# AUSTRIAN ECONOMICS—THE ULTIMATE ACHIEVEMENT OF AN INTELLECTUAL JOURNEY

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I CANNOT BEGIN MY LECTURE without first expressing all my deep gratitude to the Mises Institute, which honors me so much by presenting me the Gary G. Schlarbaum Award. And my gratitude is also addressed to Mr. Gary Schlarbaum who has so generously founded this award.

Receiving this award is certainly one of the greatest achievements I could dream of in my professional life. I highly appreciate the recognition you thus offer to me and the support you give to me, all the more so since I live in a country, my country, France, which has been home to some of the most convincing classical liberal thinkers, but which is now, unhappily, one of the most socialist countries in the world.

And I feel honored because I have tremendous admiration for Lew Rockwell and the outstanding work he has done, as well as for the staff of the Mises Institute and all those who support it, whether academics or members of the business community who have understood that clear principles were essential for the peaceful development of societies and, also, for their day-to-day life.

The Mises Institute can be considered as the center of the world for those who cherish liberty. I can testify that, outside the US, the Mises Institute brings an unique intellectual support to all those who are longing for a rigorous analysis in the defense of a free world and who could feel so

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isolated—in the absence of such a support—that they might become doubtful about the relevance of their own thinking.

Unhappily, I had not heard of the Mises Institute until late in my academic career, and I am somewhat jealous of all these young scholars who have the unique chance of being educated through the seminars and publications of the Mises Institute. However, from another point of view, I was lucky not to have known the Mises Institute at the dawn of my professional life, since, in the French intellectual context, I would have never been appointed as a Professor . . . .

The title of my presentation refers to Austrian economics. In fact, I would like to deliver some thoughts along the lines of Austrian economics, mainly, but not exclusively, about the working of monetary systems, a topic which has been splendidly developed in the present conference.

But I would also like—as it has been suggested to me—to explain how I happened to discover Austrian economics and to draw some lessons from my intellectual trip in the world of individual liberty.

**I. The Coherence of Austrian Economics**

For many years I had been an Austrian economist without knowing it. But when I did discover Austrian economics, I was amazed, because economics appeared as it ought to be: Not as a patchwork of partial theories, of different fields of thought without any link between them, but as a logical process of thought founded on realistic assumptions about individual action. Economics became coherent. As Mises rightly wrote "There are no such things as 'economics of labor' or 'economics of agriculture.' There is only one coherent body of economics."

He could have added: "There are no such things as microeconomics and macroeconomics." Thus, when I was asked to write a textbook in macroeconomics, I was first tempted to decline the offer. But, I finally accepted it, because it gave me an opportunity to express the view that it is impossible to understand so-called macroeconomic problems—such as inflation, unemployment, growth—without referring to individual behavior.

What is fascinating in economics—or, at least in Austrian economics—and which does not exist in other fields of knowledge, such as physics or biology, is the fact that all economics can be deduced from one single principle, the axiom of action or the principle of individual rationality. In physics there can be a change of paradigm, a complete intellectual revolution with a complete change in the basic assumptions. This cannot happen in economics: it is meaningless to try to develop an economic theory based on the assumption that man is not acting or that individuals are basically irrational!

The founding principles of economics are eternal and universal and it is completely foolish to believe that there can be a specific economic theory dependent on specific conditions of time or place (contrary to what a French Professor believed when he wrote a textbook with the title *Economics for Arab People*).

I, for long, taught a course on the theory of monetary systems and international monetary systems. But, when beginning the course, I would warn the students: "By teaching this course, I do not mainly intend to make you learn ideas and facts about the international monetary system. I just take this specific field as an example of the economic way of thinking."

And I demonstrated to them how, starting from the assumption that individuals are rational, one could logically deduct how monetary systems could develop and be spontaneously organized. I explained to them that, in order to fully understand the working of monetary systems, what was important was not to focus on monetary techniques, but to have a coherent theory of competition, monopolies and cartels. In other words, there is not, on the one hand, a theory of competition and, on the other hand, a theory of monetary systems. There is one single economic theory.

