Episode 1,021: The Nobel Prize and Behavioral Economics: Anything Here for Austrians?

Guest: Gene Epstein

WOODS: All right, let's talk about the recent announcement of the Nobel Prize in economics, and in particular, you've just written a column in which you admit that in 1999, you hereby nominated this year's winner for the prize and now you're not so sure about that. So who's the winner and why were you nominating him in 1999?

EPSTEIN: Good question, and this gives me the opportunity to put that in context. I didn't have room in my column. I didn't want to write more than a thousand words on this given everybody's short attention span. But by 1999 — I'd been a columnist starting in '92 for *Barron's* — I'd been periodically belittling the Nobel Prize winners.

Here's a funny Rothbard story, by the way. It was in '92, September of '92, when Gary Becker won the award, and I called Rothbard up in Las Vegas. He was at the University of Nevada, Las Vegas. And I asked him what he thought of the award, and interestingly, I guess Rothbard might have thought I was like a semi-establishment, so he began by saying very politely and courteously to me, *Well, it's very nice that a free-market guy from Chicago gets the award*. And I cut in and I said, "What do you think about Becker's idea that a family is like a firm?" And Rothbard said, "I think it's nuts" — you know, in that great, squeaky voice. And indeed, I mentioned to Rothbard you could just as well speculate that a firm is like a family.

And year after year, I was giving a couple of Bronx cheers to the Nobel Prize winners, so readers were asking me, *Who's your nominee for the Nobel Prize?*, by — I guess this started after Rothbard tragically died in 1995. I would have nominated him for sure. But then so by 1999, I said, okay, here's a guy, I like his stuff. And I stipulated in that same column that I've come to realize the Nobel Prize is sort of like the Swedish equivalent of Oscar night, so I'm not going to take it too seriously. But this guy has at least a few interesting things to say, which we could discuss, so why not give him the Nobel?

So that was my context, and so I then proceeded to point out that he had some insights, but since '99, his insights began to take on a certain amount of statist baggage. Already showing signs of that in 1999, but that was what I wanted to object to while also saying that I'm consistent; if this is just the Oscar for the dismal science, why not give it to Richard Thaler? Now, the Swedish Academy of Sciences spoke about his achievement. He explored the consequences of limited rationality, social preferences, and lack of self-control in markets, and I do indeed think that there is

limited rationality, social preferences, and lack of self-control in markets, in human action. And I would say as well that that's not news to the Austrians, but Thaler put a little more meat on those bones, and for that I commend him. So maybe I should stop there and see what your reaction is.

WOODS: Well, let's say a little something about the whole matter of nudging, because he coauthored that famous book *Nudge*, and I'm interested in your analysis of this. There was actually a pretty good article on this in *The New York Post* a few days ago, reviewing a New York policy that was kind of designed to gently nudge people into making less self-destructive decisions. And it had fairly limited results; I'll get to that a little bit later. But what's meant by this idea of nudging people?

EPSTEIN: That's of course the core of the point. The problem I have with Thaler and his collaborator, Cass Sunstein — I mean, a Harvard law professor, Cass Sunstein — Thaler in 2010 consulted with the British government about getting the government to do nudging, which I will define, and Sunstein worked for the Obama administration. But what I, by the way, should emphasize is I mentioned briefly at the end of the column that there's no way for libertarians — And by the way, here's the irony: Sunstein and Thaler specifically call themselves libertarians. We'll get to that. But there's no way for libertarians to object to the idea that a private company or nonprofit might want to nudge people. A nudge, according to Thaler and Sunstein, does not violate libertarian principles because it's just a nudge.

Here's an example that they like to use. When you're deciding as an employee if you want to adopt a 401K plan and allocate money for savings, then the nudge idea would be that, unless you say that you don't want to, you are automatically enrolled. In other words, that's just a nudge because you could say you don't want to. And that means that that's libertarian paternalism, as they like to put it, and they claim that there's nothing wrong with that. And I would agree that there is nothing wrong, there's no way for me to object if the private firm I work for, News Corp, wants to nudge me in that way into doing a 401K plan. That's their decision. They administer my situation. If I want to object, I can speak out. If I hate it so much, I'm free to resign from this company. There's no way for us to object.

