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JOHN COCHRANE VERSUS WALTER E. BLOCK: DEBATE ON AUSTRIAN ECONOMICS AND LIBERTARIANISM

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ABSTRACT. Two professors, both economists and libertarians, debate on the issues of libertarianism and Austrian economics. The discussion ranges widely over Keynesianism, monetarism, business cycles, Paul Krugman, Milton Friedman, sticky wages, drug laws, immigration restrictions, gay marriage and abortion.

JEL codes: A1; A19; B29

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1. Introduction

This exchange started off with the publication of Cochrane (2014) which appeared in the *Wall Street Journal*. In that essay Cochrane took to task Keynesian economics.

In Letter 1, Block congratulates Cochrane for his critical analysis of Keynesianism, but also criticizes him for supporting a variety of this very viewpoint.

Letter 2 is Cochrane’s response to Block’s opening salvo. The former objects to being characterized as “right wing” by the latter and also denies he

holds the view attributed to him by Block that the “free market is inherently unstable, liable to veer off, at any time, into inflation or depression.” In letter 3 Block offers a rejoinder to Cochrane insisting that this charge is true.

Cochrane gets the last word, a short one, in letter 4. We conclude in section 2.

Letter 1: An open letter to John Cochrane
By Walter E. Block

Dear Professor Cochrane:

Your recent critique of the Keynesians was nothing short of magnificent. As an Austrian economist, I praise you to the skies. Your litany of their many and serious failures was superb. I especially appreciated these valuable nuggets: “Hurricanes are good, rising oil prices are good, and ATMs are bad, we were advised: Destroying capital, lower productivity and costly oil will raise inflation and occasion government spending, which will stimulate output. Though Japan’s tsunami and oil shock gave it neither inflation nor stimulus, worriers are warning that the current oil price decline, a boon in the past, will kick off the dreaded deflationary spiral this time.” And this one too: “In Keynesian models, government spending stimulates even if totally wasted. Pay people to dig ditches and fill them up again. By Keynesian logic, fraud is good; thieves have notoriously high marginal propensities to consume.” Nor can I pass up this splendid gem: “Keynesians tell us that ‘sticky wages’ are the big underlying economic problem. But why do they just repeat this story to justify inflation and stimulus? Why do they not advocate policies to undo minimum wages, labor laws, occupational licenses and other regulations that make wages stickier?”

Rather than repeat your insightful essay in its entirety, which I am very much tempted to do, let me offer you a bit of gentle criticism. I spy a bit of a problem for you, since you are not a member of the Austrian school, but, rather, a different type of, wait for it: Keynesian! That is, in my view, there are the fiscal Keynesians, and the monetarist Keynesians. Both adhere to the doctrines of aggregate supply and aggregate demand. Both are guilty of supporting the false doctrine that the free market is inherently unstable, liable to veer off, at any time, into inflation or depression. They differ on one thing and one thing only: the left wing Keynesians centered at Harvard and MIT believe the way to handle these supposed market imperfections is through fiscal policy, while the right wing Keynesians such as yourself, and others preeminently from the University of Chicago, support monetary policy. It was not for nothing that Milton Friedman said, “We are all Keynesians now.”

Here is the context of that quote: “This slide from Keynesian theory to particular policies was well illustrated in his seventh edition (1967), when Samuelson cited a statement by Milton Friedman, “We are all Keynesians now.” However, at the end of chapter 11, Samuelson (7:210) then referenced the full quotation from a 1966 interview of Friedman in *Time* magazine: “As best I can recall it, the context was: ‘In one sense, we are all Keynesians now; in another nobody is any longer a Keynesian.’” Friedman (1968, p. 15) would later put it this way: “We all use the Keynesian language and apparatus, none of us any longer accepts the initial Keynesian conclusions.””

The point is that in labeling someone a Keynesian or not, it is surely “the apparatus” of economic analysis that is more important than mere public policy recommendations, for, at least in the view of mainstream economists of whatever variety, the latter are based on the former. Thus you stand intellectually condemned in your otherwise very valuable criticisms of Keynesianism: they apply to you as well.

But “monetary policy” constitutes just as much central planning as fiscal policy. Central banking, the Federal Reserve System, fractional reserve banking, quantitative easing, fiat currency, are merely different tools in the arsenal of the socialists. The alternative, suggested by those in the Austro-libertarian community of scholars, is a 100% gold-backed currency, no central bank, no government monopoly of the mint, etc. This policy, and only this policy, is compatible with laissez faire capitalism and a truly free market economy.

