

# Fama During the Boom, Hayek for the Bust: On the Popularity of Austrian Economics\*

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## Abstract

This paper investigates the popularity of Austrian Economics as a social-epistemic phenomenon and draws potential lessons for other heterodox schools. In the aftermath of the financial crisis, skepticism of standard textbook economics is widespread among students and the general public. Economic heresy is in popular demand and students of economics are willing to fundamentally question theories and institutions that were recently taken for granted. This hasn't benefited all heterodox schools equally. I identify some key factors behind the success of Austrian economic ideas in both the classroom and on the internet - a major site of economic education in itself. A significant characteristic of Austrian economics, not shared by other heterodox schools, is the complimentary ideological role it plays with neoclassical economics. If most talking heads on cable business channels sounded like the students of Fama during the boom, they quickly became possessed by Hayek after the bust. This transformation allowed them to continue the same old deregulate the markets, then deregulate some more, mantra in a radically new economic context. Obviously, this is not a role a left heterodox economist could, or would want to, replicate. I'll distinguish these non-replicable factors from those that could provide lessons for other heterodox approaches (i.e. the unabashed appeal to strong normative concerns).

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\*Prepared for the panel "Politics and Ideology in Economic Pedagogy," at ICAPE's *Re-thinking Economics In a Time of Economic Distress* conference, November 2011. This paper has yet to meet another's eyes. I apologize in advance for typos or possible nonsense.

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## *I. Introduction*

During the Spring of 2011 I watched a video of potential Republican candidate Tim Pawlenty. Call it the benefit of diminished expectations, but I was impressed. He seemed somewhat reasonable. He didn't want to suspend freedom of religion until Saudi Arabia opened a church. There was no attempt at extreme folksyness that made Dan Quayle come off as a stuffy intellectual. Very reasonable.<sup>1</sup> And then he called the currency of United States of America fake. Suspending for the moment our own personal views on what fake money is, and whether dollars fit that category, it was astonishing to hear the man I had just considered a likely next president call our money fake. What would I pay my taxes in?<sup>2</sup>

Why wasn't a claim like this controversial. Maybe it isn't as sensational as today's standard controversies involving sexting, death panels, Islamic-fundamentalist communist takeovers, and a first lady who advises you to eat a few vegetables. Another reason is the increased popularity of these Austrian types of ideas concerning money and the economy.

Austrian economics is not the only heterodoxy gaining interest. Marx has been a hot topic in the popular press. Minsky is now a respectable name for people in the business press or relatively mainstream economists to reference.

The main goal of this paper is to investigate the causes of the recent popularity of Austrian economics. Perhaps an adherent of Austrian economics would argue that the cause is singular. Austrian economics is correct and now people are realizing it. I do not take this approach for two reasons. First, I am not an Austrian economist. Second, even with respect to beliefs I hold, the adoption and proliferation of an idea is a complicated social process that can not be captured by this simple concept of "correctness."

The motivations behind this paper are two-fold. Out of general intellectual curiosity, I am

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<sup>1</sup>Relatively speaking.

<sup>2</sup>Pawlenty has since dropped out. I was definitely wrong about his chances of success, but his failure was certainly not the result of any economic policy unorthodoxy. I had assumed the Republican party leadership would get serious about squashing the tea party influence well before they were left with Cain-Perry-Romney.

interested in this case as a study in the proliferation of ideas and intersection of academic and popular economic thought. In the spirit of this panel, I want to think about the lessons this example has for radical economics. It will only be with hindsight that we can meaningfully gauge the success of a system of ideas. When I first considered this topic, my thought was that Austrian economics was particularly successful compared to other heterodox schools. I'm not sure if that is the case anymore. I also think it doesn't matter. Even if Austrian economics had the least growth in influence among heterodox schools, there are still lessons to be taken.

I will argue that some of the means through which Austrian economics gained popularity could be (or are) borrowed by radical economists. Other means, either could not or should not be replicated. This is not surprising given the complicated relationship between heterodoxies on opposing sides of the ideological spectrum. In the context of the panel, there are two conclusions I want to stress. Of the many factors shaping the influence of Austrian type ideas, two are key. First, even as a heterodox tradition, Austrian type ideas have long been an important part of the ideological mainstream in the United States. Textbook neoclassical economic is not as ideologically important as some assume. Second, Austrian economics speaks to the fundamentally moral character of the economy.