Where I think that they are being woefully naive is in saying that the government has the right to do that, that we can trust the government to nudge us in that way. And my first of course obvious objection, which Thaler has to be reminded about — and indeed, so many of the mainstream have to be reminded about — is that when we talk about irrationality — what the Swedish committee talks about limited rationality, social preferences, and lack of self-control in markets — since people run the government, those people who run the government are not at all exempt from those faults as well.

And so just for starters, the idea that we can trust them to administer to our lives and have the power of government to nudge us in the directions that they think are best is obviously woefully irrational and naive. When it comes to saving decisions, the federal government is of course the most profligate institution of all. It's deeply in debt. It can't possibly meet its unfunded liabilities that have been promised to the baby boomers or that have been promised to the millennials. It's the counterpart to most

profligate relative you can possibly know. The idea that the government is going to nudge us in one direction or another in that case is of course absurd.

I also use the example of state-run lotteries. The government pretends that you have a better chance of winning the lottery than you have of being hit by lightning. They are fanning the flames of irrationality because of their greed for revenue. They're preying on naive people who think that if you buy a lottery ticket, you have a decent chance of winning. Again, you have a much better chance of getting run over tomorrow morning by a car.

And so the idea that these are rational institutions — in state and local and federal government — and should nudge us in any way is of course crazy. And the reason they are so profligate is that they uniquely do not bear the responsibilities for the financial consequences of their own decisions. Private sector companies do. Nonprofits do. But they of course can kick this can down the road for decades.

And then we can talk about the ignorance problem. I didn't even mention that. The social norms that determine government mean that they can persuade us to eat certain foods that they think are right, but then usually there are special interests that establish these norms that are often leading us down the wrong road.

But more importantly, of course, fundamentally there's the corruption of power, and that once you give government the right to nudge you, then power will corrupt and that nudge could turn into a coercion, into a knock. And indeed, Thaler was at least already flirting with nudges and knocks even back in 1999. So that's my fundamental problem with the idea of nudging, as careful — And again, Thaler and Sunstein want to engage us on this. They want to say, Oh no, we're libertarians. But unfortunately, we have to politely say that, please, draw the line. Please understand that you can't get the government into this business of nudging us. There are far too many dangers in that.

WOODS: All right, we're going to talk further about this. In particular, there's a really fundamental Austrian critique of this whole approach that I want to make in just a minute after we thank our sponsor.

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All right, Gene, before we get into some other considerations here, I want to just share with you a couple of items from this *New York Post* column I was telling you about. I'll link to this. The show notes page is TomWoods.com/1021. But anyway, what Kyle Smith is saying in here is that Mike Bloomberg dreamed up something called the Opportunity NYC family rewards program, and it was funded privately and it was intended to break down poverty by giving cash incentives to low-income New Yorkers to basically do sensible things. And so it turns out that the results were simply very, very minimal. So just to give an example, he says, from 2008, we had this classic Bloomberg-era-style nudge whereby we put calorie counts on menus, and so if we look at the calories, we'll say there's no way I'm going to eat this Bloomin' Onion at Outback Steakhouse; I'm going to go have a beet salad. And it turns out that that did not happen. *The New York Times* even reported, "at no time did the labels lead to a reduction in the calories or what diners ordered."

So then there was things like — this is somebody who was in the program recalling it — "You'd get $50 to go to the library." "You'd get $300 every two months if you showed them a paystub that showed you'd been working." If you passed the SATs or graduated from high school, you got rewards. But as I say, the results seem to have been fairly modest.

So it says, "Some high school students saw an uptick in attendance and scores, but not the kids most at risk." "Elementary and middle school students who participated made no educational or attendance gains...The main effect of the program was that it steered an average of $6,000 a year to the families that participated." And so one mother said this: "I already steered my children to do the right thing. It did help me financially. My children were able to wear nice shoes and nice coats. We went on vacation." Okay, I don't think that was what the point of the program was. So we have that. We have that they don't really seem to have much to show for them.

