

the Austrian

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A man with short, graying hair and black-rimmed glasses is shown from the chest up. He is wearing a light blue button-down shirt and has his hands clasped together in front of him. He is smiling slightly and looking towards the camera. To his left, a black microphone on a stand is visible. The background is a plain, light-colored wall.

The State of Modern Economics

WITH PETER G. KLEIN

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From the Publisher

Jeff Deist

The social function of economic science consists precisely in developing sound economic theories and in exploding the fallacies of vicious reasoning. In the pursuit of this task the economist incurs the deadly enmity of all mountebanks and charlatans whose shortcuts to an early paradise he debunks.

—Ludwig von Mises, *Economic Freedom and Interventionism*

What is the point of economics? What is the job of economists? Is the profession doing any good?

These may sound like absurd questions, but they are no longer rhetorical. The discipline is in trouble, and almost certainly deteriorating. There is a strong case for viewing economics today mostly as a jobs program, one which provides pseudo-intellectual cover for political interventionism of every kind. It is largely a profession of yes men and yes women, both in the form of academics seeking sinecures and careerists who exist to advance or impede so-called public policy. The twentieth century saw the rise of positivism and empiricism as dominant forces within economics, but the twenty-first century's rough start—with two serious financial crises already—has exposed the limitations of fetishizing data over theory.

Fortunately, we have brilliant economists in the Mises Institute orbit to help us make sense of the world. Our cover interview features Dr. Peter Klein, and you'll enjoy his wide-ranging thoughts on the state of modern economics. He is a strong critic of the "mathiness" which consumes most graduate programs today, producing (sometimes) brilliant "quants" but few real economic theorists. This diminishing role for theory, which has only intensified over Peter's career, is typified in the work of behavioral economist (and Nobel prize winner) Esther Duflo. Professor Klein offers her paper "The Economist as Plumber" as a perfect encapsulation of what ails economics today: it focuses on tinkering with policy, adjusting inputs here and there to create some desired outcome. How can we most efficiently create more public housing in


Des Moines? And contra Bastiat, the one-dimensional focus is always on the seen rather than the unseen.

Mises saw economics very differently. The point of social science, in his view, is to help us understand the world, and thus improve our fortunes within that world. Economics, properly understood, concerns itself with nothing less than the totality of market phenomena and their origins—not simply business activities or money or GDP. By definition the economist works to develop theory, always rooted in logic, to explain a complex world. And rather than cheer intervention, war, and the economic destruction brought about by the conceit of those in power, Mises thought economists should champion the theory of social cooperation.

Dr. Klein is such a champion. He is also an expert on the topic of business firms and the role of entrepreneurs. Most economics texts suffer from huge blind spots when it comes to the roles of individuals and organizations in society, just like they lack a coherent capital theory or explanation for the temporal structure of production. This blind spot makes Peter the go-to source for business schools seeking to broaden their students' knowledge of real world economics.

Contrary to the progressive myth, most entrepreneurs are not wealthy trust fund kids or lucky duck who just happened to have the right idea at the right time. Nor are most of them young techs who enjoy rounds of generous venture capital funding. In fact, the typical start-up business is founded by a fifty-something with decades of work experience, a network of contacts in their Rolodex, and cash savings in the bank to live off during the initial lean years. They have skin in the game, meaning the real risk of loss of capital—and make decisions against the constant weight of uncertainty. Entrepreneurs "seize an opportunity and fill the gap," in Mises's words.

Every college student, not to mention every economist, should study these people who bring so much material wealth to our lives.

Finally, don't miss David Gordon's review of Donald Devine's new book *The Enduring Tension*. The book weaves history, philosophy, religion and a healthy dose of Hayek to wrestle with the question of what stands between the individual and state in society. Yes, we desperately need entrepreneurs and markets, but we need something more. Neoliberalism and progressivism can't seem to provide that something. 

Jeff Deist is president of the Mises Institute.

The State of Modern Economics

WITH PETER G. KLEIN



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Peter G. Klein is Carl Menger Research Fellow of the Mises Institute and W.W. Caruth Chair and Professor of Entrepreneurship at Baylor University's Hankamer School of Business. He is also senior research fellow at Baylor's Baugh Center for Entrepreneurship and Free Enterprise and adjunct professor of strategy and management at the Norwegian School of Economics. His research focuses on the economics of entrepreneurship and business organization, with applications to innovation, regulation, and economic growth. Klein has authored or edited five books and has published over seventy-five academic articles, chapters, and reviews.

JEFF DEIST: Let's start with the general state of the economics profession. What's changed since you were at Berkeley earning your PhD in the early 1990s?

PETER KLEIN: By the time I started my graduate work, the Austrian school was several decades into its comeback, starting in the 1960s and 1970s. But I didn't have any formal instruction either in my undergraduate or my graduate program in Austrian economics. I was a self-taught Austrian who was trained in the normal mainstream neoclassical approach. In many ways the economics profession, in my judgment, has gotten much, much worse since the 1990s. The Austrian school has continued to thrive, although we've remained on the periphery of conversations at universities and in public policy circles.

In the last maybe ten to twenty years, there's been a real shift in mainstream economics—both micro and macro—away from theory and toward what you might call atheoretical inductive empirical work. There are lots of different facets to this movement. Some of it is about statistical inference, but there is also this idea that we shouldn't impose our preconceived notions about relationships or mechanism on the data. We have to let the data speak for themselves. I've written a few pieces about this problem.

One of the recent Nobel laureates, Esther Duflo, wrote a famous article a few years ago called “The Economist as Plumber.” Her view was that economists are not tasked with deep thinking. They’re not grand theorists, they’re not supposed to provide a big-picture perspective on how the world works. They’re supposed to solve little minor mundane issues just like a plumber does, to fix plumbing leaks. We’ve got some little problem in the education system, let’s call in an economist to gather the data, pour over the data, and come up with some policy recommendation. But there’s no systematic thinking, there’s nothing tying all these different little plumbing exercises together. The economist is a public policy problem solver using purely inductive data-driven methods. I think this is a big problem for the economics profession.

JD: I wrote an article recently criticizing economics journalism for its fixation on “the numbers.” Economists are presumed to reverse engineer theory from the data. Do you think this mania for data is an attempt by the Paul Krugmans of the world to claim a scientific mantle for themselves?

PK: Yes and no. I think certainly what we’re seeing now is part of a longer-term trend that, I don’t know, started in the 1930s, 1940s, as economics became transformed into a more quantitative mathematical and statistical kind of profession, you know, favoring those approaches. You had the Econometric Society thriving in the ’20s and ’30s. You had Paul Samuelson’s textbook in the 1940s, this idea that social science, economics in

particular, needs to aid the methods of the natural sciences. That has been a long-term trend that we’ve seen since the middle of the twentieth century. I think what we’re seeing now is related to that but is distinct at the same time. There is a political element to it because economic theory, what Austrians would call price theory, a theory of value, price exchange, and so forth, is about studying the workings of the market economy. We also apply those theories to studying socialism and interventionism.

