

# The Austrian

A PUBLICATION OF THE MISES INSTITUTE

Vol. 4, No. 1

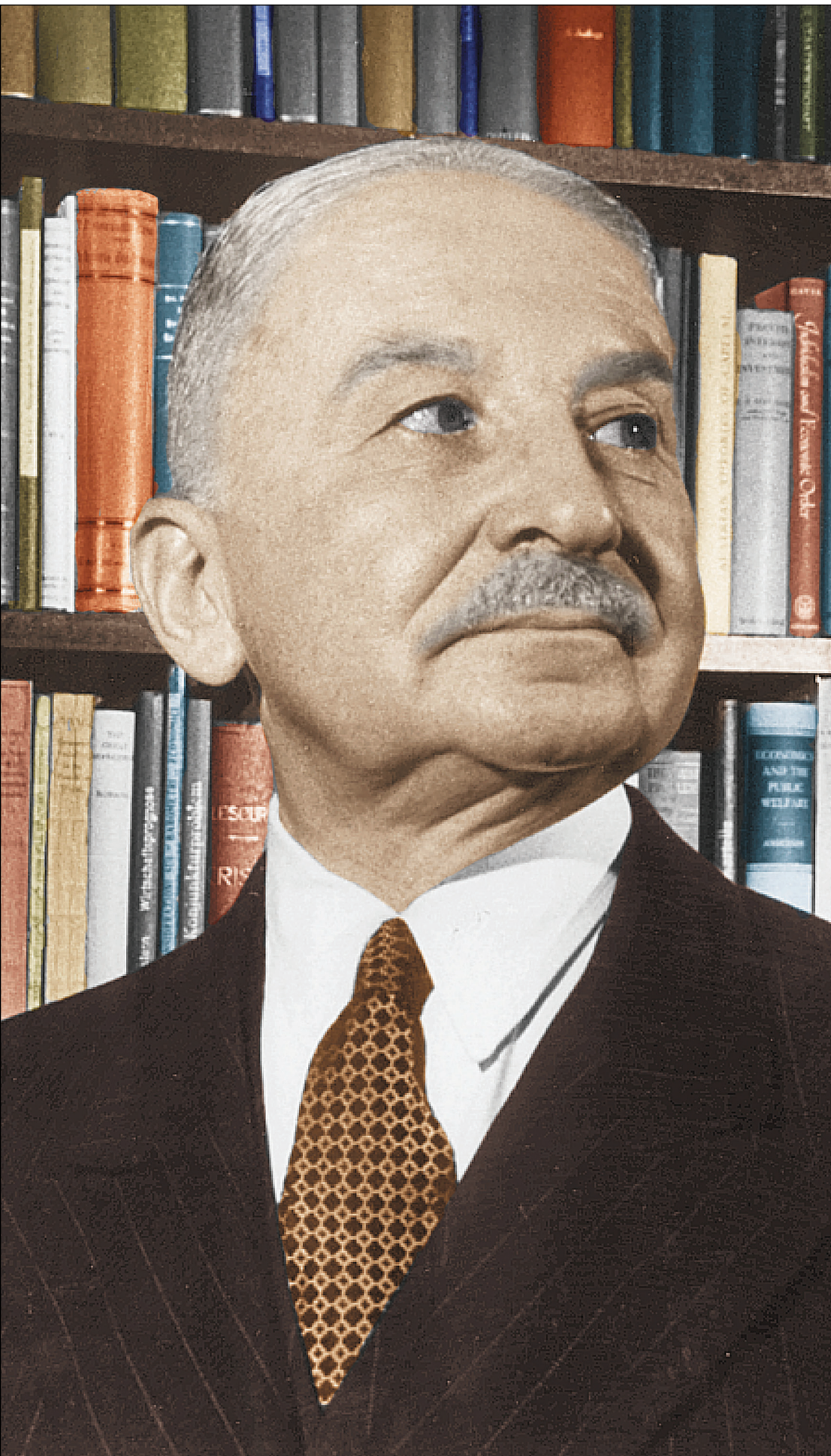
January – February 2018

PAGE 4

BOB MURPHY

ON UNIVERSITIES, KRUGMAN,  
AND THE STATE OF  
AUSTRIAN ECONOMICS





# The Austrian

A PUBLICATION OF THE MISES INSTITUTE

- 3** Jeff Deist – From the Publisher
- 4** Bob Murphy on Universities, Krugman, and the State of Austrian Economics
- 7** Coming Events
- 15** David Gordon on Inequality, Capital, and the Problem of Piketty
- 18** Congratulations to Dr. Karl-Friedrich Israel; A New Book of Austrian Insights; and A Collection of Essays by David Gordon
- 19** The Mises Institute in Orlando; and A Sequel to Hazlitt's *Economics in One Lesson*

Published 2018 (six times per year) by the Mises Institute under the Creative Commons Attribution-NonCommercial 4.0 International License. <http://creativecommons.org/licenses/by-nc/4.0/>

Publisher: Jeff Deist  
Editor: Ryan McMaken  
Managing Editor: Judith F. Thommesen  
Contributing Editors:  
David Gordon  
Joseph T. Salerno  
Mark Thornton

Mises Institute  
518 West Magnolia Avenue  
Auburn, AL 36832-4501  
334.321.2100 | Fax: 334.321.2119  
[contact@mises.org](mailto:contact@mises.org) | [mises.org](http://mises.org)

The Mises Institute is a nonprofit organization. Contributions are tax-deductible to the full extent of the law. Note: the views expressed in *The Austrian* are not necessarily those of the Mises Institute.

jeffdeist@mises.org •  @jeffdeist

# From the publisher

## Jeff Deist

**A** new year brings new hope: hope for fewer wars and less interventionism, hope for saner and less oppressive governance, hope for greater goodwill and less political hatred in the face of upcoming mid-term congressional elections.

Hope is our birthright, and our children's birthright. It is our duty to bequeath not only material prosperity to future generations, but also a sense of optimism for the future and the human condition. Yet many young people today worry their lives will be less prosperous and less hopeful than promised, even as they enjoy material comforts all around us. Fatalism among younger people should be a wake-up call and rallying cry for all of us.

To gain a sense of optimism and hope we must turn away from the zero-sum, binary political world and toward an understanding of economics as the foundation for a cooperative and peaceful society. Economics, not politics, provides the answers for how best to organize human affairs. Markets are never perfect, reflecting the actions of flawed human individuals. But they are the only humane and efficient way to raise living standards while making war and conflict less likely. No technology or third way political thinking will change this.

Our mission at the Mises Institute is to help make proper economics available to everyone, from PhD academics to the intelligent layperson seeking only a basic understanding. Toward that end, in 2018 *The Austrian* will feature interviews with the most interesting thinkers in economics and political thought. Our hope is to humanize and personalize Austrian and libertarian theory, by bringing readers not only ideas but also the people behind them. Our good friend and Senior Fellow Bob Murphy starts the year off with his unvarnished thoughts about whether college is worth it, whether professional economists actually provide any value to the world, and the current state of the Austrian school.