But the other thing is more fundamental. When you look at these behavioral economists and people who want to nudge people, what they're saying is that the problem is people behave "irrationally." They behave in ways that surprise economists. They behave in ways they shouldn't behave. But that's not the Austrian understanding of how people behave because we don't do behavioral economics. Austrian economics is a purely logical approach to the implications of choice. We don't look into why people make the choices they do. We say human action is purposeful. It's goal-oriented. To say that it's rational, we would define "rational" quite differently. Whereas in this case, we have an economist who says people are predictably irrational. *The New York Times* gives these examples, that they won't pay more for an umbrella during a rainstorm or they'll buy a coffee mug for $3 but refuse to sell it for $6.

First of all, I don't see why that's — that's not irrational; it's just people have valuations that apparently are different from those who want to stand outside them and judge them. There's nothing wrong with them. The point of economics is to look at people's given goals and understand the process whereby they go about satisfying them. It's not to stand in judgment of their goals or to smack them around or to claim that these people are impossible to understand. Psychology has nothing to do with this, but it seems to me that's what they're trying to do.

EPSTEIN: I think that your point is fundamentally right. Let me go back to Bloomberg, by the way. It's kind of interesting. I know you said $50 to go to the library, and of course, Bloomberg was not just a nudger, as you probably know. When he wanted to outlaw smoking in bars, my proposal at the time was just, Mayor Bloomberg, you're a billionaire. Open up a series of Bloomberg bars and the sign outside will say, "No smoking allowed in the Bloomberg bars." And if people want to go to those bars where no smoking is allowed, then they will do so. But some people like to smoke and others who are non-smokers might just as well go to the bars where smoking is allowed. So he was not just a nudger; he was the perfect example of a power-hungry guy who clearly didn't just believe in nudging. He believed in knocking.

And there's the information problem. By the way, I lost 25 pounds on the low-carb diet, and I know you'd had Nina Teicholz on about that. I don't count calories; I count carbs. And so the idea that one should count calories or that calories are of interest to me is absurd. Again, that's just nonsense that the government happens to believe, in my opinion, because they're wrong about nutrition.

But getting back to your point, I think you formulated in a fundamentally valid way. There was an example; I'm trying to remember who originally introduced it to me. But there was a point made about the difference between the Austrian school and the Chicago school. Of course, the fundamental difference of course is the differences over the role of money and the central bank.

But an example in terms of the difference between the two is you're driving cross country and you stop in a town. And you have a wonderful lunch, great food, fantastic service, and you leave a large tip because you think it was such a great experience. Now, your chances of actually encountering those people in that town again are maybe one in a million, maybe one in a trillion, so clearly there's nothing in it for you. There's no gain to be had from leaving that tip. It's simply a gesture that you wanted to do because you like what these people did for you.

And the point was that the Chicago school would not understand that kind of behavior. The Austrian school has no trouble with it because people have goals and purposes. You simply want to leave a large thank you to somebody who did you a good turn whom you probably will never see again. And broadly speaking, I think that's valid and what you just said.

But if we look at Thaler's many examples, we can say that he is describing human behavior in a valid way. I'll give another example. Rothbard, when Rothbard was talking about the difference between small businesses and corporations at one point, he gave the example of a small businessman who gives his deadbeat brother-in-law a job in the business in order to buy peace in the family. And again, that's not profit-maximizing. It puts the business at risk. You have to have an edge in the market in order to survive that, but that's what people do. And so the huge range of human emotion, of human action is of course accommodated, just as you indicate, in the Austrian view and is not indicated in the Chicago school view. And of course Thaler is a professor at the University of Chicago although in the business school, so he's a little bit hung up on that point.

