The Errors of Government Economic Policy Analysis:

The Case of Roger Altman and the 2008 Financial Crisis

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Roger Altman published “Globalism in Retreat” in 2009, in which he offers analysis of the 2008 financial crisis, blaming free-markets and globalization as causes of the calamity. This article, despite its age, provides a timeless example of a dangerous tendency in public policy. It demonstrates how policymakers can implement deleterious policies which result in inevitable crisis, and then, they subsequently escape blame by explaining away the crisis with bad analysis and even worse policy suggestions for the future. This paper is composed of three sections. The first analyzes Altman’s position, detailing how a government actor views a crisis. The second presents an alternative theory, namely the Austrian Business Cycle Theory, which explains economic crises more accurately as results of government interventions themselves. The third and final section endeavors to explain how and why government actors like Altman can routinely cause crises, offer faulty explanations that neglect the effects of government actions, and then continue their careers as policy “experts” unscathed.

A Statist View of the 2008 Crisis

The Crisis as Altman Sees it

At the top, Altman reports obvious losses in the financial sector. On US originated assets, at the time of his writing, he reports $1 trillion. He accurately connects the dots between these losses and the subsequent decrease in lending. He thus states the obvious, “losses directly reduce banks’ underlying capital and thus their capacity to lend”, but then, he reverts to repeatedly mistaken interventionist logic, stating, it is such high rates of lending which “support a normal cyclical recovery.”[1] In other words, the best way to help the chronically indebted is to saddle them with more debt, which they can, supposes the interventionist, repay the next time.

Among ordinary Americans, debt surged, with household debt reaching “130 percent of income in 2008.” For American households, he reports a drop of net-worth by 20 percent; whereas, “two-thirds of this reduction involved lower financial asset values, and one-third was tied to home values.” He highlights the general state of profligacy, stating, “debt surged because Americans spent beyond their means” and that consumer spending in the United States represents 70 percent of GDP.[2] So far, so good: The American economy is one of prodigal consumption. Altman blames free-markets, an accusation this paper contests.

Thereafter, says Altman, the crisis spread to Europe and the rest of the world. Experiencing the most damage, according to Altman, in the developing world, “Inflows of investment and financing have plunged, exports are very weak, and commodity prices are way down.” Retracing the policy progression up to the crisis, it becomes clear, Europe’s economy was no more responsible than that of the US, which is to say, unhealthy and debt-ridden. Daniel Lacalle writes, “the balance sheet of the European Central Bank had doubled between 2001 and

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[1] Roger C. Altman, “Globalization in Retreat,” *Foreign Affairs* 88, no. 4 (Jul/Aug 2009): 2-0_5, https://go.openathens.net/redirector/liberty.edu?url=https://www.proquest.com/magazines/globalization-retreat/docview/214286568/se-2, 3.

[2] Ibid., 3.

2008."[3] Central banks seem to be making recurring appearances in the cast of characters—coincidence? Altman does not seem to be perturbed.

In this aftermath, Western governments began scurrying to piece together the wreckage and refuse, cracking open their policy toolboxes, and hammering their economies into shape with stimulus. Together, they fell, and together, they would (attempt to) rise. The American response, spearheaded by the Federal Reserve, along with the Treasury Department and FDIC provided $13 trillion. Whereas, in Europe, recovery measures were smaller, as Altman writes "The comparable figure for overall credit support is 115 billion euros of capital injection for banks and 217 billion euros of funding guarantees—a fraction of what Washington has spent."[4]

The China Non-Sequitur

Toward the end of his article, Altman praises the Chinese economic model, saying, "Beijing's unique capitalist-communist model appears to be helping China through this crisis effectively."[5] This is concerning, to say the least. The simple fact is this: China is not wealthy. It was not when Altman was writing over a decade ago, and it is not now. This is because wealth is not a statistic, but actual material abundance—something the Chinese do not have.