There was an interesting tweet by Krugman a few weeks ago: a friend of mine, Alex Salter, who is a professor at Texas Tech, wrote a piece in the *Wall Street Journal* in defense of Chicago-style price theory, which is not exactly the same as price theory the way Austrians understand it, but you might call it a close cousin. And he made the point that price theory is good at illustrating tradeoffs and it gives people who want to intervene in the economy a humility about what is possible because we see, as Henry Hazlitt famously emphasized, the secondary effects, the unintended consequences, the limits to what government officials can do. And Krugman said something like, Well, of course these right-wing fanatics, they like price theory because it’s right-wing. They don’t like the fact that the data, that reality, has a liberal bent. The data shows, the data favors, interventionism. That’s why these crazy right-wing kooks don’t like a data-driven approach. So I think there’s an opportunistic element to this, that you can make the data say lots of different things and you can use the data to

Peter with his wife, Sandy, and WWF star, Kane, at the Mises Institute’s 2013 conference at Sea Island for the 100th anniversary of the founding of the Fed.





People can look things up and study things for themselves. They don't have to rely on some talking heads speaking what looks like mumbo jumbo, complicated mathematical equations and formulas.

justify all kinds of interventions one might choose to pursue, and so the Krugman types are certainly taking advantage of this methodological trend.

JD: This blurring of method between the physical and social sciences is not new, as you point out. But nobody has these grand expectations for sociology or political science as predictive or mathematical disciplines. It seems only to apply to economics.

PK: Maybe economists have themselves to blame for this after tasting the sweet nectar of political influence and political power. The US government doesn't have a council of sociology advisors or a council of anthropology advisors; it has a council of economic advisors. This actually causes some tension, I think, among social scientists. Economists are perceived as having an outsized influence, which is probably true. And I think for many economists it's hard to resist the temptation to say what the powers that be want to hear.

JD: I see a lot of derision toward economics on social media from people of all political stripes. People dismiss the notion of economic laws and seem to view the whole discipline like astrology. Economies can be commanded by legislative fiat. All this stuff about markets is really just intellectual cover for business interests. I'm not sure scientism has helped the image of economics.

PK: You're right. It really has not helped. It has given economists a kind of standing, or it formerly gave them a kind of standing, like scientists in a white lab coat in the 1950s, or even today, look at somebody like Dr. Fauci. The fact that he's *Dr. Fauci*, he allegedly has the scientific credentials, it

gives him a certain kind of authority. Economists have been craving that kind of status and again, compared to some of their fellow academics, they have had it at least to some degree, but you're right, they may be losing it partly because of the democratization of information that the internet has brought about. People can look things up and study things for themselves. They don't have to rely on some talking heads speaking what looks like mumbo jumbo, complicated mathematical equations and formulas.

Remember our old friend Alan Greenspan, who in many ways was ahead of his time in being a completely atheoretical numbers guy. They used to say, "Oh, Greenspan is such a maestro because he has this intuitive familiarity with the data. He buries himself in reams of numbers and he can somehow intuit how to steer the economy from that." It was all nonsense, of course, it was all smoke and mirrors. He and his colleagues were making it up as they went along, but what Hayek called the scientism embedded in this mainstream economic approach lends itself to that kind of misinterpretation. You deal with data, you're quantitative, you must be more rigorous, you must be more scientific, and people hear, they deal you know, merely in words.

JD: Do people really understand the degree of mathiness in economics graduate programs today? Statistics and modeling and high-level math make up the majority of training for most PhD students.

PK: It's pretty intense. Interestingly, I think the elites of the profession recognize things have gone too far in that direction. The famous economist

Paul Romer wrote a piece a few years ago complaining about what he called mathiness, so your term was in existence before. He either coined or popularized the term *mathiness* to complain that a lot of these economists were using math not to reach some kind of conclusion or illustrate some kind of point, but really just to demonstrate their own virtuosity, their own skill with the technique. Having a lot of math in the argument became an end in itself rather than a means to come up with ideas and communicate some ideas. So, I think there's some recognition that economics may have become too mathy.

JD: With all this in mind, give us your meta-analysis: Is economics doing any good? Is it helping us understand the world or moving us closer to truth?

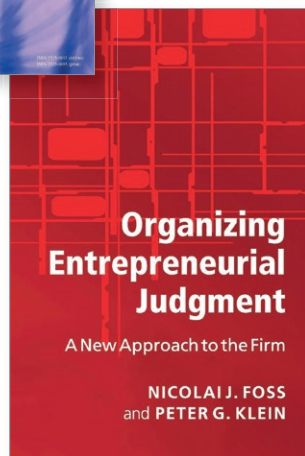
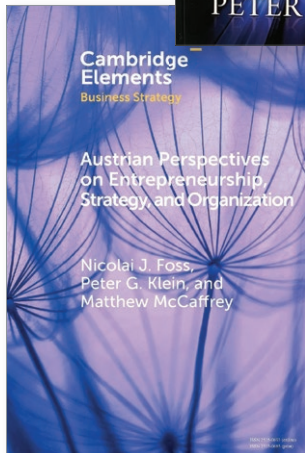
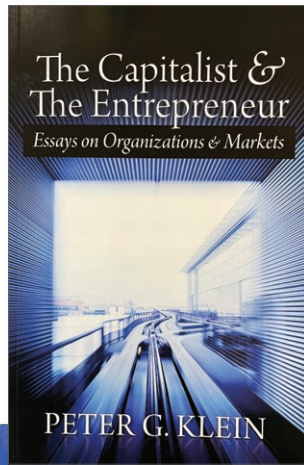
PK: I certainly think our favorite brand of economics does exactly that, but not everyone listens to us. I have to say, I'm somewhat skeptical on this point. Just to tie it back to one of your earlier questions, when I started my graduate work in the late '80s, early '90s, this was during the period following kind of a breakdown of the neo-Keynesian consensus that prevailed from, say, the end of World War II until the 1970s. You know the phrase famously attributed to Richard Nixon, "we're all Keynesians now." All mainstream economists, left, right, center, seem to agree on the basic model, the economy is inherently unstable, you need a wise government using fiscal policy and monetary policy to steer the economy, to avoid the twin pitfalls of inflation on the one hand, unemployment on the other hand.

But what we saw in the 1970s with the rise of so-called stagflation, like simultaneous inflation and high unemployment, which was not supposed to happen according to the conventional Keynesian model, you had a crisis of confidence among the neo-Keynesians. You had Milton Friedman and his Chicago-school monetarists offering an alternative to the Keynesian explanation. You had the so-called rational expectations revolution of the '70s and '80s. So, Jeff, when I was being trained in graduate school, I was told, The naïve undergrad textbook Keynesian model is not really taken seriously

anymore. It's outdated. Of course, there are still Keynesians around, but they rely on newer, more sophisticated techniques, their thinking is more nuanced, they recognize that old-school Keynesianism doesn't really apply anymore.