However, there is a strange phenomenon in economic theory: although all economists start from the same basic assumption, that of a rational individual who is able to make choices, there are a lot of different and even completely opposite economic schools. It seems to be a paradox, since, if economists are starting from the same initial assumptions and if they are able to reason logically, they ought to arrive at the same conclusions.

I will not elaborate on this fundamental problem right now. But let me just stress the following: at the very beginning of economic textbooks and treatises, one always finds a chapter on the behavior of the consumer and one about the behavior of the producer, as if they were two different persons with differing behaviors. This is in full contrast with the coherent view of Ludwig von Mises about human action: a man is an acting individual who acts (or produces) to obtain satisfaction. Mainstream economics are thus full of such inconsistencies—for instance when defining an optimal quantity of money or developing a theory of economic policy—and only Austrian economics is rigorously coherent.

Now, if it is so, one may wonder why Austrian economics is not recognized as purely and simply economics in contrast with opinions, prejudices and value judgments. This is a great mystery. But one explanation may be that Austrian economics, precisely, itself is at odds with common prejudices and people cannot accept that. But, paradoxically, instead of recognizing the scientific character of Austrian economics, they quite often blame this approach as ideological.

## II. My Journey Towards Austrian Economics

It is this outstanding coherence of Austrian economics which is so appealing to me and which has been when I discovered it. Let me, therefore, go back to my past and say some words about my intellectual journey, although I do not like to speak about myself. But, it was suggested to me to do so in the present speech.

When I was a schoolboy or a student at the University, there were no strong ideological debates in public opinion, as people generally accepted a sort of mild social-democratic approach. However, in intellectual circles and at the university, Marxism was more or less the mainstream doctrine.

Personally, even as a child, I have been strongly anti-communist and I could never understand Marxism, which seemed to me to be completely incoherent and arbitrary. But I must confess that, in such an environment, I had anyhow a socialist leaning. As part of my family was of Christian-democrat tradition, I shared the view that social justice was one of the main roles of the state and that public firms should be managed in the public interest.

Before me there had never been an economist in my family. Therefore, my decision to become an economist was rather surprising. How did it come about? I wanted to understand how large differences in levels of development between countries were possible. Moreover, I had some spontaneous interest in social problems and I wanted to understand how a society works.

The education I received at the University was far from what students in economics get now. It was a sort of mix of good feelings, history of economics and some concepts of economic theory more or less well interpreted. Mathematics, statistics and econometrics were introduced only at the end of the curriculum.

In spite of this rather defective education, I got two important things from it. First, I discovered that economic theory does exist and that it is the only way to understand economic reality. From that time I got the conviction—which I have always tried to hand down to my students—that there is nothing more practical than theory. Second, I understood from microeconomics that you cannot understand the working of a society without referring to individual behavior.

Anyhow, I was unsatisfied because I had the feeling that economic theory did exist and was taught in many other countries, but I had not a sufficient knowledge of it. Happily, this same feeling of dissatisfaction was shared by some other students from my university whom I knew. In December 1961, we decided to work together to learn on our own what had not been taught to us by our professors at the university. We thus founded the Séminaire de théorie économique Jean-Baptiste Say (Jean-Baptiste Say Economic Theory Seminar). We met every week to discuss the research papers written by the members. We also wrote together a book on the permanent income hypothesis. We were thus introduced, in particular, to the work of Milton Friedman. Although all of us were interested in different topics, it can be said that we became Chicagoans at that time. We had the feeling that this approach was scientific, logical and rightly based on individualistic principles. Thus Chicago economics made it possible for us to reconcile our classical liberal inclination and our desire for a scientific approach to economics. These inclinations were reinforced by the influence of several books of Karl Popper I read at that time.