China's claims to have "eradicated poverty" are attributable to, as even the progressive Brookings Institution admits, "lowering welfare standards to puff up its own performance."[6] Altman's predictions were proven false as the years rolled past. *The Economist* reported in 2016, "Its [China's] debt-to-GDP ratio has soared from 150% to nearly 260% over a decade, the kind of surge that is usually followed by a financial bust or an abrupt slowdown."[7] Furthermore, China's economy is a disaster beyond compare and nothing to admire.

Economic Crises in Reality: Theory, History, and Practice

Theory: The Explanation which Altman will not Accept

Altman seems to take for granted that there are in fact explanations for cyclical booms and busts, business cycle theory. Merely attributing them to globalization and free-markets is akin to attributing traffic accidents to the existence of automobiles, while ignoring any other obvious factors, which if removed, *ceteris paribus*, would eliminate such traffic accidents, say, a deer crossing the road, for example. And just as an antler lodged in body of a wrecked car serves

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[3] Daniel Lacalle, "Why the European Recovery Plan Will Likely Fail," *Mises Institute*, June 16, 2020, https://mises.org/wire/why-european-recovery-plan-will-likely-fail.

[4] Roger C. Altman, "Globalization in Retreat," *Foreign Affairs* 88, no. 4 (Jul/Aug 2009): 2-0_5, https://go.openathens.net/redirector/liberty.edu?url=https://www.proquest.com/magazines/globalization-retreat/docview/214286568/se-2, 4.

[5] Ibid., 7.

[6] Indermit Gill, **"**Deep-sixing poverty in China," *Brookings Institution*, January 25, 2020, https://www.brookings.edu/articles/deep-sixing-poverty-in-china/.

[7] "China's Financial System; the Coming Debt Bust," *The Economist* 419, no. 8988, May 07, 2016, https://go.openathens.net/redirector/liberty.edu?url=https://www.proquest.com/magazines/chinas-financial-system-coming-debt-bust/docview/1787204117/se-2.

as a fair indicator of what happened, so too do economic booms and busts offer clues as to their cause. In light of earlier classical economic theories, an explanation must answer several questions accounting for distinct features of the business cycle, namely, as Murray Rothbard writes, "Why the sudden cluster of business error, the sudden failure of the entrepreneurial function, and why the vastly greater fluctuations in the producers' goods than in the consumers' goods industries?"[8] When taking these under consideration, a theory unfolds where the culprit is not the free-market, but rather, state intervention.

A pure free-market always tends toward equilibrium, and in this way, it is self-regulating. More specifically, as supply and demand fluctuate, prices convey that information and market actors act accordingly. If the supply of a good decreases, its price rises, signaling there is less of it to be consumed. Whereas, when the demand increases, the higher price sends a message to producers, to produce more of it, to meet consumer demand. These economic laws govern the marketplace, and policymakers that ignore natural laws such as these should expect similar results to those of any other profession. If an architect attempts to ignore the laws of gravity, there will be collapse. The economy works in a similar way.

No market phenomena are exempt from the laws, including money itself. Interest rates are, essentially, the prices of money. Rates are not arbitrary; instead, they are condensed information about the state of the entire market economy. Naturally, individuals prefer present consumption as opposed to the same consumption in the future. Lenders, however, are required to forgo present consumption, while their resources are employed by someone else, and must thus, be compensated, or else they will not lend. The determining factor in lending is called "time preference." Those who strongly prefer present consumption have a *high* time preference; whereas, those who are willing to delay satisfaction to the future have *low* time preferences.

In the free-market, when there is a general drop in time preferences, and people are saving, this is reflected in the interest rate. Since there is an increased supply of money to be lent, the interest rate naturally falls. Seeing these price signals, borrowers receive the message: there is enough capital in the economy to undertake more expensive projects, which would otherwise be rightly considered unprofitable. Production is not a homogeneous concept; rather, the structure of production is layered, and can be divided into *higher order* and *lower order* goods. At the very bottom, the lowest order, are consumer goods, and at the top, the highest order, are raw materials which might go into the production of other capital goods, and so on. When left alone, the price system effectively allocates resources so that the economy grows proportionately.

