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Ayn Rand Among the Austrians

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Ayn Rand and Austrian Economics:
Two Peas in a Pod

Walter Block

At first glance, there is good and sufficient reason to criticize any attempt to link Ayn Rand and Austrian economics, such as is attempted in the present collection of essays. After all, the school of thought founded by this novelist and philosopher is non-controversially called "Objectivism," while the Austrian or Praxeological School of economics—epitomized in the works of Ludwig von Mises and Murray N. Rothbard—is well known as the "Subjectivist School."1 But the polar opposites implied by these appellations are more apparent than real. For while "objectivism" for Rand meant an insistence on objective reality, "subjectivism" for the Austrians has nothing to do with its rejection. Rather, Austrian subjectivism focuses on the claim that consumer tastes are subjective, and that prices reflect this phenomenon.3

It is entirely fitting, then, that these two, the author and the school of thought, should be brought together for comparison, contrast, analysis, etc. The present paper proposes to emphasize some similarities between them in the fields of antitrust and business regulation, money, and government.

Antitrust, Regulation of Business

There is somewhat of a difference between Rothbard (1993), on the one hand, and Mises ([1949] 1963) and Kirzner (1973) on the other, in terms of the pure theory of monopoly under full free enterprise, i.e., no government grants of exclusive privilege to corporations (Block 1977). For the former, monopoly is always and ever a creature of government; for the latter, in contrast, monopoly...
and the market are not logically incompatible. None of these three authors, however, calls for government intervention, in the form of antitrust, to remedy what the latter two, Mises and Kirzner, might consider a “market failure.”

Matters are otherwise, unfortunately, with Hayek (1972, 110); this Austrian economist argues that government should “make competition as effective and beneficial as possible—and to supplement it where, and only where, it cannot be made effective” by markets. He goes further (Hayek 1967, 177), even more unhappily for his free enterprise credentials, and calls for “multiple damages” for “contracts in restraint of trade.”

In sharp contrast, Rand (1957) gives the back of her hand to all such statist nostrums. We can never forget the scorn, venom and ridicule that she heaps upon the “Anti-dog-eat-dog Rule” (76ff) in the novel Atlas Shrugged. And what about that bragging, on the part of characters Dagny Taggart and Hank Rearden, that they were out to “skin the public” (221) by making vast profits from selling steel? To say anything of that sort is to seriously criticize the entire neoclassical program of industrial organization theory and antitrust regulation. It is no exaggeration to say that, in the entire corpus of her work, she has not a single solitary good word to say for business regulation, antitrust, or any other such government interference with the marketplace. A book such as Capitalism: The Unknown Ideal features many essays repudiating government intervention, including Rand’s own articles, “The Roots of War,” “Notes on the History of American Free Enterprise,” “Is Atlas Shrugging?,” and “The New Fascism: Rule by Consensus,” and those written by Alan Greenspan (on “Antitrust”) and Nathaniel Branden (“Common Fallacies about Capitalism”). In this attitude, Rothbard and Rand are as one.

However, the latter’s view of the contribution of the business community to business regulation, subsidies, etc., is rather problematic. Like the “little girl with the curl,” when Rand was good on this issue, she was very, very good, but when she was bad, she was horrid. For me, the good part is when she shows awareness of the role business has played in the undermining of the capitalist system, by lobbying for regulations to hamstring their competitors, and subsidies
to benefit themselves. Who can ever forget the *Atlas Shrugged* villain Wesley Mouch in this connection? In support, Rothbard (1995, 154) states that "a perfect example of the major reason for continuing expansion of the welfare state" is the "alliance between liberal ideologues and sectors of big business."

It is true that, on occasion, the good Rand viewed business with a jaundiced eye. For example, she states: "The actual war profiteers of all mixed economies were and are of that type: men with political pull who acquire fortunes by government favor, during or after a war . . . " (Rand 1967, 40). She continues: "But there existed another kind of businessmen, the products of a mixed economy, the men with political pull, who made fortunes by means of special privileges granted to them by the government . . . " (49). Furthermore, Rand states: "The attempts to obtain special economic privileges from the government were begun by businessmen, not by workers, but by businessmen who shared the intellectuals' view of the state as an instrument of 'positive' power, serving 'the public good,' and who invoked it to claim that the public good demanded canals or railroads or subsidies or protective tariffs" (Rand [1961] 1989, 96).

As Chris Matthew Sciabarra (1995, 332) points out, Rand claimed that there was a fundamental distinction between genuine producers or "money-makers" and "pseudo-producers" or "money-appropriators." For her, the genuine "money-makers constitute a very small minority of businessmen." Her whole critique of the "New Fascism," developed significantly over many essays, focuses enormous attention on the role of business not only in the development of the welfare state, but the warfare state too—since she believed that corporatist businesses were deeply involved with the expansion of U.S. interventionism abroad (Sciabarra 2003).