I remember pretty distinctly being stunned. I shouldn't have been stunned, maybe I'm naïve, but during the financial crisis in 2007–08, as I was reading the commentary not only of the talking heads in the media, not only the journalists and Fed officials and executives and so forth, but even elite economists, as they were trying to explain what was going on and what should be done, they sounded exactly like the naïve Keynesians of the 1950s. Look at how people today are talking about the \$1.9 trillion stimulus—I've forgotten the cute acronym that Biden calls it—but when you listen to the discussion, it sounds exactly like a discussion that would have taken place seventy-five years ago. Oh, we need to stimulate the economy, we need a strong fiscal stimulus. Gee guys, are we worried that the economy might be overheating? No, no, unemployment is sufficiently high that we can prime the pump, we can have not only monetary expansion but also fiscal expansion, get that unemployment rate down, but we don't have to worry about the economy overheating. It's like the simple Phillips curve tradeoff between inflation and unemployment that I had been told was thrown into the dustbin of intellectual history had returned at full strength. And so I think despite all these decades of increasing sophistication and mathematical modeling and econometrics, at the end of the day, most mainstream economists still have their high school Keynesian model in mind.

JD: Let's go further and discuss the fortunes of the Austrian school. We had the financial crisis of 2007, now we have the covid crisis with all of the attendant economic carnage from lockdowns. Do you think these crises are setbacks or vindication for Austrians? There are pitched conversations about hyperinflation and austerity and stimulus, as you mentioned. Are we making headway with our perspective?



PK: That's a great question. I mean, there's been a huge resurgence of interest in Austrian monetary economics, the Austrian business cycle theory, particularly since the financial crisis, because the Austrians offer a very different take on what could cause something like the housing crisis, the financial crisis, what is the appropriate response, and such. So, among certain interested laypersons, maybe financial professionals who are not academic economists or policymakers, as they're doing their Google searches to try to gain insight into what's going on, they come across a lot of our stuff. Of course, Ron Paul for several years was the only prominent public figure, the only person in politics talking about monetary overexpansion, talking about Austrian business cycle ideas, and so as people try to figure out, Why is this guy talking about the gold standard? What does he mean by the boom-and-bust cycle? You know, that drove a lot of traffic to our site, our resources, it drove a lot of interest in the Austrian school.

I don't think it had much of an effect on mainstream economic thinking, not in economics departments, though I increasingly encounter academics in business schools or in sociology or law or political science who also saw Ron Paul on TV and thought he made a lot of sense and were inspired to study the Austrian school on their own.

At the same time, Jeff, there's a challenge for us. Our theories are not strictly predictive. We don't offer precise quantitative forecasts. We offer a means of interpreting the data that we see in front of us, the data of the past. We can offer informed conjectures, wise judgments about what we expect to happen in the future. Hayek called it pattern prediction, a loose intuitive sense of which way things are likely to go. It's not prediction in the strict quantitative sense, but I think many Austrians and Austrian-inspired commentators were perhaps a little bit too quick to predict that the unprecedented-in-human-history monetary stimulus that we've seen in recent years would inevitably lead to hyperinflation and some horrific crash. Our theories tell us and we believe that this is true, I believe that this is true, that, as the Austrians explained, a monetary-induced expansion is not indefinitely sustainable. You cannot create real wealth by turning on the money press. However, exactly how long can an unsustainable boom go on, at what point

Peter Klein, David Gordon, and Guido Hülsmann.



do we expect the bust to occur, when will we start to see the effects play themselves out in terms of increases in prices, and so forth, well, I mean, that's a judgment call. That's very difficult for us to say, and a lot of our enemies, the Krugmans of the world, have been kind of beating Austrians over the head by saying, "Oh, you guys have been predicting hyperinflation, but where is the hyperinflation? Obviously your theories are disproven by reality." That's not the correct interpretation, certainly, of how theory and history work together, but I think, in the popular mind, our enemies have gotten a little bit of mileage out of this and so, we need to be cautious in predicting particular outcomes.

JD: People want timing! [laughing]

PK: I hear this attributed to Milton Friedman, but I don't know if he was the first one to say it. When asked to predict the stock market, the response is, "Well, I can give you a number or a date, but not both."

JD: I recently read an interview with James Grant where he discussed how back in 2007 very few people really understood what the effects of quantitative easing and creating new bank reserves would be. It was unprecedented. It's easy now to look back and discount the effect of QE, especially on inflation, but it wasn't so easy then.

PK: Absolutely right. And again, the way Austrians view the relationship between theory and data, or theory and history, is that we use theory to interpret, to make sense of the experiences of the past and then we, putting on our entrepreneur hats, use that, we use our theory and our experience, to try to anticipate likely future scenarios. But that's not the same thing as a quantitative forecast the way that mainstream economists use that language.

JD: Now in 2020 and 2021 the Fed's balance sheet is spiking again. We also have Congress on the fiscal side, as you mentioned, injecting a bunch of money directly into the economy with relief bills. M2 is way up. Combine this with supply chain issues and shortages due to covid, and this feels like a different animal than 2007.

PK: I agree. This is really unprecedented territory in terms of the contraction, the shrinkage, of the real economy. I mean, we can print money, we can write checks, we can give them to workers who are staying at home, but that doesn't get these workers to produce, right? We need to produce goods and services, and to do that, we need people to be out of lockdown, we need people to be able to interact, we need factories and meeting rooms, etc., to be at full capacity. So, you can't paper over a contraction in real output with monetary and fiscal stimulus.

JD: Both Jerome Powell and Janet Yellen, who's now Treasury secretary, have spoken openly about the limits of monetary policy. From their perspective the burden to fix things is all on the fiscal side now, apparently. Do you think they see some tipping point?

PK: I don't know. I almost wonder, this is pure speculation on my part, if they are a little bit sensitive to the noises they hear on their left flank. So you've got the so-called modern monetary theorists, whose arguments, in my mind, are just a slightly exaggerated version of the mainstream ones, so they don't have a fundamentally different model, the MMT crowd (or the model that's used by Yellen or by Powell). But they're taking it up to eleven, as they said in the movie *Spinal Tap*, and I think that mainstream figures are, they're a little bit worried that their disciples, their followers, will take their ideas and take them literally and push them as far as they can go. They're trying to rein in their spiritual descendants a little bit by saying "There are limits to what both monetary policy and fiscal policy can do."

The MMTers say, and ironically they're not wrong using the conceptual framework that was given to them by their mainstream Keynesian

The way Austrians view the relationship between theory and data, or theory and history, is that we use theory to interpret, to make sense of the experiences of the past.



