

## WHEN I WAS SIX

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### INTRODUCTION: WHAT DO ECONOMISTS PREACH?

Murray Rothbard told us that liberty is what allows human flourishing, that liberty requires private property rights and the non aggression principle (NAP), and that this nation was conceived in liberty.

What do mainstream economists tell us today? I attended a seminar in my department a few weeks ago. As everyone walked into the room, the presenter had an equation showing on a powerpoint slide via a projector. Before really getting started, a lively discussion began—all about whether the function should be Cobb-Douglas or CES and whether the data were aggregated in one way or another

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and whether this or that parameter should be present. This is what passes for economics these days in mainstream departments.

Another illustration: I went to lunch the other day with a well-known macro economist. I asked him what value the overlapping generations model provides. His answer was that it gives insights about retirement and pensions. After listening to him summarize the take from the model, I asked why the model was necessary to reach such common sense answers.

Speaking of overlapping generations models, I just read a paper by Kotlikoff, Sachs and a couple of other authors (Benzell et al., 2015) that used an overlapping generations model to argue that technology will eventually lead to stagnation and that the solution to that is redistributive policies. Of course, the results were manufactured by the model parameters. To suggest or make policies on the basis of such models is downright scary.

Much of what is being taught in mainstream economics departments around the country these days is nonsense. Mises dismissed academic economists as a collection of charlatans—"The fact that the majority of our contemporaries, the masses of semi-barbarians led by self-styled intellectuals, entirely ignore everything that economics has brought forward, is the main political problem of our age."

There are, of course, some very talented people who use the positivist methodology to do interesting work. On the whole though, I think economists in general and economics training in particular today are on the wrong track: in encouraging students to become highly trained technicians and engineers, economic education is succeeding in producing charlatans who, on the one hand, don't understand economics and, on the other, are hostile to the ideas of liberty.

I conducted a survey where I measured student attitudes towards free market ideas at various stages of their training. The result was: The more economics schooling they had, the less they liked the free market and the more they wanted government to solve issues. In addition, I found that positive attitude toward free enterprise was an inferior good.

Another survey I have found interesting is one where I present several scenarios where a scarce good or service requires allocation

and ask which allocation mechanism is favored—price, first-come first-served, random, or government. The economics students did not favor price.

A 2005 survey by Dan Klein and Charlotta Stern (Klein and Stern, 2006, 2007) found that most economists favor government intervention in the economy in a wide range of areas, including income redistribution, minimum wage laws, environmental regulation, anti-discrimination laws, and others. They also found that economists are more likely to vote Democratic than Republican by a margin of 5 to 2. But even the Republican-voting economists tended to favor some amount of government intervention in all of these areas.

These pro-government attitudes of students come from their training that represents the pervasive anti-liberty viewpoint in economics that has its origins in Walras, Pigou, Marshall and J.S. Mill. From then to the present, economists have looked for anything they can call a market failure. Several Nobel Prizes have been awarded for claiming market failure and many “new” schools of thought—new Keynesianism, new information economics—have emerged from the market failure mindset.

All the attention given to market failure has dealt a blow to free market ideas. Together with a second strand of thought—Keynesian macroeconomics—the mainstream in economics has been severely biased towards statism. Klein and Stern found only 8 percent of AEA economists supported the free market and only 3 percent were strong supporters.

I really do not understand this. How can anyone who studies markets and understands the market process be a statist? In 2010, I was discussing the global economy at a small conference; Alan Blinder also was on the stage. During his presentation, Blinder said he is really happy given the events of 2008–2009 that he is a Keynesian and that his principles book is written from a Keynesian perspective.

The problem I have with Blinder and anyone thinking from a Keynesian framework is that Keynesian economics is not economics; in fact, macroeconomics is not economics. There is no macro, no aggregates, no multipliers and there should be no economic policy based on these ideas.

