Episode 1,233: Keynesianism Flattened

Guest: Bob Murphy

WOODS: How about this? There is actually a book, I'm holding it in my hand and it weighs a ton, Contra Krugman: Smashing the Errors of America's Most Famous Keynesian. Let's make clear: this isn't like a book of transcripts of our show. I mean, who would want that? You'd want to set fire to that. This is kind of like your collected works over the years going after Krugman and teaching economics and the process. That's really what you're doing in here. People are going to learn — when they see the table of contents and all the different topics covered, it's amazing what they're going to learn. And there's going to be some theory, but mainly the economics they're going to learn here is the kind of economics they can use when they're arguing with their friends; or when they feel cornered and they don't know what to say; or it just seems like, well, all respectable people think blah, blah, blah, but yet, the statistics show the opposite of blah, blah, blah, so how respectable could those people be? You'll have all this at your fingertips, thanks to this book. So Bob, why don't you tell us the origins of this book? Like, for example, even though it took a long time to produce, who really was pushing you to do it?

MURPHY: [laughing] Well, it was a short little man that I know and —

WOODS: [laughing] Oh, that's terrible. Michael Malice, you mean?

MURPHY: No, it was you, Tom. Folks, basically, you know how they say, "Behind every successful libertarian, there's Tom Woods." That's how this goes.

WOODS: [laughing]

MURPHY: Yeah, you were pushing me, Tom. It was it was your idea. And so the context here, folks, as Tom is saying is, you know, I write articles that get published in various outlets over the years and, you know, anytime Krugman would write on something — and he writes on a variety of things, so you might just know him as, oh, he's the big guy for Keynesian spending, right? Well, yes, he is. But he also writes a lot on climate change and health care and all these other things. And so if I had an outlet — like for example, I'm a senior economist for the Institute for Energy Research, so anytime Krugman would write something about the economics of climate change, and the carbon tax in particular, you know, I would write something critiquing him, because that's always a good foil. People like to see a debate, as it were, instead of someone just from first principles in a blog post.

And also I write for what's called Econlib. They have monthly articles that are longer pieces that are supposed to be more, you know, pedagogical, just teaching things to people learning economics and things like that. And so when Krugman would write about how, oh, yeah, all the research shows that there's no evidence that lowering taxes increases economic growth — you know, things like that, where he's making it sound like this is some right-wing myth — well, then I would take the opportunity to go through and summarize the research and say no, actually, here are these seven literature reviews, and go through and show how, oh, in all these peer-reviewed journals and even from people like Christina Romer, showing that no, actually, it turns out that when you control for all these effects, that imagine that, the government taking fewer resources actually leads to faster economic growth.

So these things were all over the place and Tom said, you know, Bob, we should really put those into one volume, and you should you should do that; it wouldn't take that much work. And in you were right, Tom. Now that it's done and it's sitting there and it's — folks know that I'm very modest, but I'll tell you, I was flipping through this thing when it was done, and I actually felt bad for Krugman. And how do you feel about that, Tom? I mean, someone reading this thing is going to like, man, this guy really, he takes a lot of criticism this thing.

WOODS: [laughing] Yeah, he does, as a matter of fact. It's unbelievable. I mean, it's just an ancillary benefit that it really smacks Krugman around. The primary benefit is that every conventional argument that's been made about the way people like you and I look at the economy is dismantled, smashed, refuted and replied to in here, and that's the primary thing. And then you get the special pleasure of seeing the nasty Krugman taken to task. Because even some of his own colleagues kind of feel like he's a nasty person in the way he treats people, the way he misrepresents other people's views and then triumphantly bats them down when they actually didn't say that in the first place. It gets irritating after a while, even if you are a Keynesian, it gets irritating.

So you've got in here a foreword by Ron Paul, which is very good. He says something like: if there was anybody who at the time of the financial crisis was more prolific in defending the free market than Bob Murphy, I'd like to know who it is. Well that's pretty good. I mean, so even Ron Paul himself — you know, maybe Ron Paul would be the one person we might allow, but he would never say that about himself. But he's got a very nice thing. I wrote the preface to it. I recorded the audiobook version, folks. And you know, when you record the audiobook version of a 600-page book, it takes a while. That takes a little bit of time, but well worth it. And the Kindle version is like six smackers. It's ridiculous. Like, you should go over and get it. So first of all, the website: ContraKrugmanBook.com. ContraKrugmanBook.com is where you should go check it out.

