The Quarterly Journal of Austrian Economics

Volume 23 | No. 1 | 99–104 | Spring 2020 www.qjae.org

Book Review

The Economists' Hour: False Prophets, Free Markets, and the Fracture of Society

Binyamin Appelbaum
New York: Little, Brown and Company, 2019, 439 pp.

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Binyamin Appelbaum is unhappy. He is the main writer on economics for the *New York Times*, and he thinks that economics has taken a wrong turn. In the first half of the twentieth century, economics was appropriately progressive. The free market was considered to be good, but only if severely restricted. It had to be constrained by a rigid institutional framework and guided by the state to promote research, help workers subject to exploitation by heartless monopolists, and prevent mass unemployment, among many other things.

All this changed beginning around 1950. Nefarious free market economists no longer recognized the limits of the market. "But a revolution was coming. Economists who believed in the power and the glory of markets were on the cusp of a rise to influence that

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Quart J Austrian Econ (2020) 23.1:99–104
https://qjae.scholasticahq.com/
doi: 10.35297/qjae.010057

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transformed the business of government, the conduct of business, and, as a result, the patterns of everyday life." (p. 4) Instead, these economists sought to show that antisocial behavior such as predatory pricing promoted efficiency. In doing so, they acted at the behest of powerful economic interests who did not want to be restricted and resented high taxes. Concerning a famous paper by Armen Alchian and Harold Demsetz he says, "A footnote told readers the professors had reached these conclusions with funding from the pharmaceutical giant Eli Lilly" (p. 14). (By the way, the summary of the paper's argument that Appelbaum offers shows little understanding of it (p. 340n.33).) Among these economists, Milton Friedman stands out as the main villain.

An objection at once comes to mind, but Appelbaum has anticipated it and has an answer. Certainly there were free market economists in the years after World War II, but were there not also Keynesians who continued to be progressive? Were not Chicago, Virginia, and UCLA matched by Harvard and MIT on the other side? (Appelbaum is aware of Austrian economics but devotes much more attention to Friedman and his colleagues.) Appelbaum answers that the "leftists" of Harvard and MIT conceded too much to the free market arguments. For Appelbaum, even the quintessential Keynesian Paul Samuelson has let down the side. On many issues, he was hardly better than Friedman. "Even liberals like Paul Samuelson and James Tobin regarded unions as cartels and insisted that minimum wage laws increased joblessness, a consensus that made it easier for politicians to attack unions and ignore wages" (p. 326). At Henry Manne's law and economics programs for judges "some of the judges asked Manne to explain the difference between the liberal and conservative economists 'since Paul Samuelson seemed to be teaching the same economics as Armen Alchian.'" (p. 149)

Appelbaum's arguments against the free market are not convincing. They do not in all cases lack merit, but they suffer from two fundamental failings. The first of these is that his arguments take this form, "The free market has such-and-such good features, but there are competing values which it neglects. That is why we need to bring in government to limit the market." The trouble with this argument is that, even if you accept Appelbaum's account of the competing values, he offers no systematic way of assessing the benefits and costs of the free market.

For example, he says that there are genuine benefits from free trade, and he explains this in a way that supporters of the market would readily accept.

> The embrace of markets lifted billions of people around the world from abject poverty. Nations have been tied together by the flows of goods and money and ideas, and most of the world's 7.7 billion people live wealthier, healthier, and happier lives as a consequence…Markets make it easier for people to get what they want when they want different things, a virtue that is particularly important in pluralistic societies which value diversity and freedom of choice. (p. 6)

But, he says, people care about more than consumption. People care about production as well, and the free market in some cases ruthlessly sweeps aside people in industries that cannot meet foreign competition. He quotes Albert E. Kahn with obvious approval:

> In a 1954 book, *Fair Competition*, he defended the idea that the government should protect small business at the expense of consumers. "One cannot simply equate the 'public interest' in a democracy with the 'consumer interest,'" he wrote. Adam Smith had famously asserted that consumption was the purpose of production. Kahn rejoined that this was "not true, even though Adam Smith said it." People, he wrote, also had interests as producers and as 'citizens of an urbanized civilization.' It was not good for a factory town to lose its factories. (p. 172)

Suppose that this is right. I do not think it is right, because people have no right to have their current jobs guaranteed by the government, but let us put this aside. Appelbaum offers nothing but his own hunch that the free market needs to be curbed for the reason he states.