Economics has been waylaid due to these two developments. Most mainstream work today doesn't even bother to acknowledge that markets require private property, the non aggression principle (NAP), and the price system. It is not widely understood that private property along with the NAP, guided by price signals and disciplined by profit and loss accounting will steer self-interested behavior in the direction of social cooperation.

Murray Rothbard recognized what was important. Rothbard was a remarkable economist, historian, and philosopher, and he has had a lasting impact on thought leaders regarding liberty.

I am amazed and very humbled that I would be invited to present this lecture in honor of him.

## INSIGHTS ON MURRAY

In lectures like this it is common to provide some inside information about the person. I did not have the opportunity to meet Murray, so I can't tell you anything personal about him. A golfing friend of mine worked with him at UNLV so I called my friend to see if he could give me any dirt on Murray. Here are several anecdotes:

1. When hired, his office had brown chairs but he wanted blue chairs like they had in the dean's office. The associate dean, thinking he was being really cute, told him it took 2 brown chairs to equal 1 blue chair. Next morning, Murray appeared at the Dean's office with two brown chairs in tow.
2. When confronted on the apparent contradiction that he wanted to dismantle the state but worked for UNLV, Murray would often say, "I told you the state was corrupt and failing!"
3. Another friend of mine tells me of the time he and Murray were arguing about something. My friend said, "Murray, why are you so nice to me? I have seen you tear others apart on these issues. Murray said, "You are a civilian. If you were a goddamn academic it would be a different matter."

I am astounded at Rothbard's achievements: the only accurate account of America's Great Depression, the most systematic defense of anarcho-capitalism ever written, contributions to economic methodology, philosophy, ethics, history, and everything

else he focused on. Because of his wide ranging and intellectually powerful work, I didn't know what to talk about here in the memorial lecture until I saw a video of Murray explaining how he became a libertarian. I thought I might follow his script and, in so doing, bring up a couple of issues related to the reach of Austrian economics. I don't mean this to be a narcissistic or ego-driven thing. My intention is to use this not only as a history lesson but a basis for a look ahead.

Murray said he rebelled against the state when he was 6. But he was happy when he did it. I got a kick out of Roderick Long's lecture<sup>1</sup> where he reported that Murray's fourth-grade teacher's report from 1936 said: "Murray seems to be so exceedingly happy that it is sometimes difficult to control his activities in the class. He must develop a more controlled behavior in the group." Today they would probably say he had ADD and give him some Ritalin.

## MY DEVELOPMENT

When I was 6, my favorite game was cowboys and Indians. I had a six shooter and holster. I would play with a friend and we would have quick draw contests. When I wouldn't let my friend use my six shooter one time, my mother said, "Billy, you need to share." I would love to be able to tell you that I turned to her and said, "Mom, you want me to be a socialist. You don't share your car or your house or your yard, why should I share my property?"

I'd like to tell you that I said this, but I can't. I am not Murray Rothbard. The only thing I remember about the early grades was playing baseball and lusting after my 7<sup>th</sup> grade teacher.

Neither of my parents attended college. So it was a given I would attend. I became interested in economics as an undergraduate. I don't really know why. My first two instructors were a Marxist and a Keynesian.

Then I went to graduate school. There I learned very little economics. The only thing I remember about my first microeconomics course was proving Kakutani's Fixed Point Theorem and

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<sup>1</sup> Roderick T. Long, Murray N. Rothbard Memorial Lecture at the 2006 Austrian Scholars Conference, held at the Mises Institute, Auburn, Alabama.

deriving first and second order conditions of optimization. Our text was Samuelson's *Foundations of Economic Analysis* (1965). Microeconomics II was linear and dynamic programming. And in macroeconomics we covered Keynes and Keynesian growth theory.

Even though I was awarded a Ph.D. in economics, I knew very little economics; I knew a fair amount of math and econometrics. After grad school my initial position was in investment banking, and knowledge of math and econometrics there did absolutely nothing; in fact, I panicked when I realized I could not even discuss current events. So I began reading anything that would help me get some grounding in macroeconomics. Not knowing better most of my reading came from the mostly macro Keynesian material out of *Brookings Papers*. I got up to speed on the economic outlook and linking the economy to financial markets; I could talk to Alan Greenspan at his consulting company. Even so, macro did not make sense to me.