All right, just looking through the table of contents here, I mean, all of these are interesting, because we've got stimulus and minimum wage and financial reform and business cycles and wages and monetary policy in the Great Depression, and trade, Obamacare, austerity, tax cuts, debt, climate change predictions. Wow. Hard to know where to start. But I'm going to pick a place. It's not a place that we talked about beforehand, but I do want to talk a little bit about austerity, if we could, because still to this day, people say, *We tried austerity* — and by "we," they mean the Europeans and to some extent the Americans. *We tried austerity and it didn't work, and that just goes to show that you ideologues refuse to respond to evidence. You cannot be reached through evidence. You're unreachable. You're devoted to your outdated 19th century philosophy.* What's the answer to that?

MURPHY: Okay, so good question. And again, folks, as Tom is saying, this is not me just being an armchair libertarian and, you know, reasoning out from first principles and saying, So clearly, you know, the free market rules. I mean, we obviously have a set of principles, but as Tom says, I mean, lot of this is very empirical. Because I understand if someone's like, no, the data contradicts what your armchair theory is. You've got to really kind of go and show why they made a mistake in the data they grabbed.

So with this one, yeah, there's a few levels of response. I'll try to keep it brief here. So one thing, Tom, is that it's important when you talk about austerity, that, yes, there are countries that implemented "austerity," and then they really did suffer, and I certainly wouldn't have endorsed what they did. But what that would mean in practice in a lot of these places, especially in Europe, was, oh, the government would come in, would bail out the banks with taxpayer money, and then would impose a big tax hike and possibly cut some other forms of government spending to contain the increase in the spending that was necessary to bail out the banks for the bad loans that they made. All right, so yeah, that's certainly not — you know, bailing out banks for their bad decisions and then imposing tax hikes on people while the economy is already on the ropes, that's certainly not something that a libertarian would support ethically. And it's not in line with Austrian theory in terms of what could policymakers do to ease an economy that is on the ropes.

Now, on the other hand, if what you mean by austerity is simply that the government's going to cut spending and that's the way that we're going to impose pain and tighten our belts and whatever, that's actually pretty good. You know, in terms of standard libertarian, you know, ethically that's right. You're stealing less from the public in that scenario. But even just the standard economic analysis, there have been studies — and not from, like, the Heritage Foundation, but from, I think one of them came out from the ECB. It was some international-type group like that and it was not an ideological pro-market entity by any stretch. But they had one of their research, you know, monthly bulletins or something come out, and they looked at countries that primarily tried to close their budget gap through cutting spending rather than from hiking taxes. And they found that that didn't cause them to sink further into recession.

And so that's an example — there's also, like Canada famously in the mid to late '90s really turned around its budget situation. They were on the verge of having a debt crisis spiral out of control. They did raise taxes a little bit, but they mostly cut spending for a few years to get it under control. And they went from a string of budget deficits to a string of budget surpluses. And you know, their economy didn't fall off a cliff. So there's all these examples of countries cutting spending as a way to deal with budget deficits that don't lead to disaster. And the Keynesians never point that. And, in fact, Krugman — and I document — goes through and tries to explain away all these cases. *Oh, well, you know, their currency depreciated, so they exported more*. Or, *Ah, well, you know, the central bank cut interest rates, and so that's how* — And, you know, he has to explain away all these cases.

On the flip side, we have plenty of evidence of cases where the government engaged in massive deficit spending — you know, the, in other words, "right thing to do" — where it was a basket case. And so, you know, FDR, and Hoover himself, but FDR in particular, they say yeah, he engaged in deficit spending. It's not like the 1930s were a great economy. And, you know, Obama certainly engaged in stimulus anti-austerity measures, and it's not like the U.S. economy was great. So with all these things, Tom, what they do is they set up an alternate universe that we can't observe and say, *Oh, it's a good thing that Obama did, engaging his stimulus package; otherwise, we would have had the second Great Depression*. And so no, in practice, what you see is there's plenty of cases where governments that have a big deficit, even if they're on the verge of going into recession, if they just cut spending primarily, they're fine. And then we forget about them and we don't use them as an example of anything because they didn't collapse, whereas countries that do engage in the Keynesian prescriptions end up having awful economies. And then the Keynesians come in and say, *Oh, that's because they didn't do enough of the medicine. That's why.*

WOODS: I want to switch around, just because there's so much to talk about here. I could do follow-up questions all day. But we're probably going to do one episode on this book, so I want to just give people a flavor of all the different stuff that's in there, but also talk about not just the economics, but also just show how slippery Krugman is and how slippery you have to be in order to make these ideas stick. So let's cast our minds back a bit to the days of the sequester. And I've got some young listeners who were probably, I don't know, in diapers during the sequester.

