



Episode 1,103:

Guest: David Gordon

WOODS: So we're just going to try to get through one of the volumes, and even there, there are so many things; we could do an episode on every single topic. But I've just picked out a few that I thought would be interesting. Before we get started, though – although I guess this is in the volume – you do have a piece in there on Hayek as a teacher, because when you were a senior at UCLA, Hayek was a visiting professor of philosophy there and you actually were sitting in on one of his classes. And I'd be interested to hear what that was like. And it's also interesting, isn't it, that – of course we know that later in life he branched out into fields other than strictly economics. Isn't it interesting that he could actually get positions teaching those fields when actually his formal training and his academic work was generally all in economics?

GORDON: Oh, yes. Well, he was remarkably broad in his interests. The chair he held at UCLA of visiting professor of philosophy, it was a very distinguished position that had been held by some world-renowned philosophers. But they had no problem inviting him. In class, it was very unusual in that he would lecture completely without notes. He would be seated at his desk, and when he spoke, although he was speaking without notes, he would deliver his talks as if it were from a written page. You could quite easily publish what he said. People sometimes when they read Hayek, they find his style very difficult to follow. It was rather complicated, long sentences, in contrast with Mises or Murray Rothbard, who were pretty easy to understand. Sometimes they were dealing with difficult ideas, but the style is pretty straightforward. And they wondered why did Hayek have to be so complicated. And when we were in his class, you saw that actually that was the way he spoke. He was writing just as he spoke.

WOODS: But in a way, this kind of reminds me of a certain guest of this show whom I'm talking to right now, who can deliver an entire week's worth of political philosophy lectures off the top of his head and have them all be systematic and point by point. In fact, you did that very thing. You gave a whole seminar on this years and years ago at the Mises Institute, and you just got up and did that. But of course you wouldn't point that out. I would have to point that out, because you're not a braggart, but I'm happy to boast for you. So did you get a chance to speak to Hayek yourself?

GORDON: Oh, yes. Yes, I spoke to him a number of times. He was a very, quite formal person. He was friendly but quite reserved, but I did ask him some things. I even told him a few of my jokes, some of which he laughed at. I gave him, for example, the one about the two behaviorist psychologists who meet each other on the street. The one says to the other, "You're fine. How am I?" And Hayek said, "Oh, yes, that's very amusing."

WOODS: Very nice, very nice. I heard he played Walter Block in chess and Walter beat him, and then Bob Wenzel said, "Well, if Tom can beat Walter and Walter can beat Hayek, then surely we can presume that Tom could beat Hayek in chess." I never got to test that theory, but I'm going with it. I'm going to go with that as my theory.

GORDON: I mean, it sounds like there's a good basis that transitivity to winning applies to chess – not always, but at least some empirical basis for it.

WOODS: Well, in any case, let's get to things that are probably of more general interest. There are so many pieces in this book, but let's talk about, just because this week I'm thinking about communism and Marxism and Marxism and Leninism because of a talk I'm giving out in California – I guess not a million miles from you. It's going to be in Santa Barbara, but not exactly in your backyard. But you have in here a discussion – because a lot of the pieces are book reviews – of Mises on Marx, and I wonder if you think Mises had any unique insights into the problems with Marxism that maybe you had never seen anywhere before.

GORDON: Well, one thing he had – I don't think he's absolutely the only person who came up with this. But one thing I was really impressed with in his system – there are many criticisms, you know, by Böhm-Bawerk and others of the labor theory of value, which is basic to Marxism. But one point that very few people have had and Mises did have it is that, supposing you accept the labor theory of value, and then the question would come up, what determines the wage rates for the worker in the simple model you start with in *Das Kapital* where labor theory applies, Marx says what determines the value of labor is what's required to produce the worker – in other words, what enables the worker to live and reproduce himself. And Mises points out that isn't a consequence at all of the labor theory of value. The labor theory of value leaves the wage indeterminate. There's no answer to that question, what should the wage be within the labor theory of value. So what's valuable there is, if you accept the labor theory of value, Marx's argument that the capitalist employers paying only for the labor but getting the labor power of the worker so that he's exploiting the worker by getting the surplus wouldn't follow. So the whole argument for exploitation that Marx gives is undermined.

