



## Episode 780: A Gallop Through the History of Economic Thought

Guest: Bob Murphy

**WOODS:** It's been quite a while, because you and I have been busy with something. We've had our own podcast together; we still have *Contra Krugman* at [ContraKrugman.com](http://ContraKrugman.com). We've done, as of the time people are hearing this, we'll be just about ready to release Episode 60, and we refute the Paul Krugman *New York Times* column; we pick one of the columns for the week by Krugman, and we refute it, and we have a lot of fun doing it. It's a great podcast. Everybody should listen to it, especially when you say, I wish *The Tom Woods Show* could be a little longer. Well, it can't, but you can get a *Contra Krugman* episode every week, and that ought to satisfy you, I hope.

**MURPHY:** Yeah, and Tom does most of the talking in that one, so it's basically like just an extension of *The Tom Woods Show*.

**WOODS:** Oh man, is that funny. All right, well, now that we've gotten that remark out of the way, let's turn things over to your course that you did for Liberty Classroom. This is part one of what I guess will be – are you envisioning a two-part series on the history of economic thought?

**MURPHY:** Right, so the course that's up right now, the subtitle is "The Classical Economics and the Marginal Revolution," so this basically takes you up to but not including 20th century economics. And then yeah, part two, which we're going to have in 2017, is going to be basically the highlights of 20th century economic thought.

**WOODS:** All right, so what we've done here, then, in this course, is you've gone from pre-classical economic thought – really, really early, early people – and you've gone all the way up to Alfred Marshall. Now, a lot of people may not know Alfred Marshall, but they will know some of the other names that are covered in the course: for example, Adam Smith, perhaps David Ricardo. You cover Frederic Bastiat, who is somebody who might be left out of a traditional history of economic thought course. Of course Karl Marx is in here, Carl Menger, and Böhm Bawerk is in here too. We'll definitely get to him, because I found it very interesting that you called him your favorite economist.

So let's start – I don't want to spend too much time on the super early stuff – not to say that it's not important or that Turgot didn't have a lot of great things to say, but given the limitations of time, let's focus on people who people are more likely to have heard of. So let's talk about Adam Smith, because there has been a little bit of

controversy about Adam Smith, because Rothbard was very critical of Smith. What do you think are Smith's contributions, and do you think there's anything to the claim that his shortcomings were substantial?

**MURPHY:** Well, I think – and I said this in the course – I think the deal with Adam Smith is that it's sort of like when people say, Oh my gosh, the Beatles are terrible; I can't stand them. And it's like, really, you actually dislike the Beatles and you wish they didn't exist? Or is it more that you think they're way overrated and you can't believe that some people think they're the best band ever? So I think there's something of that going on, that the things Rothbard said, I mean, they're all completely valid, and I recycle some of the leading criticism Rothbard raises. But I do think that partly the scorn with which he holds Adam Smith is a reflection of the fact that most other free market economists hold Adam Smith up like he is our guru, and Rothbard's thinking, no, there are so many other people, particularly in the French tradition, that were so much better, both in terms of fidelity to free market policy conclusions, but also just the cogency of their analysis. Whereas Smith was not a particularly good innovator in that respect; he took us down some wrong paths, as it were.

**WOODS:** So give me a couple of examples of something good, something bad that we get out of Smith.

**MURPHY:** Okay, well, certainly the good things – I mean, his discussion of sort of the division of labor. Smith opens up with his famous thing about the pin factory or whatever, and that's pretty good exposition of it, just to get that idea across to the reader. Because what Smith does is he has this nice blend of the theory but also supplementing it with sort of real-world facts. Now, it makes the exposition nice to read, because you feel like, Okay, this isn't just some guy firing from his armchair, that he's actually sort of interspersing things with the real world. Now, Rothbard has some critiques even on this point, saying that a lot of the numbers and so forth that Smith was giving were out of date even adjusting for the fact of when Smith was writing. So even that's open to discussion, but I'm saying in terms of you sitting down and reading it, it is a very interesting exposition. So there's that element.

And Smith's whole idea of the invisible hand. I mean, how can you disparage that? That certainly is a way of – He wasn't the first person to come up with that concept, but he certainly hammered it home, the idea that people who don't intend to promote the general welfare, acting in their own interest – you might even say acting selfishly or out of personal greed – nonetheless, as long as they're respecting property rights, the market economy directs them to do things that actually benefit their fellow men. That's certainly something that Adam Smith brought to everybody's attention, and how can you downplay that?

