

# Ayn Rand Among the Austrians

## Introduction

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In our Fall 2004 issue, *The Journal of Ayn Rand Studies* featured a symposium entitled “Ayn Rand: Literary and Cultural Impact.” It was the first of two in honor of the Ayn Rand Centenary.

This Spring 2005 issue completes our Centenary celebration. Entitled “Ayn Rand Among the Austrians,”<sup>1</sup> the present symposium is centered on Rand’s relationship to the Austrian school of economics. A rather heterodox approach to economics, the Austrian school was founded by Carl Menger in the nineteenth century and was exemplified in the twentieth century by such theorists as Ludwig von Mises, F. A. Hayek, and Murray N. Rothbard.

Even though Rand had personal relationships of varying lengths with both Mises and Rothbard, there has been relatively little formal engagement between the Randian and Austrian approaches. This symposium hopes to fill a major gap in the contemporary scholarly literature by exploring both the similarities and the differences between Objectivism and Austrianism.

### **Rand and the Modern-Day Austrians**

In her published and unpublished writings, Rand frequently recommended Mises’s works to all those seeking a better understanding of economics. For example, she refers philosopher John Hospers to Mises “for the details of why *economic calculation* is impossible to a socialistic government” (Rand 1995a, 515). She also recommends “the works of the great economist Ludwig von Mises” to dispel the

myth that “‘laissez-faire’ capitalism is the cause of depressions” (582). The NBI (Nathaniel Branden Institute) Book Service sold books by Mises among its regular titles. Rand herself listed eight Mises titles in the bibliography of her important anthology *Capitalism: The Unknown Ideal*, including *Human Action*, *Socialism*, and *The Theory of Money and Credit*. The bibliography also includes a reference to another Austrian economist, Eugen von Böhm-Bawerk, and his refutation of the labor theory of value (*The Exploitation Theory*).

*Capitalism: The Unknown Ideal* contains essays by Nathaniel Branden (“Common Fallacies About Capitalism: Monopolies; Depressions”) and Alan Greenspan (“Gold and Economic Freedom”) that make use of Austrian theory. Branden explicitly recommends *Human Action* “[f]or a general discussion of the business cycle and its relation to government manipulation of the money supply” (in Rand 1967, 83). He sees Mises’s magnum opus as a book “of the first rank of importance . . . a major economic classic . . . [that] belongs in the library of every advocate of capitalism” (Branden 1963, 34).

Rand actually attended one of Mises’s seminars in the academic year 1957–58, and enjoyed a close relationship with the Austrian-influenced writer Henry Hazlitt. Hazlitt had told Rand that Mises was so impressed with her impassioned defense of the free market that he had called her “the most courageous man in America,” a comment that delighted her (Branden 1986, 189). Margit von Mises (1984, 137) appreciated the attention that Rand brought to her husband’s corpus; she writes that Rand “was one of the strongest believers in my husband’s theories and often spoke and wrote about him in her various lectures and publications.”

At first, Rand had developed a collegial relationship with Mises’s protégé, Murray Rothbard. Though they had met after the publication of *The Fountainhead*, their steady intellectual engagement did not begin until 1954. Early on, Rothbard told one of his libertarian correspondents, Richard Cornuelle, of his “particularly depressing” experiences with Rand’s inner circle, and profound reservations about some of her claims. Yet, in 1957, upon reading *Atlas Shrugged*, he expressed to Rand in a personal letter his view that it was “the greatest novel ever written,” one with “a completely integrated

rational ethic, rational epistemology, rational psychology, and rational politics, all integrated one with the other” (quoted in Raimondo 2000, 118–19). He had even compared Rand’s achievements in *Atlas Shrugged* to those of Mises in *Human Action* (121). Rothbard went on to defend Rand’s novel in print in *Commonweal* magazine (1957) and in *National Review* (1958), and he attended the first courses offered by the Nathaniel Branden Lectures (which developed into NBI). As an anarchocapitalist, Rothbard certainly rejected Rand’s concept of limited government, but he nevertheless told Rand’s biographer, Barbara Branden (1986, 413), that he was “‘in agreement basically with all her philosophy’ and that it was she who convinced him of the theory of natural rights which his books uphold.” After a bitter personal break, however, Rand told a correspondent that she was “‘profoundly opposed to today’s so-called libertarian movement and to the theories of Dr. Murray Rothbard’”; she saw Rothbard and the libertarians as her “‘avowed enemies” (1995a, 664). For his part, Rothbard (1987) came to regard the movement around Rand as a “cult.”

