The Global Financial Crises

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Click on the below link to see a YouTube clip of an interview with Peter Schiff and Art Laffer in 2006. Laffer said everything was great: taxes, monetary policy, thrift – no recession coming. He dismissed Schiff as an idiot. Idiot is as idiot does. Name that idiot!

http://www.garynorth.com/public/4251.cfm

Schiff was right. Laffer was wrong. How can such things be?

The answer is that Schiff was using the Austrian theory of the business cycle, named in honor of Ludwig von Mises, an Austrian School economist, who developed his theory almost a century ago. Laffer was using a variation of the theory of money and prices developed by Mises' contemporary, Professor Irving Fisher of Yale.

Mises was right. Fisher was wrong.

This was a replay of a debate that took place 80 years ago.

Mises used his monetary theory to predict the Great Depression of the 1930's. In 1929, he turned down a lucrative job offer from Austria's Credit Anstalt Bank. He was convinced that the bank was vulnerable to the panic that was coming. He did not want his name associated with the bank. In 1931, its collapse triggered a wave of bank defaults in Europe.

Laffer graduated from the University of Chicago. That school of opinion rejects Mises' theory of the business cycle because it accepts Fisher's approach to money, which relies on index numbers as guides to monetary policy. The Chicago School is Fisherian to the core.

Mises wrote a critique of Fisher in 1928, which is available free on-line here:

http://mises.org/books/causes.pdf

It is found in the section on "Monetary Stabilization and Cyclical Policy."