WOODS: Then also, what about Marx's argument about the relationship between the means of production and the various ideas that are current in society, whether they're legal ideas or religious ideas or whatever? Isn't the idea that these things are the super structure and the means of production would be the base and that we get these other ideas – it's not like these ideas just exist in a vacuum. It's not like the capitalist idea of what constitutes theft and what constitutes legitimate property holdings just comes about in a vacuum. These ideas come about because the class that has an interest in perpetuating existing property relations develops them. But they emerge out of and are secondary to the existing kinds of means of production that are in use at the time. First of all, is that a reasonable description of the situation?

GORDON: Yes, that was Marx's view, that the ideology is part of the super structure as opposed to based on it. One point Mises makes against that – I think it's a very good one – is

WOODS: Yeah, this is where I was going to go, about where do the means of production – don't they have to come about, for example, through the division of labor, and doesn't the division of labor – how would you start that unless you first had ideas about it? And so wouldn't that show that ideas have to be prior?

GORDON: Yes, that's exactly Mises' argument, that Marx is assuming that the forces of production are a somewhat independent entity just developing on its own, something like the Geist in Hegel's *Philosophy of History*, except there it just keeps developing. But Mises said no, the forces of production come about through people's ideas, so it's really ideas that are primary, that are really running the course of history. Now, this doesn't exclude that people's ideas can have certain functions in promoting a particular economic interests or other interests that people have, but there you have to be very careful, is what Mises points out, as well, that what's called a genetic fallacy, where you simply assume that because something had a certain function or origin, that that explains it.

I mean, let's take an example. One of the arguments that Mises gives, and also many other supporters of the free market, is it's undesirable to have taxes on very wealthy people because the wealthy people will invest their money, and this creates more jobs for workers, more jobs for poor people, so it isn't a good idea to have very heavy taxes because this interferes with investment. Now, some people have pointed out, well, isn't it in the interests of these very wealthy people to have economists writing like that, because some of them don't want to pay very high taxes, so isn't it in their interests to have economists supporting them in this way? But even if that's right, it still leaves the unanswered question: is the argument correct?

And just one other point to get back to Hayek for a moment. I remember one point he made in his lectures. If you say that an idea has a certain function, as the Marxists do – say, certain ideas will promote class interests – that doesn't explain how those ideas – it doesn't give a causal basis for why people accepted those ideas or how it came about that the ideas were accepted. Just pointing out an idea has a certain function doesn't give you the causal mechanism for it. There's a famous paper by Robert Merton pointing that out that Hayek mentioned – I recall when he referred us to this paper, he said that Merton's about the best sociologist – of course, that isn't saying very much.

WOODS: No, indeed. I want to talk about other people, but before we do that, there's still one other – what was the one other thing? Oh, yeah. Wouldn't Marx have some kind of a response to Mises' critique that, on the one hand, Marx seems to believe in the iron law of wages, that wages are going to settle at a place where the workers will just be barely able to support themselves and continue to work, but that at the same time, he also says that the process that we observe in capitalism is that the workers become progressively worse off? But if they're already at subsistence level, then unless we don't understand what subsistence level means, we can't say that they get worse off. They would all be dead, and therefore, there'd be no one to carry forward the socialist revolution. Would he really have no comeback to that argument by Mises?

GORDON: Well, what he might try to say – some Marxists have said this – is that it isn't absolute immiseration, as they call it, that Marx had in mind; it's just that there's some historical relativity to this. What, say, people in the U.S. would consider very poor would by, say, standards of the late 19th century be considered very, very well off. Poor people today, you very often times see street people who have cell phones. So he would say, well, it isn't that capitalism tends to just drive people to complete subsistence level, but it varies.

But a problem with that answer is, if you eliminate the desperation part, then you don't have an ironclad argument at all that the workers are going to find their position so desperate that they're going to revolt. Why should we assume that if, say, workers, according to the Marxist

system, were doing all right, were getting much more than bare subsistence but their standard of living isn't all that high or it isn't as high as they'd like it to be, that doesn't guarantee that they're going to find the conditions so deplorable they'll revolt. Of course, it doesn't follow from that either that revolt depends on people finding themselves in such bad conditions, such intolerable conditions as bare subsistence, but that's a different argument. If you just take the strict Marxist argument – because the workers were in such a bad position, then they're going to inevitably revolt – then the giving up of the absolute immiseration is I think fatal to that argument.