So Austrian economics is popular now because it was already popular (in some sense) and is not ashamed to sound moralistic. What does that imply for other heterodox traditions? We should be careful about two different strains of left economic critique - (1) the debunking neoclassical economics project and (2) the progressive-technocratic dismissal of economic *moralism*. My views on the two differ. For the latter, I think that despite a kernel of truth in the claim that "economics is not a morality play," the technocratic response is inappropriate. For the former, I continue to think that such a critical project is intellectually and ideologically important and am agnostic about the optimal amount of resources devoted to it, but do think that a serious consideration of that question must begin with the *bounded*

*significance* of mainstream economics.

## ***II. Popular Austrianisms***

This paper brackets an important and interesting question. To what extent does the adoption of an idea involve reinterpretation? Part of the Keynesian Revolution involved the adoption of the ideas of Keynes. As we know, it also involved significant reinterpretation. There is nothing inherently good or bad about this. It is possible to read “interpretation” as bastardization or as theoretical advancement. While I will ignore this question, I want to make this bracketing explicit. I will not consider whether the adopters of Austrian-type ideas are faithful to any particular thinker or tradition. In the case of deviations, I will not consider whether these are improvements or bastardizations. This being said, out of respect to Austrians who might see bastards where I see children, I will focus on what I call Austrian-type ideas.

Austrian-type ideas are inspired by Austrian economics, or related social philosophical traditions. They may or may not be faithful. Either way, they are more easily linked to Austrian economics than a competing tradition.<sup>3</sup> I break popular Austrian type ideas into five related categories.

*Fake money as the root of most evil.* Modern money is essentially fake. It is fictitious because it is either (1) not a commodity or (2) not the product of a free private banking system. This fictitiousness - the lack of an anchor to either real things or market logic - is largely responsible for economic problems. Other forms of government intervention share the rest of the blame.

*Inflation heterodoxy.* Inflation is bad with few qualifications. Economists often think

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<sup>3</sup>George W. Bush’s stimulative tax cuts were (in part) a Keynesian type idea. While it is easy to use the actual Keynes to critique that policy choice, it is still easier to link the supposed logic of these tax cuts to Keynesianism (bastard or actual) than new classical or real business cycle theories. Most policies become indebted to multiple intellectual traditions as political actors resort to different rhetorics and theories to gain support from different constituents.

about inflation in terms of its costs and the costs of preventing it. In the popular Austrian view, inflation does not have discrete costs and benefits that can be compared. It undermines the very foundation of the economy. Robert Shiller (1997) has argued, based on surveys, that many non-economists hold a sticky-wage type model where inflation reduces real income. This definitely holds some truth, but I think there is more. At times, this intense anti-inflation perspective borders on the deontological.

In a version of a talk (non-economist) John Nash once gave here at the University of Massachusetts, published in the *Southern Economic Journal*, the definition of inflation is presented as sufficient criticism:

As inflation has become more of a standard and expected phenomenon, the CPI has been used and interpreted as the most realistic and practical measure of the actual rate of inflation. When it is at the 2-3% level, it is currently fashionable for all economic and financial commentators to say that “inflation is not a problem” or “inflation is under control.” This, of course, involves a sort of psychology. Over the current expected human lifetime of 70 years, the value of one unit of currency at the time of a person’s birth would exceed four units of its value at the time of that person’s expiration.(2002, p.8)

A few things are worth noting. First, this was a talk delivered largely to economists (he had delivered it multiple times to economists prior to the University of Massachusetts talk which had a significant public attendance on account of the film *A Beautiful Mind*), so this is not Irving Fischer trying to educate the population. Second, there is no attempt to talk about income. The very fact a dollar today is less valuable than a dollar from 1940 condemns inflation. Some commentators think inflation is not a problem, but they must not understand the definition of inflation. Finally, in a concluding note Nash says that in presenting the talk he was introduced to the work of Hayek, whose ideas he finds similar.

Nash's paper doesn't have the analytical depth of Hayek's work, but it shares a similar sentiment. In other words, Nash's talk is an excellent example of a popular Austrianism.

This being said, it would be a mistake to reduce all hostility to inflation in this fashion. Some of it is motivated by consequences. This is particularly true for people who have some access to the writings of people like Hayek or von Mises. In this case inflation is bad because it creates distortions in the market, influencing interest rates or relative prices. Nonetheless, this is not a particular cost that can be compared to possible benefits - it is simply bad.

