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THE SOVIETIZATION OF AMERICA

JEFF DEIST INTERVIEWS YURI MALTSEV

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Publisher: Jeff Deist

Editor: Ryan McMaken

Associate Editor: Tho Bishop

Managing Editor: Judith F. Thommesen

Design/Layout: Jonathon Stone

Contributing Editors:
David Gordon
Joseph T. Salerno
Mark Thornton

MISES INSTITUTE
518 West Magnolia Avenue
Auburn, AL 36832–4501
334.321.2100 | Fax: 334.321.2119
contact@mises.org | mises.org

jeffdeist@mises.org @jeffdeist

From the Publisher

Jeff Deist

The Marxian's love of democratic institutions was a stratagem only, a pious fraud for the deception of the masses. Within a socialist community there is no room left for freedom.

–*Ludwig von Mises,* Omnipotent Government

Anyone seeking omnipotence from government officials would be unwise to look for it in Joe Biden. But omnipotence is exactly what voters demand of presidents, who are supposed to "run" the country's economy, control the climate, and now apparently direct our medical decisions as well. It's a perilous time in America, where the distinction between state and corporate power has been blurred and a new pseudoegalitarianism has taken root. Under the guise of the pandemic, Biden and Co. want to take state control over the economy to a new level.

Dr. Yuri Maltsev of Carthage College knows where omnipotent government leads. Growing up along the Volga River in the former USSR, he managed to make his way to Moscow and attend university before becoming a labor economist. But not much labor took place, and what did take place was mismanaged and misallocated. Reading in secret, under threat of punishment for possession, Yuri managed to read Hayek, and others, and this confirmed his natural antipathy for Marxism.

He knew the Soviet system was untenable economically, but his work during the period of supposed perestroika during the late 1980s showed him it was also hopelessly criminal and corrupt. He got to know the real Gorbachev, a thuggish party loyalist and economic illiterate portrayed in the West as a gentle reformer. He saw the heralded glasnost campaign for what it was, a desperate attempt by the Soviets to stave off economic collapse.

So Dr. Maltsev came to America as a Soviet defector in 1989, and could have become a darling of the conservative dinner circuit. In the 1980s and 1990s, anyone who escaped the USSR to praise capitalism in the West was beloved by Reaganites. But he had no interest in the rising neoconservatism of that era, which he saw as just the flip side of Trotskyism: the West imposes its will on the East, rather than the other way around. So he found the "American Austrians" and made his way here as an uncompromising and radical professor. But he's worried, to put it mildly, about the rising culture of illiberalism in America on campus and otherwise. Don't miss this fascinating and sobering interview with the brilliant, heroic Yuri Maltsev.

Speaking of Austrian economics, Paul Krugman—the resident *New York Times* blogger with a "liberal" conscience—recently issued another attack as relates to covid and central bank policy. In Krugman's telling, covid shutdowns caused a "reallocation shock" of workers and required strenuous central bank liquidity to prevent large-scale unemployment during this transition.

But Krugman has business cycle theory all wrong. He simply fails to understand how bursts of new money and credit supplied by a central bank during a "crisis" cause misallocations of workers, blocking or obscuring desperately needed market signals just when they are needed most. Incentives matter, and inflation (especially purposeful inflation) causes work and employment to shift away from the most pressing and most productive needs.

We wanted you to read Dr. Robert Murphy's great response, "Rebutting Krugman on the 'Austrian' Pandemic." It's another outstanding refutation of Krugmania, and a great short explication of boom-bust theory.

You will also want you to read "The Terrible Economic Ignorance behind Covid Trades." This speaks plainly about the dire threat of not understanding economics and ignoring tradeoffs as they impact our lives daily.

Finally, our book review editor, David Gordon, examines the new offering from Nicholas Wapshott titled *Samuelson Friedman: The Battle over the Free Market*. Paul Samuelson unfortunately was a major American figure in midcentury academic economics, and his awful textbook managed to go through nineteen editions, making him a rich man.

He was also the preeminent promoter of Keynes during much of the postwar era. His battles in *Newsweek* and elsewhere with Milton Friedman saw the latter portrayed as a strident free marketer, but of course Friedman's monetarism was anything but. Hayek himself complained that Friedman was a closet Keynesian—not for his monetary views, but for his methodology. Friedman had accepted Keynes's framework of macroeconomics, a serious error, in Hayek's view. Moreover, Hayek viewed Friedman's monetary policy as essentially Keynesian in its control over the economy through management of the money supply. So while Wapshott sees Samuelson and Friedman as two opposing poles, David Gordon guides the careful reader to a different conclusion.

As always, thank you for your engagement with and support of the Mises Institute.

Jeff Deist is president of the Mises Institute.

The Sovietization of America

Jeff Deist Interviews Yuri Maltsev

Yuri Nicholas Maltsev is an Austrian school economist and economic historian from Tatarstan. He earned his BA and MA degrees from Moscow State University and PhD in labor economics at the Institute of Labor Research in Moscow. Before defecting to the United States in 1989, he was a member of a senior Soviet economics team that worked on President Gorbachev's reforms package of perestroika. He is currently professor of economics at Carthage College in Kenosha, Wisconsin. He has appeared on CNN, *PBS NewsHour*, Fox News, CBC, and Financial Network News across American, Canadian, and European television. He is the editor of *Requiem for Marx* (1993) and coauthor of *The Tea Party and the American Counter-revolution* (2012) and *The Tea Party Explained: From Crisis to Crusade* (2013). He is a Senior Fellow of the Mises Institute.

Jeff Deist: We're speaking in mid-September, and President Biden just announced executive orders mandating vaccines for many employers. As a former Soviet citizen, what do you make of this?

Yuri Maltsev: That's awful. In the United States, fascism comes in the very strange form of an elderly dementia patient. Usually fascists are charismatic leaders, look at Hitler or Mussolini, but this one, what he's doing is just unbelievable. He is a socialist, definitely, that he is mandating the private sector what they should do, what they shouldn't do. Karl Marx in the manifesto of the communist party, he defined socialism and communism as abolition of private property and that private property can be abolished overnight, like what happened during the Bolshevik Revolution in Russia. But it can also take a gradual kind of process and that's what is happening right now in the United States. Private property is becoming

like having a title to wetlands. You have private property, but you cannot do anything with it.

D: Biden brings to mind another kindly old man, Mikhail Gorbachev, with whom you worked in the late eighties as a Soviet labor economist. In your introduction to the *Requiem for Marx* book, you go in depth about how Gorbachev managed to absolutely snow the Western media and snow George Bush senior.

M: Yes, he absolutely did. He was portrayed as a great liberator, however, he was a Communist. From another hand, we should give him some credit because he was talking about socialism and giving it a human face, which nobody understood at the time.

There is this joke that James Bond was sent to Moscow to find out what's happening there under Gorbachev and he goes to the bakery and there is no bread, and he writes in a little notebook "No bread"; he goes to the butcher shop, no meat, and writes "No meat." There is a KGB officer following him and the officer looked over his shoulder and said, "A year ago, you would be shot for doing that." And Bond then writes "No bullets anymore." When there were no bullets, people stopped working, because under socialism, the only way to work is under a threat to your life or to the life of your loved ones, because there is absolutely no incentive to do anything. And that's what Mr. Gorbachev did not understand.

In the beginning of his reign, Gorbachev sounded confused. For example, he was saying that central planning actually works, the problem is we never had a good plan, and so on. That definitely didn't show him as he knew what he was doing. But definitely, he played some positive role in destroying that evil empire.

Today, we have Mr. Biden, who is building a new evil empire. I think that his vaccine mandates speech is just telling us that he is right now on a warpath. He is desperately looking for enemies and who those enemies can be. So, he picked up unvaccinated people as his enemies, because he lost the war in Afghanistan so dramatically. He completely screwed up the evacuation and now he needs to attract the attention of the masses to something else. That's what I'm thinking is going on.

And they are also, I think, trying the water, to see if they can get away with this mandated vaccination, with forced vaccination, with dragging people into vaccination centers, which reminds me of forced abortions in China, then that will be the ultimate goal: your loss of freedom. If you remember John Locke, his major question was who owns you. Do you own yourself? If you do, you are a free man, and if somebody else owns you, you're a slave. If you don't own your body, then who does? The government acts as if it owns your body and knows better what to put in it. And now, if they will forcibly vaccinate us that would be the end of whatever we think we are living in and would be the beginning of slavery.