How might Appelbaum reply to this objection? His answer is that people should decide democratically how the values of the free market should be balanced against competing values. This is an odd response, because Appelbaum himself recognizes that special interest groups often use the government to advance their own ends, though he resists the implications of this point. He says,

> In 1971…[George] Stigler wrote, "regulation is acquired by the industry and is designed and operated primarily for its benefit." The innovation in Stigler's paper was his conclusion that government should stop trying. Criticizing regulators for protecting business, he wrote, "seems to me exactly as appropriate as a criticism of the Great Atlantic and Pacific Tea Company for selling groceries."

> The historian William J. Novak has described Stigler's call for government to surrender as a remarkable departure from the American political tradition…Generations of legislators…wrote rules, and when those rules came up short, they tried to write better rules. Stigler was proposing to trust markets instead. (p. 165)

Appelbaum's argument is incredible: never mind the evidence that special interests capture the government. Regulation *must* be in the public interest because "we" traditionally have believed this.

Why should we think that a "democratic" vote reflects accurately people's preferences? If the special interests control the government, does it not make more sense to limit government rather than to enhance its powers? Far better, as Mises pointed out, are the dollar votes of free market consumers. As Mises remarks in *Human Action* ([1949] 1998, 741),

> It would be more correct to say that a democratic constitution is a scheme to assign to the citizens in the conduct of government the same supremacy the market economy gives them in their capacity as consumers. However, the comparison is imperfect. In the political democracy only the votes cast for the majority candidate or the majority plan are effective in shaping the course of affairs. The votes polled by the minority do not directly influence politics. But on the market no vote is cast in vain. Every penny spent has the power to work upon the production processes.

There is a further problem with Appelbaum's "democratic" response. It transpires that he is hardly a democrat at all. He thinks that businesses can readily manipulate the ignorant consumer.

> Some economists still deny that people are confused by inflation, or at least that such confusion has significant consequences. Meanwhile, in the real world, movie studios take advantage of inflation to advertise box office records—which are records only in nominal terms, since no movie has ever surpassed *Gone with the Wind*—because the studios think that people are confused by inflation. It seems likely that Hollywood has the better handle on human nature. (p. 364n.108)

People are irrational and must be protected by the government, acting as their guardians. Why we should trust the government to do this he does not say.

Appelbaum is caught in a contradiction. If people are too irrational and uniformed to resist business propaganda, why should they be trusted to elect public-spirited leaders through democratic voting? Murray Rothbard long ago called attention to this faculty. In *Man, Economy, and State* ([1962] 2009, 886), he says:

> the partisans of intervention assume that individuals are not competent to run their own affairs or to hire experts to advise them, but also assume that these same individuals are competent to vote for these experts at the ballot box. They are further assuming that the mass of supposedly incompetent consumers *are* competent to choose not only those who will rule over themselves, but also over the *competent* individuals in society. Yet such absurd and contradictory assumptions lie at the root of every program for "democratic" intervention in the affairs of the people.

Let us now turn to the second of the fundamental failings in Appelbaum's assault on the free market. He often blames the free market for the failures of government. In the most glaring instance of this fallacy, Appelbaum rightly notes how many of our current economic problems stem from risky speculation by banks. Why does he consider such speculative ventures, made possible by fractional reserve banks joined in the Federal Reserve System, a failure of the free market rather than a government failure? Oddly enough, in criticizing bank speculation in Iceland, Appelbaum cites an article by Philipp Bagus and David Howden that appeared on the Mises Institute website. These excellent economists have presented their analysis in a short book, *Deep Freeze: Iceland's Economic Collapse* (2011). It did not occur to him to ask whether the commodity standard defended by these authors, rather than a policy of monetary expansion sponsored by the government, is the true free market view. He ought to read Dr. Ron Paul's *End the Fed* (2009).

Appelbaum's book is not without value. He has done a great deal of research and he has a good eye for anecdotes. But as a criticism of the free market, the book is a manifest failure.

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