But here's I guess where I might depart from you a little bit. I would say that there are occasional nudges. Again, we can't object to nudges that a private-sector group wants to do. We do know as well that retailers, that businesses are looking for ways to affect our behavior by nudging us in different ways, and that isn't of course necessarily against our self-interest. But at least they make a limited point, which is that when a company gives you the default option — which is that unless you say you don't want the 401K you're going to get it — they do find that when people are informed about it, they don't change back. They sort of want to save. So I don't think we should deny that, to some degree, we are a little ambivalent about working strictly in what we might often say is our self-interest, that we do want to save but we have other temptations and other things that mean that we don't.

So while I wouldn't stress the point and I would indeed agree with you that the Austrian school is marching to a different drummer, has different core ideas, I think that when Thaler introduces these stories, I think that we can acknowledge that human behavior is idiosyncratic and that it doesn't trouble us in any way and that market participants may want to alter human behavior in different ways through nudging and that they're right to do so, so long as they leave the state out of it. So in that sense, I would offer a minor implication to your point of view, where I would say that when Thaler talks about the range of experience and the range of behavior and the idea of mental accounting — I mean, the other example that I gave in my column was a friend of mine who was carrying credit card debt, and he was paying double-digit rates on his credit card debt, and he had more than enough money in his savings account earning a single-digit rate to wipe out the credit card debt. He admitted that it was costing him to do this, but he didn't want to do it because he was booking his savings account as wealth.

And by the way, Thaler, when I once spoke with him about it, Thaler said that there may be nothing wrong with that. When people have certain kinds of mental accounting that enabled them to discipline themselves — the guy wanted to hold onto his savings account and he was willing to pay a price by paying off the credit card debt for a while. Thaler said that isn't — by the way, he could see that isn't necessarily fundamentally against that person's wishes; it was just on the surface it seemed irrational. So in a way, Thaler gave ground and understood that this kind of behavior is not necessarily inconsistent with our purposes. So in that sense, I do want to argue that there's nothing in Thaler's anecdotes and series of insights about mental accounting that necessarily hurts us or disturbs the Austrian view.

The other one, by the way, is the way we frame things, that when you spend $25,000 on a new car, the salesman knows that you have a certain framework and that you'll buy the extra features. It certainly won't feel like much if you buy $1,000 extra for better tires or $1,000 extra for this or that. That's the way we proceed. So again, nothing wrong with that. That's all human behavior and I think it's all fascinating. And at the end of the day, I would argue that it's totally compatible with the Austrian view and it's only incompatible with the very narrow Chicago school view.

WOODS: Okay, but let's think of it this way.

EPSTEIN: Okay.

WOODS: On the one hand, he's saying, look, this paradigm whereby we assume that actors behave in ways that we would consider narrowly rational is clearly incomplete as a way of understanding human beings. But then he turns around and basically says they *should* be acting that way. So in other words, he takes it as a paradigm that ought to inform our actions, so he's not breaking with it. He's saying, yeah, you know, people don't act like little robots, but doggone it, they should. And that's basically what Mario Rizzo says. I'll link to his comments. In fact, let me, if I may, just read a little bit from Mario Rizzo from NYU.

EPSTEIN: Okay.

WOODS: He says, "[B]ehavioral *economics remains wedded to this narrow conception of rationality as a normative and prescriptive standard of evaluation*. It drives the critique of many market outcomes and is the basis of policy prescriptions. It is precisely because people are not narrowly rational that" — the behavioral economist says — "their behavior must be fixed. Their behavior must be taxed, regulated or nudged in the direction of the behavior of the perfectly rational neoclassical man."

So on the one hand, they say this neoclassical man is a fiction — but we've got to make people be like that man.

So then Rizzo says, "For example, it is alleged that people are obese because they fail to take 'full account' of the negative effects of their unhealthful eating habits. What is full account? They must reckon or discount these effects at the rational rate of discount – the long-run rate, the rate one would use if one were super-rational and calm in making a diet plan to be implemented in, say, six months or a year. But how the agent looks at things now, at the moment of deciding what to eat, is wrong. It is impetuous. It is 'present biased.' The individual needs help. And, in practice, it is the government's help."