President George Bush and President Mikhail Gorbachev during the 1991 summit. Getty Images, Georges DeKeerle, Sygma Collection.

D: Let's continue this Biden versus Gorbachev comparison, because I like it. You write about glasnost and perestroika being basically fraudulent cronyist schemes in practice, not at all what the Western media reported. You quote Gorbachev saying, "What we want is a planned, regulated socialist market." That's essentially what the World Bank types advocate today.

M: Absolutely. We must have this economy which is run by the government, not by the private sector. Everything Mr. Biden has been doing since his inauguration is heading in that direction, more regulations for everything, for industry. People don't like his predecessor, Mr. Trump,

I don't know if elections were fair or not, but I think it's very simple if you are voting for a socialist or you are voting for a capitalist.

but under him regulations were being removed, 20 percent of them, but Biden has restored everything that was removed. His vice president, she's just not only a socialist, but kind of a Stalinist. Look at her speeches, most recently in California. This is a very sad time that we are living through, but the people inflicted it on themselves. I don't know if elections were fair or not, but I think it's very simple if you are voting for a socialist or you are voting for a capitalist.

D: You mentioned that your time working with Gorbachev convinces you he didn't know any economics at all. He was completely illiterate on the subject. I suspect that's equally true of Biden.

M: Yes, yes. In his fifty years in government his working record is just atrocious. When he was the chairman of the Judicial Committee of the Senate, it was unbelievable to listen to him. I don't know, however, whether he is stupid or he is evil, and I think both. He's a power-hungry kind of person as well as the people around him.

D: You left the Soviet Union and came to the United States in 1989. A lot of Soviet expatriates in the US became neocons or cold warriors, but you managed to avoid that.

M: Yes, because neoconservatism is just another side of Trotskyism. That we should impose our will on other people against their will. You see what is happening, how we trap people in Vietnam or in Afghanistan or in Iraq or in Syria, trying to start wars which we do not intend to win. It's to make some people happy and richer and impose all kinds of left-wing social theories on them. It's like imposing democracy—these kinds of things cannot be done from above or from the outside of the country.

D: In the eighties and nineties, especially, Conservatism Inc. loved nothing more than a Soviet defector willing to denounce the USSR. The Buckleyite right purged the

Old Right on the grounds we had to defeat the Soviets above all, so the Cold War justified accepting bigger government at home.

M: It definitely was a threat. I would agree with that part, but from another hand, how did we oppose the Soviets? The CIA provoked the revolution in Hungary, we didn't support those people as we had promised, so many of them were murdered including the very reformist prime minister, Mr. Nagy, and about three hundred thousand Hungarians fled. We did the same with Czechoslovakia and the war in Vietnam was the same thing. So that's a problem that we have, that we are engaging in wars, which are designed only to feed some people, to feed the military-industrial complex of which President Eisenhower was telling us back in 1961.

When I was a third-year student at Moscow State University I was given a book by Hayek, *The Road to Serfdom*, and at that time I could be punished anywhere from eight to ten years of imprisonment, just for having the book.

Left to right: Yuri with Lew Rockwell; Hans-Hermann Hoppe; and a young Yuri shortly after defecting to the US in 1989.

D: As a new arrival in the early 1990s, did you think America was generally capitalist and free at the time or did you already sense there were deep problems here?

M: I worked, if you can call it work, for the federal government in Washington, DC, at the United States Institute of Peace, which is still there. It's a congressional think tank. It's huge right now. I could see there were deep problems.

D: They have an enormous building by the Lincoln Memorial. I wonder what their budget is relative to the Mises Institute?

M: Oh, probably several hundred times more if not thousands. And they also built, just maybe four or five years ago, a huge campus in southeastern Washington, DC, just unbelievable.

D: Apparently there's no more peace than when they started.

M: No, they'll never be shut down. And for me, what was amazing was that I was awarded this very prestigious position. I became a fellow of the United States . . . the full title was even more feudal, something like Senator Jennings Fellow of the United States Congress in Peace. I thought that maybe they will study peace. My neighbor with an office on the right was Eugene Rostow. Eugene Rostow was possibly the most prominent warmonger in United States history and he almost single-handedly started the Vietnam War. The chairwoman of the board was Elspeth Rostow, who was his wife. This formed kind of a Rostow dictatorship. There were generals and the like, rather a nursing home for the neoconservatives. The worst thing was not that they were funding these people who didn't need the stipends because they were already rich, but they were dispensing tens of millions of dollars. Now they are dispensing hundreds of millions of dollars, to poison our academia, to provide so-called grants to study conflict resolution. And how you can resolve conflicts, by accusing everybody of racism or paying the left-wing academia to develop critical race theory and other stuff like this?

D: At this point, in the early nineties, you had already discovered Austrian economics.

M: Well, I was leaning toward Austrian economics since my days in the Soviet Union. When I was a third-year student at Moscow State University I was given a book by Hayek, *The Road to Serfdom*, and at that time I could be punished anywhere from eight to ten years of imprisonment, just for having the book.

D: Just for possessing it?

M: Just for possessing it. And the person who gave it to me would get fifty years, because he would be accused of disseminating anti-Soviet slander. That was the so-called Article 57 of the Penal Code of the USSR. This is even an innocent book. But it was on the KGB forbidden list, as well as Solzhenitsyn and Orwell.

Because of Hayek's influence, I changed my major. Instead of studying history and social science, I began to study economic history and history of economic thought. It was at this point that I received a letter through the Lenin's Library, now the Russian State Library, that since I was engaged in a critique of the vulgar bourgeois political economy, I should be given access to the contents of the library. How can you

A gradual transition is transition to the third world only. You can either make a transition right away or don't even try to do it.

criticize something without knowing what it is? So I got real access. While there I read a lot of other stuff, as well. You go to a marked room and you sign a pledge that you'll never tell anyone about what you read there. The unfortunate thing is at that time I didn't know about Murray Rothbard or Ludwig von Mises and so I was insatiably reading Hayek.

When I came to the United States I was invited to the Shevchenko Jamestown Foundation, which is a very interesting think tank, kind of like the world defectors' club. They would not pay me anything, but they were very nice in providing me with a computer and office space and a telephone, and while there I wrote an article on perestroika for *The Freeman*. I was invited to the Mises Institute, to teach at Mises University, at that time at Stanford University, and then I met Murray Rothbard and we became very good friends. He became my real mentor. I met a lot of great people like Tom DiLorenzo, Walter Block, Bob Higgs, and many, many others. It was not a conversion moment, because I was already converted, but I remember Murray, he took my interview from me and he titled that interview "Mises from Moscow." He was very enthusiastic about the future of Eastern Europe and the former Soviet Union in finding the path to freedom.

I think it was 1990, the Mises Institute organized a conference in Washington, DC, to honor Gottfried Haberler. Haberler was a great Austrian economist, but then he turned more mainstream. He began to teach at Harvard and he was not associated with the Institute at all and the Institute also didn't like him for his mainstream leaning. I knew him rather well because I had lunch with him every Wednesday in Washington. I advised Murray to lure him back where he belonged, and so the Mises Institute put on a wonderful conference in Washington, DC, and Haberler addressed this conference.

Attending the Washington conference was a delegation of twelve Lithuanian businesspeople and politicians who came to the United States right after Lithuania became an independent country. They were all enthralled, and today we have a very strong Austrian economics kind of school in Lithuania. The Lithuanian Free Market Institute is doing a great job in promoting Austrian ideas and some are very visible in the Seimas, which is the Lithuanian parliament. It was an interesting time because nobody knew what was happening. Murray, he wrote quite a lot on the economics of transition and he had this wonderful slogan: land to the peasants, and factories to the workers, and bureaus to bureaucrats, that was his approach. That was his major message to them. And he

praised the Baltic states because they were ahead of the other former Soviet Republics and they are ahead today in promoting freedom.

D: We have the whole history of the twentieth century to see the failure of the Soviet Union. You lived it. But as you've pointed out, Mises predicted all of this in 1920, without the benefit of hindsight, in his essay "Economic Calculation in the Socialist Commonwealth." What an achievement.

M: True, absolutely. I read Ludwig Mises's "Economic Calculation in the Socialist Commonwealth" and his book *Socialism* only when I came to the United States, and I was honored to write an introduction to "Economic Calculation" published by the Mises Institute. A lot of things just became really clear.