My dissertation was focused on industrial organization, and it contained the usual econometric bells and whistles. In the years after my dissertation, I gained a little distance from the Ph.D. process and began to wonder what sense market models of traditional IO made (monopoly, oligopoly, perfect competition, etc.).

One thing you should note here: I had not heard of Mises, Hayek, or any other Austrians to this point in my career. It was not until some time later when I became convinced of the benefits of market allocation and a decentralized system.

## LIVE BY WHAT YOU PREACH

I find it interesting how few economists actually live by what they preach or teach. Let me give you a couple examples. When my department was being relocated to a new building there was a problem of deciding who got the better offices. The offices were not identical—some had large windows, some small windows, some no windows. I was department chairman. Prior to this point, I, just like most other academics then and today, live and operate within a socialist system: egalitarian treatment of travel budgets, teaching and research report... even of salary increases. Classes and class times assigned, offices assigned, but phone calls, supplies,

copying, etc. were “free.” When I surveyed the faculty asking how to allocate the offices, the most senior wanted it by seniority, the most productive by productivity, the tallest by height, the former college wrestler by a fight, and so on. I used an auction to allocate offices. I allowed faculty to bid for classes and class times; I decentralized the budget. Supplies were priced, not given out free. The system worked. Phone usage dropped and travel increased. (Boyes, 1989)

Another episode was when I attended a Henry Manne Law and Economics two week long seminar held in Miami. At the end of the two weeks, students gathered together to discuss the seminars. One instructor was excellent and one was terrible, the rest just OK. The students proposed that we each contribute some amount, say \$25, and the funds divided equally among the instructors. These were economists!

Faculty meetings present a great example of economists not living economics. They typically are egalitarian gabfests with no productive output. Typically, “fairness” is a focal point. Each faculty meeting can be one of frustration. I finally learned that if I pulled a Mises and called the committee members socialists I would not be put on committees!

Rothbard recognized he was libertarian when he was 6; I was much older. That gives you some perspective on our relative intelligences. The issues I was thinking about when I was thirty or forty had already been written about by Mises, Rothbard and others in the Austrian tradition, but I was unaware of this. For instance,

Aggregation makes no sense. GDP, national income accounting, unemployment, inflation—what do these really mean? To explain that the total measure of output in the economy is  $C+I+G+X-M$  not only implies that these categories are fungible but that more and more  $G$  obviously leads to more and more national income. Rothbard pointed out the idea of private product to solve this part. But more importantly, he logically destroyed the Keynesian multiplier.

Friedrich Hayek noted in “The Use of Knowledge in Society” that aggregation throws away a great deal of valuable information. If we believed the aggregation, then we could make GDP rise by simple actions—such as burning down your house, having your kids be juvenile delinquents, getting a divorce and so on. (Parks, 1998)

Keynes's suggestion to hire unemployed to dig holes and more unemployed to fill them up, echoed today by Krugman and Keynesians worldwide, is complete ignorance of Say's Law.

Unemployed resources put pressure on resource costs which lead to the market adjustment. If those resources are employed by government they no longer put pressure on resources and in the meantime, they produce nothing.

Market failures make no sense. In a system of private property rights and non aggression, there are no so-called market failures. Market failures are an equilibrium concept which in reality are instead profit opportunities.

If one begins the slippery slope by allowing one violation of NAP, then we are left with a continual growing government. Logic dictates anarchism.

## THE CLUB

In all these areas, Murray Rothbard was undoubtedly brilliant. Yet, he had academic positions at two relatively low-level universities. The reason:

I believe there is an analogy with the climate change debate. A paper published in 2014 in the *American Journal of Agricultural Economics*, titled "Information Manipulation and Climate Agreements," provides a "rationale" for global warming proponents to engage in mendacious claims in order to further their cause. Cheating, lying, falsifying data, etc., are considered ethical strategies. This may be due to an attempt to protect one's human capital.