It is quite clear that by choosing such a name for our seminar, we wanted to stress two things: our great interest for economic theory and our classical liberal inclination. Both things were considered provocative in the intellectual environment of that time, but we did it on purpose. Doing "collective research," at a time when all researchers in economics were supposed to be completely isolated, was also considered to be somewhat shameful. And, on top of that, we were reading Anglo-Saxon publications, such as the *American Economic Review*, which might be our greatest sin! It was said at that time by most of our professors that we had to develop a French economic science, completely different from the one developed outside. As readers of these foreign reviews, we were accused of "following in American imperialism's wake."

Let me mention at this point that the Séminaire de théorie économique Jean-Baptiste Say still exists now. It is located at University Paris-Dauphine. Some of us are still Chicagoans or close to the public choice school, some others are Austrian-school economists, and so on. But we are all liberals (in the classical or European sense of the word) because we believe that it is impossible to understand any economic or social problem without referring to individual behavior.

There are several ways to discover truth: for some it may be revealed at the outset and, from this point of view, those who have discovered the Mises Institute early in their life are lucky people. Others discover it step by step.

Thus, after getting a rather loose education, somewhat inspired by Keynesian ideas, at the University, I became a Chicagoan and, more precisely, a Friedmanian. But being a Friedmanian was somewhat taboo and it remains so. Just to give an example, Michel Rocard, former Prime minister, once said that "Friedman is a destroyer of civilizations." Very recently he said that it is unfortunate that Milton Friedman had died. If not, he could have been convicted of being a criminal against humankind by the International Court of Justice (according to Rocard, the free market inclination of Friedman is the cause of the financial crisis).

Anyhow, Friedman was defending individual freedom and, to me, it was the first step in my intellectual journey away from the mainstream. And, believe me, some courage was needed to be a supporter of Friedman at that time and to create something called the Jean-Baptiste Say seminar.

I was a supporter of flexible exchange rates, which was also considered outlandish at that time (for instance by Raymond Barre, a member of the defense committee of my doctoral dissertation, who became a prime minister later on). I quite understand that one may dream of a world of fixed rates—for instance under a real gold-standard—but, as far as national currencies exist and as far as monetary authorities want to do independent monetary policies, these currencies are different goods and their relative prices have to be determined on the exchange market. I have seen so many countries in my life that were destroyed by officials who pretended to maintain a fixed exchange rate, but meanwhile were establishing inflationary policies and imposing drastic and destructive exchange controls in order to solve what are wrongly called "balance of payments problems"! Therefore, if there is no means to limit the inflationary inclination of monetary authorities to create money, I still prefer flexible exchange rates.

I just mentioned my doctoral dissertation. Its title was "Monetary Equilibrium in Open Economies." I was already fascinated—as I have been my whole life—by money and monetary systems. My dissertation was mainly based on the theoretical approach developed by Robert Mundell. When I began to do some research concerning my dissertation, I happened to find an article by Robert Mundell in the *American Economic Review*. To me it was something of a shock: I had the necessary instruments to write my dissertation.

In fact, the approach developed by Mundell—known as the policy mix—was both Chicagoan and Keynesian. I became most critical of it later on. But it was a necessary step in my intellectual trip.

Later on, I discovered Hayek ("The Use of Knowledge in Society" or, maybe, "The Confusion of Language in Political Thought"): It was another intellectual shock. This was the approach I was longing for!

About in the same period, I had been invited to present a report on monetary problems at a conference on the working of free markets. I just read one page of Hayek's Currency Competition and I was so excited that my mind worked by itself and I immediately wrote my report. Then, I came back to the reading of the other pages of this booklet of Hayek.

In fact, I had heard of Hayek while a student, but he was presented as an old-fashioned economist of the past and I even believed he was dead. Later on, I had the pleasure of getting to know him. I have many anecdotes, but I'll relate just one: In 1980 a small group of free market economists and members of the Parliament invited Friedrich Hayek to deliver a lecture at the National Assembly. After this event, we went for dinner to the famous Paris restaurant, La tour d'argent. Suddenly, during the dinner, Hayek took a postcard from the restaurant and wrote this sentence: "The market is not merely a better adaptation, but an adaptation to the constant necessity of re-adaptation to ever changing circumstances." Isn't that pure Hayek?