Enter central banking, the Federal Reserve System, in this case, and its monetary policy. Inflation, properly understood, concerns the artificial expansion of the money supply; whereas, the rise in prices is a mere consequence. When the supply of currency is increased, by printing money, no actual wealth has been created, but at best, only the illusion. According to the laws of supply and demand, the increase in the money supply, once it is perceived, will result in a decline of purchasing power for each monetary unit. The "trick" is to distribute the money in such a way that gives the appearance of actual wealth. The primary method of accomplishing this feat is artificial credit expansion. The Federal Reserve, by reducing its discount rate (the rate of interest to its member banks), thereby induces lower interest rates throughout the economy. Simply put, banks can increase lending because the Federal Reserve has increased its lending to

[8] Murray N. Rothbard, *Economic Depressions: Their Cause and Cure* (Auburn: Ludwig von Mises Institute, 2009), 29.

them, and it has done so with the freshly printed money, which will soon be inconspicuously injected into the economy.

Now, there are two problems, namely, on the one hand, the distortion of the price of money via the artificially low interest rate, and on the other, there is the artificially increase of the money supply. Commonsense says neither of these are good ideas, but together they converge into a sure recipe for economic destruction. Producers who would not otherwise be compelled to expand or invest in new ventures, are being told via the information (more aptly, misinformation) contained in the interest rate that the rate of savings has risen, thus signaling that the economy is ready for costlier endeavors higher in the structure of production. Meanwhile, the new money seeps into the economy, thus creating a boom in higher order capital goods industries, unbeknownst to anyone else. Eventually, they will feel the consequences, but not yet.

Parties cannot continue forever—the drinks must stop flowing, or else the participants are going to die. So too, with economies. The easy money, with increased circulation, is manifested by the higher prices that accompany its declining purchasing power. The central bank must apply the brakes, as Ludwig von Mises perceptively writes, “Consistently and uninterruptedly continued inflation must eventually lead to collapse. The purchasing power of money will fall lower and lower, until it eventually disappears altogether.”[9] When interest rates rise, the delusionary investments do not become unprofitable—they *were* never profitable. Instead, their unprofitability is merely revealed and they are justly termed *malinvestments*, which are, investments which should not have been made *ab initio*. Like the partygoer and his hangover, the economy must enter a readjustment phase—a depression, a recession, or any other pseudonymous misnomer—the painful albeit necessary step required before there can be a return to normal.

The Boom has gone Bust. What precisely does this look like? Mises helpfully summarizes, “there are plants which cannot be used because the complementary facilities are lacking; there are plants which cannot be completed; there are other plants again whose products cannot be sold because consumers desire other products more urgently which cannot be produced in sufficient quantities because the necessary productive facilities are not ready.”[10] As the economy is reoriented toward productive resource allocation, guided by genuine market prices, assets from failed firms may be acquired by successful ones, and unemployed workers will find reemployment in a similar manner. Alas, the business cycle would not be a cycle if it were not recurring; however, the reality is one of repeated error. Allegorically, the economy is a gullible partygoer and habitual drunkard, and the Federal Reserve is a reckless bartender.

The above theory is now recognized as the Austrian Business Cycle Theory (ABCT), as it was developed by Austrian school economists. Returning to the factors unexplained by other theories, e.g., the cluster of errors and distortions in capital goods industries, this theory makes sense of both. Additionally, economists of the Austrian school have made use of the theory to explain and predict economic crises with shocking accuracy (discussed in the following

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[9] Ludwig von Mises, *The Theory of Money and* Credit, trans. H. E. Batson (Indianapolis: Liberty Fund, 1980), 258.