WOODS: Let's talk then for a minute about behavioral economics just insofar as you covered a book called *Free Market Madness: Why Human Nature Is at Odds With Economics*. No, of course, when they say, "why human nature is at odds with economics," you know right away that what the person is talking about is not Austrian economics, because we aren't making any claims about – well, I don't know if you would say that. I don't know if we would say we're not making any claims about human nature, but certainly I think we could say we're not claiming that there's something that requires explanation in the fact that people choose to hit the snooze button in the morning instead of being as efficient as people who write books scolding them think they ought to be. We don't think that way.

But what's the gist of that? We just had a behavioral economist win the Nobel Prize, Richard Thaler. What do you think of all this? And I don't remember the details of this particular book, but is the argument that we do things that on paper don't seem to maximize our output or don't seem to be optimal from the point of view of an outside observer, so therefore the free market is stupid? It sounds like I'm being frivolous here, but I do think that is what these arguments often wind up being.

GORDON: Oh, yes, well, the ones who use behavioral economics to criticize the market say that, according to neoclassical economics, we can show under certain conditions that the market is optimal, but to do that you have to assume perfect rationality on the part of people. So they say we can show by various experiments that people have what they call cognitive biases, that people tend not to act in a strictly rational way, meaning by that something like in accord with principles of logic or sometimes they extend this to mean acting in one's long-term self-interest.

An example might be this. Supposing people are asked to estimate the probability of two events, and one event is a more detailed specification of various things than the other event – so we'd say something like the probability – they give a certain story about a woman called Mary, that she comes from a very isolated background, and then she became very active in college in various feminist organizations and this was extremely important to her. So then they'll ask people, now that Mary's graduated from college, what is the probability Mary is a librarian versus the probability Mary is a librarian and she's a member of a local feminist organization? So a number of people sometimes will answer that the second alternative, that Mary is a librarian and a member of a feminist organization, is higher probability than the first one, that Mary's just a librarian. But that can't be the case, because whatever the probability that Mary is a librarian, if you just add something to that, you can't get a higher probability that the second alternative is true.

So they say we can show people make these various mistakes in reasoning, so it isn't the case that the neoclassicals are wrong that people don't always act in a perfect rational way, so we can't assume then that the market is optimal. But as you point out when you asked the

question, in Austrian economics, we don't assume this notion of rationality, employs an extremely weak one, that people use means to attain an end. So if you have a certain goal, you think something will help you achieve that, you're not making any supposition on how rational the person is from some point of view of logic or reasonable beliefs or that the person is reasonable.

For example, suppose someone wants to make a lot of money and he spends a lot of money on a lottery where he'll have very little chance of winning. Many of the behavioral economists would say this isn't rational because, given the vast odds against winning a lottery – say if you buy \$200 worth of lottery tickets, you're in effect throwing away your money. That isn't a very good way of trying to make money. But from the Austrian perspective, as long as the person thinks that that's a way to win money, that counts as rational. So the Austrians aren't assuming rationality in the way the behavioral economists have challenged, so the Austrians were immune to that sort of criticism.

WOODS: Do you think the behavioral economists, though, have identified any, let's say, puzzles or anything that ought to make us say, *Hmm, that's curious. I wonder what the explanation for that is?* Is it possible that they've done that, but yet at the same time not actually fundamentally undercut real economics?

GORDON: Oh, yes, I think that's exactly right. They've raised certain interesting questions about individual psychology and ask why do people make certain choices like that. And Mises and other Austrian economists have recognized that's a perfectly legitimate topic to investigate. But Austrian economics is interested in the structure of action rather than why people make certain choices.

Now, a point that's very relevant here is you say, well, supposing I'm right – which occasionally I am, I hope – that Austrian economics is immune to this sort of criticism, people might say, okay, doesn't this though undermine the argument that many Austrians who are also strong supporters of the free market will say we should just let the market operate without government interference. The claim might be if people are irrational or not always rational in the way that behavioral economists point out, doesn't this give us reason to think that it might sometimes be justifiable to interfere with what people are doing, or at least, as Thaler and Cass Sunstein say, to nudge them in certain directions?