David Gordon tells us there are further signs of intelligent pushback against the economically illiterate narratives of our day, especially the dubious "inequality" shibboleth. In this issue he reviews a recent Cato Institute publication titled *Anti-Piketty*, a book which not surprisingly finds the progressive Boy Wonder economist lacking both common sense and

common humanity. How else can we explain Piketty's bizarre hostility for capital accumulation, the greatest engine for alleviating poverty in human history? Will progressives ever admit that growing the pie is more important than slicing it?

If anything, the ordinary Westerner (what much of the world would give to be just that!) lives a material life not much different than a billionaire. Both enjoy luxuries that would dazzle even the wealthiest elites of past centuries: dry and comfortable habitation, modern medicine and dental care, plentiful cheap electricity, stupendous choices of affordable food, hot and cold running water immediately at hand, heat and air conditioning, an automobile, travel opportunities, and ready internet access.


These modern innovations remind us of Mises's quote that "the luxury of today is the necessity of tomorrow." And demographer Nicholas Eberstadt, in his contribution to *Anti-Piketty*, tells us plainly "the human condition is incontestably more equal today than it has ever been before."

"Hope is a waking dream."

Aristotle

Yet the Pikettys of the world see oppression everywhere: the billionaire has a fancier house, a more luxurious car, expensive vacations. Something must be done! Leave it to David Gordon to ask the fundamental question: Why? Why is inequality bad? Why are progressives never required to explain how differences in wealth justify what Piketty demands as "corrective action by the government"? What morally permits such action? And what if we're all made worse off materially but more "equal"?

If hope is to make a comeback, we need to enlist correct economics in the fight against bad ideas. And make no mistake, the Pikettys of the world believe with religious fervor in the worst idea of statism. Everything statists advocate, both from the Left and Right, represents a rebellion against the simple fact that life is not fair. Their failure to understand economics, combined with historical amnesia — this time will be different! — is what threatens us and challenges us.

We look forward to seeing or hearing from you this year, whether here in Auburn or at events ([mises.org/events](https://mises.org/events)) we're planning across the country. Best wishes for a happy, prosperous, and hopeful 2018! 

---

Jeff Deist is president of the Mises Institute.

# BOB MURPHY

## ON UNIVERSITIES, KRUGMAN, AND THE STATE OF AUSTRIAN ECONOMICS



Robert P. Murphy is a Senior Fellow with the Mises Institute and Research Assistant Professor with the Free Market Institute at Texas Tech University. He is the author of many books, most recently *Choice: Cooperation, Enterprise, and Human Action* (Independent Institute, 2015) which is a modern distillation of the essentials of Mises's thought for the layperson.

Murphy is co-host, with Tom Woods, of the popular podcast *Contra Krugman*, which is a weekly refutation of Paul Krugman's *New York Times* column.

**DEIST:** Let's begin with your assessment of the state of Austrian economics today.

**MURPHY:** Well, the first thing is that it's so much bigger than it was. I'm relatively young, but even when I was going through grad school in the early 2000s, there was still a question we asked ourselves, "If you're a grad student in Austrian economics, do you advertise that fact or do you engage in what they were calling the stealth strategy?" With the stealth strategy, you just keep your perspective to yourself, get published, and do your dissertation on a mainstream topic. You get yourself into a school, get tenure and only *then* do you say "surprise, I'm an Austrian."

Now, though, the advice that people are giving is "you want to, *by all means* advertise that fact because we have enough of a foothold in various places that you've got to let them know that you're an Austrian because if they're looking to

hire somebody who thinks like that, you've got to stand out from the crowd.

And so, that's just the most immediate thing that comes to my mind. So yes, we do have — and unfortunately it took the financial crisis to make this happen — a certain amount of recognition now. We're definitely getting out there more.

One last thing I'll mention: when I'm talking to a crowd of financial professionals and I show them what I think happened with the housing boom and bust, I'm using Austrian business cycle theory, but I'm not using that term necessarily. I'm just explaining how the Fed blew up a bubble, and so on. And they all soak that right up. They don't bat an eye. That sounds perfectly plausible to them.

**DEIST:** Austrian economics is also becoming increasingly integrated into the larger profession. Do you think the term itself still has value, as a loose term of convenience? Or do you think we should jettison it and focus on individual Austrians and their impact?

**MURPHY:** It's a tricky question. I think it was Milton Friedman who kind of flip-pantly said there's just good economics or bad economics and I get that, but on the other hand, there really are schools of thought, and that's a separate discussion as to why that is the case in economics. In physics, you don't necessarily have it, but I think that's partly because the social sciences are different from the natural sciences and it really does matter, and there are reasons that things that make sense in physics don't necessarily translate over to economics.

I do think there are schools of thought and so I don't think it's helpful to get rid of the term. I'll put it to you this way. The kind of people who aren't going to like it because of the label, I don't think you're going to convince them by switching the label to something else like coordination economics or whatever some of the other phrases are that have been offered. I'm being a bit of a hypocrite because I just mentioned that when I speak to a crowd of financial professionals, I don't necessarily volunteer right

off the bat, "Hey everyone, this is the Austrian theory of the business cycle." Depending on how much time I have, I might get back with them and say hey, if you want to learn more, this is coming from Ludwig von Mises and F.A. Hayek, you may have heard of them. I'll do that because with some crowds, if you say this is the Austrian explanation, you're kind of telling them, this is something that is an obscure theory and so they might somewhat shut down. They think that you're lecturing them and just giving them some irrelevant hobby horse. It depends on the crowd, but in terms of being a professional academic economist and publishing, I certainly think we need journals dedicated to Austrian economics.

We do have – and unfortunately  
it took the financial  
crisis to make this happen – a  
certain amount of recognition  
now. We're definitely  
getting out there more.

**DEIST:** What about economics as a profession. Is economics doing any good? Does it benefit society? Its models certainly seem useless at predicting or explaining anything.

**MURPHY:** That's a good question. I'm thinking, if everybody just took a standard principles class on microeconomics, even on net, that makes the world a better place. I don't necessarily mean a microeconomics class taught by one of my buddies, either.

Just seeing the arguments about rent control, just to know what tradeoffs are, to realize that there's scarcity, that kind of stuff, I think that helps people. In general, the kind of information that would be covered, even if they used a standard textbook.

CONTINUED ON NEXT PAGE

It gives them enough of a foothold, a grounding to think critically and better understand the purpose of high prices when there's a natural disaster, and the politicians start talking about "price gouging." It is easier to get that message across to somebody who has literally at least taken one economics class in his or her life.

