



Episode 447: Woods and Murphy Are Pro-Choice, or: Mises Made Easier

Guest: Bob Murphy

WOODS: I just told everybody about your brand new book. I gave them the whole title. The main title is simply the word *Choice*. I like one-word book titles, as should be obvious looking through my own personal catalog. It's easy to say on the radio and on podcasts; it's not awkward like *The Politically Incorrect Guide to the Great Depression and the New Deal*. Good luck promoting that one retroactively.

MURPHY: (laughing)

WOODS: Anyway, what is the need for this book? Explain why this book needs to be written and what gap it fills.

MURPHY: Sure. So this book, what it does is it takes the work of Ludwig von Mises, *Human Action*, his magnum opus, and condenses it down. It's about 300 some odd pages, and it's in prose that even a college undergraduate could understand, and it doesn't assume any prior knowledge of economics or of physics or of other fields. Because the problem with *Human Action*, to me – and the people at the Independent Institute agree with this, and that's partly what motivated this project – we all agree that the book, *Human Action*, is the most important economics book of the 20th century. I might even go farther than that, but let's just keep it to there, keep our claims modest. And yet even a lot of self-described Austrians haven't sat down and read that thing cover to cover, partly because it's so big and intimidating, partly because Mises uses big words a lot – you know, technical terms – but also because Mises assumes that the reader is conversant with basically all sorts of fields of human inquiry up through the time Mises wrote the book. And so he not only assumes that you've read Böhm Bawerk, but he assumes that you're familiar with certain things in quantum physics and what not.

So the point is there's a lot of wisdom and economic knowledge in *Human Action* that Mises himself developed, but a lot of people weren't getting that, even people who were fans of the Austrian School. And so that's what this book, *Choice*, does. It takes everything that was in *Human Action*; I tried to say, okay, what does the reader really need to know, and put it into a form where even a college undergrad can grasp it. And I've had people coming up to me who are working through it saying, oh, wow, this is great; I'm glad you wrote this; I'm getting a lot of stuff out of this, whereas Mises was just too hard for me.

WOODS: Of course, you as the author have the ability to select which topics, highlight which topics you think deserve more attention than others, and in here, for instance, if I look in the index, I look up "monopoly price," I find only a couple of references. So not every topic in economics is going to be systematically hashed out here, but in a way, that's sort of the point of a shorter book, is not for the systematic, anticipating-every-single-objection overview, but the treatment of the subject that draws people in. But if you were to identify areas of economic knowledge that are emphasized particularly heavily in this book, what are they?

MURPHY: Sure, that's a great question. My overarching concern with this, especially given the economic environment and so on, was I said, okay, if somebody is willing to give me the time to read this new book, *Choice*, cover to cover, when that person is done, I want him or her to fully understand the Misesian theory of the business cycle and to realize why so many people like me are very alarmed at what the Federal Reserve and other central banks have been doing since 2008, why we think there's another unsustainable boom underway. So that's the overarching purpose of what I was doing.

Now, you could say, oh, that's just one little thing. Well, no, because in order to do that properly, I had to start with the function of prices; I had to show how do Austrians handle money, how do they handle banking, and how do they handle capital theory, because all of those components are involved in the end product of Mises' theory of the business cycle. You really can't understand his theory of the business cycle without knowing Austrian capital theory. Even professional mainstream economists don't really get the Austrian theory of malinvestment, because in their simplistic models, you can have overinvestment, but you can't have malinvestment. That's not even possible in a simple model that just has like capital and labor, just these two big variables without heterogeneous capital goods. So that's really what I was going for.

The other thing related to that, my sort of motivation, I would say a lot of people may not have read *Human Action*, but they might have read Murray Rothbard's *Man, Economy, and State*, and so I didn't want to focus on things that Rothbard really did very comprehensively there. So you mentioned monopoly pricing. Rothbard famously explained Mises' views and others' and then went through and systematically, in my mind, dismantled the notion of free market monopoly prices. So that's why for just the one you picked there, I wouldn't have focused so much on that, whereas something like what's called free banking, that's something that I haven't seen handled in a lot of the literature.