But a big problem with if you say that is that's assuming that the government or whoever is making these decisions are themselves immune to these kind of cognitive problems or are less likely to have them and are also acting in the interests of the people who are supposed to be benefited by their interference. And both are very questionable assumptions, to say the least. As we know from public choice theory, the government actors have their own interests. They're not just selfless advocates of the so-called public interest. Sunstein explicitly says he thinks that experts are better at choice and are more rational than ordinary people, but this to me seems highly questionable. It's a very self-serving view, which doesn't refute it. But nevertheless, I think it's perhaps an example of the cognitive biases that he's supposed to be writing about, that he is writing about.

WOODS: David, there is so much here I hardly know what to talk about next, but let's take just a minute to thank our sponsor, Skillshare.

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There's one more person that I want to pick your brain about at some length, and that's John Rawls. Now, I read in your book a little something about Gordon Tullock, who, I don't know if he mentioned Rawls in particular, but he said something along the lines of he's not entirely convinced when people say they want something but then they don't act in a way that indicates that they want that thing. And so when people say, "I want to help the poor," but then their actions don't actually involved helping the very poorest people, then he's just very skeptical that that's what they really want.

And that reminded me a little bit of Rawls, because Rawls of course is an egalitarian and he does claim to want to help the poor, but, and I believe you speculate on this as to what his motivations are, he does not say that we therefore need to have massive redistribution from the United States to third-world countries, even though the arguments for why that would be morally required are identical to the arguments that he uses that would make redistribution between individuals be morally required. And given that national borders are morally arbitrary, then why shouldn't we have international redistribution?

And your speculation – I don't know if this was you. Maybe I'm misremembering – was that he knows he can take his egalitarianism only so far and that the professors in the faculty lounge, they like to talk about egalitarianism, but at the end of the day – even though I hate that dumb expression – they like to have their wine and cheese parties. They don't really want to give their stuff away to the third world, and he gives them a comfortable rationalization for why they don't have to do it. So before we get into Rawls' idea, is that something that you speculated, or did I dream that up?

GORDON: Oh, I don't think entirely. I think I did say something like this. Possibly I also said what you said, but I thought it was interesting that many of the egalitarians, especially philosophy professors or economist egalitarians or political scientists who favor this, that if you ask them, "Okay, you favor equality. What should be the upper bounds of people's wealth and income?" it would be – and they would give you something that's slightly above the standard that they themselves have. So I thought it was interesting that they came up with this.

And I think also, although this certainly doesn't refute Rawls, I think his philosophy was very much attuned to, say, what liberal Democrats in, say, when JFK was president would have supported. If you were today, say, a Hillary Clinton supporter, you'd find Rawls' views very much along your lines. Or I say, supposing someone favors complete egalitarian distribution worldwide, which would very much lower the standard of living for Americans, although there are some leftists who favor that, they wouldn't get as big of a following. But as I said of course when I was criticizing Marx's view, that doesn't by itself refute what someone is saying, if you can show interests that they have in promoting certain ideas.

What Rawls I think would respond there is that he takes it as a starting point that when we're talking about justice, we're talking from a particular society, something like a nation state. So he takes that as his starting point. If he doesn't assume kind of a general position where we're taking everyone in the world and saying what is the appropriate distribution of wealth or income for everyone in the world, he takes it as a starting point that societies are at least sort of in part separate entities and we're talking about injustice as a matter of how the benefits of cooperation would be distributed among the members of a particular society. In his book *The Law of Peoples*, he's very much opposed to worldwide redistribution. Although

he does think there's some duties of foreign aid, these are much less exigent, say, than helping the worst-off class within our own nation.

And I think I point out in my review, you can actually use some of the arguments Rawls gives against redistribution from nation to nation to actually be used against redistribution within the U.S. or other nations, say. For example, he said, why should people of a particular nation who are very hardworking and have built up their economy, why should they have to benefit countries that, say, haven't been so hardworking? And of course you could use a similar argument against redistribution within a society.