But, beyond that, economics is not necessarily helpful to people. The way that macroeconomics is taught in standard courses, I think that's actively harmful. They begin to think, "Spending's what drives the economy."

So, yes, I think you don't really need that many economists walking around. There are way too many people going into the field of economics in terms of what I think is actually useful socially.

The stuff you would learn in a basic principles micro class, that's pretty helpful because that's what Austrians would think of as normal price theory, and it helps people to think like an economist. I guess that's the way I'll say it. People should know how to think like an economist. Students should know what it means to think like an economist just like a well-rounded student should know what's utilitarianism is, what did this philosopher think, what happened to ancient Rome, and so on. These are

basic things one should know to be an informed citizen, and some of them are learned in economics classes.

**DEIST: What is the state of economics in terms of its place in academia? We judge professors by their ability to publish in relatively obscure journals, journals that few people read, rather than judging them by their teaching ability.**

**MURPHY:** Yes, it's a good question and I'm a little bit cynical on this, so take it with a grain of salt. But something's screwed up with the system.

An example of this can be found in the so-called "replication crisis" in other areas of the social sciences where new results have been published in areas that people thought were rock solid. Now, researchers are going back and trying to replicate those results and are not able to do it in a shocking number of cases. And so, there is this growing realization in the social sciences generally — not just economics — that maybe we don't have things figured out as much as we thought we did.

And with economics in particular, it really was an eye opening experience for the profession. It has been a crisis for the profession in the sense that there have been guys like Robert Lucas, and other heavyweights in the



2000s who had said things along the lines of “We basically solved the business cycle, we can move on now to something else.” Well, that clearly wasn’t the case, but the hubris and overconfidence is pretty shocking.

Just to go back to the distinction between the natural sciences and the social sciences, people a lot of times pooh-pooh Mises on this and state, he was an obscure person making these medieval distinctions. But it really is true that it’s important to realize that the techniques are different and that’s why it can still be the case that Keynesians and Austrians —and Chicago school, for that matter — argue about what happened in the 1930s, and why we still argue about was the Obama stimulus good or bad.

As a result, the state of the literature in economics, it’s not good. I think people would be shocked to learn the details of the economics models we were using when I was in graduate school 15 years ago.

The standard workhorse models you would learn there, they would have one consumer or one household who lived forever and they would have one representative firm. It was a very simplistic model. The profession doesn’t use these models because the scholars are lazy.

It was just because the full mathematical model gets really complicated and so to be able to “solve a model,” by which they meant lay out what the equilibrium states were, it couldn’t get too complicated. Otherwise, you wouldn’t be able to solve it.

Just think, if NASA said they were going to send a manned mission to Mars, but their model didn’t include moons because they didn’t have enough computing power. That would make you think, “I don’t want to get on that spaceship.”

And so, you have people informing monetary policy and writing academic papers telling the Federal Reserve what it should do in certain circumstances. But the underlying model was incredibly crude.

Just think, if NASA said they were going to send a manned mission to Mars, but their model didn’t include moons because they didn’t have enough computing power. That would make you think, “I don’t want to get

## UPCOMING Events

March 23–24, 2018 — Austrian Economics Research Conference; Mises Institute

June 10–15, 2018 — Rothbard Graduate Seminar; Mises Institute

July 15–21, 2018 — Mises University; Mises Institute

November 3, 2018 — Symposium with Ron Paul; Lake Jackson, Texas

**Stay tuned for additional 2018 events in Chicago, New York, Dallas-Ft. Worth, Nashville, Orlando, San Francisco, and other cities.**

Student scholarships available for all events. See [mises.org/events](https://mises.org/events) for details.

on that spaceship.” But, that’s the kind of reasoning that’s going into what’s guiding the Federal Reserve. So, to answer your question, I understand why, if you thought economics was a science like physics, it would make sense that you wouldn’t want Einstein and Niels Bohr and such heavyweights to be bogged down by teaching undergrads basic principles about Newton’s Laws, that would be crazy. You’d want them sitting in the lab or writing the latest cutting-edge research.

But with economics, I think the latest cutting-edge research is very flawed and so that sort of analogy breaks down. The good that economists do is in teaching basic principles like scarcity and opportunity cost to the general public so they can at least evaluate political claims, even if they’re not reading the latest thing in the *American Economic Review*.

**DEIST: As a student and a scholar you’ve spent time at Hillsdale, at NYU, and now at Texas Tech. Do you think the undergraduate and graduate education model in general — which is very costly in terms of time, debt, and money — is broken, or do you think it’s salvageable?**

**MURPHY:** I think it’s unsustainable at the current scale and I was saying this even when I was a professor at Hillsdale. That was back from 2003 to 2006, and at that point, I felt like half of the students that were going to college shouldn’t have been there.

This isn’t a knock against those students. I’m not saying they weren’t smart enough. That’s not even the issue. You could clearly tell, there were plenty of students that were there to get a business degree or something similar and they were only taking my class because they had to check a box to get a degree. They weren’t interested in economics, and their real goal was to run the family business and get an MBA. There’s nothing wrong with that, but it just meant that half the people in class had that attitude, and that affected the way you could teach. The result was that everybody was kind of miserable. Many of the people who were there didn’t really need to be in college. They should have gone right into the workforce

after high school or gone to a trade school. They were miserable. But then there were other students that were there because they loved learning for its own sake — they were also miserable because you couldn’t teach just to them because that would leave everybody else behind.

How this system is funded makes a big difference and if genuine market forces were allowed to work that could be a big part of how the problem could eventually fix itself.

The effects of the current subsidized system can be seen this way: I say to people, do you think everyone in the United States should get a PhD before they get a job? And of course that would be crazy. It would be very

The good that economists do is in teaching basic principles like scarcity and opportunity cost to the general public so they can at least evaluate political claims, even if they’re not reading the latest thing in the *American Economic Review*.

expensive, most people would be miserable, and it would lower the quality of what does a PhD mean if everybody as a matter of course gets one. Having a PhD would then be no big deal. By the same token, why do we just assume, “Oh, you’ve got to go to college or else you won’t get a good job.” That’s kind of crazy when you see what it means in practice. The stereotypes about students partying all the time are true. I’m not just talking about big huge state schools, but I’m including many schools I’ve visited and seen — which are somewhat elite private liberal arts schools. So the stereotype of what many students really spend their time doing is not completely made up out of whole cloth. And nowadays they’re coming out of school with tens of thousands of dollars of debt and they can’t even get a job. So, clearly that system can’t last.

**DEIST: Turning back to the profession itself, what do you see as the dominant thought in economics today? Has Keynesianism led to “neo-liberalism,” whatever that is?**

**MURPHY:** Even though we might like to make jokes about it, it is true that the average economist is generally a fan of markets. They’re not rabid *laissez-faire*, obviously. With most economists, though, they know socialism doesn’t work and they understand that yes, the way to bring prosperity to the third world is not just a matter of sending them aid. There’s a growing realization that yes, they need to have private property rights and solid social institutions, and that it’s not just a mere matter of technology.