MURPHY: [laughing]

WOODS: Not quite, not quite, but, you know, they were pups in the days of the sequester. Remind us what the sequester was and what Krugman had to say about it and then what wound up happening.

MURPHY: Okay, sure. So this was something — so again, to set the stage, folks, remember Obama comes in. He wins in the 2008 election, he's an inaugurated in 2009, and then there's the whole Tea Party revolt, and a lot of new Republicans come into office, and so the Republicans — remember, the Republicans are great, folks, when there's a Democrat in the White House. Then all of a sudden, the Republicans remember that they're for less spending and so forth. And so one of the things they did they kept having these budget fights. You know, there were various rounds of it, but I think it was like in the winter of 2012, they were fighting over stuff and they could not come to an agreement, and so they had this sort of poison pill in the legislation, saying, okay, if we can't come to this agreement, there's going to be sequestration that's going to kick in in early 2013, which was going to be some actual budget cuts. And in here, Tom, I know you and I are cynical on this stuff and other long-time watchers of Washington D.C. and, oh, yeah, a cut in Washington means a slow-down in the rate of growth. But actually, there were — I mean, literally the absolute amount of federal spending went slightly down a little bit, at least in this one-shot thing, and some slight tax hikes. And so that was what sequestration was, and again, it was going to kick in in January of 2013 if such and such compromise couldn't be achieved in it. And it wasn't, so, you know, you roll into there.

And so Krugman, of course, is going crazy, saying, *Are you kidding me? The recovery from the Great Recession is very lackluster. Thank goodness we had Obama in there and Bernanke, and they weren't listening to these nut jobs like Ron Paul, but still, the economy is very tender right now. The last thing we need is to engage in austerity at this point*, which is you know, sequester would be a function of that. Now remember, folks, that this is also as the rounds of QE are going on, quantitative easing. So you had the Federal Reserve doing what it could to stimulate, in terms of the Keynesian worldview, and then on the fiscal side, you had these crazy Republicans who were sort of playing chicken with the fate of the country in order to score political points against Obama.

This is the narrative Krugman's painting, such that in April of 2013 Krugman actually wrote and said, *Well, you know, there's two camps here. Some of us are saying that this fiscal* *sequestration is a "doomsday device" that we're imposing on ourselves*. That's his literal phrase. He was grabbing it from the *Dr. Strangelove* movie. In other words, we're going to intentionally blow up our own economy. That's how he described it, saying this was like an unforced error where we're going to hurt ourselves for no reason.

And he said, *On the other hand, you know, the Fed's doing what it can, but we're in a liquidity trap, and so its hands are tied*. And so he's saying, *So this is kind of a good a good test to see: are we conventional Keynesians or these guys like the market monetarists who think the Fed can just offset everything and that really, as long as the Fed's doing the right job, then we can cut spending? Are they right?* And he said, *Right now* — and he's writing as of April 2013. He's saying, *We're getting a good test of this, and it doesn't look good for my opponents*. Because at that point, the economy didn't seem to be doing very well.

Okay, well, it turned out, the rest of 2013 played out, and it performed better than what the consensus forecast had said it would, such that by January 2014, you had guys like Scott Sumner, who's a market monetarist, the guys saying that this whole thing was caused by the Fed — he was kind of running victory laps going, *Well, you know, this is the gauntlet they threw down, and we did well, so I guess we're right, huh?* And Krugman actually in a column in January 2014, Tom, alluding to these market monetarists who are saying that, somehow, last year was a test — he's complaining about just how dishonest they are and saying, clearly, if you're going to do something like assess economic policy, you don't just look at one country for one year. You've got to look at a whole range, a bigger sample. And then he put a scatter plot of Europe, you know, of all the different European countries with, on one access like the unemployment rate, and on the other access, you know, did they engage an austerity or not. And then, you know, he draws a line through it and goes, *See? I'm right. When you look at all of Europe* —

So that's just one example, Tom, of, number one, how his prediction blew up in his face, but beyond that, just how slippery he was. He literally laid out this test, and when he thought he was winning said, *Yep, this is a good test of who's right or wrong*. Then when that blew up in his face and somebody else mentioned, *Yeah, you know that test Krugman picked? We won*, Krugman's complaining about how dishonest they are for thinking that's a test. And I'm not exaggerating in any way, folks.