And he's got plenty of just general critiques of mercantilism, and just opening the logic of free trade. So it's true – and I don't know if you want to get into this in this podcast, Tom – that Smith focused on what we would call absolute advantage, but if you're starting out with a worldview of mercantilism, that's certainly an important insight to make, Smith pointing out that what's smart for an individual household to do can scarce be folly if the kingdom does it. So in your own individual household, you're not going to try to grow all of your own food and make all of your own clothes and so

forth; you're going to specialize in the things that you have the advantage in, and then you're going to sell that to earn money, and then you go to other people: you go to the tailor and buy clothes that he makes, because he can make clothes better than you can, for example. And so if that makes sense at the household level, why all of a sudden would that logic break down at the level of the kingdom?

**WOODS:** Let's talk about — I actually want to move on to David Ricardo. David Ricardo has this famous breakdown where he's classifying people according to what it is they earn on the market, and he has landlords are in rent, workers are in wages, capitalists earn profits. And to some extent, that was later corrected by at least some of the Austrians, so first I want to know what's wrong with that breakdown, and secondly, why does he think that classifying people in this way is the really important economic problem. It just seems like kind of an idiosyncratic question to start with.

**MURPHY:** Well, I think where he's coming from is that he's picturing the economy as a whole and just looking at the distribution of income. And I guess I can't peel the layers back too much further and say why is he coming at it that way; that's just how he's doing it. I mean, if you think about it, even Adam Smith, his approach was very you could say macro in the sense that he cared about the wealth of nations, right; that's the famous title of his most famous work. So even Smith there is not so much giving us microeconomic analysis, but he's really trying to understand what it is that makes one nation rich and another nation poor, and that's the sort of thing he's focusing on.

And this is part of what Rothbard's problem is with these guys. As opposed to, say, the tradition of the French, which were much more focused on subjectivism and individual decision making, the British tended to be more thinking in terms of objective features of wealth, tangible measures of wealth; like, oh, we've got more production, we've got more wheat being harvested, we've got more tractors, things like that, as opposed to subjective utility. So that's part of Rothbard's problem with this whole tradition and why he doesn't like people elevating Adam Smith above where Rothbard thinks he's due.

So back to Ricardo, he's more looking at a model of, okay, here's total output, which we know from physical considerations — like, this is how much labor we have and capital equipment, and these are the productive powers of the soil. So they all interact to yield this output, and then what principles determine how much of that goes to the different classes of people? I mean, part of it is just that the sophistication of their methods back then, they couldn't make the models too complex to break it down much more than that, and that was just the tradition he was working in, and that was the logical extension of it. And so you're right.

And we even see throwbacks to that in our terminology to this day, Tom. Like, you say who do you pay rent to; you pay it to a landlord. The average person, if you say, What's rent?, he's going to think, Oh, that's if I have an apartment, that's how much money I pay every month to the person who owns the apartment, to the landlord. Whereas in terms of modern economic theory, rent is a much broader category referring to the period income that a productive factor earns. So a tractor could earn rent, and it's not just that land earns rent in terms of modern economic theory, but yet colloquial we still use the term the same way. And people say, What is it that

capitalists earn? Some people might say profit, and again, that's a throwback to the Ricardian tradition.

And also you see how this ties in with Marxist analysis, and so that's yet another way that Rothbard and people like that could complain, that in one respect Karl Marx is a classical economist in the British tradition. And so some of what the framework that Adam Smith, for example, gives us, Marx just took it and ran with it. So obviously Adam Smith was not a Marxist, but I'm saying that some of the methods of analysis that Adam Smith made popular, that could be used by somebody like Karl Marx, you know, focusing – There's a sense in which many of the classicals really thought that ultimately labor was the source of economic value, and of course that tees up somebody like Karl Marx to adopt the labor theory of value.