Unhappily, I never had the chance to meet Ludwig von Mises. In any event, after discovering the writings of Hayek, I discovered Mises and Rothbard with the same sort of enthusiasm.

This gradual approach led me to a conviction: One has to be tolerant with people, not tolerant with ideas. Most people have not had the privilege of being confronted with right ideas; they have to discover them and there are several possible ways to make such a discovery. This is why one has to be tolerant with persons and accept that they may have different views or, why not, a tiny bit of truth. But, whenever you have strong convictions, you must not be tolerant in the sense that you must not accept any compromise with your beliefs.

Austrians are often considered as extremist and intolerant. They have strong convictions, but they must be open to discussion and accept that a gradual approach does exist and that, sometimes, the convergence or the compatibility between different approaches may be possible.

## III. Chicago and the Austrians

I already mentioned that the first Mundell—the one of the policy mix—was more than debatable because of his Chicagoan-Keynesian inclination. But I would not say the same of the second Mundell, the one of the "monetary approach of the balance of payments." To be sure, we need not care much about the balance of payments, which is nothing more than an account. And the best way to cure so-called "balance of payments problems" consists in stopping the collection and publication of statistics about the balance of payments. However, the monetary approach of the balance of payments shed some useful light on the interdependence between monetary policies of different countries under fixed rates.

There is also one element that is worth emphasizing. Contrary to most economists who fear deflation, Robert Mundell stressed that not only must one not fear deflation—a decrease in the quantity of money—but that deflation is desirable. In fact, when the quantity of money is decreasing in comparison to the quantity of goods and assets, the purchasing power of money is increasing, so that individuals hold more real cash balances. Meanwhile, as real balances can be considered to be a factor of production, the more abundant they are, the higher the return on other factors of production. Thus, the real interest rate is increased by deflation.

This is certainly accepted by Austrians. But it remains true that a Chicagoan like Robert Mundell cares only about the overall effect of money creation—or money destruction—on the general price level. He has not incorporated an essential element of the business cycle theories of Mises and Hayek, namely that we have to care about the way money enters into the economy and about the consequences of money creation on relative prices. The present financial crisis—to which I will come back later on—is a perfect illustration of this view: what is the most disturbing is not the inflationary effect of the past expansionary monetary policy of the U.S., but the drastic changes in relative prices and interest rates, and the deep disequilibria, brought about by this policy.

Contrary to the mainstream opinions, Austrian economists know that in any society there is no need to create money. In other words, as soon as a certain quantity of money exists, there is no need to create additional units of it; quite the contrary. In fact, individuals need real cash balances and not nominal cash balances. The only way to create real cash balances consists in destroying nominal cash balances. This is an important truth, but most people do not accept it, maybe because they are reasoning in the limited framework of the existing monetary systems of our time in which new money is created as a counterpart to a creation of new credits. And they believe that these new credits are able to stimulate the economy. But Austrian economists have made clear that such a process is a dangerous illusion: monetary authorities pretend that the amount of savings is higher than the amount freely decided by acting individuals. Unhappily, illusions cannot last for long, as we can see right now.

**IV. Views About Monetary Systems**

But before addressing the present problems of the financial crisis, I would like to give some more thoughts about monetary systems. It is not my intention to develop here a whole theory of monetary systems. But, drawing once more from my own past intellectual experience, I would like to stress again the uniqueness of economic theory, at least in the coherent approach of Austrians.

In the eighties I was asked by a friend who was a minister of telecommunications to write a report on the liberalization of this sector. I did not know much about telecoms and I had to deal with advisers of the ministers who were technicians and who used a specific language, with words I did not know. But I rapidly understood that the ideas I had encountered or developed when studying monetary systems could be applied to any network activity, at least if one has a correct approach of competition, monopolies, and cartels.