However, according to the "bad" Rand (1967), business is the *victim*, not the perpetrator, of these violations of economic freedom. To say that "Big Business" is "America's Persecuted Minority" would be, on this account, a travesty of justice and common sense. Yes, it cannot be denied, the business community often suffers from economic regulation. However, in large part, they themselves were the instigators of such, for example, taking a large role in calling for
the inception of the Pure Food and Drug Act and the meat inspection acts (Kolko 1963). It is surely no accident that the overwhelming majority of antitrust suits are brought by businesses, against one another, seeking to gain competitive advantage in this way (Anderson, et. al. 2001; Armentano 1972).

Here, Rothbard's (1978, 313) view is definitive: “Conservatives have often placed their central hopes in big businessmen. This view of big business was most starkly expressed in Ayn Rand's dictum that ‘Big Business is America's most persecuted minority.’ Persecuted? With a few honorable exceptions, big business jostles one another eagerly to line up at the public trough. Does Lockheed, or General Dynamics, or AT&T, or Nelson Rockefeller feel persecuted?"

Money

Francisco d’Anconia’s speech on money (Rand 1957, 410–15) deserves to be emblazoned on the foreheads of every instructor of economics in the land, since virtually all of them reject it, out of hand, vociferously, and decisively. This little gem of a lecture is to money and gold and selfishness what Mozart is to music. It shows that money is the life-blood of an economy, and that gold is a form of money that has traditionally functioned free of deleterious government constraint. As d’Anconia says: “These pieces of paper, which should have been gold, are a token of honor—your claim upon the energy of those who produce” (410). In Galt’s Gulch, only gold coins are used as currency.

Rothbard, in a long series of publications throughout his life ([1956] 1997; 1962; 1983; 1988a; 1988b; 1990; 1992; 1993), takes a similar, if less dramatic, tack. What he lacks in dramatic style, however, he more than makes up for in the rigor of his presentation, and in the quality of the scholars he criticizes on this issue. Nor can we ignore the contribution of Mises ([1912] 1971) in this regard, with his path-breaking treatise, linking, for the first time, money and individual choice.

It must be admitted, however, that when it comes to money, Hayek, certainly another luminary of the Austrian School, is not a fan
of gold. He favors (Hayek 1978) competing private sector currencies, with his proposal for the “ducat,” which is based, initially, on fiat currency put out by the state.9 Thus, to that extent, he may be considered an interventionist.

It should be emphasized that the advocate of free markets does not necessarily favor the gold standard, specifically. Rather, he champions whatever resource free human actors choose to employ in the monetary role. Because, in part, by historical accident, gold has always taken on this function when people were free to choose, the institution of free market money has come to be called “the gold standard.” But if freedom reigned tomorrow, and silver, or platinum, or copper were chosen instead, no champion of laissez-faire capitalism would object.

Government

On the topic of government, there is a range of opinion not only amongst Austrians, but also, far more surprisingly, on the part of Rand herself. On the one hand, in Atlas Shrugged, Rand does not have even one kind word to say for the state. The representatives of government in this book are slimy villains such as Wesley Mouch, Mr. Thompson, Dr. Robert Stadler and Dr. Floyd Ferris. All the heroes, without exception, are members of the private sector. Even in Galt’s Gulch, heaven on earth for Rand, there would appear to be no government. Rather, it seems almost as if it were a free market anarchist society, along the lines sketched out by Rothbard (1978; [1982] 1998) or Hoppe (2001).

And yet, if Rand has made anything clear in her nonfiction writings, it is that she is a staunch advocate of limited government free enterprise or minarchism, not anarcho-capitalism.10 In fact, she has gone so far in her critique of the latter view as to dismiss its adherents as “hippies of the right” (Rand 1971, 1090).

A similar bifurcation characterizes Austrian economists. But before we can discuss this matter, we need to say a word on the distinction between positive and normative economics. The former refers to the views of (Austrian) economists, qua scientists; the latter
refers to the public policy views they have articulated unofficially, so to speak—that is to say, as individual ethical creatures, not as Austrian economists. The legitimacy of government as an institution in society is clearly a normative, not a positive, issue.

Where, then, is the intellectual tension? For one thing, there are some Austrians notably associated with the free market anarchist side of this debate (Rothbard 1978; [1982] 1998; Hoppe, 2001) and then there are others, in equally good standing as praxeologists, who clearly favor very little government intervention (Mises [1949] 1963). Hayek (1944; 1967; 1972; 1978) cannot fairly be called a praxeologist, but he is certainly an Austrian, and he makes the case for far more than minimal government.

For another thing, Mises ([1949] 1963) is ambivalent on this issue even within Human Action. On the one hand, he claims that the government is necessary for defense: “the state, the social apparatus of violent oppression, is entrusted with the protection of the smooth operation of the market economy against the onslaughts of antisocial individuals and gangs. Its function is indispensable and beneficial” (831). On the other hand, he favors the right of secession, which, if brought down to the individual level, is incompatible with the very existence of a government. Consider the following statement:

The right of self-determination in regard to the question of membership in a state thus means: whenever the inhabitants of a particular territory, whether it be a single village, a whole district, or a series of adjacent districts, make it known, by a freely conducted plebiscite, that they no longer wish to remain united to the state to which they belong at the time, but wish either to form an independent state or to attach themselves to some other state, their wishes are to be respected and complied with. This is the only feasible and effective way of preventing revolutions and civil and international wars. (Mises 1985, 108)