**WOODS:** All right, fair enough. You know, obviously if you're doing a super in-depth treatment of this, which this episode can't be – that's why we have your course – we would talk about Say's Law, but I think we'll leave aside Say's Law. Let's – because any –

**MURPHY:** Well, can we just say that part of why – you know, why would somebody who's not a professional economist or someone who's not planning on majoring in economics but who is a big fan of *The Tom Woods Show* and so on, likes to argue with people on the Internet and know economics, reads Mises.org and things like that – why would they take this course, because there's a lot of buzzwords. Like, people talk about Say's Law all the time. Like Krugman might say, Oh yeah, these people who believe in Say's Law or whatever didn't realize that Keynes overturned it, things like that, so I think it's helpful if you see what are people actually talking about, because I bet a lot of people did not go back and actually read Jean-Baptiste Say's discussion of this stuff. And I should mention too that it's not just me lecturing in this; I have the source material, so you can read what the people actually said in the original – I mean, we translated it if they didn't write it in English, obviously, but you can see what they wrote in the original, and then you can see, okay, now how has this perhaps been bastardized by people over the decades since then. Because what Say said is very defensible. It's pretty straightforward, and it's only later people who said, Oh, this is what Say meant by his so-called law, and they kind of changed it.

**WOODS:** I thought you were going to say let's go into it, because it actually is not just an arcane economic question, but it's still relevant today, and I would agree with that; it's just there are so many other things that I do want to talk about. For example, you mentioned Frederic Bastiat. You devote a whole lecture to him. That's a name that should be familiar to – let's just say it might be familiar to some listeners, Frederic Bastiat, because of his short book, *The Law*. But also his strictly economic works are very good, and yet my sense is that he would not be viewed as a significant figure in the history of economic thought, and that could be because he's not necessarily a strikingly original figure, but it still seems to me that he plays a significant role. So justify your inclusion of Frederic Bastiat, and tell us a little bit about why he mattered.

**MURPHY:** Okay, sure. So you're exactly right, Tom, that – I don't remember the exact words, but somebody like Paul Krugman, literally, would say that Bastiat is just this hero or right wingers, but in fact real economists know that Bastiat was just a

footnote. He was just a popularizer. He had no real contributions to economic science, and so therefore anybody who's being objective wouldn't even mention him necessarily in a course. And so – whereas I do think it's important to mention him.

So he developed, I think in the tradition of like political analysis and the theory of the proper role of government – you mentioned his work, *The Law* – so Bastiat really crystallized this idea of the function of the government is to defend property rights, to protect people from foreign aggression, and so on, and that if the government ever steps outside of that role, it in itself becomes the aggressor. If it starts plundering the people, then that is completely monstrous, that there the government is doing the very thing that its one function is to prevent.

So Bastiat very eloquently develops that sort of what we might consider today to be like a minarchist position, and so I think it's good to go read that and see it in his writings and just to hammer that home, because I went and gave a summary of sort of classical liberalism from an economics perspective to some staffers who were working for particular people in the Texas legislature, and I just included Bastiat selections from *The Law*, because I realize if they've never seen somebody actually state this position, where better to start than Bastiat? It gives you an idea of how do you start thinking about these things if you're not ready to start with full anarchocapitalism; you just want to say, well, what would it mean to have principles deciding how the government ought to behave and then sort of evaluate from that prism. But as far as economics, I mean, look, there's something to be said for somebody who really crystallizes a position and drives it home.

I think the single best essay on free market education ever written was Bastiat's petition of the candle makers. And so if people haven't heard that, I definitely encourage them to go look it up. It was a satirical letter, and Bastiat is saying that in France, the people who make candlesticks and other sorts of interior illumination, they're writing the legislature saying we facet his unfair competition from this foreign entity we can't hope to compete with, and it will just drive out our business, reduce sales; we'll have to lay people off. It's the sun, that the sun just showers us with all of this light – during daylight ours of course – and people would just naturally use the light of the sun rather than burning candles and so forth.

And so the proposal is, Let's force everybody to shutter their windows and keep out the sunlight during the day, and this will boost candle sales and other forms of interior illumination, artificial illumination. And then look at all the benefits that will flow to French industry if we follow this wise course. And so Bastiat very cleverly just takes standard protectionist arguments and applies them in this setting. And then of course he ends by saying, Now, you might object and think that this is a bad proposal, because why should we neglect this free gift of nature, but you follow these arguments in all these other areas of protectionist legislation, so why wouldn't you do it here and be consistent? So it's just a wonderful piece, and I think far more than looking at regressions and other sorts of "empirical scientific evidence" for the efficacy or not of tariffs, just Bastiat's essay there really hammers it home.