So, there is a growing acknowledgement of the importance of those social institutions and that’s a good thing. But on the other hand, there is hostility toward the term neo-liberal — the critique is a little bit off with the people who rail against neo-liberalism and they complain about the World Bank and the IMF foisting free trade policies.

That’s all misguided, but the people who criticize neo-liberalism are not just making all the negative aspects of it up. It is true that in many cases, this is what happens: In the stereotypical, paradigmatic case, there’s a country that maybe the military takes over. They’re in a shambles. They need foreign currency because they’ve been running their own printing press and so yeah, the World Bank or the IMF might come in and impose an “austerity” program on them. The World Bank and IMF say “yes, you have to liberalize, get rid of your state run enterprises. You need to tie your currency to gold or do these other things tied to the dollar. Open up your markets to imports.”

And some of that is coming out of a textbook for economic policies moving toward markets. But a lot of it is causing the citizens in that country to eat the losses that were imposed on them by their corrupt ruling regime as opposed to just letting the government suffer the consequences of years of mismanagement. The people again, they smell a rat and I think they’re largely correct.

They know that these outsiders are coming in and they don’t have their people’s interests at heart and they’re in bed with these big corporations and other huge non-governmental organizations. So, I think they’re right to be suspicious. It’s just that their conclusion is “something’s wrong with capitalism *per se*.” Then, obviously, they come to the wrong conclusions.

**DEIST: Last year, the economist Richard Thaler won the Nobel Prize in Economics for his work in behavioral economics and he’s being lauded as someone who has integrated economics with psychology. Of course, 70–80 years ago, Mises and the Austrians were talking about what humans actually do. Has behavioral economics borrowed from Austrianism?**

**MURPHY:** It’s a difficult question to answer and I don’t know that I have enough interaction with certain regular mainstream economists who are not familiar with the Austrian tradition to be able to give a confident answer. There are two ways of looking at it and I’ve seen this reaction among my colleagues, either pessimism or optimism in reaction to the announcement that Thaler won. So, the good way to look at it is to say, “Oh, this is great, at long



last the mainstream profession is admitting problems with the standard neoclassical textbook models of how rational economic man operates. That's not how real people behave and so thank goodness, the mainstream finally kicking and screaming has been dragged to the point where they're willing to admit it."

So, there's that element, but on the other hand — and here's where the pessimist's take comes in — it's sort of like this: yes, the mainstream's finally realizing what thinkers like Mises were saying long ago, that the way to model human behavior, if you will, is not to try to come up with a precise mathematical description that makes quantitative predictions.

But that's not what the people who are embracing Thaler are saying. What they're saying is "okay, so now we're going to refrain from this hubris in trying to predict behavior and treat people like automatons." But, for them, that just means *updating* the model. It's not that they're trying to get rid of mathematical modeling of people, they're just trying to make the math model more accurate.

And so, if what you think is no, they're fundamentally going down the wrong path here and that's not the way to approach economic science, it's a bit disheartening. Also, it's unavoidable to bring up the fact that Thaler is involved with the whole "nudge" literature and using this knowledge of how people respond to incentives to say, "this is the way we can influence people, this is the way we can modify their behavior in ways that we economists desire." In some settings, that's pretty creepy.

**DEIST: When Thaler claims that humans don't always act rationally, he's not refuting Mises — he's simply not distinguishing between action and motivation.**

**MURPHY:** Oh, absolutely, right. And this is again sort of the frustration one might have with Thaler. So, the neoclassical mainstream, when they say, as a working assumption, "we assume people are rational, that means people solve their economic optimization problems the way a mainstream economist would." And so, number one, it means that people are experts at using calculus and solving difficult mathematical problems. Here's your budget constraint and what's your consumption path over time? This is stuff that grad students initially

don't even know how to solve because it's too hard mathematically. And yet, economists routinely assume that consumers, when they go to the store, are able to unconsciously do the same problem.

Beyond that, there's the way economists talk about what rational behavior is looking at in a strategic setting. One example of this is the so-called Prisoner's Dilemma. Even if people play a situation like that a thousand times in a row, mainstream economists will say the "rational thing" to do is to keep screwing the other guy a thousand times in a row, even if they could be better off by cooperating.

But no, cooperating's not the way you solve the model, so it's therefore "not rational." There's that element. So yes, when Thaler says "hey, people aren't rational," what he means is they behave in ways that this narrow economic model would not have predicted. In contrast, when Mises says people are rational, all that means is "they're engaging in human action to try to achieve some goal that they value."

Assigning motives is not the approach you take when someone throws a rock up in the air and then it comes back down, we don't say, "ah, the rock desired to be closer to the earth and that's why it chose to do so." No, we use a completely neutral, objective measure without any motivation or preferences involved because that's the way that science has gone. In our minds, that's the correct way you deal with predicting the motion of matter.

But when it comes to the social sciences, we do attribute motives to people, so that's what Mises means by rational, there's a reason, so that's where reasoning comes in, not that the people are superhuman calculators, just that yes, they're a being with an ego and they have preferences. But those preferences could be anything. It could be, you want to go get cocaine or heroin, or it could be you want to go help set up a homeless shelter. From that level of analysis, it doesn't matter what the content of your preferences are, it's just that you have them and then you use your reason to try to achieve it. So, the classic example that Mises offers is, you're looking at some primitive tribe — primitive by your standards — and they're dancing around and their crops need rain. A rain dance is perfectly rational in the Misesian framework. Because again, it doesn't mean that "from our scientific viewpoint, we think that's the right means to an end." We

just mean, “ah, I’m going to interpret what I’m observing by saying these beings have subjective preferences and they have this cause and effect relationship in their minds that they’re trying to invoke to change the future.”

**DEIST:** There are endless debates within Austrian circles about how best to advance our ideas. The two broad ideas have been what we might call a Hayekian top-down model, where we win over academics and their ideas trickle down to other intellectuals. The other we might call a bottom-up Rothbardian populist strategy.

**MURPHY:** It’s going to sound like I’m trying to be wishy-washy and not take a firm stand, but I really do think both are important and I mean it in the following way.

Part of why Mises, Hayek, and Rothbard were so able to influence the masses, is that they had academic posts. If Murray Rothbard had written word for word *Man, Economy, and State* and you found out that he was a chiropractor and he just in his spare time was this genius who had absorbed *Human Action*, it wouldn’t have carried the same weight. And in a sense, that’s a shame, that shouldn’t matter. Credentials shouldn’t matter, but yet they certainly do, if only just to guide people. You might just say, “this huge thick book that a chiropractor wrote on economics, what are the chances that this guy knows what he’s talking about?” So, I think it is important that

Austrians, to get their message out — to change the world to use a bold goal — they can’t abandon academia.