And then finally, he says, "Aside from the policy implications, there is an incredible irony here. Standard economics is mocked for its rationality assumptions and yet those assumptions are held up as an ideal for real human beings." And these are my favorite three lines: "It is as if there is a neoclassical man deep in each of us struggling to get out but he is continually bombarded by behavioral shocks. *Behavioral policy is about nothing less than becoming the real you! All this despite your resistance."*

I think that's well said.

EPSTEIN: Well said. Let me give you another example, Tom, and then generalize from it to make a sort of related point. You did a great interview with David Henderson about the idea of gouging of high prices at times of stress, hurricanes, and so on. And I'm trying to remember whether you went into this point, which I think is empirically valid, which is that — this is a point that Thaler made, and interestingly, this is where again I think Thaler is torn. Part of him, he's willing to talk like an Austrian.

What he said was that empirically, you find that in event of a snowstorm, a hardware store that's been around for years will tend not to hike the price of the snow shovels and that what they will do, they'll in effect of course undermine their own customers by allowing the shovels to be sold out right away so that they don't allow the price to rise so that the price rations who really needs that shovel. Some people may be coming in and buying a second shovel. Empirically, it's just that because of reputation, because there are certain people — too many of their customers are going to think they're being mean-spirited and benefiting from this reversal of two feet of snow on the ground, so they won't raise the price of the shovels. But Thaler said people on the street or for one-time events, the price will clear. In other words, you and I might come in and we might charge $20 for a shovel. We're one-time businesses and we will charge $20 a shovel.

My point is that Thaler is describing patterns of behavior that he agrees are not irrational. I'm only saying that part of what Thaler has said, he really agrees with us

and with Rizzo. He's only talking about the quirks of behavior. And getting back — and I think, by the way, he's right. He said special events — by the way, it's an interesting point about what should theaters charge when prices rise. But Thaler shows there's a tendency for companies and stores that have been in business for a long time not to have a reputation for hiking the price, so they will do what seems to be irrational. However, as Thaler says, unfortunately their customers are not going to like what they do; they'll think they're being predatory, and so they don't hike the price. And so that is technically irrational, but obviously it's fundamentally rational because they have to stay in business and they want to please their customers. But one-timers can do it. One-timers can bring it in, can raise the price.

And so I think you would agree that that's probably about right, the way behavior is, the way patterns of behavior — at least it describes a certain kind of behavior. The shovels are not rising in price, but somebody's selling them on the street corner and bringing them in and charging what the market will bear. And bear in mind that Thaler is saying that's human action.

So what I'm trying to argue is that there are different kinds of Thaler because he is ambivalent. He is torn. He calls himself a libertarian. He tries to dance around the issue and tries to say that this is libertarian paternalism. I would say, by the way, that if you — Another question: if you run a company, you can be a paternalist. The Koch brothers, a lot of the libertarian entrepreneurs are very caring about their employees and they think in terms of trying to shape human behavior in ways they think are good. So nothing wrong with their saying, We're going to declare that you have to tell us you don't want to save and don't want to do a 401K, so that's the default option. So that can happen and so they can do it and that's all human action and there's nothing wrong with that.

So I'm only trying to create space in trying to say that, again, to return to the point you made quoting Rizzo, there is indeed the temptations on Thaler's and Sunstein's part to start consulting with government, to start — they themselves are power-hungry. I'm only trying at the end of the day to try to take a part of this analysis, a part of what they're talking about, which does describe human behavior and the quirks of human behavior, and trying to say that up to a point it's simply human action and again emphasizing that Thaler in his saner moments — both in his writing by the way about the shovels in the snowstorm and in conversation with me — basically says that he's not saying that people are fundamentally irrational; he's only talking about the quirks of human behavior, which I think are interesting.

So at the end of the day, we agree, except I would say there's a piece of Thaler that's perfectly compatible with Austrian economics, while I insist that — and again, I agree with you completely that there's the knowledge problem; there's the corruption problem; there's the fact that if he wants to say that people are crazy, the government is crazier. And all of that I think is also true, and that's why I would want to keep government out of it. So I think we're about 99% in accord with each other and we needn't fight over that last 1%.