WOODS: No, it's right in there.

MURPHY: This is all documented. You have to get the book to see, to get the proof. But I am not exaggerating. That is literally what happened.

WOODS: Let's say something also about climate change, because there you have plenty of knowledge because of your work with the Institute for Energy Research, and you've written some articles on this subject, including in the academic sphere. And Krugman here — I mean, neither of you, is a climate scientist, as you will constantly — you will constantly be reminded of this. Krugman will not be constantly reminded he's not a climate scientist, but we can leave that stuff aside and just look at what the likely economic consequences — you know what? Why am I answering the question for you? Tell us about Krugman and climate change and what's wrong.

MURPHY: Yeah, not only are you not a climate scientist, Tom; you're not even an economist of climate change. So you really —

WOODS: No, I have no business even asking the question.

MURPHY: [laughing] Right. So this is something, folks, that you know — and Tom's right; I do try to be clear with people, because I want them to understand. Let me just very briefly here say something to try to frame this. You'll hear these things all — and Krugman does this too, so it's certainly relevant to this issue for today's podcast episode. But they will act as if, oh, there's this huge consensus. And Krugman even recently just said something like, *Oh, yeah, I saw I suppose there's this huge conspiracy and all the scientists in the world are lying about climate change, and not one single one of them is deviating from the orthodoxy. Okay, sure, guys, that makes sense.* And you'll see figures like, oh, 97% of the publishing climate scientists agree.

And that is extremely misleading. Even the people — as Tom said, I do some stuff. I have a study from Cato that's like a critique of a U.S. carbon tax, for example, that I do with Pat Michaels and Chip Knappenberger. Those are both actual climate scientists. So they both would be part of that 97% consensus, even though they're co-authors with me on a study opposing a U.S. carbon tax. And so what that means, when they say this consensus, that means somebody who thinks, yes, the globe is warmer now than it was like in 1750, and yes, other things, equal emissions of carbon dioxide and other greenhouse gases from human activities would contribute to some of that warming. That's what people — you know, if you want to get the 97% consensus, that's what that means.

But notice, there's no government policy prescriptions that necessarily flow from that. Somebody might even agree with those statements I just said and say that's a good thing. Like maybe the earth was going to cool and that this is going to offset that little bit. Or maybe all things considered, the fact that the earth is going to be warmer now is a good thing because fewer elderly people die in the winter, and certain areas now can plant different types of crops and so maybe — So there's all kinds of things like that, nuances, when you get into this debate?

So anyway, as far as Krugman, I'll just make one observation about a particular thing where I caught him bluffing. Krugman, he'll talk about how we need to take urgent action. And when back going into the 2016 election, he literally — I'm not exaggerating, folks. He literally said the fate of the planet rests on this election, and if Donald Trump wins, then he's going to have the ego that destroyed the planet. That's — or maybe he said id. He used some Freudian thing. I don't know if he said ego or id; I forget. But that was the deal, right? So there was no nuance, whatsoever. He wasn't thinking like an economist doing marginal cost. It was just: if Donald Trump wins, literally, the earth is over.

And so what I pointed out was: you can use the standard periodic reports from the UN's own agency, the IPCC, Intergovernmental Panel on Climate Change, and they actually in one spot did an assessment to say, if we delay these optimal mitigation measures until I think it was the year 2030, how much do the compliance costs increase? And so they estimated this. What they were trying to do was to show what's the cost of delay, of inaction. And the people doing those numbers and publishing it, I'm sure the people at the UN, why they wanted that table in this document was it gave ammunition to people who wanted to say, *Hey, let's not drag our feet and wait around for more data. Let's go ahead and take action, because it will be cheaper to deal with this sooner rather than later.*

And that's fine insofar as it goes, but my point was they weren't showing, Oh my gosh, if we don't do anything by 2030, just put an asterisk and you look down, it says we're all dead. That's not what it said. It just said, oh, it's going to be more expensive to, for example, achieve our targets for the year 2100's global temperature or atmosphere concentration levels, that to achieve those desired targets, it'll be more expensive if we wait till 2030 rather than if we start doing the policies now. okay. And again, it was some tolerable number. It was more expensive, but it wasn't like it was a catastrophe. So I'm just saying little things like that, where I'm just showing that, no, Krugman's narrative does not work at all. And I'm not saying, "According to this Cato study"; I'm saying according to the UN's own documents summarizing the peer-reviewed economics of climate change literature.