Still, in Rothbard’s inner circle (the so-called “Circle Bastiat”), there were such writers as Ronald Hamowy, Robert Hessen, Leonard Liggio, Joseph Peden, Ralph Raico, and George Reisman. Among these, Hessen and Reisman later formed close intellectual relationships with Rand.

In contrast to her personal relationships with Mises and Rothbard, Rand never met Hayek. She regarded him as one of capitalism’s “compromisers” (Rand 1995a, 299); she told the individualist writer Rose Wilder Lane that Hayek was “an example of our most pernicious enemy . . . real poison” because he offered “contradictory ideas” in defense of capitalism. In her marginalia on *The Road to Serfdom*, material certainly not meant for publication, Rand’s vitriol goes much further; she is so irritated by Hayek’s inconsistencies and his willingness to endorse altruism and some degree of collectivism that she refers to him variously as a “God damn fool,” an “abysmal fool,” an “ass,” and a “total, complete, vicious bastard” (Rand 1995b, 145–60).

By contrast, Roy Childs (1994, 272) tells us that “Hayek . . .

rather admired *Atlas Shrugged*.” Childs “once asked him about it, and he said that he thought it was a very good, even profound, book, but apparently [he] skipped Galt’s speech. He couldn’t make heads nor tails out of it, he said, and indeed he could not understand any of her philosophical writings.” Alas, the *New Individualist Review*, on which Hayek served as an editorial board advisor, dismissed Rand’s book *For the New Intellectual* as “madness” (Goldberg 1961).

Despite her harsh criticisms of the ethics and politics of particular Austrians, Rand and her early followers derived much “intellectual ammunition” from the *economic* insights of the Austrian school.<sup>2</sup> Perhaps the most important contemporary theorist at the intersection of these traditions is George Reisman, who is represented in the current volume. Reisman is the author of the monumental work, *Capitalism: A Treatise on Economics* (1996), which draws from both Mises and Rand.

## **The Anti-Austrian Turn**

Notwithstanding Reisman’s example, in the years since Rand’s death some Randian thinkers have grown increasingly critical of the Austrian school. This is not simply commentary critical of the “subjectivist” and/or “Kantian” elements in Misesian and post-Misesian Austrian theory—something that has been expressed in audio-taped lectures by M. Northrup Buechner (1995) and Richard Salsman (1995a; 1995b). In the last year, for example, the criticisms leveled at Austrian theory by Salsman in particular might be characterized as “revisionism,” a virtual repudiation of the close intellectual relationship that has existed between Objectivism and Austrianism.

Though Salsman cites passages from Rothbard’s work on the Great Depression ([1963] 1975) in his own treatment of that historical episode, he rejects Austrian business cycle theory. Consider Salsman’s argument in a recent series of articles published in *The Intellectual Activist*:

Another common claim about stock-price gains in the 1920s is that they were made possible by Federal Reserve “infla-

tion.” This view is held by many supposed free-market economists—monetarists and Austrians<sup>3</sup>—and is certainly a tempting thesis for those who oppose central banking. But was Alan Greenspan correct when he wrote [in his essay, “Gold and Economic Freedom,” in Rand 1967], in the mid-1960s, that the late-1920s represented a “fantastic speculative boom” that was triggered by “excess credit” pumped out by the Fed—credit which then allegedly “spilled over into the stock market”?