Appealing right to the public is also a good thing, as opposed to just spending one’s whole life trying to convince academic colleagues and trying to convince the Dean of Harvard to take your business cycle seriously. I think that’s a waste of time when you’re setting yourself up for heartache and frustration. The idea of just teaching students and publishing peer reviewed papers for the rest of your life and going to conferences and talking with other economists — to some people, that sounds like the most horrible hell ever, and to some people, that sounds great. So, if you’re in the latter group then by all means do that, but again, it’s because that will give you a platform so that the public is more likely to listen to you. Also, if you get something like an op-ed published in a newspaper, you’re more likely to be able to do that if the byline says that you’re an Economics Professor at such and such university. I definitely do agree that going to the masses is the important thing to do right now, as opposed to tweaking the latest mathematical economics model. But again, that doesn’t mean you should ignore academia because I think there’s an interplay there.

**DEIST:** As a strategic matter, are some of the debates within Austrian economics harmful or helpful in your view? For example, there are debates about Mises versus Kirzner on entrepreneurship or Rothbard and



## Hoppe versus Selgin and White on free banking. Do you think we ought to spend time on these internal debates?

**MURPHY:** Well, I'm going to be debating Selgin on fractional reserve banking in New York at some point in the spring of 2018, so I hope that's not a waste of time, I hope it's useful.

I definitely understand the people who say, come on, guys, these internal battles, they're not productive and they just make us look like a weird cult. I understand where those people are coming from and I used to be somewhat sympathetic when I was younger. But on the other hand, you could just as well flip it and say, well wait a minute, if we're supposed to be a science, then of course we're going to debate with each other and disagree. If we all just uniformly had the same answer on everything to put on our show for outsiders to where we're trying to attract followers, that would be creepy too. That really *would* be a cult.

And so, I don't think that to gain popularity, we ought to restrict our arguments — even if that strategy actually worked. I reject that in part because it means we're sort of being dishonest to the public and I don't want to do that. I'm not personally going down that road if that's what we've got to do to gain popularity. But having said all that, I actually don't think that that's really the trade-off.

I think what is true, and it is true for anything in life, is you don't need to be a jerk about it. I get the sense that sometimes there are people within the Austrian camp

who genuinely just dislike some of the other people and they want to have a fight and they use these particular doctrinal differences as the pretext to have a fight with someone they don't like. And yes, that's probably not productive — just because in general, going around having a grudge against somebody is not helpful. I think that these debates are important and because that's how it's going to progress, that actually the critics are wrong. This isn't a cult, it's not that we look at Mises and Hayek and Rothbard as our prophets and we're not allowed to disagree with them. No, that's not true at all and so there is a vigorous disagreement and that's how this thing progresses. Yes, be civil about it, but if there's somebody you think is wrong, then it's your job as a scholar to try to correct it.

**DEIST:** A few years ago, you had some run-ins with the aforementioned Paul Krugman, also Brad DeLong on issues like quantitative easing and inflation and Austrian business cycle theory. How do you assess those run-ins today?

**MURPHY:** For people who don't know the backstory: After the financial crisis, a woman emailed me and she said, "I just saw Paul Krugman in a Barnes and Noble and he was on a book tour. In the Q&A period, I asked him 'why don't you debate Austrians on business cycle theory?'" His answer was, 'this is going to sound elitist, but mainstream economists, the profession doesn't listen to those guys anymore. They were big like in the 20s, but they've been eclipsed since then, so I wouldn't give them a platform.'"

And so then I thought, "okay, well he's going to ignore us that way, so I have to somehow provoke him." I set up this goofy effort to challenge him to a debate, and then we were going to raise money to go to a New York City food kitchen, if he debated me. And so, that was kind of a publicity stunt. It was kind of funny, but I think that's why he knew who I was and why he specifically attacked me later. Obviously, he was not happy with my shenanigans.

The official CPI did not jump as much in response to the Fed's quantitative easing as I predicted in those years right after the Crash



of '08. Then Brad DeLong and Paul Krugman noticed people arguing on my blog and responded, "Aha, these Austrians, what a bunch of religious people here in the sense that they don't respond to objective evidence. This guy Murphy made a prediction, he was wrong and yet he's not updating his model."

This shows how slippery these guys were because the economists I was busy debating about QE were not exactly in agreement with DeLong and Krugman. Bryan Caplan at George Mason is an anarcho-capitalist, for example, and Krugman and DeLong obviously weren't about to declare Caplan right. Obviously, they didn't say "anarcho-capitalism is vindicated because that anarcho-capitalist Bryan Caplan was right and Murphy was wrong."

In their minds *Keynesianism* was right, even though there was nothing expressly Keynesian about QE. And the jury is still very much out concerning what the ultimate effects of monetary expansion will be now that the Fed says it will reduce its balance sheet over the next few years.

Admittedly, though, I should have been more careful with predictions that reflected my personal view. I mean, Austrian economists, number one, don't make quantitative forecasts based on Austrian theory, *per se*. That's one of the hallmarks of Mises's view, if you think you're going to predict the stock market just by using praxeology, then you've misunderstood what praxeology does for you.

So, there's that element. But also, the Austrians themselves make important distinctions when it comes to price inflation. In the 1920s, the Austrians were saying just because there's not rampant price inflation, doesn't mean things are good. But since I had been poking Krugman and some people were learning their Austrian economics through my writings, I should have been more careful. And this is what I say to this day at Mises U and at other events with students: whether it's fair or not, we're in the minority, the mainstream is going to use any excuse to discredit us. And so, it's sort of like you're

representing Austrian economics and watch yourself and don't commit unforced errors.

That's sort of my takeaway. Ben Bernanke, for instance, made a string of mistaken predictions, and you can go watch them on YouTube. You can see just how wrong he was time and time again going up to the crisis, and of course, Krugman, once Bernanke got reappointed was lauding him on his blog and saying, there's nobody he would rather have at the helm of the Fed than Ben Bernanke. So, obviously Krugman doesn't think a bad prediction disproves a theory. But when an Austrian gets caught losing one particular bet to other free-market guys, that's somehow supposed to discredit an entire theory.

Once Bernanke got reappointed, Krugman was lauding him, saying there's nobody he would rather have at the helm of the Fed than Ben Bernanke. Krugman doesn't think a bad prediction disproves a theory. But when an Austrian gets caught losing a bet to other free-market guys, that's somehow supposed to discredit an entire theory.

**DEIST:** What do you say to young people who ask you whether they ought to pursue a PhD, in economics or otherwise?

**MURPHY:** One thing I'll do right away is just say, do you want to teach or at least is that acceptable to you? Could you imagine that is your day job for the rest of your life, that you're at a college teaching the students and writing peer reviewed papers and if the answer is yes, then I say yeah, by all means, go ahead and go into it.