[10] Ludwig von Mises, *Interventionism: An Economic Analysis*, ed. Bettina Bien Greaves (Indianapolis: Liberty Fund, 2011), 43.

subsections). Knowing, the theory's reputability, one cannot help but wonder why those like Altman do not adhere to it, a question which, later, will be discussed.

History: The Dawn of Ignorance

This theory is not particularly novel, but rather, it has been utilized to successfully predict and understand every economic crisis of the last century. But yet, as Altman's article attests, at best, business cycles are accepted features of the modern economy, and worse, as Altman dares to suggest, they are a market phenomenon. Inquiring minds would like to know, why does this myth persist? The Federal Reserve, established in 1913, supposedly to act as a lender of last resort—a "banker's bank"—did not wait long before unleashing monetary chicanery on the economy. The outbreak of WWI, and eventual American entry in 1917, coincided with drastic increases of the money supply by the Federal Reserve in conjunction with the Treasury. Between January 1915 and November 1918, the money supply expanded by 67.3 percent; whereas, producer prices rose by 99.15 percent.[11] To keep the boom going, rates remained at the forced low after the war, and the induced lending continued.[12]

Because such artificial booms are unsustainable, the Federal Reserve applied the kibosh. In contrast to the above laxity, discount rates were raised, and as a result the expansion of the money supply lost momentum, reaching a mere 3.32 percent between January and August of 1920. In turn, the prices from the boom began their descent, and by June 1921, producer prices had plummeted by 44.09 percent.[13] Finally, the trend reversed, the money supply contracting 8.88 percent in September 1921.[14] President Harding's Administration did little to solve the crisis, and the economy briskly recovered, rendering this crisis known to economic historians as the "Forgotten Depression." Whereas, Harding has gone down in history as a do-nothing, poker-playing, whiskey-imbibing president, and his administration marred by scandal, when in actuality, he should be *celebrated* for an economic policy that allowed actual market recovery.

Predictably, however, nobody recognized their error, and as the proverb says, "Like a dog that returns to his vomit is a fool who repeats his folly" (Prov. 26:11, English Standard Version). Upon Harding's unexpected death, parvenu Calvin Coolidge assumed the Presidency. Coolidge and Treasury Secretary Andrew Mellon (who simultaneously sat on the Federal Reserve Board), promoted a two-faced economic policy. In fiscal policy, their tax cuts, spurred genuine growth, freeing businesses to expand under market direction. Despite these commendable fiscal policy measures, in the realm of monetary policy, however, they flooded the economy with low interest rates and easy money. As Rothbard writes, "the sins and errors of the Coolidge intervention were

[11] Patrick Newman, "The Depression of 1920-1921: A Credit Induced Boom and a Market Based Recovery?" *Review of Austrian Economics* 29, no. 4 (12, 2016): 387-414, https://go.openathens.net/redirector/liberty.edu?url=https://www.proquest.com/scholarly-journals/depression-1920-1921-credit-induced-boom-market/docview/1836368691/se-2, 394.

[12] Ibid., 396-397.

[13] Ibid., 400.

[14] Ibid., 401.

laid to the door of a non-existent free market economy."[15] More specifically, "the money supply increased by $28.0 billion, a 61.8 percent increase over the eight-year period."[16] This is not a free-market economy. Contra myth, the Roaring Twenties and due crash in 1929 were government creations through and through.