*Ambiguous markets.* The popular Austrian-type view of markets is ambiguous. On one hand, there is the standard invisible hand type belief in the optimality of free market outcomes. On the other, significant market failures are sometimes assumptions of Austrianish arguments. Take, for example, Ron Paul's extreme notion of the inflation tax. On the significant costs of inflation he states:

Another way to look at this is from the perspective of the purchasing power of the dollar itself. It has fallen to less than \$0.05 of its 1913 value. We might say that the government and its banking cartel have together stolen \$0.95 of every dollar as they have pursued a relentlessly inflationary policy. (2009, p.25)

In other words, the average non-member of the government or banking cartel is currently making only 5% of the real income they could be making. Nominal incomes are completely independent of inflation over decades. This goes well beyond any wage-stickiness you'd find in an orthodox macroeconomic model. I do not want to mock this logic, but rather point out how incongruous it is with the notion of an efficient market economy. In this world, incomes are absolutely divorced from the value of one's contributions.

Tyler Cowen (2008) has suggested the Austrian view has a "thin skull" view of markets with respect to government intervention. On one hand, markets are wonderful and efficient. On the other, even the slightest nudge from the government can create massive damage.

For example, given the existence any government support of the housing market, the entire mortgage-related financial system will become radically inefficient. An Austrian would likely question that government intervention is ever slight, but the key point remains. For a non-Austrian supporter of laissez faire, most interventions produce particular inefficiencies and misallocations, but do not undermine the basic workings of markets. Government support for housing will create a suboptimal amount of houses, assuming no market failures, but won't lead to irrational bubbles. In the Austrian-type analysis, standard intervention can create disaster.

*Libertarianism and Liquidationism.* In terms of politics and policy, the Austrian view is libertarian and liquidationist. Other than the protection of property rights, there is no economic role for the state in either deontological or consequentialist grounds. Aggregate demand generating policies might in some cases lead to growth, but this growth is of an ultimately fictitious character, merely postponing the day of atonement. Reallocations of capital and labor require facing the full shock of a recession.

*Relative ignorance of policy makers.* Another distinctive aspect of the Austrian-type laissez faire view is what I call relative ignorance. In orthodox macroeconomics, the critique of interventionist Keynesian policies, was premised on the rational expectations of the public. It is fine to accept that economic technocrats are rational and enlightened, except in the respect that they assumed an “irrational” public. The New Classical critique is not that the government is stupid, but rather that the people are not stupid either. Rational expectations macroeconomics adopted a very particular notion of what “not stupid” implied, but that is not my interest here. The point is that the orthodox critique of Keynesian is motivated by the rationality of the public. The Austrian-type skepticism of intervention moves in the opposite direction. Economic agents may well be irrational or ignorant in some sense, but the government is even more ignorant.

I have considered ways of quantitatively documenting the popularity Austrian-type ideas.

Appropriately crafted surveys could provide some insights, but most of the existing data I've found is insufficient. For example, Americans are polled on how favorably they perceive institutions like the Federal Reserve or individuals like Bernanke, but we do not get details on why. For the purposes of this paper, I'll provide some anecdotal evidence.

*Students.* I don't have serious data on student perceptions in general so I think it would be pretentious to attempt to show whether this is a statistically significant phenomenon. Nonetheless, teaching courses related to macroeconomics and money over the last four years at both the University of Massachusetts and University of Connecticut I've encountered an economically significant amount of students with Austrian-type interests. I first noticed this teaching Money and Banking during the Spring of 2009. I had only taught the class once before, but the difference was quite stark. Prior to the crisis this was simply a requirement for some majors. After the crisis there was genuine interest. Some of it was in the workings of Wall Street and the nature of derivatives. Much of it was about the behavior of the Federal Reserve and the supposed *printing of money*, which they had strong Austrian-type concerns over. I've also noticed an increasing amount of self-identified adherents of Austrian economics. In upper-level courses I've noticed decidedly heterodox ideas presented as orthodox textbook economics. For example, I've heard the definition of inflation as an increase in the money supply described as basic Economics 101 multiple times.