When you live in the Soviet Union, especially if you are an economist, you understand that the system does not work. You understand that the prices are all phony, that the prices are made up, that they're being ignored. But after reading *Socialism* by Mises, then it all becomes crystal clear. It's like processing film when the image is already there, it is only after developing the film that the image becomes clear. That was the role of Hayek for me with *The Road to Serfdom*. And so it was an interesting time.

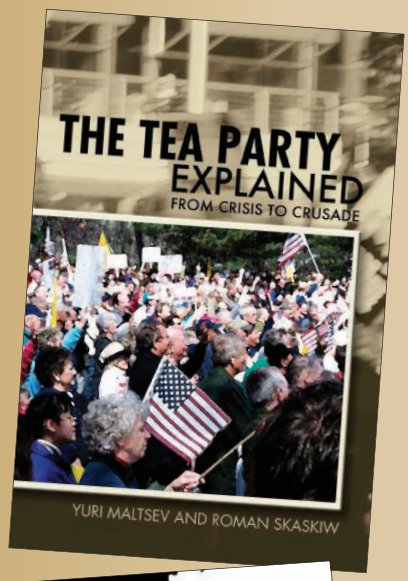
In the Soviet Union at this time, they came up with the idea of the 500 Days Program. This is how long it would take to make the transition from a socialist slavery to economic freedom. My point was why five hundred days? In five hundred days, you cannot do anything. If you make a transition like this, you should do it immediately in one fell swoop. And sure enough, while I was writing this, Margaret Thatcher made an interesting comment. She said something like, if we in the United Kingdom would decide to move from left-hand driving to right-hand driving and do it in five hundred days, that would be havoc on the road." So, it is with all economic reforms. I believe strongly, and Murray Rothbard was very supportive in this, that a gradual transition is transition to the third world only. You can either make a transition right away or don't even try to do it.

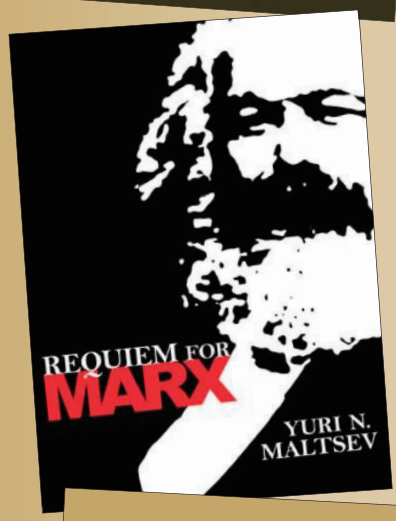
D: David Gordon and Gary North also wrote about Marx the man, in your collection of essays. Marx was not necessarily that bright. He wasn't that accomplished. Gary North tells us Friedrich Engels was a lot smarter and ambitious. Marx lived a fairly pampered and subsidized life, and had far more money than the average Soviet worker. And yet this apparent mediocrity seems to have enduring influence. Why?

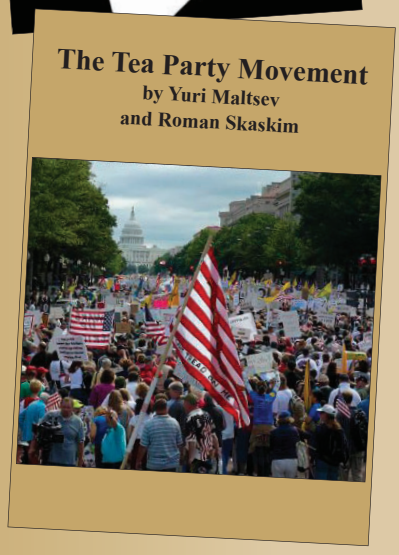
M: Because he provides a very good argument for so-called intellectuals to grab the power. Because the whole idea of Marxism is that the proletariat, the great masses, are oppressed. But what should they do? They should follow the people with the vision, the professional revolutionaries. And who would be better for that than the intellectuals. So, that's the point. Hayek is also saying it in his wonderful essay "Why Intellectuals Love Socialism." Marx, he was a very power-hungry individual. He never had real power, but from another hand, his writing is about power, how to get power. And today he is popular for what reason?

There is another side of Marxism. It's not only proletariat and bourgeoisie, workers and capitalists, but it is also oppressors and oppressed. Because if you read Marx, especially *Das Kapital*, the twenty-third, twenty-fourth chapters, I still remember all this stuff, he's writing that the whole of human history was a fight between oppressors and oppressed, an influence that would be like slaves and slave owners and feudal lords and peasants

Yuri Maltsev was the first recipient of the Luminary Award from the Free Market Foundation (2014). The award was "for his tireless dedication to upholding liberty and the inspiration he brings to the people whose lives he touches." He is shown here giving his award speech "The Savagery of Socialism."







The establishment of communism marks an end point to human history, a final perfected state of mankind. So the secularization of America is a necessary Marxist goal.

and now we have workers and whatnot. That's easy for the so-called intellectuals of today to put whomever they want, to put any kind of group they believe is a victimized group, and to present them as oppressed. This victimization agenda will be taken up by the intellectuals of the Left. It is important for them to have something to point at, take the so-called environmental crisis, that's another invented crisis that we have, and also race issues. And these two issues, they believe, can destroy capitalism, destroy the United States, destroy the society that we live in, and provide them with unlimited power, because that's what it is: if you control energy, for example, you control culture, then you are in charge of everything. Education, today, I'm sorry to say, but I think we are losing this cultural war to these people because they control the mass media, control Hollywood, control the production of culture.

D: Let's continue with that thought. There's this concept of cultural Marxism, where the focus on economic class shifted to identity politics because the economic arguments weren't working. The US middle class, the union workers, weren't buying it. So the Left shifted its focus. Today we have a lot of loose terms like "woke" and "SJW" and "PC" to describe this phenomenon. As someone who teaches young people on campus, how much have things changed since you arrived in the US?

M: It's so sad because when I began to teach, and I began to teach almost immediately when I came to the United States, I was teaching first as an adjunct professor at George Mason University on the Arlington campus and then I moved to Wisconsin. I am now in academia for thirty-two years. And at that time, students were very curious, they were way to the right of the faculty. The faculty always was, at least the faculty that I dealt with, very much to the left of center. They had an agenda to reproduce themselves, because that means that left-wing faculty will only hire left-wing faculty, and now

they are a majority. We have very few really free market academics, but a lot of socialists and radical socialists and communists and democratic socialists, so-called, which is an oxymoron. Mr. Bernie Sanders visited my college, Carthage College, and many faculty were sitting there from three in the morning because they were afraid that they will not get in to meet the great leader.

Mises University 1994 at Claremont Graduate School. Yuri is second row from the back between Jeff Herbener and Mark Thornton.

D: Were students camping out overnight as well?

M: Some, yes, those that are already brainwashed.

D: And presumably very few kids at Carthage College are in any way oppressed.

M: [Laughs] True. Except when they are looking for parking in the morning.

D: I want to clarify: Do you think the students in some of this country's liberal arts schools are actually to the left of their faculty?

M: I would say not very many, but there are some. There are some activists who are just fanatics, who became fanatics because they were screwed up in high school and then they came to Carthage. We have faculty who reinforce their views. I'm not saying all faculty. We have some mild socialists also. We have even on our campus some people who are still on the side of freedom, but not many, the majority is not. What is going on today with this masquerade, if you will look at what the faculty says in their blogs, for instance, "Yesterday I saw a student who was sipping coffee without a mask and he was sipping coffee very slowly, because he enjoyed not wearing a mask." I can't imagine that a professor is writing that.

D: One thing that's changed a lot in the US since you arrived is secularization. There is far less religious observance in the United States today than thirty years ago. Rothbard's essay in your *Requiem for Marx* collection compares Marxist theory to the return of the messiah in Christian theology, Marxism will put an end to history and establish a new heaven and a new earth. The establishment of communism marks an end point to human history, a final perfected state of mankind. So the secularization of America is a necessary Marxist goal.