The wreckage of the 1929 crash is true-to-form. The Austrian Business cycle theory posits that the cluster of errors appears in time intensive, higher-order, capital goods industries. Rothbard illustrates the trends:

> from the end of 1929 to the end of 1931, the FRB [Federal Reserve Board] index of production of durable manufactures fell by over 50 percent, while the index of non-durable production fell by less than 20 percent. Pig iron production fell from 131 thousand tons per day (seasonally adjusted) in June, 1929, to 56 thousand tons daily in December, 1930, to 33 thousand tons in December, 1931, a drop of nearly 80 percent. On the other hand, retail department store sales only fell from an index of 118 in 1929 to 88 at the end of 1931, a drop of about 25 percent.[17]

Finally, the crisis was not limited to the United States, and its reckless monetary policies, but rather, it was seen unfolding across the globe. Mises, writing in Vienna in 1928 observed, "governments [not merely the United States] favored the expansion of circulation credit for reasons of fiscal and credit policy."[18] The seeds sown years earlier had sprouted, taken root, and were now propagating. As historian Arthur Herman details, "the American depression spread across the Atlantic to Europe. In Germany, France, Great Britain, even Austria, the economies based on centralized expert planning collapsed, one by one."[19] Further, one more feature of the 2008 crisis, the spread from America to Europe, is identified as an historically recurrent theme.

This historical review is necessary. With every economic crisis, commentators remind their hearers of capitalism run amok, and how the Roaring Twenties, supposedly an era of unbridled free-markets set a precedent for the necessity of government intervention, with the tragedy of the Great Depression that spread the world over. In actuality, as this historical review shows, the government was kicking the markets with its spurs until the cantering horse of an economy collapsed dead beneath its government rider. Further, conveniently omitted from the narrative is the fact that the Roaring Twenties and Great Crash was not the first Boom-Bust cycle since the Federal Reserve appearing on the scene. But rather, the Forgotten Depression of 1921 serves as a perhaps inconvenient testament to how government can create a crisis, but the market can right itself unaided.

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[15] Murray N. Rothbard, *Economic Depressions: Their Cause and Cure* (Auburn: Ludwig von Mises Institute, 2009), 41.

[16] Murray N. Rothbard, *America's Great Depression* (Auburn: Ludwig von Mises Institute, 2013), 93.

[17] Ibid., 261.

[18] Ludwig von Mises, *On the Manipulation of Money and Credit: Three Treatises on Trade-Cycle Theory*, trans. Bettina Bien Greaves, ed. Percy L. Greaves (Indianapolis: Liberty Fund, 1978), 125.

[19] Arthur Herman, *The Cave and the Light: Plato Versus Aristotle and the Struggle for Civilization* (New York: Random House, 2013), 548.

Practice: 2008 was Entirely the Government's Fault

In the above discussion, the oft-referenced proof-text to demonstrate market failure has been exposed in its true light—the due consequence of failed Federal Reserve monetary monkeyshines. Every crisis since has been a repeat of the original. They are never carbon copies, but they follow the same general pattern of central bank induced lending, which must eventually cease before inflation becomes noticeable, and then, when interest rates rise and the economy realizes it has been duped, smug critics are quick to fault the market, only for the cycle to repeat in the following years. Once again, upon investigation, the 2008 financial crisis is but one more case of the routine phenomenon.

Furthering the position that the 2008 crisis was part of a general cyclical spiral, a brief glance can be taken at the preceding years. The boom of the early 2000s was preceded by the Dot-Com Bubble, which was, blown from a 52 percent increase of the money supply from 1995-2000, and it burst following the credit contraction in 1999-2000.[20] Not apt to quit, the Federal Reserve not only resumed its efforts, but instead was emboldened. Between 2000 and 2007, the United States experienced the most inflation at that point in its history.[21] As it turns out, lowering the Federal Funds Rate (the interest rate at which banks lend to each other) to under 2 percent, even pegging it at 1 percent for a year has even worse consequences than might be expected, as Salerno explains, "the real interest rate, as measured by the difference between the Federal Funds rate and headline CPI [consumer price index], was negative from roughly 2003 to 2005."[22] Predictably, with potent cheap money on tap, the economy boomed.