So Krugman just — you know, what I notice, Tom, and we document this in the book, is that he kind of just gave up. In other words, I think he realized at some point that he was going to do what he's going to do in terms of his *New York Times* column. I'm sure in his academic work, to the extent that he still does that occasionally, he's much more refined. And that's true. I've seen him give a talk — not in person, but I've seen excerpts of it. I've seen him give talks at academic conferences, and he's, you know, mild-mannered, button-down shirt, Paul Krugman, the economist. He's a different guy in his *New York Times* outlet where he just — as we say, Tom, on the show, *Contra Krugman*, often you wouldn't even know he was an economist reading his column. He's just some demagogue, lambasting greed and racism.

WOODS: Speaking of greed, and racism, let's talk about Austrian business cycle theory.

MURPHY: [laughing] Well, the greed makes sense, because —

WOODS: Right, right, well, naturally. But no, what I actually want to talk about, I want to give you a chance to talk about — and again, I'm sorry to just jump from one thing to another, but I just want to give people a flavor of all the sort of stuff that's in here. The time that you had a bit of an exchange kind of in real-time with Krugman, in that he responded to you with respect to something you'd written about Austrian business cycle theory, and then you wrote a reply to him, and he paid you kind of a compliment, maybe kind of an odd compliment. But you've got that in here and Krugman's misunderstanding. Because you'll never believe it; Krugman doesn't quite — he's not actually steeped in the literature of Austrian business cycle theory, but he still has plenty to say about.

So I think what we may need to do is have you give the most laymany of layman overviews of Austrian business cycle theory. And this is the most important thing. If you're listening this podcast right now and you're tempted to say, *Well, I think this is about to get complicated; I'd better move on to the next one*, no, no, no. This is the piece of economic knowledge people need more than any other right now, which is the business cycle stuff. Why does the economy go up and down, up and down, up and down? Is that just a natural phenomenon, there's nothing you can do about it? Is it an artificial phenomenon? And the Austrian school, which Bob belongs to, has something to say about that? And Krugman had something to say about what the Austrian school has to say about it, and it's very interesting how the whole episode unfolded. So I'm going to let you take it from here.

MURPHY: Okay, sure. And I agree with you, Tom. This is something — I remember when I was younger and I was getting into the Austrian worldview, that was a big thing that really changed my mind. Because at first, just reading free market stuff, even people like Milton Friedman and others, you might get the sense that, oh, yeah, there's — and some noneconomists, perhaps, like just sort of conservative, right-wing writers might say something like, *Well, yeah, there is the business cycle and there's booms and busts, but you know, that's the price we pay for innovation*, you know what I mean, like thinking that really is something that's inherent to the market economy. And in the tradition of Mises and Hayek and their theory of the business cycle, no, it's actually government intervention, specifically, interference with money and banking that causes it.

So very quickly, the idea is that prices serve a function. They help coordinate economic activity, that entrepreneurs, they need to be able to use real market prices in order to guide their behavior. And one of the prices in particular is the interest rate, or actually, there's multiple interest rates for different maturities and things. But interest rates, what they do, again, very loosely speaking, is they help coordinate long-term projects and activities. So consumers, households, they decide in terms of their spending behavior, like do we want to consume now, or do we want to save some of our funds for the future? You know, if we've got young kids, do we want to start putting away money for them to go to college, or, you know, we're in our 40s and we want to have a big pile of assets at our disposal for when we retire so we can go on cruises? So all those things, where people are making real long-term trade-off decisions about do I want to consume now or do I want to save.

That has to get reflected somehow in what the economy is physically producing year after year. And so if the population is very present-oriented and they just want to have pizzas and go see movies and drive sports cars, okay, well, then the economy is going to cater to those preferences, as it should. There's nothing wrong with being present-oriented in terms of economics science. But you'll see the economy will tend to just be pouring resources into building more movie theaters and pizza places and so forth. On the other hand, if people are more future-oriented, then the economy will cater to that, and you'll see resources getting plowed into making more drill presses and offshore oil platforms and research laboratories and physics textbooks, things like that. So that's fine.