Now there's other people like Selgin and White who talk about that, but they are doing it in the sort of defense of fractional reserve banking, so a lot of Rothbardians wouldn't like that stuff. So what I do in *Choice* is just to show what Mises means in *Human Action* where he says free enterprise should never have been abandoned in the context of banking. And so Mises' view is that the central bank actually forms a cartel and reduces the market's limits on the issues of what's called fiduciary media — so bank deposits not backed up by specie. And so I have a numerical example

in *Choice* just walking through that and showing people this is what Mises means; this is why if you had a bunch of competitive banks where they could issue notes on their own, if one bank tries to expand faster than the others, look at how quickly that comes back to bite that bank. Just to really flesh that out, because I think a lot of people don't fully understand what Mises means by that.

WOODS: That is definitely one of the areas in this book in which I think you are not just helping people understand what Mises has written, but you're going a bit beyond by fleshing out a numerical example, or for example, in discussing the Austrian business cycle theory, you further, I think, develop the master builder analogy that's drawn by Mises, which is an analogy you could use in understanding errors committed both by producers and by consumers. I think you put a little bit more flesh on those bones there. I want to get to that in a minute, but what other areas in this book do you feel like Robert Murphy is coming through, and not just Robert Murphy explaining Mises?

MURPHY: Okay, sure. So another thing that I did was I think Mises, he goes out of his way to defend economics from certain philosophical attacks, and so when you're reading *Human Action* — again, another part of the difficulty of it is you can tell Mises is fending off invasions into the home territory of economic science, which if you're not familiar with the objection, you wonder why Mises is spending so much time on this.

So part of what we do in *Choice* is I went out and got a bunch of things from like classical logical positivists or things of that nature or the Marxist view of history to show whether, gee, is it just the productive forces move things along and then the intellectuals come up with the super structure to justify what the underlying productive forces are doing, or is it really the way that Mises says, that ideas are the motivation. The reason we had the Industrial Revolution was because of the change in ideology beforehand, not vice versa. So I went through and just give a lot of quotations and exposition so people understand what the heck was logical positivism and why would that pose a challenge or a threat to the enterprise that Mises is undertaking.

And then where I think I offer the most is on capital theory. If people don't know, that was what my dissertation was on, and so I bring in — I explain pretty carefully Böhm Bawerk's critique of the naive productivity theory, because again, this is another thing that's extremely subtle and Mises just assumes, oh yeah, everybody reading my book obviously has read Böhm Bawerk. And so there the issue is mainstream economists think that the return to capital is interest, and they think it's analogous to, oh yeah, workers get paid wages due to the marginal productivity of labor, and so they think quite analogously, what interest is, that's just a return to capital for the marginal product of capital. And that is a fallacy. There's a lot that's wrong with that, and Böhm Bawerk famously came up with some examples to show why that's wrong, and so I really walk through carefully there to make sure the reader understands why that's such a big deal for the Austrians to insist that interest has to do with time and the fact that present goods are more valuable than future goods, as opposed to viewing interest as a return to capital. So that's something that's sort of my area of expertise,

and I think I dwell on that more than has been done in other standard works in the Austrian canon, if you will.

WOODS: A really quick question: is this book an exposition of *Human Action* specifically, or is it an exposition of Mises' views across his writings?

MURPHY: It's just *Human Action*, and that was something that we grappled with in the beginning when we were trying to figure out to define the scope of what this book was going to be. We decided that let's just focus on *Human Action* directly.

WOODS: Okay, and I ask that because I think one of Mises' most clever arguments against the Marxist interpretation of historical development that you referred to actually comes in *Theory and History*, and you probably know the example I have in mind. But as you say, the Marxist view is that you have these forces of production, which are just somehow there. The productive forces are just there, and they give rise to the ideas that justify the system in which they operate. So our idea, the view that you and I have, is that first you have ideas about private property and justice and freedom and whatever, and that gives rise to the economic system that you live in. But his view is to the contrary: first you have the economic system, and then you have vested interests that then spin rationales for that system. So the ideas are very much secondary for him.