M: True, yes. Murray wrote "The Religious Eschatology of Marx." Eschatology, that's the end of history. Marx hated religion, he called it opium of the people, and in the Soviet Union alone they murdered over a million clerics of all religions. I was just reading a gruesome historical article. In Odessa, for example, they were putting boiling lead into the Christians, saying that this is a communion for you. And they were hanging monks and nuns and priests from belfries. Why such atrocities? Because it's obvious that if you are a believer, you believe in God, no matter what denomination or religion you are, then you don't have space in your mind for Marx and Lenin and Stalin to be gods. That would be a very unchristian or very non-Islamic or very non-Jewish thing, to believe that there is a god, in the Kremlin or in the White House or somewhere else. That's why they needed to clean out the place and why religion was prohibited until 1942.

In 1942, the Soviet Union legalized the Russian Orthodox Church. For what reason? Because there were about 3 million defections from the Soviet Army over to the Germans. Stalin was afraid that the whole thing would fall apart without that. And most would believe that Stalin and others were kind of the antichrist. That's one thing, to destroy religion, then next is the family. When families are destroyed then civil society is destroyed and then you're naked before them. Then you don't have any support mechanisms. I'm not a religious person

myself, but religion is a very important social institution, because it provides a lot of social support for people.

D: Did the Soviets view religion as a competitor with the state for people's loyalty?

M: Yes and no because some, for example, the Russian Orthodox Church were just a state institution under Stalin and his successors run mostly by the KGB.

D: So the state co-opts the church like it co-opts other institutions.

M: Yes. Under Gorbachev, when the Union of Soviet Socialist Republics fell apart on the glorious Christmas Eve of 1991, the state collapsed as we know it. If you look at the Russian Orthodox Church today, they are blessing the Russian aggression against the Ukrainians, against others, they're holding masses to support the Russian troops. They're blessing tanks and rockets. There are some denominations that are not really statist denominations. There are some Protestant denominations in Russia which believe that you don't need any intermediaries between you and the God. And that brought the idea even to John Locke that we are all equal before the Lord.

D: Let's talk about academic freedom. A well-known philosophy professor at Portland State University, Peter Boghossian, resigned yesterday over harassment he's endured from faculty and the students. Do you worry about your own academic freedom?

M: The only thing I like from Marx's quotes is that we don't have anything to lose except chains on our feet. And so, I'm not worried, because I just fight back. I am fighting. Fortunately for me, I was tenured twenty-five years ago and that's why I'm saying that if you give up on something, then they will take over everything. And that was the greatest message from Solzhenitsyn in the gulag, don't give up. They survived and they were even respected by their jailers, by the prison guards. Besides that, I would say all my classes are full and I have waitlists!

Yuri Maltsev and Ron Paul

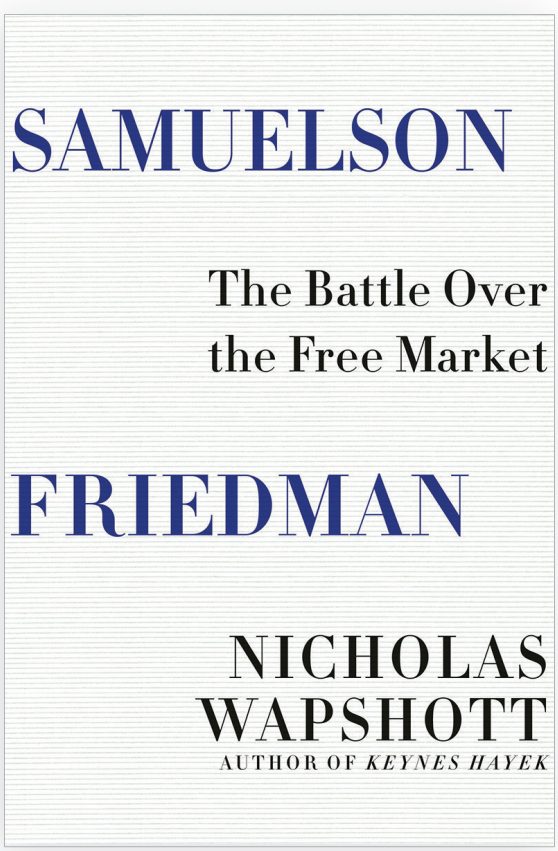
I would say that the great change came with Ron Paul. Especially when Ron Paul was very active, many students were his followers and he was the best ambassador of ideas of liberty on campuses. We definitely need leaders like him for students, to be seen as role models.

D: Dr. Maltsev, I think that's a perfect place to stop. Thank you.

THE BATTLE OVER THE FREE MARKET

DAVID**GORDON** REVIEWS

Samuelson Friedman: The Battle over the Free Market
By Nicholas Wapshott
Norton, 2021
367 pages



Nicholas Wapshott is a British journalist and biographer with a strong interest in economic theory. He says that the Nobel laureate Edmund Phelps is his mentor. One theme in twentieth-century economics dominates his work: the clash between economists who favor the free market and those who support a "mixed economy," in which the government plays a large role. Wapshott's earlier book *Keynes Hayek* shows the way he works. He uses the personal relations between Keynes and Hayek to arouse the reader's interest in the theoretical controversies at issue, and he follows the same approach in *Samuelson Friedman*. Keynes and Hayek make frequent appearances in this book as well. Here, though, Wapshott has an advantage over his earlier book. Although Keynes and Hayek knew each other, they were not especially close, but Samuelson and Friedman were friends and rivals for over seventy years. Wapshott thus had available much more source material for his new book.

He is a diligent researcher, as his forty-three pages of notes attest. We learn, for example, that the remark "you cannot push on a string," comes not from Keynes but from Congressman T. Alan Goldsborough in 1933. The remark is a criticism of the government's increasing the quantity of money in order to get out of a depression; the point of the phrase is that giving people more money may not be enough to get them to spend it.

Wapshott clearly prefers Samuelson to Friedman. For him, Samuelson was the great theorist of post-World War II economics. Friedman, by contrast, though he had a powerful intelligence and formidable skill as a debater, was in essence a crank who preached the discredited doctrine of monetarism. Wapshott says of Samuelson, "His myriad technical papers, which flowed from him with such facility, would have been a towering achievement for any academic economist. His application of mathematics to economics transformed the discipline from something akin to a branch of philosophy to a true social science." He rates Friedman much lower. "His many achievements are more evident in politics than in economics. . . . Some of Friedman's theoretical economics, such as his work on the consumption function, continues to be admired. But few have continued to hanker after Friedman's flagship idea, doctrinaire monetarism, which is remembered, if remembered at all, as an arcane, otiose footnote in the history of economic thought."

Friedman, by contrast, though had a powerful intelligence and formidable skill as a debater, was in essence a crank who preached the discredited doctrine of monetarism.

The text of the book fails to support Wapshott's portrayal of Samuelson as a towering genius. The author devotes considerable attention to the columns that Samuelson and Friedman wrote for *Newsweek*, and in them, the towering genius often comes across as a purveyor of banalities. He holds the bizarre belief that if you don't want to associate with someone, you are coercing him. Also, people who can't afford things they want to buy are being coerced by the sellers of these products. Thus, it's wrong to claim, as Friedman does, that government regulation of property is coercive. It's always a question of balancing one freedom against another, and shouldn't we prefer the freedom of the poor person able to buy food to the freedom of the seller to refuse to sell? Besides, human rights are more important than property rights.

"'The rights of property shrink as the rights of man expand,' he wrote. While some suffered because the government intervened in the market, an unfettered market had winners and losers, too, he argued. While the free market suggested that everyone was free to buy what they wanted, there was such a thing as rationing by price, which put many items well beyond the reach of those without the means. The children of those who could not afford good education, for instance, were deprived by the market setting too high a price. The 'freedom' of individuals provided by the market was therefore only notional." Samuelson in this area thinks in clichés of the Left.

Samuelson was throughout his long life a Keynesian, and he took over from Keynes a bad argument against Hayek's *The Road to Serfdom*. According to this argument, Hayek claims in the book that comprehensive economic planning destroys freedom. But Hayek himself does not favor a complete free market but allows some scope for government intervention. Given this admission, there is no principled division between Hayek and his opponents. All are supporters of a mixed

Wapshott mentions covid-19, but rather than take it as evidence that government interference with the market is dangerous, he instead takes it to show that in emergencies, government must supplant the market.

economy, though people differ on the components of the mixture.