Peter Klein speaking at Mises University, 2020.

forebears, that well, as long as the economy seems to be producing substantially below its potential, why can't we just put our foot on the accelerator? Why can't we just run the money press as fast as it can go? What are you guys worried about when there are so many idle resources in society? I don't think Yellen and Powell have a really great answer to that. So, it's almost like they're being consumed by their own progeny. There's probably a better metaphor for that, but, you know, they're being eaten by their own children.

JD: Austrians are seen as the anti-Fed voices, while on the other side the MMTers might be seen as the other extreme. What do you think of someone not in either camp, like John Tamny from RealClearMarkets? He thinks Austrians put too much emphasis on central banks, which he says actually have far less impact on the broader economy than imagined.

PK: He is certainly right to point out that the way our economy is structured today, with, for example, the shadow banking sector and a whole bunch of complex financial instruments, the simple relationship between Fed policy and particular outcomes is more nuanced, it's more complicated than it would have been in the past. I take his point that under

alternative monetary institutions arrangements, there are other mechanisms at play and that there may be some mechanisms that dampen the impact of traditional fiscal and monetary policy, monetary policy in particular, on outcomes.

JD: Tamny argues that the Fed can't control rates in the long run, but rather the market will. And yet if we go back to the Paul Volcker era, Americans were paying 18 percent mortgage interest rates. So the Fed clearly caused that.

PK: Right. To John Tamny's credit, he's right to keep exaggerations in check. So, sometimes when we're speaking loosely, we might make an offhand remark that sounds like we're making a claim that Jerome Powell just pushes the button, you know, he's got the interest rate button on his desk, he just turns the dial the way he wants and gets an immediate response. It doesn't work that way. Of course, there are market forces of supply and demand at play. How should we say, the Fed is certainly one of many big players, the biggest player of all, and it has an outsized impact on what the market does, even if it doesn't have it under perfect control?

JD: Let's shift gears a bit and talk about your work in entrepreneurship and organizations and firms. You've spent a lot of your career writing

Part of the stakeholder concept is the idea that there's this kind of fixed pie of value and business activities are creating some value. Firms can then capture that value and then we need to argue about how we divide up the pie.



about this. Today when we think about big corporations and their role in society, the trend is to talk about stakeholder and equity concepts. What do you make of this?

PK: Yes. I mean, look, some of this is pure politics. I think the emphasis on stakeholder governance and its cousin, corporate social responsibility, is just part of the overall kind of antimarket, antibusiness zeitgeist that is characteristic of our age. Some of the embrace of these concepts by business leaders themselves, I think, is strategic. You know when the Business Roundtable came out with its statement last year about how shareholder primacy is outdated, firms really need to manage in the interest of all of their stakeholders. I think some of that was public relations, some of it was designed to keep regulators at bay. Executives are worried about a whole new set of rules coming down the pike that will change the relationship between managers and shareholders and they want to slow those down a little bit by taking some preemptive action. But, you do have true believers, certainly outside of companies, but in companies as well, who really believe that greed and selfishness, which they associate with the traditional shareholder model, is detrimental to society, detrimental to communities, and even detrimental to firms and needs to be combatted. But I think we need to be very, very cautious and very skeptical about embracing some of these new narratives because there are many flaws that we need to look at.

JD: Conceptually, is this just a new word for externalities? Or is it something more?

PK: Well, yes, it's a specific kind of externality. Obviously, any company that has employees, it provides a variety of different benefits. Let me state that a different way. Any company that has employees is providing some benefit, is giving a share of the value that's created to those employees in the form of wages and salaries and fringe benefits.

Part of the stakeholder concept is the idea that there's this kind of fixed pie of value and business activities are creating some value. Firms can then capture that value and then we need to argue about how we divide up the pie. So, under the traditional model, it is said, shareholders, owners, get the biggest slice of the pie, the workers just get a little tiny piece of the pie left over and maybe suppliers, of course, get paid for supplying inputs to the firm, but maybe they should get a bit of the surplus as well and what about people who live in the community, where the company operates. They benefit from the fact that the company is there, they get to consume its products and services, they get to work at the company, but gosh, shouldn't they also get a share of the extra that is going to the capitalists, to the owners? That's the argument. A lot of interesting ways to parse the argument.

One thing I think is often misunderstood is this idea that most for-profit companies are making these huge profits or huge residuals left after all of the employees and suppliers have been paid and these fat cat business owners are sucking that up. In reality, of course, we know that not only

is business income highly variable, there's a high degree of uncertainty. Also, you know, there are just as many losses as there are gains. Most workers, suppliers, community members, partners, are happy to share in the gains. They're not so enthusiastic about sharing in the losses. Obviously if they wanted to do that, they could operate their own companies rather than being salaried employees or paid suppliers on a contractual basis, where they get a guaranteed payout every month. If they want to be residual claimants, they're welcome to do so, but many so-called nonowner stakeholders really wouldn't want to be a core stakeholder if they understood what that entailed.

JD: Austrian subjectivist theory applies equally to the role of entrepreneurs. Should subjectivism force us to radically rethink concepts of value and cost and price and utility?

PK: Look, *entrepreneurship* is one of those terms that is used in many different senses, in academia and popular discourse, among practitioners, and so I never want to quibble with people who are using that term to mean something other than what Austrian economists were. The technical notion of the entrepreneur in Mises's system is the agency or agent that is active and forward looking and purposeful and who exercises initiative at assembling resources, factors of production, combining them to produce goods and services that can be sold later, hopefully at a profit, but without guarantees. So, entrepreneurs are the ones who

organize and carry out production under conditions of uncertainty, and when they're successful, when they have revenues in excess of the outlays that they must spend to get their resources, they have something left over, they earn profits, entrepreneurial profit. If they're unsuccessful, meaning that they're not able to sell goods and services at prices high enough to cover what they previously paid for their inputs, they earn losses.

There's also a temporal aspect to this. That was Böhm-Bawerk's famous critique of the Marxian exploitation theory, that typically, because production takes time, input suppliers who have been workers, they get paid first, before revenues from the sale of goods and services have been realized. The uncertainty is being borne by the capitalist, who advances the funds, and that interest return is built into the business income that the capitalist entrepreneur receives. So to me, an entrepreneur is an owner; an entrepreneur is a decision-maker; an entrepreneur is someone who exercises control over resources, who has responsibility to arrange resources in ways that create value for consumers in the future.

JD: You've studied the work of Ronald Coase, who offered an explanation of why firms arise between the individual and the broader market. You defend the firm as a naturally occurring phenomenon as well, but you don't come at it from the same perspective as Coase. Is that accurate?