But Mises has this great little point in *Theory and History*; he says, well, let's think about where these productive forces that Marx talks about. Where would they have come from? They had to come from somewhere. Well first of all, if they're advanced in any way, if these are advanced productive forces, they had to come about through a division of labor. You had to have some people specializing in some things, and some people specializing in others, and then within the production process, you have to have a division of tasks. But this whole structure, the division of labor that gives rise to the productive forces itself is the result of ideas, the idea of specialization, the idea of private property, the idea of ownership, the idea of selling things and exchange and commerce. So you have to have ideas before you can have — which in turn give rise to a division of labor. You can only have the productive forces once you have these things. And these things require ideas to get started. So you can't have any productive forces unless you've thought through the preconditions for a division of labor. So I think that — I mean, to me that totally crushes Marx's view.

MURPHY: Right, yeah. Mises is great on that, and he has other — I don't know, I can't remember if he said this in *Human Action* as well, but for sure somewhere in his writings, too, I love how he says something like, strictly speaking, the Marxist view is that it's just inevitable, the historical progression from feudalism to capitalism to socialism or communism. That's inevitable; it's the law of history. And he said so, strictly speaking, if you're a Marxist, you don't need to do anything. You can't speed that along. So you don't need to agitate, try to change the government or whatever. And he had some funny line — this isn't an exact quote — saying that the fact that the Marxists contradict themselves, and this isn't surprising, because they contradict themselves all over the place.

WOODS: Yeah, there's Mises. That's exactly right. It's funny, when you read *Human Action*, at least with me, I found myself starting to adopt some of Mises' literary mannerisms, let's say. And some of these, I'm sure are smoothed — I mean, may have been introduced by Henry Hazlitt. I'm sure he had some editorial help by Henry Hazlitt, maybe not as much as he had for a couple of his earlier books. But for example, his use of the word "exploded" to refer to the refutation of a theory. "That theory was exploded centuries ago." Who doesn't love using the word "exploded" in that context? And yet I hardly know of anyone else who does that. Do you notice these same kind of things when you read *Human Action*? You start to write a different way; you start to speak a different way.

MURPHY: Right, he is very formal, and yet you get the idea he's an umpire or a drill sergeant. He's like, I'm tough, but I'm fair.

WOODS: (laughing) Yeah. All right, let's talk about one of these ideas that you say is in the book that you are helping to illustrate further, and that is positivism. In other words, the different approaches to economics that Mises is trying to answer, trying to develop his own alternative to — and not developing out of whole cloth. I think Rothbard has successfully shown that in the 19th century what Mises was doing in trying to describe economics as being a deductive science was not a million miles removed from what they were doing in the 19th century, self consciously. But this is very, very, very much out of fashion. The Misesian method of economics could not be more out of fashion today. So why don't we take a moment and have you tell us what is that method and what makes it distinctive?

MURPHY: Sure. So the issue is Mises was arguing that economics was a science. And so part of why he needed to do that rhetorically was to defend it from the attacks of Marxists, among others, who were saying — or even the German Historical School, who were trying to say there weren't really laws of economics or the sort of arguments you guys are using are just relevant to the bourgeois class.

So it depends again on the different critics, but the Marxists would go so far as to say believe in polylogism, meaning many types of logic, and to say the argument you're using sounds good to you, because you're from the bourgeois class, but since somebody from another class, the proletariat, can quickly see through that and realize that that's a fallacy. And so just as an aside, Mises has a great line there and says, well, wait a minute; it's not enough to just assert that. What you need to do is to say here's a demonstration Ricardo made: show me why, according to bourgeois logic, it's valid, and then show me what axiom is different or which deductive step is wrong in proletariat logic is correct in bourgeois logic. And he said the Marxists never get that specific. They just assert, ah, that's invalid, because of different logic, and they move on. And Mises said because they know full well, if they actually tried to get specific and show it, they would be stuck, that they couldn't say, oh, this is the type of logic we're using over here, because it would be silly. Anybody looking at that would realize that that doesn't sound logical to me, because everybody has the same logical structure — or every human does.