But the point being the interest rate or the structure of interest rates needs to be correct to signal the right thing to entrepreneurs, so they know: oh, should we be investing in long-term projects that won't really pay off until 20 years from now, versus should we be tying up real resources in more short-term things that give their enjoyment within six months? And so the interest rate is the key thing that sort of regulates that, if you will. And so a high interest rate penalizes long-term investments, whereas very low interest rates put a low penalty on tying up funds for a long time. And so it sort of gives a green light to long-term projects.

So with that framework, now you can see what Mises and Hayek elaborated upon was this idea that if the commercial banking system, particularly in a modern context with the central bank kind of goosing it, if it pushes interest rates down to artificially low levels by flooding the market with new money that really doesn't correspond to genuine saving, well, that sort of sets in motion investment into long-term projects, even though there's not the real, physical savings to back it up. And so that causes a mismatch. The production structure gets out of whack. It's not internally consistent anymore, and it gives perversely an appearance of prosperity upfront. Consumers feel richer. Businesses are hiring. Everything seems great. But yet, it's because there's this collective illusion that the economy is not as wealthy as people are being led to believe by this artificially low interest rate.

And so you have a few years of a boom, but eventually it turns around into a bust, because the government can't — by just creating the electronic money, by buying assets and flooding the market with new funds, that doesn't actually make more capital goods available. That doesn't create more factories. And so physically, it's impossible for the boom to continue, and the question's just: when's the crash going to happen? So I'll stop there, Tom. So that's standard Austrian business cycle theory in the context of a podcast, with people driving and trying to get the point across fast.

WOODS: All right, so is there a way, without getting super complicated, to talk about Krugman's views on this?

MURPHY: Yeah, sure. Yeah, I'll summarize real fast. And for people who want to go look at one thing, go ahead and look at Krugman's *New York Times* column called "Great Leaps Backward," which was January 19th of 2011. So you'll see he actually cites me by name and links to a Mises.org post. So for those of you who think that, yeah, Bob's just in the corner, taking swipes at this giant, no, he used to actually acknowledge me once in a while. And he says, even in this post, he says, "Someone, I don't know who at this point, sent me to this post by Robert Murphy, which is the best exposition I've seen yet of the Austrian view that's sweeping the GOP" — which you remember, Tom, when Lindsey Graham got up there and he was going through Roger Garrison's PowerPoints on CSPAN? Remember that time? That was awesome.

WOODS: [laughing] Yeah, I know. I'm so overwhelmed with all the discussion of the topic everywhere.

MURPHY: So anyway, briefly, folks, I had written for Mises.org an article, I think it was called "The Importance of Capital Theory." And I was responding to, I think Tyler Cowen and maybe somebody else had criticized Austrian business — actually, I think it was Krugman, as well. And they had some quibbles with, you know, how could it be that, if it's just a matter of resources getting sent to the wrong sector, why does the boom feel good? Like, how come unemployment doesn't rise in some sector? How come just the bust feels like a bad time if, in both cases, on the boom end and the bust end, resources are getting shifted around, why isn't it symmetric?

Okay, so I walk through and try to — you know, I used an analogy. I think it was pretty clever — to try to spell that out. So, you know, a lot of people have told me, incidentally, over the years that, yeah, your article — and they call it the sushi article, because my little fictitious story involved people rolling and making sushi. So anyway, that was the thing where I walked through why you needed to have a theory of the capital structure. It wasn't just a matter of aggregate spending. You wouldn't be able to even see the Austrian story, if you were just thinking in terms of aggregate spending. You needed to actually be thinking physically in terms of there's a capital structure in order to produce things; prior decisions needed to be taken. And so, you know, there's a history involved. It's not just, oh, you know, how much money do I want to spend? Or do I clam up and my animal spirits are preventing me from spending? That's not the issue. The issue is, right now, what kind of productive machinery do we have at our disposal because of past investment decisions?