It does not follow from Hayek's failure to draw a principled line between permissible and impermissible intervention that "we are all in the same boat." It remains the case that planning on a vast scale destroys freedom. You cannot tell exactly how many hairs a person can have on his head and still count as bald, but there are bald people and people who aren't bald. In like fashion, if we have "too much" planning, freedom will end. The objection of Keynes and Samuelson thus leaves Hayek's argument unscathed. We can see today without difficulty what Hayek is talking about, as the government is destroying our freedom through covid-19 lockdowns, mask mandates, and vaccination mandates. Wapshott mentions the covid-19 situation, but rather than take it as evidence that government interference with the market is dangerous, he instead takes it to show that in emergencies, government must supplant the market.

It is true, though, that Hayek made unnecessary compromises about government intervention, and this leads to the funniest passage in the book: "To [Ayn] Rand, even Hayek was a treacherous compromiser and—Rand's behavior was as extreme as her politics—she once spat at Hayek at a party to show her disdain for his treachery."

In his duels in *Newsweek* with Samuelson, Friedman often defends freedom with able arguments, but his economic theory is lacking. His "monetarism" is really a form of Keynesianism, but it is the Keynes of the 1920s rather than the 1930s whom he follows. "The summer of 1923 saw Keynes give talks that when collected became *A Tract on Monetary Reform*. . . . *A Tract* became an inspiration for counter-Keynesian revolutionaries like Friedman: 'I am one of a small minority of professional economists who regard [*A Tract*] not the *General Theory*, as [Keynes's] best book on economics,' wrote Friedman in 1989. 'Even after sixty-five years, it is not only well worth reading but continues to have a major influence on economic policy.' Friedman's often-quoted one-liner that 'Inflation is taxation without legislation' derives from the *Tract* chapter heading, 'Inflation as a Method of Taxation.'"

In brief, Friedman supports government control of the money supply to prevent inflation and deflation. Hayek expertly identifies the fundamental problem with Friedman's approach. "Austrian economists like Hayek believed such an approach would fail, as no one could know enough about the workings of the economy to manage it with any accuracy. . . . He always complained that Friedman was closer to Keynes than Hayek was to either of them. 'In one respect, Milton Friedman is still a Keynesian, not on monetary theory but on methodology,' Hayek explained. By accepting the premises of macroeconomics—a branch of economics that Keynes had invented, 'very much against his own

intentions,' according to Hayek—Friedman had made a serious intellectual error. . . . It was not just that Friedman had signed up to Keynes's macroeconomics rather than join the Austrian School, which relied solely on microeconomic activity, that caused Hayek offense. Friedman's belief that the money supply should be controlled by the central bank to keep prices in check put him firmly on the Keynesian side of the argument over whether government should manage the economy." Hayek also said in the 1990s, "'One of the things I most regret is not having returned to a criticism of Keynes's [*General Theory*]' . . . 'but it is as much true of not having criticized Milton's [*Essays in*] *Positive Economics*, which in a way is quite as dangerous a book.'"

In turn, Friedman had no use for Austrian economics. Though he admired Hayek for his defense of freedom, he thought that Hayek's *Prices and Production* was a confused book and opposed giving him a position in the University of Chicago's department of economics. "The Chicago School 'didn't want him,' recalled Friedman. 'They didn't agree with his economics. . . . If they had been looking around the world for an economist to add to their staff, their prescription would not have been . . . the author of *Prices and Production*.'" He thought that Mises was dogmatic and intolerant, and "[a]sked which was the greater economist, Keynes or von Mises, Friedman did not hesitate to answer, 'Keynes.'" By the way, Samuelson, though of course a strong critic of Hayek, was pleased that he won the Nobel Prize. 'In my judgment his was a worthy choice,' said Samuelson."

Readers who are aware of the way in which Arthur Burns tried to prevent Murray Rothbard from getting his doctorate at Columbia will find this anecdote of interest, and it is a suitable note on which to close. Samuelson in commenting on Alan Greenspan, says, "At bottom Greenspan was an okay character. That's different from Rand and Burns—both despicable human beings."

David Gordon is Senior Fellow at the Mises Institute, and editor of the *Mises Review*.

REBUTTING PAUL KRUGMAN ON THE "AUSTRIAN" PANDEMIC

by Robert P. Murphy

In a recent column for the *New York Times*, the world's most famous Keynesian, Paul Krugman, attacked Austrian business cycle theory (ABCT). In addition to repeating his decades-old claim that ABCT suffers from an internal contradiction, as well as his charge that the Austrians misdiagnosed the 2008 financial crisis, in his latest piece Krugman argued that the 2020 pandemic really was a "reallocation shock" along Austrian lines. Yet even here, Krugman claims, the Austrian prescription of laissez-faire is dead wrong: as a new paper presented at the Jackson Hole monetary conference allegedly demonstrates, we need easy money from the Fed in order to rearrange labor without causing needless unemployment.

It won't surprise mises.org readers to learn that I disagree strongly with Krugman's column. He makes some casual remarks that mislead his readers on the history of the 1930s, but more seriously, he misunderstands what ABCT actually says. This confusion leads him to reject the Austrian view as illogical, when in fact it is perfectly consistent and explains the data better than a Keynesian approach.

For five years, Bob Murphy and cohost Tom Woods presented a weekly podcast, *Contra Krugman*, where they refuted, week after week, the preposterous claims Paul Krugman made in his printed columns.

Robert P. Murphy is a Senior Fellow with the Mises Institute. He is the author of numerous book: *Contra Krugman: Smashing the Errors of America's Most Famous Keynesian*; *Chaos Theory; Lessons for the Young Economist*; *Choice: Cooperation, Enterprise, and Human Action*; *The Politically Incorrect Guide to Capitalism*; and *Understanding Bitcoin* (with Silas Barta), among others. He is also the host of *The Bob Murphy Show*.

Krugman's Faulty History

Krugman begins his discussion of the Austrian theory by reference to its place in the 1930s:

> [T]he idea that there was a titanic intellectual battle in the 1930s between Hayek and John Maynard Keynes is basically fan fiction; Hayek's views on the Great Depression didn't get much intellectual traction at the time, and his fame came later, with the publication of his 1944 political tract "The Road to Serfdom."

Already Krugman is making stuff up. (As I've written elsewhere, when Krugman uses the caveat "basically," what he means is "This statement is literally false.") Although the clash may not have involved dueling rap lyrics, Hayek really was the chief rival of Keynes in the early 1930s. As Bruce Caldwell explains:

> In 1929 [Lionel] Robbins had begun what was to become his long tenure as head of the Economics Department at the London School of Economics (LSE). Robbins invited Hayek to London in January 1931, and the next month the young Austrian delivered a series of lectures on the business cycle. The lectures were published later that year (with an effusive foreword by Robbins) under the title, *Prices and Production*. Hayek's lectures, though at times opaque, caused quite a stir. By the fall of 1931, Hayek had been appointed the Tooke Professor of Economic Science and Statistics at the University of London. He was thirty-two years old.
>
> Sir John Hicks was at the LSE from 1926 to 1935 and remembers well the impact of Hayek's arrival. Indeed, he divides his own stay at the University of London into a pre-Hayekian and a Hayekian period. . . . In his article, "The Hayek Story," Hicks reflects on the importance of Hayek's early work.

It is simple confusion that drives most of the erroneous objections to ABCT coming from professional economists.

> "When the definitive history of economic analysis during the nineteen-thirties comes to be written, a leading character in the drama (it was quite a drama) will be Professor Hayek. Hayek's economic writings—I am not concerned with his later work in political theory and sociology—are almost unknown to the modern student; it is hardly remembered that there was a time when the new theories of Hayek were the principal rivals of the new theories of Keynes. Which was right, Keynes or Hayek?"

Ludwig Lachmann writes of Hayek's "triumphal entry on the London stage with his lectures on *Prices and Production*," and recalls that when he (Lachmann) arrived at the LSE two years later, "all important economists there were Hayekians.".

It's undeniably true that in the eyes of the profession, Hayek lost the debate to Keynes. But Krugman is wrong to claim that Hayek was a minor player who was only known for his political writings.

Krugman Oversimplifies Austrian Business Cycle Theory

After downplaying its importance at the time, Krugman admits that there was an Austrian analysis of the Great Depression, and summarizes it in this way:

> Nonetheless, there was an identifiable Austrian analysis of the Depression, shared by Hayek and other economists, including Joseph Schumpeter. Where Keynes argued that the Depression was caused by a general shortfall in demand, Hayek and Schumpeter argued that we were looking at the inevitable difficulties of adjusting to the aftermath of a boom. **In their view, excessive optimism had led to the allocation of too much labor and other resources to the production of investment goods**, and a depression was just the economy's way of getting those resources back where they belonged. (bold added)

In the above excerpt, Krugman makes a subtle but important misstatement of the Austrian explanation of the boom-bust cycle. Specifically, Krugman is casting ABCT as a theory of overinvestment in capital goods and *under*investment in consumer goods.[1]

Yet in reality, the sophisticated version of ABCT—especially in the writings of Mises—is more properly described as one of *mal*investment among various types of capital goods coupled with too much *consumption*.