Also, the famous broken window fallacy, which a lot of people might think Henry Hazlitt invented – So just in case you don't know what that is, the story is there's a kid who breaks the shopkeeper's window. You know, these hooligan kids are screwing

around, and they throw a rock and break the shopkeeper's window. And a crowd gathers, and at first everybody's mad. Of course the shopkeeper's mad, and they're saying the kid did something wrong. But then some person who thinks he's very clever says, Well, no, actually there's a blessing here, because now it will provide employment, since the shopkeeper's going to have to spend money replacing that broken window, so that's going to provide employment. Now the glazier's going to be able to spend money in turn and so forth. Look at the ripples of prosperity that will go through our community because of what that kid did.

And so a lot of us know that from Henry Hazlitt's treatment, but he got that – he gives credit, of course, that Bastiat is somebody who originally came up – you know, he's the one who invented that fable. And of course the point there is to show, you know something's got to be wrong there; that can't be right, and Bastiat puts his finger on it. The fallacy there is to think that that spending and employment only happens because of the destruction. If the shopkeeper didn't have to replace the window, he could have spent that money paying someone to make a coat for his wife, for example. So it's just the form of the employment changed, but in the case where there's no destruction, the community's richer, because now they have a new coat and the window, whereas when the kid breaks the window they don't have that coat, and they just replace the window. So it's showing that you don't need destruction to generate employment. And you might think, Oh, that's kind of a useless thing, or that's old fashioned, but to this day we still have economists, including Paul Krugman, by the way, who've come very close to – who flirt with the idea that, Well, even if there's a natural disaster or something, that may be bad from a human perspective, but it is good because it boosts GDP.

So it's true that Bastiat did not have innovations in terms of pure economic theory on the level that somebody like Ricardo or Say did, but even if the critics were right and he was merely a secondhand, he's a pretty wonderful secondhand, and there's something to be said for that. But I think also there were some minor contributions he made in terms of cleaning up value theory and things like that.

**WOODS:** Make the case, before we go on, for why people can benefit from studying the history of economic thought. I know that within the discipline of economics it is very much out of favor.

**MURPHY:** You're right, Tom; it is. It used to be that if you were going to get a PhD in economics, at least in American universities – well, I'm sure in European too; even more so probably, but I know for sure what I'm talking about when it comes to the US – that back in the day, like in the early 1900s, let's say, that if you got a PhD in economics it was standard that you had to study the history of economic thought. And then they started phasing that out as a requirement. And then it got to the point when I was at NYU, I took History of Economic Thought from Israel Kirzner, partly just because, you know, I was at NYU and Israel Kirzner was still teaching classes. Of course I was going to take a class from him. But that was a master's level class. I don't believe there even existed a history of economic thought class geared towards PhD students in economics at NYU when I went through.

And the thinking was, just so you understand why they would say that, is they're like, well, look, as we continue and progress in our science, whatever good ideas people in

the past had we retained, and the bad ideas we jettisoned, and so at any given time the current state of the theory represents the best from all of history, and so why would you go back and study stuff that was largely incorrect? Why would you do that? So that's the sort of prejudiced, I would say, modern perspective that thinks, Nah, we don't need to waste our time reading stuff from the 1800s.

So I think that mentality is wrong even when it comes to the hard sciences. I think the really good, brilliant physicists, for example, could tell you the various contributions of, you know, this is what Newton did, and then Einstein comes along, and then he got in this fight with Bohr, and they can go through and tell you all the contributions that people made, just because they love their subject, and they would go read about it and be curious, and they're just smart people.

So there's that element, but you could somewhat see the logic of that in the hard natural sciences, whereas in the social sciences, because a lot of that is dependent not on empirical predictions that models generate and then you go and test the data and see which theories – In the social sciences, that approach does not work. And that's why it's important to have a sound body of antecedent theory. And you can take wrong turns in the social sciences, right? There's not just this a priori, guaranteed tendency for the science to improve over time. That's why psychology and psychiatry, they can go down what I would consider the cul-de-sac of Freudianism. They'd say, Oh yeah, we shouldn't have done that. Or in economics, I think a lot of people realize that the embrace of communism by many leading theorists was a completely wrong move, or the embrace of what's called hydraulic Keynesianism in the '50s and '60s, a lot of economists realize, Oh yeah, that was a wrong way to go.

And so there is this phenomenon that you can see, that social sciences can go down the wrong path that we don't really see in the hard sciences, because the hard sciences to have that sort of empirical check, where with the social sciences you don't have that. So that's I think the important reason to go look in the past, because a lot of times these insights are overlooked. And so there's a lot of wisdom that you will find in these previous writers that you wouldn't get if you just read them.