We can agree that after devoting resources to acquiring specific human capital, one wants to minimize depreciation and obsolescence of that capital. Thus cartels are formed, hiring limited to like thinkers, and so on. This is what the "climate science" debate is all about. "All scientists support man made climate change."

Similarly, if you spend 10 years in economics programs developing a specific kind of human capital, you do not want to see that capital depreciate or become obsolete. Since Samuelson's *Foundations*, the capital developed by economics has been what



Mises called physics envy, and the methodology has led to an emphasis on market failure. In a Cato paper, Dan Klein (1999) refers to the mainstream as a club.

Gary North essentially agrees when he says:

Because of Rothbard's commitment to the application of Mises's theory to virtually every area of modern politics, he has earned the respect of intelligent people who are outside of academia, and who see through the delusions of both grandeur and independence that tend to afflict those who are inside academia. In contrast, those who are inside academia, and who gain their sense of importance from their peers in academia, regard Rothbard as the turd in the punch bowl. If Rothbard was right, then almost everything they are doing is either irrelevant or worse. (North, 2013)

The club is maintained as a rent-seeking entity by the growth of the state. One of my environmental economist colleagues tells me the EPA is a full employment agency for environmental economists. In mainstream economics, research grants come from government—NSF, NIH, DOD, EPA, etc. For example, the 2014 awards of the NSF totaled over \$7 billion. Something like 400 had something to do with market failure. One dealt with Hayek's methodology and I think it was critical of Hayek.

As the interventionist state expands, it reinforces the need for trained experts who are conducive to furthering the growth of the state. The university system obtains increasing subsidies from government to initiate and expand graduate programs that will provide such personnel. Government in general is very good for economists.

So wouldn't it make sense that economists would see a role for government? And isn't there an incentive for economists to mimic each other in technique and thought? According to a recent paper,

Economists, want to fix things. They have developed a precise theoretical framework for evaluating when markets are efficient and when market failures can occur. If things don't work the way they should, then a smart intervention, a "nudge,"<sup>2</sup> may be called for. (Fourcade et al., 2014)

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<sup>2</sup> "Nudge" in the sense of Richard H. Thaler and Cass R. Sunstein (2008).

The study finds:

Economics departments at the very top of the pecking order exchange students among themselves in higher proportions than in other fields, including mathematics. Hierarchy is much more clearly defined in economics.

Hiring practices sustain and foster a strong temporal persistence of the prestige rankings.

The top five sociology departments account for 22.3 percent of all authors published in the *American Journal of Sociology*, but the top five economics departments account for 28.7 percent of all authors in the *Journal of Political Economy* and 37.5 percent in the *Quarterly Journal of Economics* (QJE).

Those with Ph.D.s from the top five sociology departments publish 35.4 percent of the articles in *American Journal of Sociology*; in economics it is 45.4 percent in the *Journal of Political Economy* and a sky-high 57.6 percent in the *Quarterly Journal of Economics*.

The AEA is much more centralized than other professional societies;

AEA leaders are drawn disproportionately from the discipline's elite departments: 72 percent of the AEA non-appointed council members are from the top five departments, in contrast to only 12 and 20 percent, respectively, for APSA and ASA.

The president-elect and program committee run the program for the annual meetings, which involves selecting the sessions to be conducted and the papers to be included in the "Papers and Proceedings."

Richard Tol (2009) reported that 84 percent of economists, when asked whether climate change posed a significant risk to the U.S. and global economies, either agreed or strongly agreed.