It is this simple confusion that drives most of the erroneous objections to ABCT coming from professional economists. In a 2012 *Quarterly Journal of Austrian Economics* article, Joe Salerno quotes extensively from such economists (including Krugman) and then clarifies:

> Had the critics seriously studied the original sources in which ABCT is expounded, they would have learned that it is not an "overinvestment" theory at all. In fact, **Mises, Rothbard and, somewhat less emphatically, Hayek argued explicitly that "overconsumption" and "malinvestment" were the essential features of the inflationary boom.** In their view, the divergence between the loan and natural rates of interest caused by bank credit expansion systematically falsifies the monetary calculations of entrepreneurs choosing among investment projects of different durations and in different stages varying in temporal remoteness from consumers. But it also distorts the income and wealth calculations and therefore the consumption/saving choices of the recipients of wages, rents, profits and capital gains. In other words, while **the artificially reduced loan rate**

[1]Another problem is that Krugman says that Hayek thought the over-investment of the boom period is due to "excessive optimism," when in fact Hayek blamed the investment mistakes on the distortion of interest rates caused by credit expansion. Indeed, that's why Hayek's book on ABCT is called *Prices and Production*, not *Optimism and Production*. (Thanks to Joe Salerno for pointing this out when reading an initial draft of the present article.)

> encourages business firms to overestimate the present and future availability of investible resources and to malinvest in lengthening the structure of production, at the same time it **misleads households into a falsely optimistic appraisal of their real income and net worth that stimulates consumption and depresses saving.** (bold added)

In the remainder of the current article, I'll continue to quote from Krugman's recent column and then show why his initial confusion about ABCT drives all of his problems with it. But to repeat: Krugman views ABCT as a simple theory of overinvestment in capital goods and underinvestment in consumption goods (as do other ABCT critics). But in reality, the Misesian theory is that credit expansion leads to artificially low interest rates, which in turn cause entrepreneurs to invest in the *wrong* lines and cause consumers to believe they are wealthier than they really are and hence *consume* too much. Let us see how this confusion leads Krugman astray.

Krugman Alleges Problems with ABCT, Both Theoretical and Empirical

Returning to his recent column, below we reproduce two of Krugman's long-running objections to ABCT, namely that it fails on both a theoretical and empirical level:

> [The Hayek/Schumpeter] view had logical problems: If transferring resources out of investment goods causes mass unemployment, why didn't the same thing happen when resources were being transferred *in* and away from other industries? It was also clearly at odds with experience: During the Depression and, for that matter[,] after the 2008 crisis, there was excess capacity and unemployment in just about every industry—not slack in some and shortages in others.

In the quote above, Krugman's "logical problem" with ABCT derives entirely from his superficial understanding of the theory. Yes, if Mises had actually argued that the boom period is *merely* a switch of preferences one way, while the bust is a switch back—sort of like consumers deciding to try Mountain Dew for a few years, only to revert to Coke—then it would be weird to associate the first change with prosperity and the latter with privation.

This is why Salerno emphasized the *over*consumption during the boom period, when individuals *falsely* believe they are richer than they really are. The boom is *unsustainable* in physical terms; the members of society are not saving enough out of total income in order to complete all of the long-term production processes initiated during the boom. Armed with cheap credit, the entrepreneurs use the injections of new money to bid workers away from their original jobs and into new lines. This necessarily involves higher (real) wages and thus induces a feeling of good times.

But when reality reasserts itself—typically when banks chicken out and stop injecting new credit into the system—many entrepreneurs realize their projects must be terminated. They lay off workers and halt their purchases of other inputs. Wages and other prices must fall (at least in real terms) to reflect the new reality. It is painful to be laid off; workers are poorer than they thought and must search for a new job that doesn't pay as well as their employer during the boom time.

For a systematic exposition of the Austrian narrative, showing how it is logically consistent and can explain the asymmetry between the boom and bust, see my 2008 "sushi article" here at mises.org (which many readers have told me is one of their all-time favorites, for what that's worth). In fact, Krugman himself praised my article at the time, and retreated from saying the ABCT had logical problems to merely alleging that it didn't fit the data.

Krugman views ABCT as a simple theory of overinvestment in capital goods and underinvestment in consumption goods.

Space constraints prevent me from rehashing the arguments here, but on the issue of empirical validity, once again the Austrians triumph over the Keynesians. In this article, I summarized some of the "tests" Krugman had thrown against an Austrian-type explanation of the housing bubble and 2008 crisis. As it turned out, using Krugman's own rules for the test, the Austrian explanation made more

sense. (For example, percentage declines in employment were larger in construction than in manufacturing, and higher in durable goods than nondurable goods, and unemployment was highest in the states that had the biggest swings in home prices. These outcomes are to be expected in a "sectoral readjustment" Austrian story, as opposed to an "everybody panicked and stopped spending" Keynesian story.)

Hilarious: Krugman Resolves the "Logical Problem" When It Justifies Inflation

Before closing the present article, I want to highlight a hilarious aspect of Krugman's latest commentary. The specific news hook for his discussion of ABCT was a formal paper presented by elite economists at the Federal Reserve's Jackson Hole conference, held in August. Here is Krugman's summary of the paper and its relevance to the Austrians:

> Although we aren't hearing much about Austrian economics these days, the pandemic really did produce an Austrian-style reallocation shock, with demand for some things surging while demand for other things slumped. . . .
>
> So we're finally having the kind of economic crisis that people like Hayek and Schumpeter wrongly believed we were having in the 1930s. Does this mean that we should follow the policy advice they gave back then?
>
> No.
>
> That's the message of a paper by Veronica Guerrieri, Guido Lorenzoni, Ludwig Straub and Iván Werning that was prepared for this year's Jackson Hole meeting. . . . Guerrieri et al. never explicitly mention the Austrians, but their paper can nonetheless be construed as a refutation of their policy prescriptions.
>
> Hayek and Schumpeter were adamantly against any attempt to fight the Great Depression with monetary and fiscal stimulus. Hayek decried the use of "artificial stimulants," insisting that we should instead "leave it to time to effect a permanent cure by the slow process of adapting the structure of production.". . .
>
> But these conclusions didn't follow even if you accepted their incorrect analysis of what the Depression was all about. **Why should the need to move workers out of a sector lead to unemployment? Why shouldn't it simply lead to lower wages?**
>
> The answer in practice is downward nominal wage rigidity: Employers are really reluctant to cut wages, because of the effects on worker morale. . . .
>
> Guerrieri et al. argue, with a formal model to back them up, that **the optimal response to a reallocation shock is indeed a very expansionary monetary policy that causes a temporary spike in inflation. Workers would still have an incentive to change jobs, because real wages would fall in their old jobs but rise elsewhere. But there wouldn't have to be large-scale unemployment. . . .**
>
> . . . Now that we've finally had the shock Austrian economists kept imagining, we can see that they were still giving very bad advice.
>
> And in case you're wondering, the Fed, by accepting transitory inflation, is getting it right. (bold added)

To summarize, the new paper by Guerrieri et al. argues that if accommodated by a burst of inflation, we can transfer workers from one sector to another without the need for large-scale unemployment. However, if the Fed doesn't inflate, then the need to reallocate workers will lead to large-scale unemployment.

Does the reader see the irony? That asymmetry has been Krugman's chief objection ("logical problem") to ABCT for decades. No matter how many times Austrians explained it to him, he just couldn't wrap his head around the notion that monetary inflation might move workers around without causing an initial surge in unemployment.

Yet when that same exact mechanism is invoked in order to justify the inflation—rather than to condemn it, as the Austrians do—then all of a sudden Krugman is able to understand the process. Incentives really do matter.