But if the motivation is "I really love Austrian economics or libertarianism and the free market and I guess, gee, the next logical step is to go get a PhD," then I would say

be careful and caution them that they could be wasting some valuable years of their lives.

Fortunately, a PhD in economics is more marketable beyond just academia — compared to, say, a PhD in philosophy. So, there is that element that you're not as constrained if you get a PhD in economics as you would be in some other fields.

But, I do caution them that if you're not sure if you want to go into academia, a PhD might be not worth the cost, all things considered. And I don't mean money. I mean the time, the available years that you're losing time you could have been out earning experience in industry or whatever you're going to do with your life.

If you are going to go into it, though, be sure to work on research that you're passionate about because that's going to be the thing you're known for. You're going to be a world expert in this little thing that your dissertation's on. You'd better be interested in it.

Another upside to the degree is there's a huge area of overlap between financial economics and Austrian economics. A lot of the conflict between Austrians and other schools isn't there when it comes to talking to people in the financial sector. I think there are a lot of applications that young Austrian economists in academia could do by publishing articles relevant to a financial crowd as opposed to the more official economics journals.

**DEIST: Finally, you have been outspoken on your personal blog and otherwise about your own Christian beliefs. Why have you chosen to be outspoken about this and do you think that this has in any way helped or hindered you career wise?**

**MURPHY:** It's a great question. I'm outspoken on it just for the obvious reason that if you're a Christian, that's the most important thing, period. And so, why you would be focusing on other things and not talking about that is problematic if you really are a Christian. If you believe that the state of people's souls are resting on an issue, that's far more important than the heterogeneity of the capitalist structure. But, as far as whether it is helping or hurting, I really can't say. My guess is that there are plenty of my colleagues who are agnostic or outright atheists who might see the things that I post on Sundays on my blog and think, "Bob's very rational, but I'm glad

he can compartmentalize because when he talks about economics, he's real smart and rational and gee, when he starts talking about the Bible I just don't get it."

I'm sure there's plenty of people who think like that, but I think probably they just say well, there's a lot of religious people and that's just how they were raised and they move on and they kind of give us a pass, if you will. So, to be honest, I don't think it's really hurt me. I do consulting work in the insurance sector, and not that anything in terms of professional relationship has anything to do with a religious litmus test, but I have noticed just as I reflect, that a lot of the people that I work the most closely with in that realm are also Christian.

I think it's more of a worldview thing, that the kind of people who believe in the Bible, they see the world a certain way and so, if they hear me talking about the Federal Reserve, that's going to resonate with them even if we're not literally talking about scripture. I do think this sort of goes back to what we were saying about the state of Austrian economics. Some people might say, "You want to keep that to yourself so people don't blackball you." But on the other hand, if there is the remnant out there, the minority who thinks like you, they need to know who you are, so they can find you and work with you. I think there's something like that too with my spiritual beliefs, that hiding it, that's going to make me feel bad and I'm going to feel miserable, afraid to share my beliefs. But also, you should be a beacon of light to the other people who think like you.

The last thing I'll say is, it wasn't that I was worried about professional blowback. In the beginning I was worried about some pretty militant atheists in the free-market-sort-of-libertarian community, and they did hammer me in the beginning but I think they just got bored of it. Things like, "Can't you see that the state and the church are identical?" They both tell you, you need us, give us your money or you're going to suffer. I certainly get those superficial similarities, but like I said, it kind of went away and what really encouraged me though, was I got a lot of emails over the years from people saying, "hey, I keep my head down because I don't feel like fighting with people online, but I'm glad you're out there doing that." I used to think I was one of the few Christian libertarians. Now I realize that's not the case. ■■■

# INEQUALITY, CAPITAL, AND THE PROBLEM OF PIKETTY

DAVID GORDON

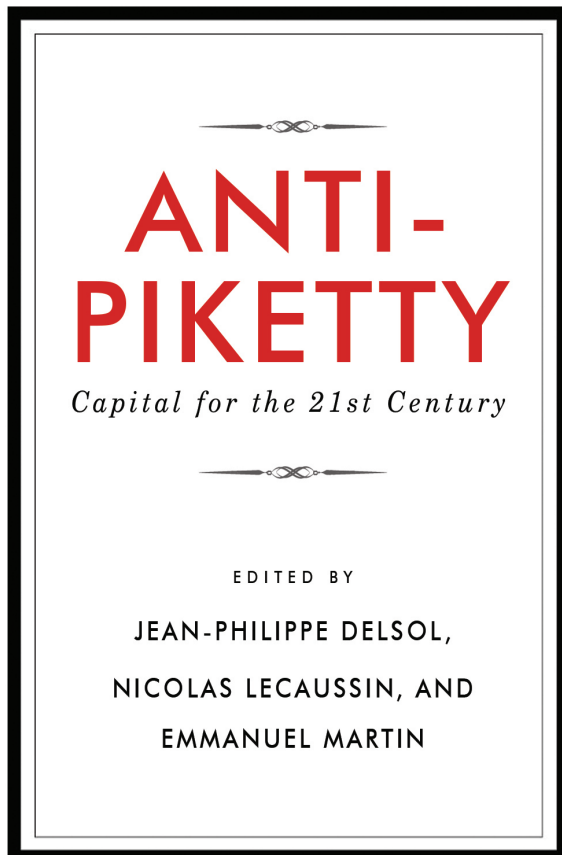
## REVIEWS

Anti-Piketty: Capital for the 21st Century

Jean-Philippe Delsol, Nicolas Lecaussin,  
and Emmanuel Martin, eds.

Cato Institute, 2017

xxvii + 272 pages



When Thomas Piketty's *Capital in the 21st Century* was published in 2015, it suffered an unexpected fate for a treatise of 700 pages, filled with statistics and equations. It became a bestseller. Proclaimed a masterpiece by Paul Krugman and worthy of a Nobel Prize for its author by Larry Summers, it perfectly encapsulated and extended a familiar narrative of anti-capitalist propaganda, found in cruder form in the speeches of Bernie Sanders.

According to Piketty, capitalism over time widens the gap between the rich and the poor. In recent years, complaints have abounded that only the rich, and especially the superrich, gain from economic growth. In Piketty's view, this fact is no happenstance of present conditions but reflects a law of capitalist development. This law is the famous  $r > g$ , i.e., the rate of return on capital exceeds the rate of economic growth. Capitalists who get interest payments will take over a greater and greater share of the gains from economic growth, and the gap between rich and poor will widen. At times this distressing trend can be halted; wars and revolutions slow capital accumulation and increase equality. But the overall trend toward inequality is clear and needs to be contained by high taxes on income and wealth.