But this is a point, though, that Rawls confines justice to a particular society, it's one that a lot of critics have raised against him, but this is really integral to his way of conceiving justice. He did think that justice depends on the particular ties people within a certain society have to each other, and there aren't cosmopolitan principles that apply universally, or at least if there are such principles, they're not as demanding as the ones that apply within a particular society. So it's a perspective that a lot of his critics, not just libertarian critics, but a lot of his critics in mainstream political philosophy don't accept, but it is basic. Thomas Nagel's one of the philosophers — he was Rawls' student — is one of the philosophers who's stressed this aspect of Rawls very effectively, that his system is based on what's just within a particular society rather than universally.

WOODS: All right, the last thing I want to ask, of course, is the most fundamental question of all. I'm still interested in the Rawls question. Let's make sure everybody is following along. John Rawls wrote the book, *A Theory of Justice*, whose influence it is just impossible to overstate in terms of a 20th century book on political thought. It's just everywhere. It's discussed in classrooms and just everywhere.

And it has to do with the idea — and I don't want to explain it in a way that's not fair to it, but I want to explain it in a way that I can keep it within a few minutes. The gist of it is that if you were behind a so-called veil of ignorance — that is to say, you're about to enter the world but you don't know what your position in that world is going to be, so you don't know if you're going to be a man or a woman or smart or dumb or strong or weak or any of these things, what if you didn't have any of this knowledge would you want the rules of that society to be?

And he thinks that, given that you don't know if you're going to be successful or not and you don't know if you're going to be a millionaire or something, then what you would want is to hedge your bets. You would want a society in which the least among you are taken care of and assured of a reasonable comfort, so you would favor a reasonably egalitarian redistribution of resources just to make sure that, even if you wind up in the worst possible condition when you're in the world, it won't be so bad because you will have been provided for by egalitarian rules of that society. Is that a fair summary?

GORDON: Yes, I think that's very good. But one point — and this is one that's often missed — when Rawls is talking about people behind the veil of ignorance at this basic level, when he's talking about the worst-off class, he means the worst-off class who are still contributing or still producing. The argument wouldn't be something like, well, suppose I think I might end up completely physically disabled so I wouldn't be able to do anything. Wouldn't I want to take care of that? He's talking about the least well-off productive people. And in his system, although we do have obligations to take care of the very disabled, people who are not contributing at all, this isn't part of the absolutely basic principles of justice. That would

come in at a later level. I mean to say severely mentally retarded people or people who – the idea behind his system, suppose say, we're in a business and we don't really know what our abilities are but we know we're going to benefit from this business if we're each going to be contributing, we're both going to benefit, we don't really know what abilities we have. So in his view, we want to come up with an arrangement if we don't know where, as you say, we'll make sure we're not really in an awful position.

And one reason he thinks that – some people say, aren't you assuming that people are risk-averse? No, he's saying that what's important in his system that we have enough of the basic goods, powers, and liberties and various other things so that we're able to get on, and what above that doesn't count as much in leading a good life? So for him, it's the essential is that people try to ensure that they'll get a sufficient amount of what's necessary to lead a good life rather than gamble on whether they can get more and take the chance that they won't come up with very much of anything.

WOODS: Okay, so if that is the way he's positioning us, then what's wrong with this – is there something wrong with this construct, or is there something wrong in his reasoning? What would you say? Of course, you could have somebody like Gary Chartier, whom I discussed with – because of course he has a book called – I think it's called *Righting Rawls*? Is that what it's called?

GORDON: Yes –

WOODS: Or maybe that was the name of the episode.

GORDON: I think it's –

WOODS: Yeah, that was the name of the episode I called it.

GORDON: I think it's called something with Rawls in the title. Well, it's interesting you mentioned his book. He argues you can get to anarchist conclusions for favoring a free market on Rawlsian principles, but you see – I read the book before it was published. He sent it to me. Although I think it's a very interesting book people should read, I don't think he's really grasped Rawls' system at all. I mean, what he's come up with are just free market arguments for anarchism, libertarian anarchism. And he said, well, since these are good arguments, people would choose them behind the original position.