And particularly in economics – and I'm probably preaching to the choir here for your listeners, Tom – but if you tried to read a modern economics textbook, you would not learn too much, in my view, about how the economy works. You would learn a lot more reading something that Carl Menger wrote, for example, back in the 1870s, or certainly Böhm von Bawerk . And there's something odd to be explained there, and I've tried to shed a little bit of light on it, that how there's I think political influences and so on, and you don't have that check – whereas in physics, if really what you're trying to do is say which physical theory best explains what this particle accelerator is going to be reading once we run the experiment, whether you're a Marxist or a Democrat or a Republican, it doesn't really matter. The particle accelerator is going to be what it's going to be.

In contrast, in economics, if you're a Keynesian, you can look at the Obama stimulus package and say, Yep, it's a good thing we had that, because otherwise unemployment would have been even worse. Somebody like Paul Krugman and I, we can still argue about what happened in the Great Depression, because there's not repeatable experiments in the social sciences the way you kind of have those in the natural

sciences, so I think that's the issue, in which case, your prejudices can sort of guide the analysis, and I think that's why it's important to go back and look at some of these classics.

The other thing, just so people know, what I'm trying to do, I'm trying to teach modern economics through the perspective of the development over time, so just by going and looking at these contributions, that's sort of the approach that I'm taking here, that when we look at a particular person, I grab the good stuff and say, This is what this thinker – This was his innovation, and notice how it improved upon what it was before. So that's the method that I used, but I think it's easier to build up and get people to realize the benefits of the modern framework that Austrian economists use if you can see where they came from and why it's an improvement.

So for example, the classical economists, they had a lot going for them, but they did rely on a cost or labor theory of value, and that was overturned in what was called the Marginal Revolution. So in this course for Liberty Classroom, Tom, I spend a lot of time making sure the students understand what do we mean by a cost or labor theory of value, why would smart guys like Adam Smith have embraced it, what were its problems, and then how did Menger and the subsequent Austrians replace it with something that didn't have any of those flaws. And so that's a central part of what I'm trying to get across in this course.

**WOODS:** I was going to ask you about Carl Menger and the beginnings of the Austrian school, but I think it's just too much to get to, so instead what I want to do – So in other words, in this course you're going to get an awful lot of material from economists who lived before there was an Austrian school of economics, and then you're going to see the birth of Austrian economics during this course – you know, in the course of these lectures you'll get to that topic. But then I want to get to the man Bob identifies in the course as his favorite economist, and that's Eugen Böhm von Bawerk. Böhm von Bawerk is Bob's favorite economist, and it's not necessarily because of the material he covers, although it is partly that, but it's how he covers it and how thoroughly and how persuasively, how good he is at dealing with critics. But when I look at Böhm von Bawerk it looks like a lot of technical stuff about interest theory, so why should the layman appreciate Böhm von Bawerk?

**MURPHY:** So first of all, if you've ever seen a picture of him – because his beard is awesome. Now, some people might say that's kind of a trivial thing. Perhaps it is, but still, I can't neglect to mention that.

**WOODS:** I have a Böhm von Bawerk shirt somewhere around here, I think.

**MURPHY:** (laughing) So just to give background for the listeners, I did my PhD dissertation on Böhm von Bawerk, so you could say I'm biased, but that's kind of the point: why did I pick this guy? So I really do think he is arguably the most intelligent economist. Like, would you put him up against Mises? I don't know; it would be hard for me to decide who contributed more. I guess I might say Mises, but the areas where Böhm von Bawerk really shines, I mean, just the power of his mind, I cannot stress enough. And so that's why I encourage people to read it just to see how sharp this guy was.

But to answer your question, Tom, it's true that he is known, even the other economists or whatever, Irving Fisher and so on, credited Böhm von Bawerk for really taking the ball forward when it came to understanding capital and interest. But he's also just a very good — He had a solid command of this new subjective value theory that Carl Menger basically invented. I should say, just in case there are people listening who are not completely fans of the Austrian school, that in standard histories of economic thought, it's awarded to three different people: it's Menger, William Stanley Jevons, and Leon Walras are all given credit for basically simultaneously and independently stumbling upon what we now call the Marginal Revolution and throwing out the old cost theory. But I think it was best done in the tradition of the Austrians.