Piketty's portrayal of capitalism has not gone unchallenged, and *Anti-Piketty* collects a number of the most important criticisms of it. One of the most telling of these criticisms is obvious. If capitalism has been so bad for the poor, how can it be that the standard of living for the poor has vastly increased? As Jean-Philippe Delsol, a French economic journalist, notes, "People who focus on inequality often seem to forget a historical fact: market economies have allowed a great many people to get rich and to get out of poverty. This effect is unprecedented in history. ... The speed at which the market economy allows sections of humanity to get us out of poverty should make us marvel."

CONTINUED ON NEXT PAGE

DAVID GORDON, CONTINUED

The well-known demographer and economist Nicholas Eberstadt makes a related point. “Whatever may be said about economic inequalities in our epoch, material forces are quite obviously not working relentlessly and universally to increase differences in living standards across humanity today. From the standpoint of length of life and years of education, indeed, the human condition is incontestably more equal today than it has ever been before.”

**Piketty writes as if the return to capital were automatic: all a capitalist needs to do is invest his money and rewards will flow to him at a fixed rate. Precisely the opposite is the case.**

How might Piketty respond?

It is apparent from his book that what concerns him is the gap between rich and poor, more than the quality of life enjoyed by the poor. He would be likely to say, “Granted that the poor today do not for the most part live in abject circumstances. Still, the superrich have enormously more wealth than anyone else. That by itself suffices to justify corrective action by the government.”

But this would open Piketty to a further objection. Why is inequality bad? If you lead a good life but others are much better off, why do you have any cause for complaint, just because of the inequality? That is a fundamental question, but unfortunately it is not addressed in *Anti-Piketty*. In a densely written essay, Daron Acemoglu and James A. Robinson say, “It may be difficult to maintain political institutions that create a dispersed distribution of political power for a wide cross section of people in a society in which a small number of families and individuals have become disproportionately rich.”

Taking their comment on its own terms, would not a better solution to the problem it poses be to reduce the power of the state rather than to confiscate wealth? But this is not the issue I wish now to address. This is the failure of the contributors to address the intrinsic justice

of equality. Is equality good or bad in itself? Why or why not? The contributors leave this vital issue to the side.

Before we can deal with whether Piketty’s  $r > g$  accounts for rising inequality, we must ask another question. Has he shown that inequality is in fact rising? If it is not, there is nothing for his formula to explain.

The historian Phillip W. Magness and the economist Robert P. Murphy (a name well-known to readers of *The Austrian*) in a joint contribution, analyze to devastating effect Piketty’s statistical evidence for inequality. They come close to charging Piketty with fraud and deception: “The discrepancies we identify are pervasive in the book, beginning with misstatements of basic historical fact and extending to an abundance of political distortion and confirmation bias in his data selection and methodological choices. In his use of communist data assumptions to accentuate the shape of a desired trend line, ostensibly explaining a hypothesized characteristic of capitalism, for example, it is difficult to maintain a noble opinion of the scholarship involved.”

Piketty’s signature tune, the  $r > g$  formula, fares no better at the hands of the contributors to this book. The economist Randall Holcombe uses a point much stressed by Austrian economists to dismember Piketty’s entire approach to capital theory. Piketty writes as if the return to capital were automatic: all a capitalist needs to do is invest his money and rewards will flow to him at a fixed rate. Precisely the opposite is the case: “The general idea — that capital does not just earn a rate of return, but has to be employed in productive activity by its owner — plays no role in the way Piketty analyzes his extensive data set on inequality. Piketty makes it appear that earning a return on capital is a passive activity. ... But capital has value only because it provides a flow of income to its owners, and it only provides that flow if the owners employ it productively.”

Piketty misconceives the nature of economic growth. He bemoans the gains of capitalists, but without their investments growth would not take place. He follows a famous model of Robert Solow, in which changes in technology, not additions to capital, are the primary drivers of growth. But as Mises long ago noted, knowledge of technology in poor countries far exceeds the ability of these countries to put this knowledge into practice. What these countries need is more capital; and



if economic growth is to continue in well-off countries, they need increases in investment also. Piketty's confiscatory policies would choke off growth and prosperity in the name of equality. (This basic point against Piketty has been made most effectively in a short book not included in this collection, George Reisman's *Piketty's Capital*.)

Does Piketty have a response? He might claim that even if capitalist investment does promote economic growth, the capitalists will seize the benefits for themselves, leaving others no better off. The economist Hans-Werner Sinn shows the error of this line of thought: "[Piketty's] formula does not imply that wealth grows faster than economic output. Such a conclusion would only be warranted if the savings of an economy could be set equal to the economy's capital income, so the rate of economic growth is the same as the interest rate. But this is not the case. Rather, savings are consistently smaller than the sum of all capital income. The wealthy consume substantial parts of their income. ... Thus, the growth rate of wealth lies significantly below the interest rate; the fact that the interest rate exceeds the rate of economic growth in no way implies that wealth grows faster than the economy." So much for  $r > g$ .

Suppose, though, that one accepted Piketty's analysis and was accordingly concerned with capitalists' having

too much. As Michael Tanner aptly remarks, Piketty's solution to this alleged problem would not work. "He seems to believe that 'confiscatory taxes' (his term) can be imposed without changing incentives or discouraging innovation and wealth creation. Piketty's solutions would undoubtedly yield a more equal society, but also a remarkably poorer society." Instead, Tanner suggests, why not encourage the emergence of more capitalists by making Social Security private? "No policy proposed in recent years would have done more to expand capital ownership than allowing younger workers to invest a portion of their Social Security taxes through personal accounts." Piketty has no use for pro-market proposals of this sort.

The essays in *Anti-Piketty* make Nicolas Lecaussin's claim inescapable. Piketty is one of those "intellectuals" who, as Ludwig von Mises and Robert Nozick have noted, resent the free market because "it does not recognize them at — what they think is — their 'fair value.'" Readers of this book will be inoculated against Piketty's ill-considered analysis and policies. ■■■

---

David Gordon is Senior Fellow at the Mises Institute, and editor of *The Mises Review*.

## CONGRATULATIONS TO DR. KARL-FRIEDRICH ISRAEL



Congratulations to Mises Institute Research Fellow **Karl-Friedrich Israel** for successfully defending his doctoral thesis at the University of Angers in France. Dr. Israel's academic research has largely focused on monetary policy, monetary theory, and the history of macroeconomics.

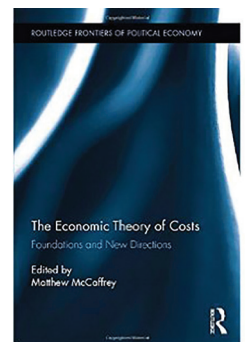
At AERC in 2016, he presented a fascinating paper on the history of econometrics and how the concept has changed over the years.