*Keynes vs Hayek.* I haven't read the recently published *Keynes Hayek: The Clash that Defined Modern Economics* (Wapshott, 2011), but the subtitle is fairly suggestive. The book may remind the reader of the popular two part rap battle between the two. On Youtube, the first part has approximately 2.8 million views, and the second 2 1.3 million. They have been forwarded to me alone, approximately 10 million times. Without getting into the content or perceived winners of this clash, the very framing is interesting. It is not that the opposition between the two is not pedagogically useful, or that Hayekian ideas have not been influential, but how directly did Hayek influence "modern economics?" Mankiw's



*Principles of Economics* references Hayek once, opposing him to Galbraith in a sidebar related to advertising (2008, p.358) - certainly not the heart, or any other vital organ, of this text. The very choice Hayek as the anti-Keynes, as opposed to someone like Milton Friedman whose intellectual link to orthodox modern economics is more direct, is a success for Austrian economics.

*End The Fed.* Recently the *Center for Popular Economics* released two handouts on the Federal Reserve for the Occupy movement. While one is more historical, each directly defends the Federal Reserve from those who would abolish it. It is not significant that one would prefer reforming, over abolishing, the Fed. It is significant that this need be said.

### ***III. How Austrian Type Ideas Become Popular***

With exceptions (Ruccio and Amariglio, 2003), we do not think much about the dynamics of popular or everyday economic knowledge. But the successes of Austrian ideas I'm interested in exist largely outside of the academy or its mainstream. We can not understand this phenomena in standard history of thought/science terms. Inspired by the frequency in which I've encountered Austrian memes in comments on the internet, I'll frame this success in terms of meme replication. How does an Austrian idea spread?<sup>4</sup>

Heylighen (1999) breaks the replication of a meme down into four stages - assimilation, retention, expression, and transmission. In short, an idea must become accepted by some agent, persist in their mind, and be expressed to others who assimilate it as well. Heylighen provides a number of criteria that determine the success a meme has passing through each stage. I will frame the discussion of Austrian ideas in terms of these criteria, but not exhaustively. Some criteria are not pertinent. For example, the criteria of "formality"

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<sup>4</sup>If we were interested in paradigm shifts or broader epistemic changes, meme replication would be insufficient. Or, at best, it would provide a very methodological individualist account, reducing structural changes to individual units of information (a meme). In this case, structural changes are not my interest. I'm looking at the propagation of discrete Austrian ideas.

influences the fidelity of replication, a concern I have bracketed.

At the stage of assimilation we will consider three criteria. Successfully assimilated memes tend to be distinctive, simple, and authoritative. A distinctive idea stands out from other ideas. A simple idea can be grasped. An idea tied to figures with authority is trusted. Austrian economics is both distinct and simple. I do not mean to imply it lacks depth or is simplistic, but key Austrian ideas that allow it to be distinguished from other approaches, can be expressed in a direct non-academic fashion. A talented teacher can make the key differences between Keynesians, New Keynesians, and New Classicals clear, but this requires said talent. The defining features of these schools (i.e. assumptions about expectations, determinants of the aggregate supply function, etc.) are internal to academic models. Austrian economics is fundamentally different from orthodox economics in important respects. It is easy to distinguish between a view of the economy that says the Federal Reserve should engage in optimal monetary policy and one that say the Federal Reserve will just mess everything up. The Austrian outright rejection of counter-cyclical policy is more easily distinguished from Keynesianism than the New Classical rational expectations critique.

Despite being a heterodox school, Austrian ideas have enjoyed a certain authority recently. What matters is not whether a speaker should be an authority, but whether they are perceived as authoritative. We will return him shortly, but Ron Paul deserves mention here. Politicians are not the most respected figures in American society.<sup>5</sup> Still, there is a degree of respect people have for Paul. Without getting into the content of his politics, he is an unorthodox politician. One might not agree with anything he says, but he can't be accused of the typical slipperiness we get from most politicians. He represents cause that are popular in the United States but not represented by the vast majority of Democrat or Republican politicians. Another important authority is Peter Schiff. In orthodox economics circles he has little authority, but on the post-crash internet he has plenty. A video compilation of

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<sup>5</sup>I'm not sure if there are any respected figures in today's American society.

entitled “Peter Schiff was right” has almost 2 million views on Youtube, and multiple similar video exist. The figure of a lone seer, attacked, ridiculed and belittled for his predictions by supposedly serious economic commentators is very powerful. Not only was he “right,” he was right when everyone else appeared to be wrong and mocked him for disagreeing. The absurdity of hearing the likes of Laffer and Ben Stein laughing off concerns about housing and finance, boosts Schiff’s stature. Finally, there is a long tradition of academic Austrian economics, a journal, and Austrian economics professors.