However, the 2008 crisis is notably nuanced, in that, thrown into the admixture of economic distortions, was a bubble and subsequent burst in the housing market. The so-called "de-regulation" that occurred in the banking sector was, essentially, nothing more than allowing banks to make risky loans that would not have been possible without the Federal Reserve. Home ownership, like anything else, has costs, and these costs should be conveyed by market prices, in this case, interest rates. However, not only were rates artificially low, but also, the banks were *encouraged* to take advantage of them by making increasingly risky loans. Affirmative action efforts, e.g., the enforcement of the Community Reinvestment Act and Equal Credit Opportunity Act expanded lending within groups, which as a generality, did not have the capacity to repay. In the telling words of one borrower, "I was a student making $17,000 a year, my wife was in between jobs. In retrospect, how the hell did we qualify?"[23] Government intervention—that is

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[20] Thomas E. Woods, *Meltdown: A Free-Market Look at Why the Stock Market Collapsed, the Economy Tanked, and Government Bailouts Will Make Things Worse* (Washington D.C.: Regnery, 2009), 81.

[21] Ibid., 26.

[22] Joseph T. Salerno, "A Reformulation of Austrian Business Cycle Theory in Light of the Financial Crisis." *Quarterly Journal of Austrian Economics* 15, no. 1 (Spring, 2012): 3-44, https://go.openathens.net/redirector/liberty.edu?url=https://www.proquest.com/scholarly-journals/reformulation-austrian-business-cycle-theory/docview/1021043536/se-2, 25.

[23] Thomas E. Woods, *Meltdown: A Free-Market Look at Why the Stock Market Collapsed, the Economy Tanked, and Government Bailouts Will Make Things Worse* (Washington D.C.: Regnery, 2009), 17-20.

how they qualified, and because of such "charitable" policies they and numerous others found themselves losing homes they should never have purchased.

Implications for Ethically Informed Policy Analysis

The Danger of Scientific Public Policy: Why Bad Ideas Fail to Die

Above, the last century has been cast in light of recurring monetary policy failures. In an effort to understand how this can occur, the discussion can begin with methodology, and, more specifically, how "scientific" public policy allows this outrageous phenomenon. Positivist logic easily resuscitates bad ideas, even when they are demonstrably false, by refusing to discredit entire theories, via mere changes in variables which may—or may not—prove success.

Economist and sociologist Hans-Hermann Hoppe offers an example: suppose if Stalin slaughtered a few more Ukrainians, then Communism would have worked.[24] Communism can *never* work, but because scientific methodology allows for tentative conclusions and endless falsification with altered variables, political theorists can treat the world as their laboratory and people as lab-rats. Such logic can be employed, and re-employed, for any repeat public policy failure, e.g., suppose the federal funds rate were .7 percent higher, and then the economy may not have crashed, or, suppose the tax rate were 5 percent lower, and then perhaps businessmen would not have outsourced overseas. This methodology continues *ad nauseam*.

It is, essentially, no different than alchemy. Just as there is no ratio of inferior metals that can be thrown into a cauldron to make gold, there is no amount of rigged economic policy which can create wealth outside of recognizing and applying objective and absolute principles. Essential free-market axioms hold no exchange can occur unless both parties benefit; therefore, any coercive action is going to necessarily divert resources away from where their original owners would direct them for the mutual benefit of someone else, toward the benefit of the coercer. As far as economic theory is concerned, *there is no right amount of coercion*. *All* artificially set interest rates redirect borrowing and lending, *all* taxation disincentivizes action toward whatever is being taxed, and so on and so forth.

Those like Altman, however, can continue attempting to verify bad hypotheses *in perpetuum*, using the world as theirs for experimentation. Altman himself was U.S. Deputy Treasury Secretary from 1993-1994. Free-market globalization, e.g., the development of the international division of labor, according to comparative advantage, which results in greater wealth for all, is *not* the same as distortive government policies which impede such development. Of course Altman's theory of globalization fails, because it rests not on free-markets, but on failed interventionist schemes, and yet, he gets away saying "globalization" instead of intervention failed. Is this too harsh? No, it is not.