A paper published in 2012 called "Mainstream Economists on the Defense" interviews several mainstream economists on why only the neoclassical view is provided in classes. Most answer that neoclassical economists are diverse, nothing else needs to be considered. Several said that heterodox perspectives were akin to unscientific theories, like astrology, or to outdated theories in the natural sciences. (Alberti, 2012)

Harold Uhlig of the University of Chicago said that he has not seen anything in the other schools of thought that "I think our models can't handle." (Alberti, 2012)

Deidre McCloskey noted this tendency to homogeneity in the midst of specialization and comparative advantage in her little note on Kelly Green Golfing Shoes being called the “Samuelson.”

But even given all this, we recognize that thanks to the work of Lew Rockwell and the Mises Institute and all of you, students have more chance of being exposed to Austrian economics than ever before. For many years I never had an undergraduate student who had heard of Mises or Rothbard. Lately however, there is at least 1 student out of 30 in each class who has read Mises and Rothbard or pays attention to Mises.org, even though I was the only faculty member who assigned them in readings.

But this does not mean Austrian economists are welcomed in so-called mainstream departments. Our Center for Economic Liberty has come face to face with that. Two foundations and several individual donors wanted to see ASU’s School of Business create a center dedicated to economic liberty. Part of the Center’s task is to hire people devoted to free enterprise and liberty. Because of the club or cartels formed by departments, it is difficult to overcome their barriers with respect to the use of techniques or methodology. The response to the people we put forward to recruiting committees is that they do not have enough publications in the top journals or don’t approach problems “like we do.”

Some have made arguments that the exclusion of Austrian economists from mainstream departments and journals is a market failure. Others point to the mathematical technique or to Austrian methodology.

Whatever the reason, I don’t think this will continue to be an important question. We know that the real battle is the battle of ideas, not esoteric academic journals or even tenured positions in mainstream departments. Having those might make the battles today easier. But since it is the public and thought leaders who must learn the value of liberty the work of Austrians and the value of technology will make more difference than esoteric journals.

The battle of ideas will be won outside of academic institutions. Technology is enabling ideas to spread easily and quickly. Whereas the internet essentially destroyed print media, today we have blogs, social media, podcasts, and online journals. Tomorrow we will be able to provide information and experiences regarding that

information more easily and more rapidly. Intelligent personal assistants such as Apple's Siri and Samsung's S-voice allow us to input text or speak commands with our voice instead of typing. With Kinect and Wii-like technologies we can control devices by using gestures. Brain-computer interfaces which read our thoughts are also in the make. We can buy and sell using cryptocurrencies such as bitcoin. We can take Lyft or Uber downtown, bypassing obsolete local ordinances on the way. These are just the beginnings of a new form of social coordination in which technology *itself* makes it possible to upgrade our social operating systems. Blockchain technology is decentralizing everything, and this will include the university.

Even now, the Austrian school is growing and becoming more and more accepted outside of academia. *Barron's* magazine, for example, admitted what few in the mainstream have been willing to acknowledge: *the Austrian school of economics was right*. In the latest Gallup Governance Survey, pollsters found that 25 percent of respondents fell into the libertarian quadrant, up from 17 percent in 2004.

Still, there is a great deal of work ahead. The basic intuition of the general public is to reject free markets. We know that the anti-liberty and anti-market attitude is an emotional reaction on the part of the general public and academics. To the general public, freedom can be a scary thing. It requires personal responsibility. It is frightening to many that we own or are responsible for our own lives.

The general public does not recognize the morality of voluntary association and freedom of exchange, under which violence and coercion are removed. It is not recognized that life need not be a negative sum game.

To the intellectual, "the public is dumb," as Jonathan Gruber said. Thus, the general public needs the intellectuals to guide them and tell them right from wrong—to "fix things."

The battle of ideas continues, but the public doesn't need intellectuals to fix things. Rothbard would call on us to continue to point out that a world in which free men and women may use their creative potentials in any way they desire is a world full of opportunities, a world where humans flourish, and a world where improvements in the human condition take place.

This is what Murray Rothbard understood and communicated. He might have been a lone nut, but look where he brought us.

Thank you very much.

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