Here is a minor criticism of, as I say, your otherwise very excellent critique of left wing fiscal Keynesianism. You refer to “regulations that make wages stickier.” But your use of the word “stickier” implies that without these unwise and improper governmental interferences, wages would still be “sticky.” Less, so, but they would still suffer from this malady. The minimum wage and other labor laws you quite correctly criticize merely take an inefficient market phenomenon (sticky wages) and worsen the situation. However, you offer no evidence or reason to believe that wages under laissez faire capitalism would be “sticky” at all. To be sure, they would not change instantaneously in response to exogenous shocks, or changes, but, then, neither would prices, interest rates or any other such economic variable act in that way in the real world. Surely, not everything in the free economy is “sticky.” If that is your position, why not say, instead, along with the Austrians, that human action is discrete, not infinitely divisible as required by calculus, and operates through time, not instantaneously?

I say to you in conclusion, throw away your Keynesianism in its entirety, not merely the left wing variety thereof. Embrace Austrianism, the only principled opposition to Keynesianism in all of its varieties.

Letter 2: Cochrane replies to Block

Dear Professor Block:

I appreciate your support for my “Autopsy” critique of Keynesian economics. However, I do have some objections to what you wrote.

I object to the label “right wing” a lot. That’s like calling a “progressive” a “socialist.” I describe myself as “free market” and “libertarian.” There is a huge difference. How many “right wingers” want to remove drug laws, immigration restrictions, defend gay marriage and abortion; how many are as loud about crony capitalism as government restrictions, and so on. Paul Krugman uses “right wing” as a deliberately calibrated personal attack. (Most recently here <http://krugman.blogs.nytimes.com/2014/12/30/keynesians-and-the-volcker-disinflation/>). He knows the difference between right wing and libertarian, and deliberately chooses the incorrect term. Please do not fall in to the same trap or inadvertently pass on the slander. (I must admit I’m a little guilty of the same. My article used the word “Keynesian” to refer to a particular strain of thought. I qualified it once as “traditional Keynesian” to distinguish it from “new-Keynesian” and isolate the static, unvarnished 1970s ISLM strain of thought typical in the blogosphere. I was not careful enough, and managed to similarly annoy several colleagues whom I hold in high regard by an overly broad label. Doctor, cure thyself! At least I learned the lesson.)

I think you err in categorizing my views, based on nothing I have ever said or written, but just by association with my employer. You write: “That is, in my view, there are the fiscal Keynesians, and the monetarist Keynesians. Both adhere to the doctrines of aggregate supply and aggregate demand. Both are guilty of supporting the false doctrine that the free market is inherently unstable, liable to veer off, at any time, into inflation or depression.” Just where do you find anything in my writing to support the claim that I hold such a view? If anything, my latest posts on Fisherian interest rate theory is audacious in just the opposite sense: I directly challenged the notion that the economy is unstable in just the directions you mention. Read this <http://johnhcochrane.blogspot.com/2014/11/the-neo-fisherian-question.html>

It is precisely contrary to the views that you ascribed to me. There is nothing in my written record that “supporting the false doctrine that the free market is inherently unstable, liable to veer off, at any time, into inflation or depression.” Nothing.

You write “the right wing Keynesians such as yourself, and others pre-eminently from the University of Chicago, support monetary policy.” How do you know that I “support monetary policy?” Actually, I think we should have a price level target, implemented by a rule, functioning almost exactly

like the idealized gold standard. That's monetary policy in the sense that we have a bureau of weights and measures but no more. Take a look at my many writings criticizing the Federal Reserve for over-activism. For example, in the Wall Street Journal I wrote about the Federal Reserve, "from central bank to central planner:" <http://www.wsj.com/articles/SB10000872396390444812704577609384030304936>. That again is exactly opposite to the view that you ascribe to me.

Your characterization of the University of Chicago is also terribly out of date: "right wing Keynesians such as yourself, and others preeminently from the University of Chicago, support monetary policy." Yes, perhaps in the economics department in the 1960s and early 1970s. But that was a long time ago. Now, Austan Goolsbee works there too, along with Eric Posner, Glen Weyl, Richard Thaler, Anil Kashayp, Raghu Rajan and a whole long list of prominent macroeconomists and public policy researchers who are a long way from "monetarist."

In sum, I think you err in even writing about what I or others "believe" rather than the text of what we have written. There was plenty in my article to disagree with on its own, without needing to infer beliefs. I chide you gently for this, because it is an increasing habit of public debate. Brad DeLong and Paul Krugman like to make up what their antagonists "believe" or "know" or "think", along with how "stupid" or "evil" they are, without documentation, or showing much sign of having read even the specific documents they criticize, let alone the broad spectrum one would need to make such a claim. Let us not sink so low, and instead discuss actual writing. The overall economic debate will be much better if we do so.