So Böhm von Bawerk reads Menger's book and then says, This is it; this is what my career's going to be, and I've got to follow this to its logical conclusion. So I would say what Böhm von Bawerk actually did was take the new subjective value theory that Menger had developed primarily to explain why is it that steak right now has a higher price than hamburger meat, and Menger explains that, and I think Böhm von Bawerk said, Okay, so why is it that a good available right now has a higher price than a good not available till ten years from now? And if you explain that, then that explains why interest rates are positive. And so I think that was what Böhm von Bawerk — that's the way I interpret what he did, is he applied Menger's theory in an intertemporal context. So that's why he's associated with interest and capital.

But — and I give some examples in the course, but Böhm von Bawerk just critiquing other economists who came before him and trying to explain capital and interest theory, Böhm von Bawerk necessarily has to first teach you just basic economic theory to then show why these other explanations are wrong. So his overall goal is to eventually teach you the proper understanding of capital and interest, but he kind of has to first just teach you basic economics in general, like in terms of how do you evaluate cost and benefits and things like that.

So as far as why I love reading the guy, his rhetorical style, he'll take his opponent, state the position of the opponent better than the opponent does, and he'll state it so persuasively that by the time Böhm von Bawerk 's done building up this position, you agree with it. You're like, Oh yeah, that makes a lot of sense; I could see it. Then Böhm von Bawerk absolutely destroys it, and then he goes, Okay, but maybe I still haven't given you — He'll build it up again, and then take away the first argument he used, and then have a completely independent argument and destroy it again. And so then you're just like, Oh my gosh, yeah, of course that first view is wrong. But you still have some lingering doubt, and then Böhm von Bawerk will say, Okay, here's what's going on. This is why you thought that first position was right, but actually, see what it was overlooking?

And so by the time he's done, you just have a thorough command of the whole topic. You understand why somebody could hold the erroneous view, and yet now you know exactly what was wrong with it, and then you know the right view. So by the time you're done — It takes longer to go through that kind of demonstration, but once you're done with it, you just understand that area perfectly. And so he just does that time and again, and it's really just amazing to behold.

**WOODS:** I wanted to ask about Alfred Marshall because of his price theory, but I'm afraid we're – I don't want to go too far and too crazy here. But you know what? What the heck, right? We've only been talking a half an hour. Alfred Marshall's the last person you talk about. Now, when you get to part two of the course, who will be – just give me really quickly – who will be the next person that you pick up with?

**MURPHY:** Well, I don't know if it's going to be literally the next person, but very soon after Alfred Marshall I'm going to spend a lot of time on Irving Fisher for the same reason that I talk about Böhm von Bawerk so much, is that Fisher is also known as a contributor to capital and interest theory, and so I'm definitely going to talk about him. I would need – It's partly, Tom, a matter of – The reason I can't tell you for sure is I've got to look at how many slots we have, and we have to make some judgment calls.

**WOODS:** Right, right, right. No, I get it.

**MURPHY:** There's scarcity even when it comes to Liberty Classroom content.

**WOODS:** That's right; that's right.

**MURPHY:** Tradeoffs need to be made.

**WOODS:** Well, Alfred Marshall, believe it or not, that's actually the one video I still have to get to. So I assume you spend the time talking about his price theory in there, and if that's the case, again, is there a reason that anybody – First of all, how does his price theory differ from the Austrian – which I hope doesn't take you too long. That's kind of a big question. And secondly, what real-world implications do his deviations from Austrianism have?

**MURPHY:** Okay, so Alfred Marshall is huge in terms of his influence on modern economics. I mean, it would be a crime to do a history of economic thought class and not talk about Alfred Marshall. So for a while he had the most influential, best selling textbook, and that's where a lot of the economists sort of in the early 20th century, they learned their economics – or at least their standard views of economics in terms of Marshall's treatment.

And so what Marshall thought he was doing is he didn't actually like this idea of the Marginal Revolution, that Marshall thought that, yes, these guys after 1871 did bring in some important contributions in terms of utility analysis and subjectivism, but let's not throw out all of the tremendous contributions of the classical economists. So Marshall thought he was sort of welding those together, and this gives rise to, if your listeners have heard the term "neoclassical." Like a lot of times, at Mises University, for example, when Austrian professors are trying to contrast the Austrian view with the mainstream – they might say the word "mainstream," or they might say "neoclassical." So that's partly where that comes from, is saying, yes, we're not literally classical economists anymore, but we're still retaining their insights, so we're neoclassicals. So that's partly where all that comes from. So that's what Marshall thought he was doing.