This view of the late-1920s stock-price rise could not be more wrong. . . . (Salsman 2004a, 20)

Salsman argues that this theory is actually a vestige of Karl Marx’s view of capitalism and of “a neo-Marxist like John Maynard Keynes”; for Marx, says Salsman, “the ‘boom’ is ‘artificial’ because at root it is inherently unsustainable” (23).<sup>4</sup> He continues:

This is the inane and tragic state of affairs that has come to surround the crucial economic history of the 1920s and 1930s. Whether one turns to accounts given by Marxists, Austrians, Monetarists, or Keynesians, one will not obtain an accurate, consistent account of these distinctive decades. . . .

In the Austrian theory of business cycles, it is easy to detect a lack of appreciation for the intelligence, wisdom and foresight of entrepreneurs, businessmen and investors. Austrian economists presume producers are easily fooled by government manipulations of money, credit, and the economy—especially by the alleged phenomenon of “artificially” low interest rates. They claim producers are conned into undertaking projects that later will turn out badly and require liquidation. In fact, producers are not fooled; they know, even if implicitly, which government policies are conducive to wealth creation and which are destructive. That is, they know when it’s worth producing and when it’s

only worth shrugging. And when they shrug and production grinds to a halt, it does not grind to a halt because they had previously produced.<sup>5</sup>

When the Austrian view of the business cycle is coupled with a malevolent-universe premise—with the view that in the economy or stock market “what goes up must come down,” that “all good things must come to an end,” that no long ride of unbroken prosperity can ever persist without taking on irrationally exuberant hitchhikers—the combination can be catastrophic. For it can bring even purported champions of capitalism to openly endorse destructive policies such as Federal Reserve interest-rate hikes, curbs on the stock exchange, and more burdensome government regulations. (23)

In his notes (24 n. 14), Salsman rejects not only the “Austrian” business cycle writings of Mises, Hazlitt, Rothbard, Hans Sennholz, and Benjamin Anderson, but the theses of two “Objectivist” articles, which draw from Austrian business cycle theory: Greenspan’s “Gold and Economic Freedom” and Branden’s essay on “Depressions,” both of which appear in *Capitalism: The Unknown Ideal*. Interestingly, he does not mention Rand’s own 1974 essay, “Egalitarianism and Inflation” (republished in Rand 1982, 145–65), which is also inspired by the Misesian theory of money and credit.

Salsman even argues that Herbert Hoover himself later resorted to “regurgitat[ing] the usual screed of Marxists (and of Austrian economists such as Ludwig von Mises and Friedrich Hayek): that economic depression is the ‘inevitable’ result of a previously ‘false’ prosperity.” And he states further that “there’s not a single economist or historian of the 1930s who does not ridicule and condemn Hoover’s presidency—and simultaneously endorse the rationalization he used to exonerate himself, the Marxian-Austrian theory of ‘boom and bust’” (Salsman 2004b, 19–20). This is clearly an attempt to further discredit a theory that Rand and her early associates used approvingly and with regularity in their writings on economics.

## The Current Volume

Unlike writers such as Salsman, the contributors to the present volume believe that there is much to be gained in the intellectual exchange between Randian and Austrian thought. These essayists may draw different conclusions, but they are all united in their commitment to the productive engagement of these traditions.

The first three essays have an historical hue. George Reisman's essay, "Ayn Rand and Ludwig von Mises," views the work of these two seminal thinkers as complementary and mutually reinforcing. Walter Block, in his essay "Ayn Rand and Austrian Economics: Two Peas in a Pod," sees a similar complementarity at work.

Larry J. Sechrest's essay, "Alan Greenspan: Rand, Republicans, and Austrian Critics," reviews Greenspan's life and career, and also brings particular attention to the aforementioned Austrian business cycle theory in an assessment of Greenspan's performance as Chair of the Federal Reserve Board.

The symposium then moves to issues surrounding methodology and value theory. Roderick T. Long, in a title reminiscent of Rand's essay, "Philosophy: Who Needs It," provides an analysis of "Praxeology: Who Needs It." Long recounts Rand's objections to Mises's apriorism, subjectivism, and determinism, but offers provocative reinterpretations of each. As a result, Long finds much in Mises's praxeology (or "science of human action") that is consistent with Objectivist philosophical principles.