Rather than admitting the folly of central planning, Altman scapegoats free-markets, and praises the Chinese Communist state! This is what Altman says: "Free-market capitalism, globalization, and deregulation have been rising across the globe for 30 years; that era has now ended, and a new one is at hand. Global economic and financial integration are reversing. The

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[24] Mises Media, "Praxeology: The Method of Economics | Hans-Hermann Hoppe," August 11, 2011, video, 52:12, https://www.youtube.com/watch?v=aTXxvWa11Lg.

role of the state, together with financial and trade protectionism, is ascending."[25] He could have said nothing and allowed his name to slip into the unknown catalogues of government policy theoreticians, but alas, he did not. Instead, he published his self-aggrandizing account of the crisis in *Foreign Affairs*, with all its cunning falsehoods, and a misleading narrative, now looked upon as professional scholarship and required reading for public policy students.

The Nature of Democratic Economic Policy: Why Bad Ideas Are Continually Resuscitated

Because all mankind is sinful (Rom. 3:23), and all governments are composed of men, it only follows that all are susceptible to error. Moreover, so long as sinful man requires government, composed of other sinful men, there can be no perfection. However, despite this, some forms are more inclined toward certain vices than others. The purpose here is not to unilaterally condemn democracy, but rather, it is to explain why democracy inherently suffers from the grip of pernicious policies that offer short-term gain, even if it is really illusory, at the expense of future wellbeing.

Recall the concept of time-preference from the previous discussion of free-market determination of interest rates in the second section of this paper. A person with a high time-preference prefers present consumption; whereas, those with lower time-preferences will forgo present consumption for greater future consumption. Obviously, a functioning free-market requires all individuals and their individual time-preferences for a composition of various producers and consumers. Governments, however, are not free-markets, and thus, there will be a disconnect between policymaking and market realities. The problem at hand is this: Governments, so long as they are democratic, will maintain a consistently high time-preference.

Where policymakers hold their offices according to the present satisfaction of the electorate, their priorities will naturally be thereto oriented. It costs the voters seemingly nothing to vote for the candidate that promises them the most, and thus, they will be likely to shun the prudent and parsimonious, favoring the profligate spendthrift. As of this writing, the US National Debt exceeds $34 trillion, but yet, policymakers seem to only afford concern to expanding programs—never how to finance them. Naturally, they have no incentive to care, as it is not *their* money, and it is not *their* country (their office-holding being temporary). Thus, Hoppe perceptively concludes, "the advocacy and adoption of redistributive policies is predestined to become the very prerequisite for anyone wanting to attain or retain a government caretaker position."[26] Or, as the American social critic H. L. Mencken succinctly quips, "every election is a sort of advance auction sale of stolen goods."[27]

However, as previous discussion demonstrates, central banking and manipulation of money and credit presents an entire new dimension to understanding the economy, and so too

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[25] Roger C. Altman, "Globalization in Retreat," *Foreign Affairs* 88, no. 4 (Jul/Aug 2009): 2-0_5, https://go.openathens.net/redirector/liberty.edu?url=https://www.proquest.com/magazines/globalization-retreat/docview/214286568/se-2, 7.

[26] Hans-Hermann Hoppe, *Democracy the God that Failed: The Economics of Monarchy, Democracy, and Natural Order* (New Brunswick: Transaction Publishers, 2003), 29.

[27] H. L. Mencken, *A Carnival of Buncombe*, ed. Malcom Moos (Baltimore: Johns Hopkins Press, 1956), 325.

does it introduce a factor into understanding politics. Democratically elected officials must maintain an appearance of performing well, and this includes a robust economy. Inflationary credit expansion is an easy way to "create jobs" (even if only in select industries), boost GDP (even if only as a statistic), and elevate living standards (even if only temporarily). When presidents demand lower interest rates as elections approach, this is why. A good boom will perpetuate their tenure, and the bust can even be passed on as someone else's problem.