So what Mises is trying to do is say economics is a science. He wants to defend its legitimacy. He wants to say the laws of economics are the same today as they were in the Roman Empire. He doesn't want the German Historical School to be able to say, oh sure, the stuff you're talking about may have been relevant in the 1800s in Vienna, but it's not going to be relevant in the Roman Empire, because they had a different institutional structure, blah, blah, blah. No, he wants to say the laws of economics are the laws of economics just like the laws of physics are the laws of physics.

But now, that raises the problem that a lot of people who buy into that would say, oh, exactly, okay, and what do we do in physics and chemistry? We come up with hypotheses that yield predictions that in theory could be falsified, and then we go out and run tests. Or if we can't run an actual experiment, like with astronomy, we at least make observations of what nature's doing out there, and then we compare those empirical results with our theories and the predictions they made and the theories that predict better than others tentatively lead, we say that those are closer to the truth.

And Mises says that is totally wrong, and that is not at all what we do in economics. What we do instead is we start with the insight that humans act — some people call it the action axiom — and then step by step, we logically deduce the implications from that. And that's how we come up with economic truth or principles or laws of economics. And he said so this is definitely the technical term is that it's *a priori* knowledge, meaning it's things we can know without having looked at observations or without waiting for empirical evidence to come in. It's things just by pure thinking, we can come to this knowledge.

And yet it's not merely a tautology. It's not just saying a bachelor is an unmarried male. You don't have to go test 1,000 bachelors and see oh, yep, all 1,000 of them are unmarried males, so tentatively I think that all bachelors are unmarried males until I see a counter example. That would be silly. You would say, no, that's just the definition. Mises is saying the type of stuff we do in economics is not merely a definition. It's we're discovering things about reality the more we think through economic issues.

And so to me — and he brings this up too — the best analogy for what we're doing in economics is something like geometry, where if you prove the Pythagorean theorem, that's not something you go test. You don't go test 1,000 right triangles to make sure the Pythagorean theorem is actually true, because it is true. That would misconstrue what it means to prove something in geometry if you thought you had to go test it just to make sure. But at the same time, you definitely feel like after someone proved to you the Pythagorean theorem that you're walking away with more knowledge about how reality works than before you saw the demonstration or the proof. It's not that you just say, oh yeah, that's just because of the way you defined a triangle. Duh. Of course the Pythagorean theorem is true. You're just playing with words. Obviously nobody would say that either, that you feel like you're smarter, you're more knowledgeable about the universe and reality if you take a semester course in geometry. And by the same token, if you study economics for a semester — ideally

from an Austrian-trained economist — then you're going to walk out of there understanding the world and being able to interact with reality better than if you hadn't studied it. And yet, the teacher is not going to go through it and show you a bunch of statistics and say —

Let me just give you one specific example so people can understand what I mean. If I want to get across to people the benefits of free trade, I am not going to look at time series statistics of countries that lowered tariffs and say, look, in the 10 years before they had the tariff reduction, their GDP growth was such and such, and then after they lowered tariffs, look at how much faster their economy grew with these standard deviations, and this is statistically significant; the 5% level, and blah, blah, blah. That's not at all what I would do. Instead I would give them Bastiat's petition of the candle makers and say read this little fable, and you will understand the case for free trade after you read this hypothetical letter that — you know, this satirical letter that some French guy came up with a long time ago. And so that's I think a good illustration of what Mises is talking about, just the way of thinking through issues that allows you to see the relevance of economic insights and it's not things you go and test.

And so that's, again, just to summarize, economics is a science. It's its own little field. It's not physics; it's not chemistry; it's not history. It's economics; it's its own discipline, but yet the way we discover truths there is not the way we find better approximations of the truth in physics or chemistry.

WOODS: Bob, people who are trying to defend the Austrian School online are going to encounter opponents who probably haven't read Mises' epistemological works, but who just know that the Austrian School doesn't care about empirical evidence. That's pretty much their summary of the Austrian position. So therefore they conclude that Austrian economics is unscientific and dogmatic. It just dogmatically insists on its own views to the complete exclusion of empirical evidence that may contradict those views. How do you — is there a quick, pithy kind of way to respond to that? Because probably lengthy exchanges online might not be super productive, but people are going to encounter that objection. How do you propose they handle it?