THE TERRIBLE ECONOMIC IGNORANCE BEHIND COVID TRADEOFFS

MY SPEECH TO THE RON PAUL INSTITUTE

BY JEFF DEIST

Some of you may know the name Alex Berenson, the former *New York Times* journalist who comes from a left-liberal background. He has been absolutely fearless and tireless on Twitter over the past eighteen months, documenting the overreach and folly of covid policy—and the mixed reality behind official assurances on everything from social distancing to masks to vaccine efficacy. He became a one-man army against the prevailing covid narratives.

Mr. Berenson is famous for creating a viral (no pun intended) phrase which swept across Twitter last year: virus gonna virus.

Which means: whether one is in Sweden or Australia, whether in New York or Florida, whether you have mask mandates or lockdowns or close schools or require vaccine passports—or do NONE of these things—virus gonna virus. Covid hospitalizations and deaths will be concentrated among the obese and elderly. In almost any community, two-thirds or more of deaths are over age seventy, but even among the elderly more than 90 percent of those infected survive covid. And among all covid deaths, only about 7 percent are "covid only" without other serious contributing factors.

What we won't ever know, unfortunately—because we don't have a control group, at least in the West—is what would have happened in a society which simply did nothing in response to the virus. What if a country simply had encouraged citizens to build up their natural immunity through a healthy diet, exercise, vitamins, and natural sunlight? What if it had taken precautions for elderly and immune-compromised populations, while allowing younger and healthier people to live normally? Would such a country have reached a degree of natural immunity faster, with overall better outcomes for the physical and mental health of its citizens? And with far less economic damage?

All of this is the unseen. And no, it wasn't "worth it" to shut down the world.

Back to Mr. Berenson. Last week Twitter decided it had enough, and permanently suspended his account. This is no small thing for independent journalists—and God knows we need them—who reach a lot of people via Twitter and rely on it to make a living.

Search for his Twitter profile and you'll find something spooky. His name is still there, but with a quietly menacing "Account Suspended" warning. All other traces of his existence are erased: his header photo is gone, his profile photo is blank, and the descriptive bio is missing. Just blank. It's eerie, and reminds me of that famous old photo of Stalin by the Moscow Canal. He's standing next to Nikolai Yezhov (I had to look him up), who fell out of favor with Stalin and was executed—then erased from the photo by Soviet censors.

Alex Berenson has been similarly unpersoned, removed, erased. But even if he ends up a casualty of this war—and whether you agree with him or not—people like him have managed to challenge the official narrative in ways unimaginable even twenty years ago. The financial journalist John Tamny made an interesting point last week: complain about social media all you

want, but Facebook and Twitter have been great sources of information during this covid mess. And after thinking about it I had to agree. Most of the alternative information about covid I've consumed via social media. But of course Mr. Berenson no longer has this luxury.

The Covid Economy and Tradeoffs

Speaking of narratives, we have especially lacked clear and sober thinking about the injuries to the US economy created by covid policies. We profoundly fail to understand the economics behind covid, because we so desperately want to kid ourselves that the economy will be "normal" soon.

Governments are good at two things, namely bossing us around and spending money. They do both in spades whenever a supposed crisis arises, and both Congress and the Fed went into hyperdrive beginning in March 2020. The Fed pumped more than $9 trillion to its primary dealers, estimates are that more than 20 percent of all US dollars ever issued were issued in 2020 alone. On the fiscal side, more than forty federal agencies have spent $3.2 trillion in covid stimulus spending. So that is $12 trillion of inflationary pressure introduced to our economy.

What the economy wants and needs during crises is of course deflation. When uncertainty rises, and it certainly did for millions of Americans worried about their jobs in 2020, people naturally and inevitably hold larger cash balances. They spend less. Meanwhile they were staying home, driving less, dining out less, traveling less, working less. All of this is naturally deflationary, so of course Congress and the Fed embarked on an effort to fight this tooth and nail with intentional inflation. So now we're in a wrestling match between two opposing forces, one natural and one artificial.

Dr. Hans-Hermann Hoppe has a famous dictum: markets produce goods, which are the things we want and willingly buy or consume. Government produces bads, which is to say things we don't want at all. Things like wars and inflation. They do this with our own money, reducing what we have to spend on actual goods and thus reducing production of those goods.

The past sixteen months we've had lots of government bads, to the point where we might call them "worsts," which are even worse than bads. The covid and Afghanistan debacles come to mind.

It may be facile and self-serving to compare the federal state's inability to manage Afghanistan with its inability to manage a virus, but the comparison is just too perfect to resist. So I won't resist.

> Compare the federal state's inability to manage Afghanistan with its inability to manage a virus.

Among the bads government produces is misinformation. One analogy between covid and Afghanistan is the phenomenon known as the fog of war: the uncertainty in situational awareness experienced by participants in military operations.

Paraphrasing Carl von Clausewitz: war is the realm of uncertainty; the factors on which action in war is based are wrapped in a fog of uncertainty. Fog and friction cloud the commander's judgment—even where the commander wholly shares our interests, which is hardly a given with covid. When we declared war on a virus, clarity went out the window. And so we've lived with sixteen months of fog, of covid misinformation. This happens in tandem with the media,

which parrot official pronouncements from sources like the deeply compromised Fauci and stir up alarmism at every turn.

And we're still living with it. Consider we still don't have definitive answers to these simple questions:

Do masks really work?

Do kids really need masks? As an aside, our great friend Richard Rider reports that San Diego County—population 3.3 million—shut down its public schools for a year with one student death!

Is there asymptomatic spread?

Does the virus live on surfaces?

How long does immunity last after having covid?

How many vaccines will someone need to be "fully" vaccinated? How many boosters? Annual?

Aren't delta and other variants simply the predictable evolution of any virus?

How do we define a "case" or infection if someone shows no symptoms and feels fine?

Can covid really be eradicated like polio? If so, why haven't we eradicated flu by now?

And so on. We never get clear answers, but only fog.

But perhaps the most shocking thing about sixteen months is our childlike inability to consider tradeoffs! I'm not only talking about the tremendous economic consequence of shutting down businesses, and the horrific financial damage it has done and will do to millions of Americans. I'm not only talking about the depression, isolation from friends and loved ones, alcoholism, untreated illness, suicide, weight gain and obesity, stunted child development, and all the rest.

I'm talking about understanding the basic economic tradeoffs of covid policy: supply chain, food, energy, housing, unemployment. This is bread and butter economics.

I can't stress this enough: millions of Americans have no conception of economics, and simply don't believe tradeoffs exist. They think, are encouraged by the political class to think, that government can simply print money in the form of stimulus bills and pay people enhanced unemployment benefits to stay home. That the CDC [Centers for Disease Control and Prevention], of all cockamamie federal agencies, can simply impose a rent moratorium and effectively vitiate millions of local contracts—it will just work itself out somehow. That Congress can simply issue forgivable PPP [Paycheck Protection Program] loans to closed or hobbled businesses so they can magically make payroll. That the Federal Reserve can simply buy up assets from commercial banks, lend them limitless funds, and command lower interest rates to stimulate housing and consumerism.

Millions of Americans, through sheer ignorance of economics, literally think these actions are costless and wholly beneficial—without downside.

And now we wonder why the economy can't just flip a switch and get back to normal. But that's not how an incredibly complex global supply chain, with just-in-time delivery, works. And that's why thousands of Ford F-150s are sitting unsold, and unsellable, in huge parking lots—there is a global semiconductor chips shortage. Many of them come from a single company in Taiwan. By the way, semiconductor chips are used in everything from iPhones to Xbox consoles to Surface laptops to refrigerators.

There was a remarkable op-ed at CNBC recently about the supply chain interruptions. It gets the cause of inflation wrong, blaming it on the pandemic rather than central banks, but it paints a vivid picture of the serious problems facing a radically overstressed global manufacturing sector. Delays in delivery are said to be the longest in decades. And inflation plus delays is bad news, because it's so hard for buyers and sellers at all stages of production to know what to charge and what to pay for either capital goods or consumption goods. How many construction projects, for example were blindsided by the five-time rise in lumber prices last year? Ports are clogged awaiting trucks—not enough drivers—so containers sit for weeks rather than days. Empty containers have become scarce. Rail schedules are affected by the ports like dominos, and freight prices are spiking. Will West Coast longshoremen strike in 2022 when their contract is up? Will new emissions regulations which slow ships kill more capacity? Will key Chinese factories shut down again due to delta?

None of it is pretty, and may last into 2023. So buy your Christmas presents now!