PK: Fairly accurate. To me, a business firm is a team, it's a collection of resources and persons who work together to produce stuff that you and I can consume. There's a legal definition of what's inside the firm and what's outside the firm. So if I'm an independent contractor, let's say I'm a skilled electrician or plumber, I have Peter Klein Inc., or maybe I'm an economics professor who earns his income from giving speeches and consulting, I'm Peter Klein Inc., a one-man show. Am I a firm? I think if we want to call me a firm that's fine.

If Peter Klein and Jeff Deist get together and form a partnership, well, we have a legally binding agreement that we will collaborate on some

Most workers, suppliers, community members, partners, are happy to share in the gains. They're not so enthusiastic about sharing in the losses.

decisions that we make, we'll have joint ownership of some buildings, resources, machines, etc., we agree to split the gains and losses in a certain way, then Peter and Jeff are a firm. General Motors, IBM, Google, Apple, they're also firms in this legal sense, that they have individuals and resources that are contractually related, but all dedicated to the point of producing stuff and selling that stuff in the marketplace. Coase focused on one specific aspect of this.

The interesting question for Coase was, "What would be the nature of the contract between Peter and Jeff?" So, will Peter Klein be a firm and Jeff Deist be a firm and they have some kind of a contract that in minute detail specializes what Peter has to do and what Jeff has to do and how the returns from a specific venture will be distributed? He would say, "Well then that's two firms," but if Peter and Jeff create a partnership where things are left kind of open ended—the partnership, the agreement that creates the partnership, says we're going to combine forces, we're going to work together, we're going to work as a team, but it doesn't spell out how every transaction will be realized—then Peter and Jeff are together in the same firm. So, Coase's interest is what explains those sorts of boundaries, or to put it another way when does the Mises Institute have its own in-house landscaper and accounting service or when does it choose to outsource the landscaping to a company in Auburn or outsource its accounting to Salesforce or to some kind of cloud provider?

Coase was interested in explaining the boundaries of the firm in terms of what's done in house and what's done outside. I think that's fine, I have no problem with that theory, but it only addresses one aspect of how we organize production in society. It's not really about entrepreneurs. It's not really about uncertainty. It's not really about the issues that were primarily of interest to Mises and the Austrians.

JD: It's important to note how you have created almost a specialty or subfield through your academic work on entrepreneurial judgment. Marxists,

Keynesians, and neoclassicals virtually ignore and dismiss the role of the entrepreneur in an economy.

PK: Yes. A lot of my work on entrepreneurship attempts to elaborate on insights that are in Mises's *Human Action*. Mises says, "In the world outside of the evenly rotating economy, outside of some artificial equilibrium construct where everybody knows everything about the future, we have uncertainty about what will happen." So, I, as an entrepreneur, let's say I want to produce a writing pen, I have a pen here in front of me. I go out and I buy some ink, I buy the metal and plastic that's required to create a pen. I buy some machinery, I employ some workers, I have a business plan, I have some marketing agreements, and so forth. I have to purchase and assemble and organize all of those factors in anticipation of the money I hope to get from selling pens once I have my pens manufactured and sent to the retailer, but I don't know exactly what those revenues are going to be. So, what do I do? Do I just take a blind guess?

To mainstream economists, there are two ways of thinking about how decision-makers handle the uncertain future. Either they have a precise mathematical model: here are all of the things that could happen, and here are the mathematical probabilities of each event. I can calculate expected values and there's an obvious course of action that a rational utility-maximizing, a profit-maximizing, actor would undertake. You can either have that, that's rational behavior, or you can flip a coin, or you could just close your eyes and throw at the dartboard. There's blind guessing on the one hand and there's rational decision-making on the other hand.

As Mises and other important thinkers like Frank Knight pointed out, the decision-makers under uncertainty, they don't have a formal mathematical model of the future that they can employ to come up with precise predictions about what will happen, but nor, according to Knight and Mises, did they rely on blind guessing either. Rather, there's a way of thinking about the future that's kind of in the middle. So, you could call it intuition, you could call it gut instinct, you could call it judgment, which is the term that both Knight and Mises use. There's



a great line from Mises: he calls judgment “a specific anticipative understanding of the uncertain future.” Specific anticipative understanding—what he means, and of course in German, the word that is rendered into English as understanding is a fancy German word, *verstehen*, which means a kind of deep knowledge, a deep intuitive understanding of the future. Mises is claiming that’s what the successful entrepreneur has. The successful entrepreneur judges the future in a way that’s different from the way other people judge the future. It’s not a mathematical prediction. It’s not blind guessing either. It’s a reasoned, sensible intuitive anticipation based on tacit knowledge, based on subjective understanding, based on experience, and can’t really be formally articulated necessarily, but it’s a facility and capability that successful entrepreneurs possess.

JD: These Austrian insights seem to gain more purchase in business schools and entrepreneurship courses. Do you think this is the way forward? Is teaching entrepreneurship actually the way to overcome the bias against theory?

PK: We’re not talking about praxeology here, so I’m just offering my own conjecture that this may, as you say, this may be the path forward or certainly a path forward for Austrian economists. Why?

Because most business school academics, and certainly business practitioners, they don’t have all these hang-ups about the intellectual origin of this school or that school or the underlying methodological foundations. There’s no stigma attached to Austrian economics among entrepreneurship scholars or professional entrepreneurs, the way it is for most academic economists and government economists. There’s nothing weird about Austrian thinking, and so I have found a very receptive audience in business schools, among people who specialize in entrepreneurship or human resource management or business strategy. They’re very receptive to Austrian ideas. Practitioners tell me that the Austrian notion of entrepreneurship as I described it squares completely with their professional experience, so I think there is a great future for young Austrian economists to apply their trade in the business school, in the entrepreneurship and management space, rather than purely in the economics space.

JD: Let’s finish by discussing academia more generally. Undoubtedly a lot of our readers think universities have lost their way. Are academic economists under pressure to turn the discipline into something woke? To apply critical theory perspectives?

PK: Academic economics is no different from any other part of academia in that these external pressures and internal pressures are very strong. I would say it’s not as severe in economics as it is in the humanities, of course, but yes, I think among mainstream academic organizations in economics and, for that matter, in management and entrepreneurship, there certainly is more attention to social justice, so-called social justice issues and gender and underrepresented groups, etc. You know, does that mean that academia ... how should I say ... I’ve got to put this in a way that won’t get me in too much trouble. Does that mean that there are better opportunities for promoting Austrian insights outside of academia? I’m a let-a-thousand-flowers-bloom kind of a guy, and so there are people in our circles, myself and colleagues, who feel comfortable in and have been reasonably successful in developing and promoting our ideas within a university context. There are plenty of people who

There are plenty of people who have been equally or more successful doing so outside of the university, either in the educational organization world, the world of private educational organizations like the Mises Institute, in the consulting and policy world, in the private education world—these are all great paths, they’re not mutually exclusive.

have been equally or more successful doing so outside of the university, either in the educational organization world, the world of private educational organizations like the Mises Institute, in the consulting and policy world, in the private education world—these are all great paths, they’re not mutually exclusive. People like myself operate in several of these environments at the same time. I think they’re all prospective paths forward. I would say we Austrians should not put all of our eggs in the university basket. I think we should certainly have a presence there, and I think our master’s program is a great example of how we’re doing something that is playing by the rules of the formal academic sector, but yeah, we should not hold our breath and expect that formal academia will someday embrace all of our ideas. We need to continue to try, but I think we need to have lots of different channels in play at the same time.