To be sure, in the above quote, Mises merely favors the rights of secession (self-determination); but, as he does not clearly state that and
individual may secede, so far, there is no internal self-contradiction. However, here Mises does precisely that:

To the princely principle of subjecting just as much land as obtainable to one's own rule, the doctrine of freedom opposes the principle of the right of self-determination of peoples, which follows necessarily from the principle of the rights of man. No people and no part of a people shall be held against its will in a political association that it does not want.11 (Mises 1983, 33; emphasis added, footnote omitted)

Why is secession, down to the level of the individual, incompatible with the existence of the state? If a single person can secede without hindrance from the central government, and keep his property, that is, not merely emigrate, but stay where he was on his land and cut off allegiance to the government, then all who remain must of necessity stay there on a voluntary basis. But when membership in an organization is mutually agreed upon, the group in question logically cannot be a government, since the latter is defined as a monopoly over legal violence within a given territory.12

So we see that there is ambivalence on minarchism vs. anarchism both within Rand and Mises, themselves. Each has written works that could be interpreted on either or both sides of this issue. Further, there is a tension within the Austrian camp, between leading exponents of this view. Rothbard and Hoppe are clearly on one side of this issue, and Hayek is equally certainly on the other.

Conclusion

It is said of divorced parents that they are still joined at the hip: as long as their children are alive, they must still have a relationship with one another, no matter what their feelings about each other.

Rothbard and Rand have had a personal "divorce" from one another. Yet, between them—as between the Austrian and Objectivist schools—they have left the world hundreds of thousands of intellectual "children." Thus, in some sense, they will always be
connected, despite the clear differences between them on at least the three issues discussed above.

But these are a small subset of questions facing the political economic theorist. On the overwhelming majority of other such issues, ranging from welfare to economic regulation to fairness and justice, they are alike as two peas in a pod.

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Notes


2. The case of James Buchanan is an interesting one in this regard. He is known as a founding member of the Public Choice School, not the Austrian. (Although Colander 2004, 159 mistakenly claims that “a sub-group of Austrian economists is public choice economists. They use the mainstream supply-and-demand approach, but apply it much more broadly than do mainstream economists. Specifically, they see government decisions as reflecting economic forces rather than attempts by government to do good. Well-known public choice economists include Gordon Tullock, James Buchanan, and Robert Tollison.” I owe this cite to Roger Garrison.) However, in their books, Buchanan 1969 and Buchanan and Tullock 1981 are essentially subjective, and thus only in this sense is Buchanan properly counted as an Austrian economist.

3. For a further elucidation of this distinction, see Johnsson 2005.

4. See also Hayek 1944. For a critique of Hayek on this point, see Block 1996.

5. See also Rothbard 1967.


7. For a critique of the “bad” Rand in this regard, see Long 1998.

8. Greenspan (1967) is no slouch when it comes to a defense of gold as money in the free market context. But this is marred by the fact that, much later in life, he took on the position as head of the fiat money Fed. For a critique of Greenspan on this, see Block 1999. Also see Sechrest 2005, in the current issue.

9. For a critique, see Block 1999; Rothbard <http://www.commoditytrader.com/archives/000009.php> and Ebeling <http://www.fff.org/freedom/0899b.asp>. A referee of this journal objects to the foregoing on the following grounds: “Hayek would surely disagree strongly, since his ‘competing currencies’ were issued privately, were denominated in monetary units different from the existing state currency, and were valued relative to a basket of highly-traded, homogeneous industrial commodities. Perhaps the only way in which his scheme depended on the state’s fiat currency was that such state currencies and their enabling legal tender laws had made the populace accustomed to using non-commodity monies.” But this is
contradicted by Hayek himself, as quoted by Ebeling: “I would announce the issue of non-interest bearing certificates or notes, and the readiness to open current checking accounts, in terms of a unit with a distinct registered trade name such as a ‘ducat.’ The only legal obligation I would assume would be to redeem these notes and deposits on demand with, at the option of the holder, either 5 Swiss francs or 5 D-marks or 2 dollars per ducat. This redemption value would however be intended only as a floor below which the value of the unit could not fall because I would announce at the same time my intention to regulate the quantity of the ducats so as to keep their purchasing power as nearly as possible constant.” On the other hand, to be fair to Hayek (and to this referee), Hayek intended that the ducat be tied to existing statist currencies only for the short-run transition period, until people become used to it; otherwise, it would have run into problems addressed by Mises [1949] 1963, under the heading of the “money regression theorem.” See Barnett n.d. on this.


11. Mises also speaks of “the right of self-determination of individuals” at <http://www.mises.org/insante/ptbuch2-a.asp>. See also Rothbard 1981, 241, who cites Mises as eschewing full anarchism due to “technical considerations.” In my own interpretation, once Mises allows for individual secession, he embraces this doctrine whether he likes it or not, whether he explicitly accepts it or not, whether he formally adopts it or not. The pure logic of the matter is definitive.

12. For a denial of this assertion, see Machan 2002. For its further elucidation and defense, see Block n.d.

References


—. n.d. Regarding the ducat. Unpublished manuscript.