A coherent meme fits with existing ideas. It is not a notion of internal coherence. Coherency aids retention because its fit eases understanding and limits contradictions between long-held beliefs and new ideas. In my view, coherency is very important for the success of Austrian ideas. While heterodox with respect to modern economics, they fit within many popular understandings of markets and economy. For example, the Austrian defense of free markets is very much a matter of the lesser of two evils. It is not that the economy is always in Arrow-Debreu style general equilibrium. A free market economy might be a mess, but that is part of the beauty of it. Furthermore, Austrian concerns about modern money and central banks cohere with long traditions of federalism and ontological anxiety over money in American culture.

Retained memes tend to have utility. Of course, we need to think of usefulness in broad terms. Economic theories are incredibly useful to people during both booms and busts. During booms, people are reassured by explanations of how this will continue forever because of reasons X, Y, and Z. During the boom, expect a boom in media about the boom. During the bust, expect a boom in media about the bust. I often remind my students, who now might have fuzzy memories of the financial crisis, that leading public economic authorities were warning us that the nation might not get their next pay check because of a collapse in the system of payments. Any horrific economic event imaginable, and plenty unimaginable, were likely without a massive bailout costing unimaginable amounts of money and poorly

understand institutions. I don't mean to exaggerate or sensationalize the crisis or its scale, but in general, the public has a difficult time grasping the magnitude of the macroeconomy. In a time of (obvious) uncertainty, instability, and potentially severe economic pain, answers are in high demand. Most economists were treated differently after the crisis than before. *What's going on with all this stuff?* Austrian economics provided straightforward and understandable explanations that cohered with many previously held beliefs. *Obviously, if Washington just prints a bunch of fake money instead of depending on the Protestant ethics of hardwork and saving we are in trouble!*<sup>6</sup>

Austrian ideas were also useful to commentators, intellectuals, and politicians whose standard free market apologia was undermined by the crisis. By shifting from a more orthodox rational expectations view of fully efficient markets to an Austrian defense based on uncertainty and bubbles, opinion makers were able to continue defending markets from government intervention despite the crisis. It is taken as a matter of simple fact by some on the left that the financial crisis unambiguously invalidated neoliberal pro-market arguments. But epistemology is hardly simple. There are multiple pro-market worldviews, and not all were so directly invalidated by the crisis. While Fama was out, there was still room for Hayek. The Austrian view of messy markets became very useful because it allowed opponents of government intervention to abandon one set of pro-neoliberal arguments for another.

The final retention criteria I will consider is intolerance. An intolerant meme is likely retained because it eradicates competing memes. Adoption of an intolerant idea tends to wipe out other ideas that threaten to undermine it. Tolerance is of course relative, but there is a strong degree of intolerance in many Austrian ideas. Anything outside of the Austrian orthodoxy is a complete dead end. Speaking as a heterodox economist, and a Marxian one at that, I understand some of this orthodoxy. In part, it is driven by the faults of mainstream

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<sup>6</sup>Let me be clear that I'm not reducing actual Austrian economics to such claims. Again, the point is that ideas most closely related to Austrian economics have been retainable and useful for some in the public. Without doubt, very crude neoclassical, Keynesian, and Marxian utterances exist in popular discourse.

economics. In part, it is classic bunker mentality.

I have recommended that some of my more Austrian-inclined students follow Tyler Cowen or read Caplan's "The Austrian Search for Realistic Assumptions" (1999) as sympathetic critiques. The goal was not to convince the students one way or the other. I agree with neither of the two on just about anything. I think it is important for people to read criticisms. Usually we tell students they should be open-minded. I tell my students that even if they want to be closed-minded, their understanding can be enriched by reading broadly.<sup>7</sup> Later, while working on this paper, I discovered that according some Austrians, Tyler Cowen is considered a sellout "Statist, anti-Rothbardian agent of the Kochtopus" (Fox, 2009)! Here I was, thinking I was helping my students out. Unfortunatel, according to some, this was like recommending David Horowitz as an interested guy to follow for leftist students.

