. And what that means of course is if we try to and persist in creating policies that want to

violate economic law, it's like kicking against the goads. It's like banging your head against a wall. And the sooner we recognize this, the better off we will all be.

**WOODS:** What would Mises say to the kind of response we get from a lot of people that his approach simply makes you dogmatic? There's no way to reason with Mises, because he can say, Well, it's human action, and I've derived this and that, so I don't need to look at empirical data. I already know in my ivory tower how the world works. We hear this kind of criticism a lot, that this violates the scientific method, so-called.

**RITENOUR:** Right, yeah, for sure; you do hear that a lot. I would say that I understand sort of the nature of that criticism, but I think what Mises would say: well, no, if I've made an error in my reasoning, show me. I mean, Mises was never dogmatic in the sense that "just because I say it, therefore it's true," "thus saith Mises." He was one to say no, we know that this is what action is like, and then these are the logical implications. Now, he'd say look, if I've made an error in my work, show me. And so we can talk about that. We can try to point to areas in, and you can look at anomalies in the economy where things don't seem to be the way we might expect based on our received understanding of economics. Well, that might be a reason to go back and look at our arguments. Have we not accounted for something in our arguments?

On the other hand, it's actually the opposite. It's actually because Mises roots his economics in reality of true human action, his economics and the economics of the Austrian tradition is the most realistic, the most relevant economics for the real world. It's the one that helps us truly understand what actually is happening in economic history. It allows us to actually do true, good economic history and actually explain why did things happen the way they happened.

**WOODS:** There's another criticism that's been made of Mises, and frankly, I'm not sure how to defend him or if he can be defended on it. You know his argument about middle-of-the-road policy leads to socialism, he argues that there are really only two stable systems – really, there's only one system; there's capitalism, and socialism is ultimately unstable. But the middle-of-the-road policy, where we're going to have some capitalism and some socialism, that is unstable in the sense that it's either going to become all one or all the other, that once you intervene in the economy that leads to problems, which leads to calls for further intervention and further government control, which lead to still further calls until you have an entirely socialized economy.

But isn't it true that most economies in the world in fact are exactly doing precisely the very thing that Mises said was unstable and couldn't last? They are middle-of-the-road.

**RITENOUR:** Yeah, I think that the way to understand this is to sort of understand the nature of Mises' argument. Again, I understand the criticism, and there's a certain amount of sort of face-value validity to it, in a way, but at the same time it's important to recognize I think that Mises was thinking in some sense in terms of logical consequences. In other words, if we want to achieve an economy or a society where people are able to attain the most goods they can to satisfy most of their ends, a society that promotes civilization, etc., etc., we need a free market. We need a free society, so that people can participate in the division of labor, accumulate capital,

engage in entrepreneurship, and entrepreneurs use economic calculation, etc., etc., to really coordinate this social division of labor.

Intervention hampers that, and so he's saying okay, if we want to achieve that end, we can intervene here and there, but it does have all of these negative consequences that you mentioned, and then that does, as sort of – it's not really a praxiological law, but it's sort of a political economic observation, sort of an empirical reality that people call for more and more intervention. I think the history of health care policy in the United States bears this out. The history of banking and banking policy in the United States bears this out, that when there's a problem and the government intervenes to solve this problem, it creates a larger problem, and so people say we need more government regulation, we need more regulation. And so you do have these inroads of hampered economies. And I think Mises is right, that if we continue along these lines, we will end up in sort of a fascist socialist state, sort of a German-style, Nazi-style socialism. So he's right that that's the direction it's tending.

Now, thankfully, at the same time we don't only have people that are panting for more and more government intervention. We have people like Tom Woods, Mises himself, people at the Mises Institute giving reasons for why we don't want higher minimum wages, for instance; we don't want more government inflation. And those ideas have some type of play in the public as well, and so we don't tend to have full-blown socialism. So there's these two forces that are going back and forth.

I think the point that Mises might make is that, okay, yes, we do have continued interventionism, but it's not a stable system in the sense that we get to this certain level of interventionism, and then we can sort of maintain that level of interventionism on into the future, because that's a stable system. No, there's constant fluctuation about the levels of interventionism in a host of different markets and different types of regulation and different types of government macroeconomic policies. There's an ebb and flow. And so in that sense it's not a stable sense. It might be that interventionism will always be with us, but it's not going to be a stable interventionist system.

**WOODS:** Tell me something about the difference between *The Mises Reader* and *The Mises Reader Unabridged*? I like unabridged things, so tell me what I'm getting in that one.

**RITENOUR:** Well, *The Mises Reader* is – When I first was asked to do this project, I just basically went through in my mind what are the areas of Mises' thought that I thought was worthy of having stuff from Mises put in there about. That's a very convoluted sentence; I'm sorry. But what are the topics that need to be included that Mises said something particularly insightful about. Well, it's a big, long list, so I just went through and found the works that were meaningful in my life, some other newer works that I've recently been exposed to, and put them in there.

And then it came out to be the size of *The Mises Reader Unabridged*, which is over 400 pages. And it was decided that it'd be best, for it to be a more accessible volume length, could you cut it down to about 300 pages. And so I thought, Yikes, but I can do that. And then it may have even been at that time; they said, But you know, we're going to have the larger version so that it's going to have everything in it. So

essentially, people can look at it either way. *The Mises Reader Unabridged* has 130 pages of extra material, most of it more scholarly than – In other words, most of the additional material is from his scholarly sources and not so much his introductory sources.

**WOODS:** Now, are both the – I know you can get them all as eBooks. Can you get both of these versions in the print, or is the unabridged one only an eBook? How does that work?

**RITENOUR:** No, I believe you can get both in print.

**WOODS:** Wow, all right. So I have a Kindle, and I use it once in a great while, but I've just never really warmed up to it. I really, really like the physical book. And I know how backward that makes me. Believe me. I understand that. It's just a personal preference. So I'm glad to hear that, because I will enjoy having this on my shelf, without a doubt. So the beautiful thing about this is, for those of you who like the printed edition, you can get that.

**RITENOUR:** Yes.

**WOODS:** But for those of you who just like to get a free book you can get the eBook version for free in PDF and in ePub, and I will link to that on our show notes page, [TomWoods.com/821](http://TomWoods.com/821). You can get the abridged and the unabridged versions for absolutely nothing at all and read it on your device.

**RITENOUR:** That's right.

**WOODS:** That's amazing – which, by the way, is a reason that you should be donating to the Mises Institute. You should be guilty by all of these free books –

**RITENOUR:** That's right.

**WOODS:** – into donating, because it is a tremendous cause. And it's great that you did this. It really, really is great. As I say, I have not known what to recommend by Mises, so generally what I've done is in a very subtle way try to change the subject to other economists they might read until they're ready for Mises. Well, now, basically everybody's ready for Mises, really, so it's great. I'm so glad you did it. The topics are so well chosen. It's organized so well. It's like the step-by-step building of economics the way Mises does is actually carried out in your replication of his thought, so I couldn't be happier about it. Thanks so much, and I hope maybe I'll have a chance to see you in a couple of months at that conference. We'll just have to see if I can make it work. Thanks a lot.

**RITENOUR:** Thank you.