WOODS: No, no, no, that's true, although fighting over the 1% is half of what I do –

EPSTEIN: It's very important.

WOODS: [laughing] But I guess I'll say that some of the kinds of examples that somebody like this might raise to say — like for example, I've used this example too. In fact, I think I used it in a follow-up episode, precisely the case of a big movie theater and a big movie comes out one night and everybody wants to go see it. They could jack the price up to try to make the market clear, because if we were just looking at a textbook, that would seem to be the thing to do. But they would lose a lot of customer goodwill, and so they wind up in general not doing that because, as you say, if they were a one-time shop driving down the street and they were going to show one movie and you'd never see them again, they could maybe do that.

EPSTEIN: That's right.

WOODS: But they feel like their long-run reputation requires them to keep the prices where they are and some people walk away disappointed. They'd rather have that. I find these — yeah, these are interesting examples and that just makes me want to not look at the — and maybe I'm being unfair to him, I realize, but not look at the market as, *Geez, why doesn't it work the way I want it to?*; rather, try to understand why it does work the way — what is motivating — why is this happening this way?

Or for example, a lot of times when we hear about deflation and we say the problem with deflation is that prices don't adjust downward quickly enough and wages don't adjust downward quickly enough, and so wages stay high, which makes unemployment high at a time of falling prices and all that, and that's because wage rates tend to be contractual and locked in for six months or a year or whatever. And so we have this tendency to say, *If only the market could be more flexible*.

But that is an opportunity to instead say, *Why does the market lock wage rates in? Why does it lock salaries in? Why isn't it super-duper flexible?* And of course the reason is nobody would want that kind of flexibility. Who would want his wage to change according to productivity every week? You wouldn't know if you could make your mortgage payment. You couldn't make any long-term plans. So in other words, these anomalies become opportunities for us to understand the market even better rather than to stand in judgment of it.

EPSTEIN: Yeah, okay, but Tom, the last point you made is interesting, especially the movie theater. The example you cited there was of course similar to Thaler's example of the shovels.

WOODS: Right.

EPSTEIN: You nailed it precisely, but by the way, you and I both have to say that in the case of the movie theater not jacking up its price, when there's a huge line and a lot of people are denied the opportunity to see the movie for the weekend they want to go, it's exactly what we want to say with respect to what price does. A lot of people who are pretty casual about wanting to see the movie that weekend get to go. A lot of people who were really eager to see the film, for whom it would have been a joy, they get shut out because of this quirk behavior on the part of the movie theater. And similar to the shovel point. The hardware store that thinks it has to keep its reputation, they're denying shovels to people who really need it, and the examples that you and Henderson were very perceptively citing, which is that: are the people

going to the hardware store and buying a couple of extra shovels? Are the people going to the movie going to the movie that night who were just cajoled by his friends who would just as soon not go and would love the excuse that the price is too high?

So you and I would agree. You now agree with what I just said that that is a kind of perverse allocation, that the ability of prices to actually allocate desires and tastes is impaired. It's impaired of course because the movie theater is marching to a different drummer. You and I wouldn't want to deny —

WOODS: No, I totally agree — yeah, no, I agree with that. I agree. I mean, looking at it from the point of view of the business firm itself, I agree with you that I don't blame them. They just want to keep their customers. But looking at it from a bird's-eye view, I can see that overall this leaves fewer people satisfied and there's less coordination, and it makes me want to spread economic knowledge, in the same way that people who are happy that price gougers have been cracked down on are just hurting themselves. And so I want to go around and tell everybody and explain to the hotel owners, you're doing a great service for mankind by rationing hotel space rationally.

EPSTEIN: Well, but don't you realize that when you and Henderson — and Henderson especially of course was being very articulate and, by the way, talking about the best of both worlds and acknowledging that there are a lot of good Samaritans and altruists who are going to bring in free water, but that doesn't mean that — that it only helps when people bring in water that they're going to charge for. Of course, when he was talking about all of the advantages of proper allocation by allowing people to charge what the market will bear, the same point applies to that movie theater in the example you cited or the hardware store.