I do not mean to frame this intolerance as an inherently bad thing or to give it connotative baggage. Like any economic tradition, it has specific methodological positions, and need not abandon those because a competing traditions wants to impose their's. Nonetheless, the point remains that in Heylighen's sense, Austrian ideas are intolerant with respect to other economic ideas. A variety of different economic ideas might coexist within a world roughly estimated by a simple IS-LM model. A New Classical idea might mingle with a New Keynesian idea because they overlap methodologically. Austrian economics does not have many such overlaps.

Finally, we'll turn to expression and transmission. I tend to think of the two together. The first criteria is expressivity. This refers to the "ease with which the meme can be expressed in an intersubjective medium" (1999, p.5). When thinking about the expressivity of Austrian-type ideas we should distinguish between internal and external elements. Externally, as

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<sup>7</sup>I do not mean to imply that Austrian-leaning students do not read broadly. I have experienced that many students with strong ideological commitments across the spectrum find ways to easily dismiss competing views. It is also true that many criticisms of Austrian economics are dismissive and assume the superiority of the orthodoxy.

it goes without saying, the existence of the internet makes it very easy for ideas/memes to spread. Indeed, my original motivation for this paper was the ubiquity of Austrian-type ideas encountered on the internet. Exaggerating only slightly, any article, editorial, or Youtube video touching on the economy will have an identifiable “Austrian” making comments. Internal to memes themselves, the ability to reduce broader nuanced Austrian ideas into discrete and distinctive language facilitates their expression.

The final criteria are proselytism and publicity. Proselytism refers to the “degree to which the meme urges its host to maximally spread the meme to other hosts” (ibid., p.5). For example, evangelical religious ideas promote further expression. To some extent, all ideas about the nature of society have this dimension. It is particularly true for unorthodox ideas that view orthodox as a serious threat to well-being. In this respect, Austrian ideas are like most heterodox economics. The world should not be thought of as the textbooks will tell you to. Doing so creates peril for all of us. Austrian ideas have also enjoyed publicity, perhaps mostly largely through Ron Paul.

#### ***IV. Hearts and Minds; Technocrats and Kinked Isoquants***

Another aspect of Austrian economics that has impacted its success is the moral tone of some of their ideas. I do not want to make any claims about the scientificity of Austrian economics relative to other traditions. My position is that all economic thought has moral entailments and most economists tend to make claims of objectivity. The point I want to make is that compared to textbook economics, Austrian-type ideas in the wild tend to have an explicit moral dimension to them. Among the general public, this moral dimension facilitates all stages of the replication process.

What exactly do I mean by this moral dimension? Austrian ideas about business cycles have strong references to notions of “rightness.” There is an implied sense of a natural orderliness where things are right. Fictitious and alien interventions, undermine and distort

this order, creating problems. Attempts to fix these problems through hair of the dog impositions of more disorder are taken as absurd. Why should we support the housing market when the housing market got us into this mess? Why let the government borrow when borrowing got us into this mess? The only true cure is paying dearly for our economic sins.

It is possible to admit that some opponents of housing market support, or fiscal stimulus, do make “causal” or consequentialist arguments for their position, while recognizing that for many people the attractiveness of these arguments is conditioned less by their (theoretical-empirical) plausibility and more by their appeal to deeply held moral beliefs about what is right. The particular economic morality I am referring to assumes that inherently *good* behavior leads to good or desirable economic outcomes. Morally bad behavior leads to bad or undesirable economic outcomes. It is an equivocation of different types of “good” and/or the faith that consequentialist and deontological reasoning should lead us to the same answer.<sup>8</sup>

In what sort of world would doing something terrible be good for the economy? Hopefully, we immediately think of Adam Smith and Gordon Gecko at this point. Doesn’t the textbook presentation of the invisible hand posit that greedy self-interested behavior can lead to desirable social outcomes? Yes, but it is neither the 18th Century nor the 1980s today. And the public that is attracted to Austrian ideas tend to have libertarian-individualist political ethics. The rugged individual who looks only after themselves is an ethical being in a world of social parasites (welfare queens, illegals (sic), etc.).

While this economic moralism rests on dubious philosophical grounds, it is understandable. We can think of it as a heuristic for choosing between alternative economic arrangements in a world of uncertainty. Though the particular economic moralism I’m discussing here rest largely on the ideological right, I do not doubt it exists in the so-called center and

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<sup>8</sup>I’m indebted to J. Aaron Simmons who indulged my poorly articulated ideas and questions on ethics. Obviously, the shallowness of the treatment here and any other limitations are my work alone.

left.