In a sense, Richard C. B. Johnsson's essay questions the very premise of our symposium. In "Subjectivism, Intrinsicism, and Apriorism: Rand Among the Austrians?," Johnsson compares the value theory of Objectivism with that offered by key thinkers in the Austrian tradition. Although he suggests that some of the apparent differences are more semantic than substantive, he is less interested in providing solutions and more concerned with asking the kinds of questions that might pave the way for productive theoretical exchanges in the future.

Edward W. Younkins's essay, "Menger, Mises, Rand, and Beyond," rounds out this section by dealing with certain paradoxes

faced in any proposed synthesis of the two traditions. For Younkins, the Austrian praxeological approach can be profitably integrated with neo-Aristotelian and Randian moral defenses of capitalism. What results is, for Younkins, a powerful libertarian analytical paradigm.

From value theory and economics, the discussion moves to sociological and political themes. Steven Horwitz's essay, "Two Worlds at Once: Rand, Hayek, and the Ethics of the Micro- and Macro-cosmos," focuses on the ways in which Randian and Hayekian insights might illuminate or obscure certain issues surrounding the institution of the family. In particular, Horwitz questions whether the Randian "trader principle" is universally applicable.

In her essay, "Our Unethical Constitution," Candice E. Jackson takes Rand and Rothbard as espousing a very similar individualist ethics, and argues that the Constitution was never meant to be an instrument that systematically protected individual rights. Jackson criticizes the Constitution as a flawed, pragmatic expression of "good government," not the praiseworthy document that Rand celebrated.

The symposium then takes a pedagogical turn. In his essay, "Teaching Economics Through Ayn Rand: How the Economy is Like a Novel and How the Novel Can Teach Us About Economics," Peter J. Boettke proposes that effective "storytelling" is an essential part of being a successful economist. He explains how the principles of economics can be taught through the use of literature, and how Rand's novels offer especially memorable illustrations of these principles at work.

We conclude with a brief exchange between Austrian fellow-traveler Leland B. Yeager and Objectivist William Thomas. Yeager's essay, "An Economist Responds," is a reply to Thomas's Spring 2004 *Journal of Ayn Rand Studies* review of Yeager's book *Ethics as Social Science*. In his rejoinder, "Clarity and the Standard of Ethics," Thomas discusses his differences with Yeager, while also highlighting their shared "vision of a robust fact-based moral individualism."

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Austrian-school theorists and Randian thinkers alike have

experienced varying degrees of scholarly marginalization. It is our hope that this collection of essays, in celebration of the one hundredth anniversary of Rand's birth, will be the first step in a mutually beneficial process: the exploration of distinctions and the possibilities for a shared vision. Through such vigorous intellectual engagement among the heterodox, there might emerge an even more powerful challenge to mainstream social science.

## Notes

1. Thanks to Roderick T. Long for suggesting this apt title. And thanks also to Robert L. Campbell for the editorial work that he did with the present authors in preparation of the current volume.

2. Ironically, the Austrian insight into the non-neutral effects of taxes has been used to argue against Rand's defense of limited government (Sechrest 1999).

3. See Sechrest 1993, 59–76; 1997, for comparisons of the Austrian and monetarist approaches to business cycles. Lumping them together, as Salsman does, is a questionable procedure.

4. Sciabarra (1995a, 76–79) argues that there are genuine parallels between Austrian and Marxian theories of the business cycle. Each school focuses on the “*political* character of the business cycle,” even though each proposes diametrically opposed solutions to the problem. See also Vorhies 1989; Sciabarra 1995a, 336–38; 2000, 287–300. Salsman (1995c, lecture 5) is aware of Sciabarra's work—he quotes approvingly, and without attribution, from Sciabarra 1988 (subsequently adapted for Sciabarra 1995)—on the parallels between the Marxian and Hayekian critiques of utopianism but views these parallels as weaknesses.

5. Salsman seems to have badly distorted the well-developed Austrian theory of business cycles. To discover what some modern Austrians have actually said about “unsustainable expansions,” see Garrison 2001, 57–83; Cochran and Glahe 1999, 65–149; Sechrest 1993, 45–58; Carilli and Dempster 2001; and Callahan and Garrison 2003.

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