Mainstream economics are founded on a completely arbitrary definition of competition—pure and perfect competition—implying in particular that competition prevails whenever there are a great number of producers producing exactly the same product. This theory has nothing in common with reality and it might be considered a purely intellectual game. But it is accepted as a norm and forms the basis of most antitrust policies.

If one clings to this theory, it is obvious that one cannot accept the idea of competition in network activities such as telecoms, but also money, since it appears that there are a lot of reasons not to have a great number of producers of the concerned goods and services. There are, as they are called, "natural monopolies." In such cases, in which competition cannot prevail, there would be a need for public intervention, according to mainstream economists.

But this traditional definition of competition is meaningless for Austrians, both because they consider it to be unrealistic and because they care about processes and not about results. They do not care about the number of producers, but they care about the process by which a market is developing: competition prevails whenever there is free entry and whatever is the result of this process.

Now, competition means differentiation—contrary to the assumption of pure and perfect competition—since competition induces producers to do better than others, to differentiate themselves. But for many goods there is a demand for homogenization from producers and/or consumers. Finding the optimal degree of differentiation—which also means the optimal degree of homogenization—is certainly one of the great problems that have to be solved in any society.

There are two ways to determine the degree of differentiation: Either it is discovered through the free interplay of individuals; or it is decided a priori by the state (as it has been the case with the creation of the euro) and no one can know whether the productive structure that has been chosen is optimal, i.e., that it corresponds to the wishes of individuals. In fact a free determination on the market is the only meaningful solution, since optimality cannot be determined from outside—contrary to what mainstream economists assume—but only by the individuals who are concerned.

According to the activity to be considered, the optimal degree of differentiation or homogenization is not the same. It has to be revealed by those who are concerned and not decided from above. With the "Austrian" definition of competition things become clear: what is important is the process (freedom to entry) not the result (number of producers). But whenever homogenization appears to be desirable, it does not imply that the only possible market structure consists of having a monopoly producing the homogeneous good. It may be produced by many producers who decide, by various means, to produce the same product. In other words they decide to create a cartel.

This is the reason why, in an article on cartels I have published in the *Quarterly Journal of Austrian Economics*, I developed a positive view of cartels. Cartels are usually defined as arrangements between producers to create a monopoly position and to try to extract an extra profit from consumers. But, in reality a cartel is just a cooperative arrangement by which different producers make efforts to homogenize their products and to make them substitutable one to the other. Thus, a cartel means cooperation; but while cooperation is viewed as good when it occurs between officials, it is considered as harmful when it takes place between private entities and in which case people quite often speak of collusion. This is one illustration of the difficulty of choosing the right words, since many of them contain an implicit normative meaning. As an additional example, people are easily convinced that harmonizing policies inside the European Union is beneficial because "harmonization" suggests the existence of harmony between nations and individuals. But "harmonization" does not mean anything different from "forced cartelization" or "lack of competition."

In a freely created monetary cartel without a public central bank, different banks are issuing their own currency, but they make arrangements for these currencies to be perfectly substitutable one to the other, which is profitable for money users. For instance, in a genuine gold standard, banks give two sorts of convertibility guarantees for the currency they issue:

- A guarantee in terms of gold, with each bank being responsible for its own guarantees. This means that if one is ever creating too many units of currency, it may be unable to reimburse them in gold and may go bankrupt. Thus money producers are induced not to issue too much money.

A guarantee by which all banks recognize the currencies issued by the other members of the monetary cartel, thus producing substitutability between the different currencies, which means that each currency has a potential larger area of circulation and becomes more desirable.

In such a case, the optimal dimension of the monetary area is discovered by the market. The risk of over-issuance is low because

- Each bank is responsible for giving convertibility guarantees.
- There may be a system of mutual surveillance.

Therefore, systemic risks have no chance to occur in such a system, contrary to present monetary systems with a public central bank in which the banks are protected from outside competition by legal tender laws and are induced to over-issue money, because of the role of lender of last resort of the central bank.