Austrian ideas appeal to strong notions of what is right, that also happen to conform with previously held beliefs and ideology. I don't think it is meaningful to rank criteria here, but this morality and conformism (in the specific sense we are using the term here) are the most useful for us to consider. They hold lessons for those of us concerned with heterodox economics more broadly. In particular, I think they suggest caution concerning two types of left-of-center economic discourse - the technocrats and kinked isoquants.

Economics is not a morality play. A number of economic commentators, including many Keynesians, have stressed this point in response to calls for penitent austerity measures. Paul Krugman has made the point continuously, but a very clear description of this position comes from Karl Smith (2010):

Ireland opted for chastity but it is still waiting for salvation...

The economy is made up of human beings. But, at the macro level that humanity decoheres like the wave functions of quantum particles. The result is a cold calculating machine that doesn't care whether you have been good little boys and girls who ate their vegetables and saved their pennies.

The only way out is to attempt to understand the mechanics of this leviathan and bend it to our will. This is not a short cut. This is not the easy way. It is the only way.

You resort to common sense and age old wisdom at your peril.

There is an element of truth in this critique. I do not want to argue that the economy is indeed a morality play. But that is because doing so takes neither morality, economy, or their relation seriously enough. Because many commentators, economists, and politicians arguing for austerity speak as if the economy is a morality play, it is tempting for someone on the left to attack them for a lack of objectivity or scientificity. Don't they understand



the economy is the proper object of technocrats? Because these proponents of austerity sometimes contradict long-held textbook views of the macroeconomy, it is also tempting to appeal to the orthodoxy.

This progressive-technocratic counter should not be adopted by heterodox economists. It is possible to critique crude reductions of the economy to stories of industrious and hard-working squirrels, without turning the economy into an amoral, apolitical machine in need of tuning. Not only is the technocratic alternative ultimately impossible, naturalizing a particular set of normative concerns, there is limited public demand for it. Certainly technocratic rhetoric appeals to some, but a heterodox project that wants to inform the public economic imaginary should embrace the economy as both ethical and political.

The popularity of Austrian-type ideas also points to the limited hegemonic importance of neoclassical economics. This should not be a controversial claim. Isn't it extreme to say the importance of neoclassical economics is *limitless*? Nonetheless, while we would hesitate to explicitly speak of an unbounded significance, it does seem that heterodox economists do tend to assume a very strong relationship between textbook neoclassical theory and neoliberal policies. The textbook imposes a particular science of policy on politicians. The textbook provides the rational used to legitimize these policies among the people. In both cases, this is an oversimplification.<sup>9</sup> Policy production is messy and while textbook economics and neoliberal reforms may appear to be soulmates, the actual relationship between the two may be messy. But this is a completely different topic. The point I want to make in this paper is that textbook economics plays a relatively small role in legitimizing the market or capitalism among the general public.

If I may indulge in a personal story, a number of years ago I taught an intermediate microeconomics course. We had a small section on game theory, and I spent significant time

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<sup>9</sup>On topics like drug policy, we could only wish the mainstream economic tradition had such direct and absolute influence.

figuring out how to get them to think critically about Nash equilibria. What happened in class? I spent zero time critiquing the concept because people said they thought it was completely “stupid.” They wanted to know how anyone could take the concept seriously. Fearing that this absolute dismissal followed, in part, from a lack of comprehension, I spent the whole class defended its possible usefulness. Similar dynamics occurred discussing the theory of the consumer, general equilibrium, and so on. The heterodox graduate student in me was shocked. How could relatively mainstream students be more critical of core mainstream concepts than many radical graduate students? The non-academic in me was not surprised in the least. Had anyone I met in the first 20 years of my life accepted free market capitalism on strict neoclassical grounds? No.

People do not match the orthodox view of rationality. Markets can be messy. Isoquants may not be smooth. Bubbles happen. The future is uncertain. Remember the Cambridge Capital Controversy. These are not observations that radically undermine everyday conceptions of the economy. This is not a critique of such criticism, but a consideration of their use. It would be a shame for heterodox economists to not use this period of economic distress to denaturalize the orthodox view of the economy. It would also be a shame to assume the hegemony of neoliberal capitalism rests solely on that question.

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