Court Intellectuals: Why the "Experts" Support Such Policies

Why do the "experts" advising the government support these policies and then deflect blame, as Altman does when they go awry? The answer lies in understand that these are not the only "experts" but rather, they are the experts preferred by governments. There are in fact a multitude of intellectuals with a far better grasp on economic realities, or at least are open and honest about them, but these are of no use to the present-oriented politicians. Government, therefore, offers strong incentives for intellectuals to modify their views into line with its endeavors. Being an academic is not an easy path, and the government presents a reward, as Rothbard reveals, "The State is willing to offer the intellectuals a secure and permanent berth in the State apparatus; and thus a secure income and the panoply of prestige."[28] This tendency should hardly come as a surprise.

As the Scriptures say, "What has been is what will be, and what has been done is what will be done, and there is nothing new under the sun" (Eccl. 1:9, ESV). Coincidentally, the Scriptures provide a telling example. In 1 Kings 22 and 2 Chron. 18, appear the narrative of Ahab, King of Israel; Jehoshaphat, King of Judah; and the righteous prophet Micaiah. The two kings, having formed an alliance are preparing for battle, and King Ahab assures that his prophets—all four hundred of them—have unanimously prophesied a victory for them (1 Kings. 22:6, 2 Chron. 18:5-6). King Jehoshaphat, skeptical, inquires if *all* the prophets have spoken, to which he receives this reply, "There is yet one man by whom we may inquire of the Lord, Micaiah the son of Imlah, but I hate him, for he never prophesies good concerning me, but evil" (1 Kings. 22:8, ESV). Evidently, this was not Micaiah's first infraction with the king. Upon predictably prophesying doom, Ahab retorts, "Did I not tell you that he would not prophesy good concerning me, but evil?" (2 Chron. 18:17, ESV). Life is not easy for an honest prophet.

Neither is life easy for an honest economist. There is a memorable, albeit possibly apocryphal, story in which the great Ludwig von Mises was approached by Austrian government officials requesting advice. He told them to "Meet me at 12 o'clock at this building"— "this building" was the government printing office. There, they inquired, "How can we stop this inflation?" His reply was this: "Hear that noise? Turn it off."[29] They refused. No government wants an economist that believes the truth, because it reflects poorly on government policies. Ahab ordered Micaiah imprisoned (1 Kings 22:27, 2 Chron. 18: 25-26). Whereas, as for Mises, he narrowly escaped Austria with his life. The day following his departure, the gestapo raided his

[28] Murray N. Rothbard, *Anatomy of the State* (Auburn: Ludwig von Mises Institute, 2009), 21.

[29] F. A. Hayek, *Hayek on Hayek: An Autobiographical Dialogue*, eds. Stephen Kresge & Leif Wenar (Indianapolis: Liberty Fund, 1994), 70.

apartment having been sent to arrest him, as Mises was both a stalwart defender of the free-market in Viennese intellectual circles and a vocal opponent of the Nazi regime.[30]

Conclusion

This paper began as a response to a statist analysis of the 2008 financial crisis from a moderately known voice in public policy circles. Though seemingly insignificant, the concepts here explored are relevant when interpreting the past which has brought about the present, as well as accurately understanding what is to come. There are a multitude of Roger Altmans, there have been numerous economic crises, and there are even more numerous calls for bad policies in response to them. The only way to combat bad ideas, however, is with good ones, and thus, if the tide is to change, public policy must be understood to have actual implications. Perhaps with more awareness of sound policy, government caused crises will be fewer, and with fewer government apologists and more responsible theoreticians, errors of the past can be recognized for what they are, and as they are identified, a path can be cleared for a clearer and more productive future.

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[30] Jörg Guido Hülsmann, *Mises: The Last Knight of Liberalism*, (Auburn: Ludwig von Mises Institute, 2007), 727.

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