JD: But even beyond universities, surely there is pressure to create what we might call a “new economics”—focused on equity and inclusion and sustainability and all the jingoist meaningless concepts of our day. Surely economics cannot escape this scrutiny. At some point will this chop away at the actual core substance of the profession?

PK: We’re seeing that in just about every field of human endeavor. I don’t have any special insight into what Austrian economists or other economists might do to try to resist pressures that are taking them away from doing what they do best.

It is something to be aware of for sure, and maybe having more of our activity in the private institutions of education gives us a little bit more insurance there.

JD: Well, with all this in mind, one final question: What is your advice for young people who have a deep interest in economics but are unsure about an academic career?

PK: I would refer them to an excellent piece by Joe Salerno on “Economics as a Vocation.” I think that one should not pursue a career as a professional economist, whether in academia or outside, just as a job or just to have status or just to have a steady income or whatever. If one has a passion for the study of economics, the development of economics, the teaching of economics, then one should pursue that wholeheartedly, but it can take place in a variety of forms. A lot of the great contributors to Austrian economics have not been people who had the primary job title of economist. Henry Hazlitt made great contributions to economic theory as well as economic education and he was a journalist. There are plenty of business executives who are great contributors to Austrian economics. So, I would urge young people to pursue this as a passion, but not merely as a profession, not merely as a way to rise through the professional ranks.

JD: I suspect those professional ranks will be increasingly tough to navigate. Thanks very much, Dr. Klein. ■■■

THE STERILITY OF INTELLECTUAL STANDARDIZATION

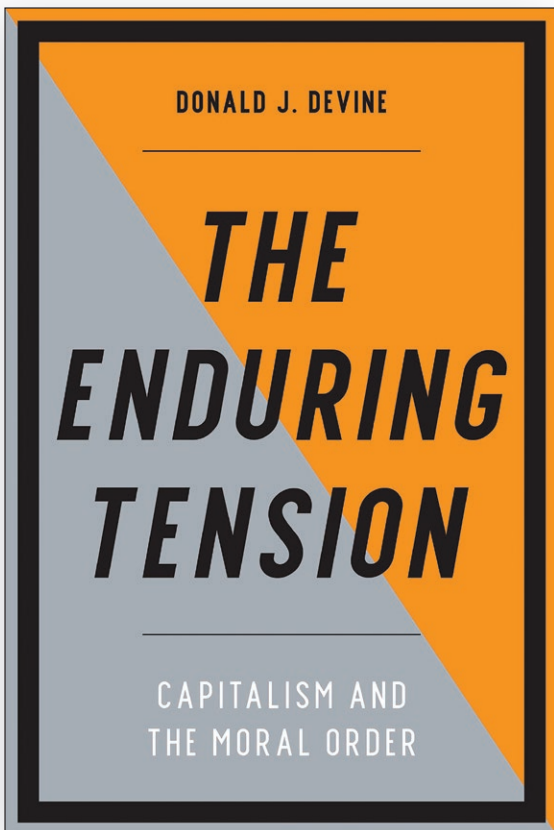
DAVID **GORDON**
REVIEWS

The Enduring Tension: Capitalism
and the Moral Order
By Donald J. Devine
Encounter Books, 2021
371 pages

Capitalism is increasingly under attack these days by people who claim that it promotes a collapse of moral values, subordinating all else to the pursuit of individual wealth and pleasure. Often these critics demand either the strict supervision of the free market by elite government administrators or its outright replacement by socialism. In this very wide ranging book, Donald Devine responds to this attack.

He is well equipped to do so, owing to his long experience as a political science professor and as a government administrator. He tells us, “Your author comes to the discussion from the academic field of political science and two decades of teaching at the University of Maryland and Bellevue University. One competency was in normal politics, government, and democratic theory, but I also taught philosophy of science.... Another specialty was public administration, put to practical use as director of the U.S. Office of Personnel Management in 1981–1985.”

What is the basis of the charge that capitalism leads to the collapse of moral values? Leo Strauss and Eric Voegelin contend that the intellectual inception of capitalism lies in the thought of John Locke, who rejected Christianity and natural law. According to Strauss, “Locke did not take revelation seriously and was really a pure rationalist and a hedonist whose philosophy was essentially utilitarian, but disguised in a way to appeal to his readers, in a society where virtue rather than pleasure was the highest good.”





Devine agrees that Locke’s thought is central to the development of the free market, but his view of Locke differs from that of Strauss and Voegelin. “There is no question that Locke moved away from Aristotle and the ancients, but so did St. Thomas. The break was located in medieval thinking.... Four decades ago I argued, against the dominant scholarship, that one could not understand Locke unless one viewed him as medieval, as feudal, as Christian.... Locke was orthodox enough to write a discourse defending miracles, and in his last years he translated and extensively commented upon the Epistles of St. Paul.”

“Feudal” is for Devine a key word. Though people often denounce the Middle Ages as “dark,” he finds in this period the pluralist ideas and institutions that led to a highly successful capitalist economy embedded in a virtuous society. In taking this stance, he relies on both Joseph Schumpeter and surprisingly, on Karl Marx. “Slavery had been a part of all ancient civilizations, but in medieval Europe it was replaced by serfdom, granting limited rights. As Marx himself explained, serfdom was hardly ideal but it was an advance over slavery, and feudalism ended with broadly distributed de facto private property, which prepared the way for wage labor and mature capitalism.”

Devine also appeals to the great legal historian Harold Berman, who “in *Law and Revolution: The Formation of the Western Legal Tradition*, meticulously traced the crucial legal and moral development back to the Abbey of Cluny (founded in 909) and to the reforms of Pope Gregory VII, who had been a monk in a Cluniac monastery. The many Cluniac foundations across Europe were governed through an innovative corporate structure under the abbot of Cluny, which enabled Gregory VII to reassert the independence of the church from secular powers.... As Berman’s comprehensive study suggests, the history of capitalism is simultaneously the history of Western civilization.”

“Feudal” is for Devine a key word. Though people often denounce the Middle Ages as “dark,” he finds in this period the pluralist ideas and institutions that led to a highly successful capitalist economy embedded in a virtuous society.