I also believe you misread my short sentence on sticky wages. You write: "You refer to "regulations that make wages stickier." But your use of the word "stickier" implies that without these unwise and improper governmental interferences, wages would still be "sticky." I was pointing out an inconsistency of our "Keynesian" writers. They point to sticky wages, but then do not take such stickiness seriously. Though the sentence is short and easy to misinterpret, I carefully did not take a position on either side of whether "sticky wages" are a fact.

I will plead guilty that I am not yet an "Austrian." Primarily, I like to study macroeconomics with well worked out explicit models, and that means with equations. Only by writing equations do we really know we've got the logic tight, and we can productively argue about preferences, technologies, market structures, and so forth. But let us leave that for another day.

Sincerely,
John Cochrane

Letter 3: Block responds to Cochrane

Please forgive me for characterizing your views as “right wing.” I certainly did not mean to “slander” you in this way, or, indeed, in any other way. I myself accept the label of “right wing” as in “right wing economist,” because, I think, my own views can be fairly and properly characterized in that manner. Since I characterize myself in this manner, I certainly meant no disrespect in characterizing you in this manner. However, I have often claimed that “left” and “right” are not incisive delineations of substance; rather, they refer mainly to superficial phenomena.

I am *delighted* that you label yourself as a libertarian. As a long-time advocate of this position, I say we need all of the supporters of liberty we can get. Welcome. However, I must take issue with three out of the five characteristics with which you associate this position. Yes, all libertarians must indeed oppose the drug laws and crony capitalist government regulations, but, immigration cannot be considered a litmus test of this position. I strongly agree with you on open borders, but when stalwart leaders of our philosophy such as Murray Rothbard, Ron Paul and Hans Hoppe oppose this position, I conclude this is a debatable issue, not at all a defining characteristic. It is the same with abortion. Murray Rothbard (the Mozart of our movement) is pro-choice; Ron Paul (the Johann Sebastian Bach of libertarianism – needless to say, these are my two favorite composers) is pro-life. Therefore, neither view can unequivocally define libertarianism. (In my own view, both Murray and Ron are wrong on this vexing issue, and the only correct pro-liberty position is my own, evictionism (Block, 2014). Nor is the correct libertarian position one in support of gay marriage. Rather, it is to oppose any involvement at all of government in that institution. Of course, given that the state has poked its snout into this arena, it should not make any such distinction; people ought to be treated the same no matter what their sexual preference.

You ask: “Just where do you find anything in my writing to support the claim that I ... support... the false doctrine that the free market is inherently unstable, liable to veer off, at any time, into inflation or depression.” When I first saw this objection of yours, I thought that in order to be fair, I would have to comb through your publications to find this type of “smoking gun.” Fortunately for me (I am nothing if not lazy), I need do no such thing. You are condemned on this ground out of your own mouth; well, for espousing roughly this position in your very letter to me. You state therein: “I think we should have a price level target, implemented by a rule, functioning almost exactly like the idealized gold standard. That’s monetary policy in the sense that we have a bureau of weights and measures but no more.”

I beg to differ, and on several grounds. First, consider the logical implication of your claim that the government should run “a bureau of weights and measures.” This alone indicates you see a market failure; that the free enterprise system is “inherently unstable,” since it is incapable of supplying its own private bureau of weights and measures. Who do you trust more to insure accurate weights and measures, government of the market? In my view, the latter, in yours, the former. Brilliantly states free market economist Thomas Sowell: “It is hard to imagine a more stupid or more dangerous way of making decisions than by putting those decisions in the hands of people who pay no price for being wrong.” Source: <http://www.jewishworldreview.com/cols/sowell081800.asp>. Well, who automatically loses out when weights and measures are inaccurate? It cannot be denied that this would be entrepreneurs, not bureaucrats.

Secondly, there is all the world of difference between weights and measures on the one hand, and a “price level target” on the other. If this is not implemented, at least in the eyes of monetarist Keynesians such as yourself, there is the fear that without it “the free market (would be) inherently unstable, liable to veer off, at any time, into inflation or depression.” Why else would you support the central bank, forsooth, aiming to impose a price level target on innocent people? Your attempt to link this, even indirectly, with the usual Austro-libertarian support for gold as money is highly problematic. For there is no such thing as a “price level target” in any system worthy of being mentioned in the same sentence as “gold.”