All right, so that was that, and then Krugman in this "Great Leap Backward" — you know, so he's alluding to Mao's Great Leap Forward. He says that, yeah, actually, this story is internally consistent, what this guy Murphy came up with, and maybe that kind of describes what happened in Maoist China, where they tried to modernize too quickly, and so the population starved while Mao was trying to build his factory base up to the standards of the West. He was trying to industrialize too fast. So yes, this is logically internally consistent, but come on, Krugman says, that's not what happens in modern Western economies, when clearly this is the fault of insufficient aggregate demand. Okay, so that's the kind of interchange that we had.

And so what I do didn't response is just with several of his empirical offhand observations where he tried to show, look, if the problem were inadequate demand, like I'm saying, Paul Krugman, you'd see this in the data, and we do see it. And I just point out that, no, his particular examples don't really work. So just one example is, at the end of 2008, Krugman looked at the states and their unemployment rates and how much their unemployment rate had increased over the past 12 months. He just grabbed the latest report from the Bureau of Labor Statistics. And he said, look, the states with the biggest increase in unemployment don't really bear much relationship to the states that had the biggest decline in house prices. So these sort of real business cycle theory or Austrian types who are saying the recession is some sort of curative hangover because of the excesses of the housing bubble, they don't know what they're talking about.

And so I pointed out in response: well, no, why are you picking the year-over-year change at the end of 2008? The housing bubble burst back in 2006. And so I reran his same test, except I changed the dates. I ranked the U.S. states by saying which had the biggest drop in house prices since the bubble burst, and then in the same time period which have seen the biggest increase in unemployment rates. And then of those two lists, the worst six states, five of those states were on both lists, if you get what I'm saying. So the six states that had the biggest house price declines from when the bubble burst, five of them were also in the ranking of the states that had the biggest unemployment increases. So saying, by Krugman's own metric, actually the Austrian story makes a lot of sense. Whereas if it were just, oh, people panicked because of the financial crisis so they stopped spending money and so business just clammed up across the country, then you wouldn't see — you know, that would be an incredible coincidence, that data that I dug up. So things like that.

WOODS: Now, that's pretty good stuff there. And as I say —

MURPHY: [laughing] We should put that on the back of the cover. "That's pretty good stuff." Tom Woods, author of *Meltdown*.

WOODS: Well, but I mean, the fact that you actually had an opportunity to take him on because he addressed you — which he shouldn't have done, he addressed you, and you were able to respond and —

MURPHY: Well, he learned his lesson. He has not mentioned me —

WOODS: Oh, yeah, did he ever —

MURPHY: Well, he did once for the inflation stuff. And I do get into that, folks, too, that —

WOODS: Right.

MURPHY: So yes,

WOODS: Yeah, you talk about that. But I think your sushi model helped a lot of people — which you can read about in the book — to understand what the Austrians are saying about the economy in ways that I don't think they'd quite fully gotten before. So it really is true that a lot of times when you're confronting error, the response to the error clarifies the original position in really helpful ways. You penetrate and understand it a lot better than you did before. At least your audience begins to understand a lot better. So you really put that into good use and you got — I mean, this book, it's ridiculous.

First of all, it's beautiful. It's heavy. It's laid out very, very nicely. Very attractive when you flip through it. You've got charts and graphs and scintillating prose. It does not read like an economics book, okay? I don't mean that as an insult to your profession, Bob, but it reads like — I wouldn't quite say it reads like Ayn Rand slicing and dicing her enemies, because that would — Bob, I don't think we could be friends if that was your temperament. I'd be scared of you all the time. But you have your own way of going after your opponents and this one in particular. So it's fantastic.

So I strongly urge people to check it out at ContraKrugmanBook.com. Remember, I narrated the audiobook, and you can get the audiobook for free, and the author still gets his royalty. Don't worry about that. You can get the audiobook through TomWoodsAudio.com. If you've never joined Audible before, they give you a free audiobook. You can listen to it, and then if you don't want to join Audible for good, you can just cancel, and you keep your free audiobook. So get that through TomWoodsAudio.com. And of course you should follow Bob, but right now, because of the principles of marketing, we want to minimize the number of links we're giving out. So Bob's blog will be linked on the show notes page, which I always have to give out, which is TomWoods.com/1233. There, we'll link to what Bob is up to, Bob's books, this particular book, this brand-new one that you need to get. It'll all be there, TomWoods.com/1233. Thanks, Bob.

MURPHY: Thanks for having me, Tom, and thanks for pushing me to do the book.

WOODS: Yeah, yeah, yeah. My pleasure.