Capitalism is in its origins and essence moral. Far from being a predatory system in which the wealthy exploit the poor, the regime of private property on which the free market rests protects the weak.

Capitalism is then in its origins and essence moral. Far from being a predatory system in which the wealthy exploit the poor, the regime of private property on which the free market rests protects the weak. “Why might the very poorest be so interested in property rights? Armen A. Alchian, an emeritus economics professor at the University of California, Los Angeles, put it this way: ‘well-defined and well-protected property rights replace competition by violence with competition by peaceful means.’”

Devine’s positive view of the morality of the market puts him at odds with the market’s many critics, and, of our contemporaries, Pope Francis stands foremost among these. Devine contends that the pope developed his anticapitalist views through his experiences growing up in the Argentina of Juan Perón, and, though he is well-meaning, his ideas are often mistaken. He wrongly views the free market as a zero-sum game, in which some (the rich) gain only at the expense of others (the poor). In

fact, the free market is a system of voluntary exchanges, and such exchanges take place only if all parties to them expect to benefit.

The free market, based on moral tradition and pluralist institutions of medieval origin, served our nation well, and it was subject to concerted attack only at the turn of the twentieth century. “When Americans wrote their Declaration of Independence, and eventually the constitution for the new nation, their main source for incorporating Magna Carta values was John Locke.... The Founders’ vision of a pluralist republic, with a market economy, mostly held sway in the United States until the progressive intellectual revolution led by Woodrow Wilson and John Dewey questioned its legitimacy. The pluralist consensus was then challenged by an ideology aiming to create a more perfect society through expert administration and scientific education.” Here, as it seems to me, Devine has underestimated the effects of the Civil War in promoting a powerful federal government.



Despite the Wilsonian assault on our traditional system of government and the continuation of that assault by Franklin Roosevelt and his successors, a consensus about morality remained in place through the early 1970s. “Forty-eight years ago, I published *The Political Culture of the United States*.... The editor warned that its thesis asserting the existence of a broad moral consensus on traditional Lockean values among Americans would antagonize fellow professors who assumed that the U.S. population was inclining leftward. But the book’s use of virtually all public opinion polls taken in the United States up to then was so empirically persuasive that academic reviews in a profession dominated by progressive intellectuals accepted its factual if not its moral conclusions. What were the elements of that consensus? ... Free markets and property rights. Faith in God and commitment to traditional moral values. Attachment to family and community. A premium on education and work achievement.”

The consensus no longer prevails, but Devine, by contrast with Charles Murray, a fellow *laudator temporis acti* (praiser of past times) is hopeful for a restoration. He favors a concerted campaign to restore local institutions, and in particular federal controls over educational standards rouse him to wrath. He appeals in support to a great friend and benefactor of the Mises Institute. “Robert Luddy, an educational entrepreneur, has remarked that standardization ‘potentially sucks the life out of ... great ideas.’ The reforms of public education that appear to be effective are the charter school movement, scholarships that enable students to transfer to better-performing private schools, and homeschooling. All of these permit some choice on the part of parents and students, rather than imposing a single-plan that supposedly fits all but actually benefits few.”

One could wish that Devine had carried out his main line of thought further to a defense of an entirely free market, without concessions to government welfare programs, but he stops short of this, owing to a preference for pluralism and empiricism over “rationalism.” I do not propose, though, to dispute with him here. Instead, I urge everyone to learn from Devine’s comments on a vast number of topics, only a few of which I have been able to address. ■■■

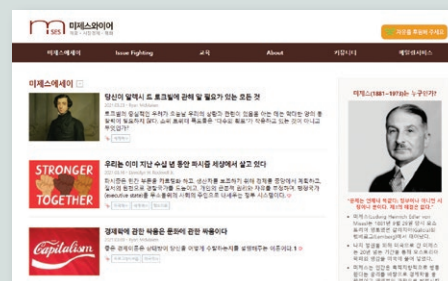
David Gordon is senior fellow at the Mises Institute, and editor of the *Mises Review*.



Allen Jeon with Hans-Hermann Hoppe.

Mises in Korea

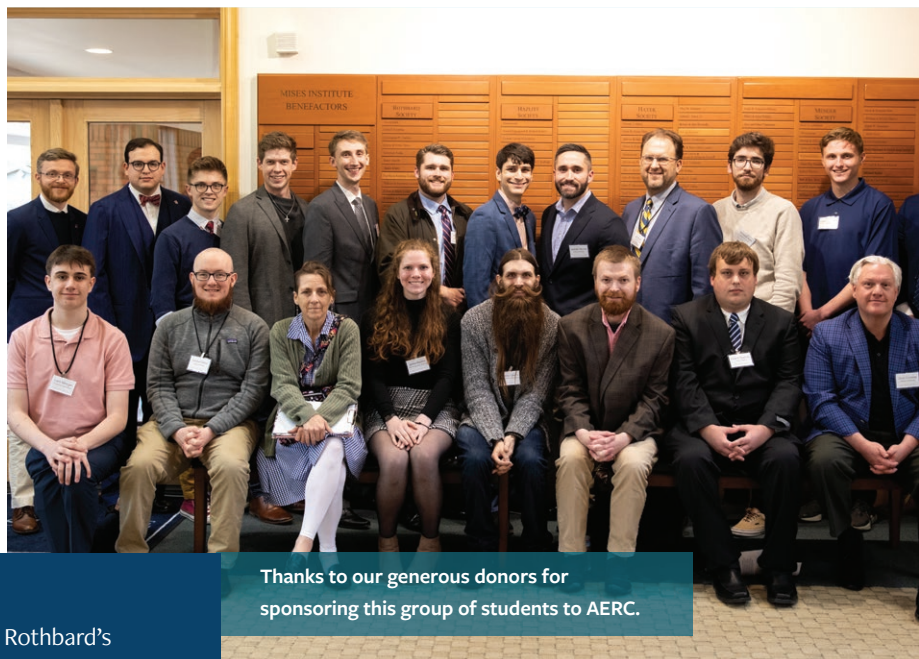
Allen Jeon and his group of young Austrians have translated our animated video series *Economics for Beginners*, Hoppe’s *What Must Be Done*, and they publish their own Korean edition of *The Austrian*. Have a look at miseskorea.org.