MURPHY: Well, I think it depends on the person you're arguing with. So if you're arguing with somebody who is a free market economist, perhaps of the Chicago School or whatever, and you're arguing with somebody who has generally the same policy views as you, and you're just arguing about the methodological foundations of that worldview, I would say, okay, think back to before you were a free market enthusiast — you know, people don't usually come out of the womb loving low tax rates and so forth; they pick that up somewhere through reading — and say what was it that grabbed you. And I am almost certain it was not because you looked at all sorts of statistical studies or experiments or natural experiments and things like that. I bet you it was because you read real, passionate, stirring arguments that were appealing to various principles or perhaps thought experiments.

You know, like with comparative advantage, the way you get that across is you say picture two countries with two goods, and you walk through the implications of that,

and you show how even if one country has the absolute advantage in both goods, if they open it up to trade, then everybody can become richer per capita. And so that's obviously not a realistic thing, and yet that's how you get across the logic of free trade to people. And so I would say I bet you most people who are fans of the Chicago School or they like the Austrian policy conclusions, but this *a priori* stuff – come on, you guys just sound medieval with that. What are you talking about? Get empirical. That's what everybody does. Shouldn't you be open minded and be willing to admit when you're wrong? That the reason they're so confident in their policy prescriptions is not for the reason they say. They actually believe in freedom and free markets for other reasons that are much closer to what Mises is talking about. So I think Mises is just being more accurate when he's showing this is really how we discover true principles or laws in economics.

The other thing I would say, just to clarify here: Mises certainly was not opposed to data collection or analysis. He famously helped found a center to study business cycles, and Hayek was involved with that. And let me just give you an example of what I mean here. The Austrian theory of the business cycle, we can sort of spin through that in an *a priori* fashion, but when we say historically, the U.S. housing bubble, was that because of this sort of thing we're talking about with the Austrian theory of the business cycle, that is partly an empirical question.

Okay, so to give a different example, hikes in the minimum wage cause unemployment – you can sort of deduce that logically. But when we say the U.S. economy from 2008 onward definitely experienced major roadblocks and so forth, well, the U.S. federal government did raise the minimum wage in that period, but I personally don't think that the main reason that the U.S. economy was in such trouble from 2009 onwards was because of a hike in the minimum wage, because I don't think that was the biggest thing going on there. And so for those types of issues, you certainly would need empirical justification if you wanted to say I think this particular factor was more significant in this time period, but the idea of saying does the minimum wage cause unemployment, the forces of why you think it would, that's something you would spin up deductively.

WOODS: I have two more things I want to ask. The first one you can be brief, and you don't have to mention names and it might not even be productive to mention names, but there are of course people who call themselves Austrian economists, who seem frankly embarrassed by Mises' epistemological work and by some of the ideas that you've just expressed here. Yet it seems to me that in adopting the ideas that Mises does, he is having recourse to fundamental Austrian concepts. I don't see how you can be consistently Austrian without also taking Mises' approach to empirical evidence and to deduction and to all these other ideas. How do you account for what's going on among Austrians who would accept Mises more or less, but reject the foundations?

MURPHY: Yeah, that's a great question, and even, to be honest, when I was younger I might have been sympathetic to that approach, that I loved the Austrian theory of the business cycle; I loved his approach to money and capital theory. And the other stuff I

was like I could take or leave it. What's the big deal? Who cares why this stuff is true? I just know that it is true.

And I think for me, partly why I've come around so much on that is just realizing he was right, and that it's sort of — he's brilliantly right. So it's the kind of thing where you're either going to totally miss it or you're going to realize, oh wow, that's — the guy just nailed it on the head. So I think that's part of the explanation, that it's such a bold position he's taking and he's so forceful about it, it's hard for people to agree with it halfway. You're either going to love it or you're going to think that, oh no, that's just totally the wrong path to go down. So I understand the desire of — I think part of it is it is so unfashionable and so some people are saying, well gee, why are we going to hinder ourselves even more unnecessarily; let's just agree with the mainstream guys that we're driven by data and so on.