And so one way for our purposes here, to kind of boil it down, is Marshall famously said that, Look, these disputes that my fellow economists are having, you've got like the old-school classicals arguing that it's objective cost considerations that determine market price, whereas you've got these new subjectivists saying, No, no, no, it's all in your mind; it's all utility; that's ultimately what decides market prices. And Marshall thought that was silly. He said, No, it's both interacting with each other, that it's, in our terminology, supply and demand interacting, and Marshall actually popularized the usage of those concepts. And he said that to say, Is it really supply or is it really demand that determines prices?, is like saying, when you're cutting paper with scissors, Is it the top blade or the bottom blade that's doing the cutting? That's silly. So that's what I think a lot of people who are just vaguely familiar with him would say that's kind of Marshall's position.

And so the Austrians, push comes to shove, it's not that they would deny the use of supply and demand curves as being useful to teach undergrads how to think of something and how to look at the impact of a tax or something, but Austrians think that fundamentally all economic phenomena need to be traced back to the mind, that it's all subjective. And in particular, even when you go and draw that supply curve, that's not something that pops out from the raw data. It's not that, oh yeah, just the amount of coal in the ground determines the supply curve of coal. No, because there are humans who own the coal mines, and they make subjective expectations about the future, and depending on what they think is going to happen next year, that might determine how much coal they're willing to sell today based on whatever the price is. Okay, so even when you draw that supply curve, that's not something that's purely due to empirical facts without first going through somebody's mind and being interpreted that way subjectively.

So that's kind of, for our purposes here, the way I would distinguish the Marshallian view from the Austrian. And in terms of real-world applications, I think a major problem with modern economics is still that it's wed to this notion that things are determined in terms of real cost considerations, and the subjective facts about the world and supplies and getting away from the essential insights that Menger gave us, to say that, no, this really is the subjective value revolution and you need to understand that things need to work through the mind of an individual. So it sounds almost like a truism to say that sometimes, but that really is a fundamental difference in the Austrian approach. Mainstream neoclassical economists, if you said, Oh, we're subjectivists, they would probably say, Oh yeah, so are we. But it goes much deeper in terms of the Austrian view, that they involve supply and demand, are ultimately driven by utility.

**WOODS:** All right, I'm glad you mentioned the scissors thing. That's the thing – After not having read anything about Marshall for many years, the only thing I remember was the two blades and the scissors, so now I'm remembering very clearly. All right, again, there's a whole lot we can cover but that's why you have a whole course on it. And as a matter of fact, just this part one course has 23 topics but 24 videos because of the two Walras videos, so you've got a lot of stuff here, and in learning the history of economic thought, you're also learning a lot of economics. So it's a great thing to know; it's great for cultural literacy; it's great all around. So I hope you'll check out LibertyClassroom.com. It is, as I've called it, my flagship product. I'm glad to welcome Bob as one of our faculty members on there.

Bob, thanks for doing this. I don't want to pester you, but at the same time I'm going to pester you about getting the second part of this course up and running, because I think people will really want to sink their teeth into, well, Keynes more than anybody, and given that Rothbard didn't live to do that in his published *History of Economic Thought*, well, it falls to you, my friend, and we're looking forward to that.

**MURPHY:** Well, thanks, and I appreciate the opportunity. Also one of the things I'm looking forward to is my field that I declared at NYU was actually game theory, and so there's a lot of good stuff. For those who caught my presentation for the Mises event in Fort Worth recently, I talked about Arrow's impossibility theorem, so we're going to cover that in the course. And just to show, there's a lot of neat things in this realm that I think pertain to an Austro-libertarian worldview, but for better or worse, there's a lot of this stuff that I'm able to teach because I learned it at NYU, and just to have the formal analysis and then be able to step back and say, okay, now from sort of a Rothbardian perspective, how do we examine these things.

**WOODS:** Well, I'm looking forward to that very much, as are existing members at Liberty Classroom there. They want whatever you're putting out, and they can't wait to watch those. So thanks so much for doing it. Don't be such a stranger on *The Tom Woods Show*, but I will talk to you in a couple days for the next episode of *Contra Krugman*.

**MURPHY:** Great, thanks for having me, Tom. Keep up the good work.