There is another group of dedicated professionals led by Professor Jinyoung Bae who have been, for more than a year now, translating articles from the *Mises Wire* and posting them online, for free, every Tuesday at mises.kr. ■■■

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2021 KEYNOTE LECTURES

- The F.A. Hayek Memorial Lecture | Douglas B. Rasmussen: Rothbard's Account of the Action Axiom: A Neo-Aristotelian-Thomistic Defense (Sponsored by Greg and Joy Morin)
- The Henry Hazlitt Memorial Lecture | Steve Mariotti: Entrepreneurship and Liberty (Sponsored by Yousif Almoayyed)
- The Ludwig von Mises Memorial Lecture | Samuel Bostaph: From Menger to Mises (Sponsored by Dr. Don Printz)
- The Murray N. Rothbard Memorial Lecture | Matthew McCaffrey: The Long Rehabilitation of Frank Fetter (Sponsored by Steven and Cassandra Torello)
- The Lou Church Memorial Lecture | Francis Beckwith: Neither Theocracy nor Liberal Hegemony (Sponsored by the Lou Church Foundation)



On March 19 and 20, the Mises Institute played host to some of the greatest contemporary scholars in the Austrian tradition at the 2021 Austrian Economics Research Conference.

Jeff Deist welcomed the more than 120 participants and noted: “This conference is really about continuing the tradition of economic theory. That’s why AERC scholars are so important. Someone must provide a baseline of economic theory from which to analyze all these pronouncements and statistics with which we are all bombarded and to counter this terrible orthodoxy that is now manifesting itself as “pop economics.”

The Austrian school is strong today, as reflected in the caliber of papers that were presented. The lineup of research papers spanned topics as diverse as: capitalism and social problems; confronting totalitarian temptations; money and method; reducing crime and enhancing justice; morality, crime and the state; George Orwell and totalitarianism; and so much more.

We also celebrated the 150th anniversary of Carl Menger’s *Principles of Economics*, the work that truly birthed the Austrian tradition. This reception was generously sponsored by Julianna and Hunter Hastings.

These presentations, along with opening remarks from Jeff Deist and Tom Woods, can be found at mises.org/AERC2021.





Some of the 2021 award winners, right to left: Tate Fegley, Mark Thornton, Kristoffer Hansen, and Jeffery Degner.

2021 AWARDS IN AUSTRIAN ECONOMICS

Gary G. Schlarbaum Prize for Excellence in Research and Teaching was awarded to Dr. Karl-Friedrich Israel (Western Catholic University).

The Peterson-Luddy Chair in Austrian Economics was presented to Mark Thornton (Mises Institute).

The O.P. Alford III Prize in Political Economy was awarded to Dr. Tate Fegley (University of Pittsburgh) for his paper “Police Unions and Officer Privileges” (published in the *Independent Review* 25, no. 2 [Fall 2020]). Access at mises.org/AERCFegley.

The Lawrence W. Fertig Prize in Austrian Economics was awarded to Kristoffer Hansen (University of Leipzig) for his paper “The Menger-Mises Theory of the Origin of Money—Conjecture or Economic Law?” (published in the *Quarterly Journal of Austrian Economics* 22, no. 1 [Spring 2019]). Access at mises.org/AERCHansen.

The Kenneth Garschina Student Prizes:
 1st Place—Kesong Wang
 2nd Place—Pedro Almeida Jorge
 3rd Place—Jeffery Degner




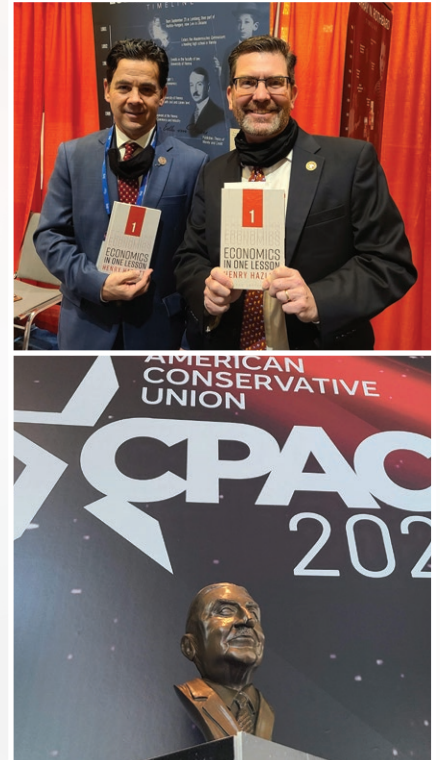
Additional photos are available at mises.org/aerc21. Audio and video of named lectures are available at mises.org/aerc2021.



Mises Institute at CPAC

The Conservative Political Action Conference (CPAC) moved away from the traditional Washington beltway venue to Orlando, Florida, this year and, for the first time, the Mises Institute had a booth at the event. This year's conference focus was on economic education, and we were there with copies of *Economics in One Lesson* and our Economics for Beginners animated video series. With 2020 leaving more families looking for alternatives to government education than ever before, our presence at CPAC allowed the Mises Institute to build new relationships with organizations dedicated to home and private schooling.

We also gave away copies of Jeff Deist's *The Imposers and the Imposed Upon*, Murray Rothbard's *Nations by Consent*, Ludwig von Mises's *The Middle of the Road Leads to Socialism*, and Hans-Hermann Hoppe's *Social Democracy*. 

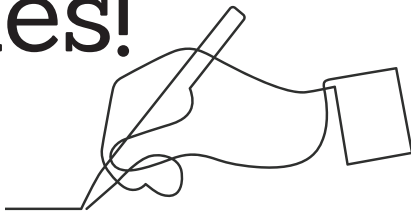


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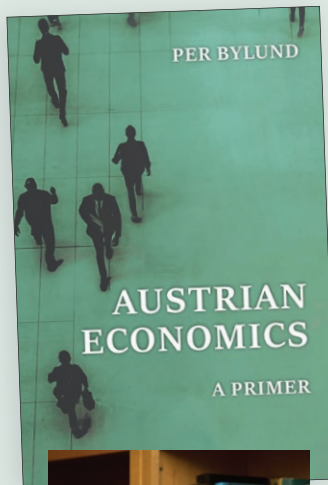
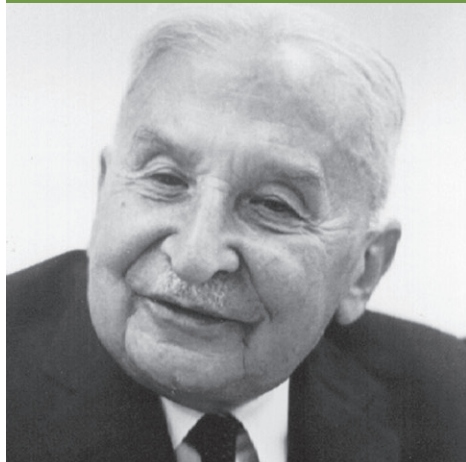
- minimum wage
- student loan forgiveness
- healthcare
- war
- inflation
- cancel culture/free speech
- environmental issues
- other topics

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Mises Meetup, Birmingham, AL

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*Rothbard Graduate Seminar
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JUNE 17

*Medical Freedom Summit
Windham, NH*

JULY 18–24

Mises University, Auburn, AL

AUGUST 21

*Mises Meetup
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SEPTEMBER 4

*Mises Meetup
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OCTOBER 21–23

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