Now, we need not decide from outside that a gold standard is the best monetary system or that a 100% reserve system is to be preferred. We have to experiment, to let producers of currency and users of currency freely enter onto the market for currencies.

I am sorry to say, here, at this Mises Institute event, that I am not necessarily a supporter of a 100% reserve ratio. But I am a defender of free currency and capitalist solutions. You cannot prevent banks and other institutions from creating fiat currency. But you can design a system in which there are limits to money creation and to instability in money creation.

## V. The Financial Crisis

It may seem somewhat presumptuous for me to speak of the financial crisis here, in the temple of the right theory of business cycle. By the way, during past months, I have been intellectually fed by the Mises Institute, which has helped me to better understand the events and to better explain them in France.

To be sure, the present crisis ought to induce people to recognize that there is no valid theory of the business cycle except the Austrian one. But, although it is obvious that the crisis has not been caused by an excess of capitalism—quite the contrary—all over the world, the same statements are endlessly repeated: self-adjustments by markets have failed and we have to celebrate the coming back of the state.

A lot of important things have been said by Austrian economists and it is not my intention to try to analyze the financial crisis in detail. Allow me just to make some remarks about this crisis in order to emphasize that this crisis is not a crisis of capitalism, but of state interventionism.

- There is a lack of real savings, at least in many developed countries, and more precisely a lack of equity capital, i.e. a lack of real property rights on capital, a lack of capitalists. Capitalism means ownership of capital, property rights on capital. But we have more or less a pseudo-capitalism without capital and capitalists. The world needs more capitalists. One major reason for this low level of equity capital comes from tax policies. Contrary to what is usually said, capital is overtaxed in most tax systems.

- Monetary authorities try to find a substitute to this lack of voluntary and real savings in money creation and credit.

The business cycle of our time is a sort of joint outcome of tax policy and monetary policy:

In the present crisis, due to the expansionary monetary policy of the Fed in the beginning of the 21st century, the world has been flooded with huge amounts of liquidities that could be obtained at a low interest rate, so that there were huge opportunities of short-term financing for financial institutions.

Anyhow, one may wonder why financial institutions have been so short-term and were unable to forecast the future. One reason may be ignorance: most bankers do not know the Austrian theory of the business cycle. But there is another reason, namely the existence of a shortfall of real capitalists, i.e. owners of capital. Big banks are some sorts of bureaucracies in which the decisions are not taken by the innumerable shareholders, but by managers. Managers are wage earners and not capitalists. And wage-earners—contrary to capitalists—are shortsighted: They rationally try to maximize their incomes in the short run. If their bank fails, they do not lose any capital. They may lose their job for a while, but their human capital remains intact.

Banks in the nineteenth century were owned by real capitalists and the equity capital of banks was about 60 to 80% of their balance sheets: Bankers were lending or investing their own money, so they were responsible and did not accept excessive risks.

We are now in a world of limited capitalism, with central banks and banking decisions made by managers and not capitalists. This is the deep cause of the financial crisis.

Contrary to what is claimed by the French president Nicolas Sarkozy, along with so many politicians, journalists or academics, there is no need to regulate capitalism and to improve the morals of capitalism. There is a need for a revival of capitalism.

## VI. Curing the Crisis and Restoring Capitalism

How to do it?

In the short run, it seems that only states are able to save the financial system. There is a general lack of confidence, making banks reluctant to lend to each other for fear of the failure of their potential partners. The state appears to be the only possible intermediary because it cannot fail—it benefits from this unique privilege. Ironically, people interpret this fact as a proof that state intervention is necessary. More precisely it seems to justify the idea according to which a financial system needs a lender of last resort and that this lender has to be a public institution. But, as happens so often, it seems that the one who destroys something is the only one who can also save it. But instead of celebrating monetary authorities for their rescue decisions, one ought to blame them for having created the problem.