You deny you “support monetary policy” and in the very next sentence support “a price level target.” But a price level target *is* an aspect of monetary policy. In sharp contrast the Austro-libertarian position opposes the sort of central planning that “monetary policy” is. In my view, we should no more have “monetary policy” than we should have “bubble gum policy” or “shoe-lace policy.” Joke: How many free market economists does it take to change a light bulb? Answer, none, they leave it to market forces. Precisely. Free market economists leave money, bubble gum, shoe laces, and everything else too, preeminently in this regard money, to market forces, not to statist central planning.

You can indeed be credited for “criticizing the Federal Reserve for over-activism.” But you do not join Austro-libertarians such as Ron Paul and Murray Rothbard in their call for *ending* the fed. The fed is an evil abomination. Toning it down simply will not cut it. It must be ended, root and branch. It constitutes no more and no less than central planning. It is part and parcel of the Sovietization of a very important part of our economy.

You claim that my “characterization of the University of Chicago is also terribly out of date.” Nowadays, you imply, there are anti-market economists employed there such as Austan Goolsbee, Eric Posner, Glen Weyl, Richard

Thaler, Anil Kashayp, Raghuram Rajan. You maintain that things were different “in the (Chicago) economics department in the 1960s and early 1970s.” Au contraire. There were *always* anti-market economists at the University of Chicago. Consider in this regard just a few criticisms of such scholars from real supporters of economic freedom: Rothbard, 2002; DiLorenzo, 2002; Murphy, 2010, 2011; North, 1992, 2002; Block, 1994, 2002; McChesney, 1991.

True, you talk about “monetarists” then and now, and I respond in terms of supports of laissez faire capitalists then and now. In my defense, this is how these words function in the language of most commentators, journalists, and, yes, even economists. Monetarists, for some reason unbeknownst to me, are seen as free market advocates; but no, they (you?) are interventionists.

I thank you from the bottom of my heart for not placing me in the same category as Brad DeLong and Paul Krugman. Yes, indeed, they do like to “make up what their antagonists ‘believe’ or ‘know’ or ‘think,’ along with how ‘stupid’ or ‘evil’ they are, without documentation, or showing much sign of having read even the specific documents they criticize.” But, I hope, that in this response of mine, you’ll agree I have been careful to quote your own words, and criticize them specifically, not statements you have not made.

I fear you may be right, and, therefore I wrong, on the issue of “sticky wages.” In rereading what you said, I think I was guilty of reading too much into your words. Sorry. Thanks for your “gentle chiding.”

You state: “I will plead guilty that I am not yet an ‘Austrian.’” I love one of the words in this sentence, but reject your use of another. I am delighted with the “yet.” I hope and trust I don’t read too much into this when I say this implies you are open to becoming an Austrian economist, and, even, tottering on the fence in this regard. I wish you God-speed if you are indeed headed in this direction. What I don’t much like is your use of quotes around the word “Austrian.” This characterization is as legitimate as any other of that sort: “Marxist,” “Chicagoan,” “Keynesian,” from economics or these from psychology: “Freudian,” “Jungian,” “Rogerian.” They are all short hand abbreviations that offer much important information in an economical way.

It would appear that what is keeping you from our banner is your view that Austrian economics lacks “well worked out explicit models, and that means ... equations.” Fear no more. Roger Garrison (2001; also see 1992) has devoted a large part of his entire career to supplying just these sorts of analytic techniques. There have been some critiques of it from within the Austrian community (Block and Barnett, 2006), but, unhappily, it has been largely ignored by mainstream economists (although see Garrison, 2005).

Letter 4:

I meant immigration and abortion as evidence of “not right wing,” but certainly not as litmus tests of libertarianism. I agree there is plenty of room for honest debate even among lovers of liberty on those ones.

I would hate to characterize the long list of my colleagues as “anti-market.” They are just people whose views are a long way from Milton Friedman’s. I didn’t use that term! I’d better read Garrison.

2. Conclusion

Is there any precedent for debates between two scholars appearing in a refereed journal? Yes, there is. As it happens, one of the debating partners in the present exercise has appeared several times in this format: Block and Cappelli, 2013; Cappelli and Block, 2012; Block and Epstein, 2005; Block, Westley and Padilla, 2008. And there is good and sufficient reason why this should be the case. Debates get the intellectual blood boiling (so to speak); it is rare that they are boring. This format often appears time series-wise, with debaters appearing in several subsequent time periods? Why not, also, in the same issue of a journal? Nor is it necessarily the case that the proceedings are of interest, only, to the debating partners, their friends, colleagues and family. Alas, too often that is indeed true, but, hopefully, not in the present case.

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