We are starting to see the unseen, but economists, whose job it is to show us the tradeoffs, have been largely AWOL over the past year and a half. Consider this recent post by a famous libertarian free market economist:

> US GDP is now higher, in fact a fair bit higher, than when the pandemic began.
>
> US labor force participation is about 1.5% lower than when the pandemic began.
>
> Was there really slack to the tune of a few million people in January of 2020?
>
> Has inflation really changed enough to make the GDP numbers misleading?
>
> Has total factor productivity improved that much in that time, under those stresses? (i.e. more output from less input, labor & capital).
>
> Or is this all a sign that the structure of the economy is more stratified than we think—that there are millions of people in more-or-less filler jobs who can be cast out and the economy just keeps on running along? Yes, there are all sorts of reports of labor shortages, and all manner of supply chain hiccups which seem to often be associated with off shoring, but general activity is still high. (Or is it? Are the numbers reporting "vapor GDP?"—or are the inflation adjustments really out of whack so real GDP is not what we think it is?)

This is clever masquerading as smart, and it's the sort of thing which makes people dislike economists. It's *homo economicus* nonsense. This kind of navel-gazing—wondering aloud, as though we could shut down the world for a year, send everybody home, suspend rent payments, and not suffer tradeoffs—makes me think economics as a profession is not doing the world any good. People desperately need productive activity for their basic health and happiness, even if that activity doesn't much add to the national economy.

A friend who runs a large chain of retail stores across several states sent me this in response.

> It's amazing how [BLANKED]-up this person is. An economy is a way to get stuff. Is there much stuff, or less stuff, than when this all began? More cars or less? More computers and personal digital devices or less? More food or less? More oil or less? Greater business to business supply chain or less?
>
> But because this [BLANK] thinks the economy is a symbolic architecture, not a real thing for getting real stuff, he's absolutely flummoxed by a simple question. Go outside, moron. Step away from the keyboard and the spreadsheet.

I thought he was spot on. Economics is the study of choice in the face of scarcity, of how we get the goods and services we want in an environment of tradeoffs and uncertainty. Nothing could be more disastrous to that environment than vague, open-ended government lockdown measures. We don't need to move numbers around until they please us as some kind of substitute gnostic knowledge. We shut down the world over a virus, restarting it will be difficult, and the economic damage will be enormous and long lasting. Economists should be showing us the unseen damage, not cheering the juiced-up data.

My point here is to suggest the economics of our present situation are worse than advertised, and that economics is about all that holds us together. What we think of as America is mostly an economic arrangement, not a social or cultural one—and certainly not a political arrangement. America is hardly a country anymore, and I take no pleasure in saying that. What happens when the economics unravel?

Economics is the study of choice in the face of scarcity, of how we get the goods and services we want in an environment of tradeoffs and uncertainty.

The Great Unraveling

But there is a happy upside to all of this. A silver lining, perhaps.

Over eighteen months we've learned that all crises are local. For eighteen months it has mattered very much whether you live in Florida or New York, whether you live in Sweden or Australia. And the physical analog world reasserted itself with a vengeance: no matter where you are, no matter how rich you may be, you must exist in corporeal reality. You need housing, food, clean water, energy, and medical care in the most physical sense. You need last-mile delivery, no matter what

We are witnessing a tremendous shift in political power away from cities toward exurbs and rural areas. There really is nothing like it in US history.

is happening in the broader world. Your local situation suddenly mattered quite a bit in 2020. It was the year localism reasserted itself.

Whether your local reality was dysfunctional or not, it did matter quite a bit in the terrible covid year. And people are waking up to the simple reality of this dysfunction. We know the federal government can't manage covid. It can't manage Afghanistan. It can't manage debt, or the dollar or spending, or entitlements. It can't even run federal elections, for God's sake, much less provide security, or justice, or social cohesion.

So how can it manage a country of 330 million people? How can it manage fifty states?

Whether we want to call it the Great Awakening or the Great Realignment, something profound is happening. Imagine if the twenty-first century reverses the dominant trend of the nineteenth and twentieth, namely the centralization of political power in national and even supranational governments? What if we are about to embark on an experiment in localism and regionalism, simply due to the sheer inability of modern national governments to manage day-to-day reality?

A kind of centrifugal force is at work. Here in the US, people are self-segregating—both ideologically and geographically—in what we should think of as a kind of soft secession. A recent survey by United Van Lines confirms what we already knew: people are fleeing California, New York, New Jersey, and Illinois for Texas, Idaho, Florida, and Tennessee. This is simple flight from the dysfunction of big cities and unworkable progressive policies, laid bare by the analog lessons of covid.

We should cheer this. If just 10 percent of Americans hold reasonable views on politics, economics, and culture they would constitute 33 million people—we could coalesce as a significant political force! And this nation within a nation would be larger and more economically powerful than many European countries.

Furthermore, we are witnessing a tremendous shift in political power away from cities toward exurbs and rural areas. There really is nothing like it in US history. America started in colonies and villages, before moving westward to farms and ranches. When factories began to replace farms as major employers, Americans moved to the old Rust Belt cities like Chicago and Pittsburgh and Detroit. When tech and finance began to overshadow manufacturing, Americans moved to Manhattan and Seattle and Silicon Valley for the best jobs. But that revolution in finance and tech means capital is more mobile than ever, and covid accelerated our ability to work from home. All of this could have huge beneficial effects for smaller cities and rural areas, which in turn could have profound effects for the congressional map and electoral college. If the angry school board meetings over masks are any indication, politics already has become more localized.

Covid policies ruined cities, at least for awhile, and the Great Unraveling will reduce the political and economic power of those cities.

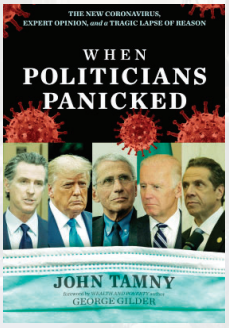
So a once-in-a-generation opportunity is before us. The federal government is far and away the biggest, most powerful institution in America, but as previous speakers mentioned, faith in institutions is crumbling. And it should crumble. Washington, DC, has been the centerpiece around which we have organized society for a hundred years now, and that's a profoundly evil reality. So we should cheer when Americans lose faith in it due to Trump or covid or Afghanistan or public opinion polls which show a deeply divided and skeptical country. There is a growing sense that DC is over, it's done, and it's time to turn our backs on it. We are losing our state religion.

Contra our political elites, covid and the disastrous reaction by governments may end up reducing their power and standing in society.

Jeff Deist is president of the Mises Institute.

Colorado Springs

On August 21, the Mises Institute hosted a meetup in the beautiful Antlers Hotel in downtown Colorado Springs to consider a post-covid world. Speakers included Jeff Deist, Ryan McMaken, and FreedomWorks's John Tamny, author of the book *When Politicians Panicked: The New Coronavirus, Expert Opinion, and a Tragic Lapse of Reason*.



To open the event, Jeff Deist identified an important political silver lining to covid. While formally civilized countries like Australia have exposed the brutal realities of state edicts, the example of free states and lockdown states within the United States has shown the importance of political decentralization. In this, we may have the chance of reversing the twentieth-century trend of centralized political power.

"The political story of the last sixteen months hasn't been about presidents . . . it's been about governors and mayors and county officials and school boards. And I think there is a very important lesson there."

In his talk, Ryan McMaken looked at covid's technocratic coup and the parallels to FDR's New Deal. Now, like then, respect for rule of law or individual liberty was replaced with a general acceptance of rule by "expert."

"Americans learned to trust Columbia professors to solve the problems in America . . . and that thinking can be done in a centralized atmosphere by a group of intellectuals who can hand down to us the solutions of these problems . . . this is not only a threat to local autonomy but reflects a general turn away from the very concept of due process and the idea that a regime should be limited in their powers."

Delivering the keynote address, author John Tamny chronicled the profound ignorance and malfeasance of policymakers at all levels during 2020. He delivered a scathing critique of the policy demands of Dr. Anthony Fauci and the degree to which politicians acting on his guidance undermined the world's ability to properly understand the virus.

"Politicians and experts said, 'unless we take away your freedom, unless we lock you down, there is going to be a crisis.' What they didn't see, given their scarily limited knowledge, was the crisis they were going to create for us. Because anytime you substitute political knowledge for the marketplace, a crisis is an inevitable result."

Watch and listen to these talks at **mises.org/CO2021**

This event was made possible thanks to the generosity of William Brennan.

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