But the thing is, in economics looking at history and trying to argue about stuff using statistics and so on, that doesn't get you anywhere. We still can't agree on what happened during the 1930s. Keynesians are utterly convinced the evidence is overwhelmingly on their side. The gold standard hindered recovery. That's why to this day, people when they're talking about Greece and what's going on, they will refer to the eurozone as a modern day gold standard. Which is just baffling to me, that, no it was a fiat currency designed from day one by technocrats. That's the furthest thing from the gold standard you can come up with. But yet, that's the way they think, and they are baffled at how anyone could not see this evidence that's staring them in the face.

And the same thing with the fiscal stimulus. The Keynesians are utterly convinced the evidence is overwhelmingly on their side that since 2008, the countries that cut government spending suffered compared to those that ran big deficits, and they think that's why their opponents are liars or stupid. It's not that the Keynesians on that one issue are being duplicitous. If they see the world the way they do, the evidence does seem to fit that. But on the other hand, if you see the world the way guys like you and me see it, the evidence seems to support us.

And that's not because we're all crazy; it's because in economics, there's 19 things going on at the same time. You can't do a controlled experiment. And so you can see what you want to see. If you come to the table wanting to see government spending hurting economic growth, you will find all kinds of evidence to support your view. So Russ Roberts recently got in big trouble for saying that quite frankly, because he took it a step further and said the reason that I reject the empirical studies that support government stimulus is I don't like government spending. He didn't say those exact words, but he said something very close to that, and everybody freaked out and said, oh, what an ideologue. But Russ was just being honest. And he was saying, yeah, at least I'm admitting that, whereas the Keynesians aren't admitting that the reason they embrace the studies that show what they like is because they want more government spending. Come on, let's be serious here.

So that's what I would say, that it may sound scientific and empirical to say oh, I go where the data lead me, but in practice you're going to then just end up going where your preconceptions are taking you. So I think Mises is just being much more accurate about how this is how we develop genuine insights in economics.

Let me say one last thing on that. If you take an introductory economics textbook and open up and look at — you'll often start with saying things like "The Economic Way of Thinking," and it will list a bunch of principles like "There are always tradeoffs," or, "There's no such thing as a free lunch." Just the ways to think like an economist. And none of those things is going to be something you would know because of empirical verification. To say there are always tradeoffs, that is a logical deduction. That's just a choice you're going to make, that this is how I'm going to parse reality. You can never go test and say, oh wait, in that one instance there actually wasn't a tradeoff. Go figure. No, that wouldn't make sense. If you think there are always tradeoffs, you're going to be able to find tradeoffs, no matter what. And so let's stop kidding ourselves and say, oh yeah, we're just driven by empirical evidence, when what you interpret as empirical evidence is going to be flavored by your preconceptions or your methodological framework. So let's just be clear about what we're doing.

WOODS: Bob, I think we'll wrap it up there, because I want to leave people wanting more, as I always say. You can get this book, *Choice*, and in fact, let me — I haven't memorized the subtitle, Bob, so let me flip it open. I've got my copy right here. Subtitle is *Cooperation, Enterprise, and Human Action*. I've actually come up with a quick way to get right to the Amazon page for it, TomWoods.com/Choice. Eventually I'm going to run out of cute little shortcuts like that, but TomWoods.com/Choice. And of course, on the show notes page, TomWoods.com/447, we'll also link to the book. We'll link to all the free books that Bob has made available, plus the ones that you can pay for. And we'll have previous appearances by Bob. I mean, it will be a Bob Murphy extravaganza at TomWoods.com/447.

This book begins with page after page after page of some of the most enthusiastic endorsements, including my own, by the way, that you are likely to encounter. I even emailed Bob at one point and said I can't believe what so and so said about your book. I am blown away by these endorsements. And these are people by the way who don't just travel in the precise circles that Bob and I travel in, like it's our 10 friends or something. Apparently we have 30 or 40 friends; we just don't see all of them all that often, and they sure like Bob's book. Best of luck with it, Bob. Thanks for your time.

MURPHY: Thanks for having me, Tom.