Dr. Israel is a graduate of Rothbard Graduate Seminar and Mises University, and his research fellowships at the Mises Institute were sponsored by **Dr. Don Printz**, **Yousif Almoayyed**, and **The Conant Foundation**. He completed his dissertation at University of Angers under the guidance of **Mises Institute Senior Fellow Jörg Guido Hülsmann**.

## A New Book of Austrian Insights

Mises Institute Fellow and Associated Scholar **Matthew McCaffrey** has edited a new book titled *The Economic Theory of Costs: Foundations and New Directions*.

The book includes numerous chapters from Mises Institute scholars including: **Per Bylund**, **Jeffrey Herbener**, **Jörg Guido Hülsmann**, **Mateusz Machaj**, **Javier Méra**, **Jonathan Newman**, **Patrick Newman**, **Murray Rothbard**, **Joseph Salerno**, and **Mihai-Vladimir Topan**.



## A Fantastic Collection of Essays by David Gordon

In December, the Mises Institute released a new three-volume collection of book reviews by **Mises Institute Senior Fellow David Gordon**.

The three volumes are: *An Austro-Libertarian View: Economics, Philosophy, Law*; *An Austro-Libertarian View: Political Theory*; and *An Austro-Libertarian View: Current Affairs, Foreign Policy, American History, European History*. Each volume contains more than 400 pages of Dr. Gordon's writings, and they all include his signature wit, sarcasm, and insightful analysis. These books cover a seemingly endless variety of topics including Marxism, globalization, legal theory, foreign policy, and modern controversies among libertarian scholars.

Dr. Gordon writes in the foreword: "Shortly after Murray Rothbard's lamented death in January, 1995, Lew Rockwell telephoned me. He asked me to write a book review journal for the Mises Institute, covering new books in philosophy, history, politics, and economics. Moreover, he wanted the first issue in one month. I managed to meet the deadline and continued to write the journal for a number of years..."

*The Mises Review* ceased publication after about fifteen years, but Dr. Gordon continues writing reviews today for *The Austrian* and for *Mises Wire*.

This book project was made possible by the generosity of **Hunter Lewis**.

# The Mises Institute in Orlando

Mises Institute President **Jeff Deist** and Senior Fellow **Robert Murphy** joined up at the University of Central Florida in Orlando on December 9. The event was sponsored by **Mr. and Mrs. Greg Roe** and **an anonymous donor**. Deist and Murphy discussed our “uncertain prospects for liberty” and how advocates for freedom and free markets can “reassert ourselves, rejoin the national conversation, and take advantage of the public’s disgust with politics as usual.”

Murphy’s talk was titled “Culture Wars and Secession,” and suggested that as American politics becomes more uncivil, it becomes increasingly likely the US will break up into smaller factions. This, however, can be a good thing, since smaller states can foster more gains in freedom.

In his talk “A Small Revolution,” Deist discussed the need for small political units in advancing self-determination. After the meeting, Deist remarked:

A significant percentage of attendees, maybe half, agreed with the proposition that the US is past the point of political solutions. Everyone agreed, regardless of their age and background, that the possibility of America breaking — violently or voluntarily — is very real.

We should focus our efforts on creating smaller political units that more closely allow for a Misesian vision of democratic self-determination. This may not satisfy libertarians and anarcho-capitalists, but neither will trying to persuade a winning electorate of 70 million Americans to vote for even a reasonably liberty-minded presidential candidate.

## A Sequel to Hazlitt’s *Economics in One Lesson*

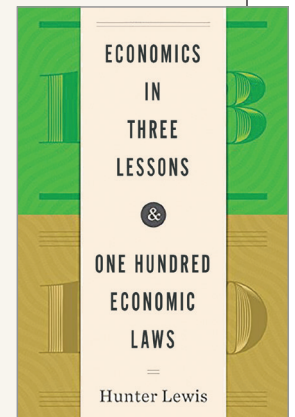
**Hunter Lewis** — Mises Institute Hayek Society Member, Board of Directors, and contributor to Mises.org — has released a new two-in-one book that carries on the tradition of Henry Hazlitt’s *Economics in One Lesson*. The new book is really two books: *Economics in Three Lessons* and *One Hundred Economic Laws*.

Henry Hazlitt’s 1946 book *Economics in One Lesson* sold more than a million copies. It is perhaps the bestselling economics book of all time. In this new volume, Hunter Lewis, a Hazlitt admirer and student, provides a sequel and update.

The central lesson of Hazlitt’s seminal work is that economic thought and policy must consider all the consequences of an action, not just the immediate or most visible ones. Hazlitt is right that this is the kernel of all good economics. In *Economics in Three Lessons*, Lewis covers this theme and also introduces two more lessons: how a free and uncontrolled price system creates prosperity and how a controlled or manipulated price system creates only crony capitalist corruption and, ultimately, poverty and economic failure.

In *One Hundred Economic Laws*, Lewis does what no one has attempted to do, at least not for many decades. It collects in one place some of the most important laws of economics. Lewis’s explanations will be helpful as an antidote against “thinkers for hire” who, paid by special economic interests, try to persuade us to ignore reality and the laws of economics.

Like Hazlitt’s original, the entire volume is written in a simple, easy-to-read style. The book is now available on Amazon.



# The Austrian

A PUBLICATION OF  
THE MISES INSTITUTE

Ludwig von Mises Institute  
518 West Magnolia Avenue  
Auburn, AL 36832-4501

## Mises Institute Membership Levels

Member - \$60 or more donation  
Premium Member – \$150 or more donation  
Sustaining Member – any recurring donation  
Supporter – \$500 or more donation

Bronze Club – \$1,000 or more donation  
Silver Club – \$5,000 or more donation  
Gold Club – \$10,000 or more donation

**For information about Donor Societies go to [mises.org/society](http://mises.org/society).**

## I want to help the Mises Institute

**Your \$60 or greater gift will renew your membership for 2018.**

Enclosed is my tax-deductible contribution of ☐ \$60 ☐ \$100 ☐ \$250 ☐ \$500 ☐ \$1,000 ☐ Other \$ \_\_\_\_\_

☐ Check/money order      Card # \_\_\_\_\_

Name on card \_\_\_\_\_ ☐ **Make my donation a recurring monthly gift!**

Exp. \_\_\_\_\_ Security Code \_\_\_\_\_ Day phone \_\_\_\_\_  
(required for credit card transactions)

Email (required for participation in online events) \_\_\_\_\_

**DONATE ONLINE AT [MISES.ORG/DONATE](http://MISES.ORG/DONATE)**

**Please make any corrections to your address above and mail to:  
The Mises Institute • 518 West Magnolia Avenue • Auburn, AL 36832-4501 USA.  
Phone or write Kristy Holmes for more information  
([kristy@mises.org](mailto:kristy@mises.org) • 800.636.4737).**