And so my only point is that we are indeed introducing the so-called rationality of pricing when we discuss these matters, but we are acknowledging in a Thaleresque way that we can't tell this business what to do or the movie theater what to do. They feel that, in the long run, they're going to alienate their customers. By the way, I think that, getting back to that great debate you had over Hamilton with Michael Malice that you won, or the *Hamilton* show, I mean, they gave a fortune away to the scalpers. Millions of dollars to the scalpers. I think they should have held just an auction every month. That people might have regarded as fair. I think there are strategies.

But the point is, you see the point, though, Tom, that if you're going to see you and Henderson and me, we're going to say that if you impose price controls, there's going to be misallocations and people who really wanted — what prices do is they allocate to people who really want the stuff, and people who are casual about it — the plywood example that you gave — all of that applies to the movie theater as well. So my point is that it's not just that this is interesting about the market. It really is that there is behavior, there are ways in which firms decide that they are going to self-impose price control on what they do, and while in the short run it's not to their interests and indeed it's misallocating in the short run, in the long run, it's what they have to do.

So don't you see that we are introducing the same kind of "rational argument" about prices by analyzing this voluntary behavior in the marketplace having to do with what you just said? The one-time theater can charge what the market will bear, whereas the theater that wants to keep a certain benign reputation has to keep a lid on prices. But you and I can talk about the consequences of that, which is unfortunate in the short run because people who really wanted to see this film are denied the opportunity to go.

So that's my only point, that there is an aspect of Thaler's argument where, when he's saner, he's not lecturing everybody on being rational or irrational; he's simply talking about the quirks of human behavior. And that's where I would say that it's perfectly compatible with the Austrian school, and it's also rather interesting to talk about. However, when he — And by the way, I would still insist that there's nothing — you and I have no right to object if the Koch brothers, when you read about the firm that they ran or other sort of libertarians that ran companies who are really very caring, they probably do a little bit of nudging. Retailers try to do a little nudging of us. Businesses do nudging in their own interests. All of that happens. That's interesting, and Thaler has shed some light on it, but that's in the private sector. There's no way for libertarians to object to it. It's fascinating in its own right.

The only way in which we draw the line is when the central power of government gets imposed and when government starts to nudge, or indeed, when Bloomberg, who has of course power that nobody should have, starts nudging us in one direction or another — $50 to go to the library. I started to laugh. What are you going to do, get out a collection of Krugman's book? Who cares? You might be borrowing books that are only going to rot your mind, so would I want to pay anybody to go to the library? But of course, if the Tom Woods philanthropy wants to write checks to people to go to libraries, we can say you're foolish but that's your privilege. You want them to go to libraries, so why not? That's fine with me. It's your money. Do what you want with it. It's just when the power of government is imposed on it, that's where I have a problem.

WOODS: Gene, I'm going to give you 30 seconds because we've only got a few short hours before the event starts. Promote your Soho Forum event in 30 seconds. And if people miss this event, they can go to future events.

EPSTEIN: Absolutely. Monday night — I think you're going to be listening to this on a Monday — if you live in the neighborhood, 45 Bleecker Street, downtown, we're going to be debating the merits of affirmative action. Peter Schuck, who interestingly is a progressive who writes books that are gateway drugs for progressives who become libertarians, is going to be arguing against the merits of affirmative action, that it harms the very people it's tried to help. 45 Bleecker Street in downtown Manhattan at 6:30. Doors open at a quarter of six. Please come. And at some point, I'm going to be having Bob Murphy do a debate because I'm in talks with him. And someday, *someday*, maybe we'll get Tom Woods to return to the debating ring.

WOODS: Maybe someday indeed. We'll see [laughing]. Gene, thanks. This was a great conversation. I really appreciate it.

EPSTEIN: Sure, thanks to you, Tom.