But the basic idea of Rawls isn't just an original position where he assumed people don't know anything. All that you would get with that would be people would just be choosing on an impartial basis. So the original position there isn't adding anything to his argument. The basic thing you need to have a Rawlsian system is that you view everything that is up for distribution, you regard everything as a collective asset that people then have to decide how are we going to distribute this among society. So unless you make that assumption, you don't have a Rawlsian view at all, and I don't think you can really get to a free market conclusion from that premise.

And that assumption I think is one of the things – to get back to your question, what is wrong with Rawls' starting point is that it starts from the view that everything is really up for decision, that it isn't, say, that people have natural rights to property; it's that people in the

society are coming together to decide how their goods should be distributed, how the goods and benefits of social cooperation should be distributed. If you don't have that starting point, then you won't accept Rawls' point of view.

Now, another criticism one could make of Rawls is one that Dworkins has made — Ronald Dworkins, a great legal philosopher, very sympathetic to Rawls' conclusions. But he made the point, well, supposing people, self-interested actors under Rawls' conditions would come up with his principles of justice, you could say, well, so what? Why should we take that as a starting point? Rawls would need argument and tries to provide this. It's probably questionable whether he succeeds. Why is it relevant that people from a certain starting point would arrive at certain principles? Why should that give us reason to accept those principles just because, given the starting point, people would arrive at these principles?

And the last sort of criticism one could make of the Rawlsian construction is people could say people wouldn't come up with those conclusions under Rawls' assumption. John Harsanyi, who was a very well-known economist who had a similar framework for thinking about moral questions, argued that people in those circumstances would come up with a more utilitarian system in which they would favor people getting more in accord with what would maximize their prospects for income and wealth rather than trying to ensure that they got a minimum at whatever cost. So there are arguments even within the framework of the original position of whether Rawls has come up with the right answer, although he has reasons for thinking that he has come up with these answers. So the question isn't I wouldn't say settled against him, but he's been challenged on that basis.

WOODS: The book we were thinking of, by the way, is *Radicalizing Rawls*. That was Chartier's book, *Radicalizing Rawls*.

GORDON: Yes.

WOODS: So in other words, you would say that if I were to say something like Rawls' requirements would be best satisfied by a free market because in a free market the poorest tend to be better off than they are in any other system, so therefore we should favor that — this neglects the fact that Rawls takes for granted that we're dealing with the idea of basically the collective ownership of all the stuff in society and we're just trying to think of how we should sort that all out. Like, he's already stacked the deck against a market outcome. Is that what you're saying?

GORDON: Yes. Yes, supposing you give an argument like that, that the free market tends to help poor people more than other systems, that's a very good argument. I think it's right. But what are you adding to that by saying people in the original position would choose that? All you're saying there is you're saying, well, I think if people were choosing impartially on what's best for society, they would pick that. But that doesn't give you any kind of distinctive approach to political philosophy. You could just wipe out the Rawlsian window dressing to it and just say, well, the argument is we should have the free market because this helps poor people the most and we think this is a good thing to do, is to help the poor people. There's no distinctive Rawlsian system there at all. The Rawlsian idea is, as you mentioned in your question, that you're taking everything as a collective asset and asking about redistribution.

Now, in Chartier's book, it's interesting. He gives a criticism of Rawls on this point. He says Rawls is assuming this and we shouldn't assume this. But then at the same time he tries to

argue that you can get a Rawlsian argument for the free market, but the basic assumption which he's questioning in Rawls' system is that everything is to be taken as a collective asset subject to redistribution. And you don't have a Rawlsian project unless you incorporate that assumption – at least, I don't think you do.

WOODS: Well, the book is *An Austro-Libertarian View*, and we have been looking at volume one only, which is *Economics, Philosophy, and Law*. There are three of these volumes, if you can believe that, and it would take really another 1,100 podcast episodes to get through all the material in them. Imagine getting – it's the closest you're going to get to getting access to all the knowledge in David Gordon's brain. So I'm going to link to these books at TomWoods.com/1103, and David, thank you very much and I very much do hope to see you at the Austrian Economics Research Conference at the Mises Institute next month.

GORDON: Thanks, Tom. I look forward to that, and thanks for having me on your show.