The threat of a general collapse of financial institutions is one of the main arguments offered by the supporters of state intervention. Had it not existed, more banks would have failed, as is normal in a system of responsible capitalism. But it is characteristic, anyhow, that in recent months, several failing banks have been bought by other banks, which means that there is a great diversity of situations within the financial system. It is also obvious that the managers of failing banks prefer to be saved by the state, because they may keep their job, whereas in the case of a purchase by another bank, they would probably be fired.

The solution in the long run is certainly a revival of capitalism. It implies a decrease in the role of the state and tax systems more friendly to capital accumulation. It implies the end of monetary policy and, if possible, the disappearing of central banks.

Finally, I would like to address a specific problem: it seems that, in financial matters, there are gains from economies of scale. But there is the risk that very big firms be managed by managers and not by capitalists, as is presently the case.

I am not convinced that economies of scale exist, at least in all banking activities. They may exist, in particular, in market activities that have a high intellectual content: once an analysis of the financial market has been done it can be used to buy and sell at any scale. There are fixed costs and there is a gain from increased scale. There is also a risk: as far as the analysis can be wrong, the decision that is taken can bring about a huge loss. From this point of view a diversification of analyses may be as useful as a diversification of assets in a portfolio.

Anyhow, it appears to me that the best institutional solution would consist of the creation of financial cartels, that is, systems composed of a great number of capitalist banks, owned by capitalists who are responsible and who know they can fail, but linked together by all sorts of coordinating processes. Thus, if ever economies of scale do exist, for instance as regards investment and risk-taking decisions, the members of a banking cartel may use a common subsidiary of all of them to perform this specific task. One advantage of such a structure is that members are responsible and they are induced to organize systems of mutual surveillance. A monetary and financial cartel makes possible to reconcile a great dimension for some activities and management by real capitalists.

## Conclusion

The present crisis is not a crisis of capitalism, but a crisis of state interventionism, and it is also a consequence of a mechanicist approach to economic problems. I have already stressed the role of monetary policy and the fact that big banks are managed by managers and not by capitalists. But we may also add that there has been too much confidence in mathematical models of management without a sufficient concern about the behaviors and incentives of individuals. A banker who would have been educated in the Austrian tradition would have not accepted such high degrees of risk and he would have been doubtful about the most lax monetary policy of the beginning of the 21st century.

But we now have a vicious circle of destruction of capitalism. Under the pretext of curing the ills brought about by the capitalist system, states are reinforcing the non-capitalist aspects of the financial system:

- States become shareholders of banks and financial institutions.
- There are big mergers, which create ever bigger banks.
- Monetary authorities are decreasing interest rates and distributing too much money, thus preparing another monetary cycle.

How can we create a virtuous circle? People have to be convinced that the capitalist system is self-adjusting and that regulations are not the necessary way to obtain adjustment. But there is a terrific job to carry on, in educating people and in persuading governments that they have to reverse the stream, not gradually and piece by piece, but through a complete and rapid change of system. From this point of view the Mises Institute has an historical responsibility as one of the rare places where a correct analysis of the working of free markets can be found.

As Lew Rockwell wrote:

Great change must originate in the world of ideas. But we will never bring about a monetary revolution without mobilizing the people. And great popular movements cannot be built on repealing legal tender. Gold and anti-central banking, as our own history shows, are mobilizing issues. They also have the not-inconsiderable virtue of being true.[1]

To end, let me recall some statements I have made in the present lecture and which may be acceptable for all those who are here:

- There is no need to create money.
- There is never any balance of payments problem.
- The financial crisis is not a crisis of capitalism, but of state intervention.
- One ought to suppress central banks and the IMF.

Such statements—in which I strongly believe—are not easily accepted by public opinion and, even, by most economists.

[1] "Sound Money: Gold or Denationalized ?," *The Free Market* (March 1987).

When expressing such views, I may be considered as foolish or as a dangerous extremist—an ultra-liberal—and I must confess that I need some courage to go on with such ideas, especially in my country.

But I cannot do it alone. I need the support of people I admire, and that is why I want to thank the Mises Institute and you all here, from the bottom of my heart.