Steven: Hello everyone, and welcome to the Inequality Podcast. This is Steven Durlauf. It’s a particular pleasure to introduce Peter Boettke today. Pete is the Distinguished University Professor of Economics and George Mason University, the BB&T Professor for the Study of Capitalism, and the Director of the F.A. Hayek Program for Advanced Study in Philosophy, Politics, and Economics at the Mercatus Center, again, all at George Mason. Pete is, by many, measured as one of the world's leading economists, and it's particularly important, I think, to have him on the show because of his prominence in a broad school of thought, a body of thought. Sometimes it's referred to as the Austrian school, sometimes classical liberalism, sometimes libertarianism, but I'm less concerned with the categories than the fact that it is a perspective that has a broad, integrative vision of economics as a social science, but also as a form of applied philosophy. There's very important perspectives that I value having as part of the podcast series, and so, Pete, without further ado, thanks so much for joining us.

Pete: It's a great pleasure to be on here with you, Steven. Thank you very much for this opportunity.

Steven: So I thought we would start with the normative side of thinking about poverty and inequality, and I wanted to start with the title of a book that you recently published, a collection of essays called The Search for a Better World, and I wanted you to describe your vision of that better world in the context of poverty and inequality.

Pete: Well, first let me just say that in relationship to what you were talking about in the broader vision, I do think that economics is sort of a branch of moral philosophy, so as you were just mentioning that, and in fact, it's one of the projects I actually want to really tackle, which is write a book on the fate of moral philosophers in the age of scientism. And so, in particular, I want to talk about people like Kenneth Boulding, Albert Hirschman, and Amartya Sen, as well as Hayek and Buchanan, and other people like that. So hopefully I'll write that book someday, and we'll be able to work on that. In terms of the question of inequality and poverty, I follow very much the Adam Smithian position, as he put it in The Wealth of Nations, “No society can surely be flourishing and happy, of which they're far greater part of the members are poor and miserable.” So, I really think that economics, the science from Adam Smith, all the way up to us today, has tried to tackle this question of how it is that you can arrange the institutional situation such that we encourage productive specialization and peaceful social cooperation through exchange, and that the lion's share of the benefits of improving in life are directed in many ways towards the least advantaged and the most vulnerable among us. I recently published a piece on teaching economics with curiosity and compassion, and so I honestly believe that economics, rightly understood, is a tool for the curious and the compassionate. They shouldn't be at odds with each other, tackling this question as you put it, the issue really is poverty, in my mind, is our natural state, our natural human state, and wealth creation is the thing that has to be explained. And so, what we want to explain is how is it that we all were poor once, and then some people to escape the bottom and others langish in it. And so, when we look at why that's the case, it has to do with structural inequalities that have come about; we have to pay attention to that. I believe very strongly that we should be biasing our attitudes towards policies that help us believe in the law, policies that help the least advantaged and the most vulnerable among us to live better in happier lives.

Steven: So, I wanted to follow up with the use of a word in your writing, which is emancipatory. And the reason I do that, of course, is that that word also appears in what I'll call left/Marxist writings. And I wanted you to say a bit about how do you think the meaning differs in the perspectives?

Pete: I think that the first thing that I'd like to stress is that certainly classical liberals and socialist writers share certain lofty goals for human betterment. Marx, I think, would be a slightly different case because to really understand Marx, you have to dig into a lot of different things like his eschatology, where his philosophical position sort of takes him outside of time, and judge from this Archimedean point. Marx, in many ways, was the most consistent socialist of the 19th century, but still, nevertheless, I think that socialists and liberals can all sort of agree that what we want to do is overcome oppression. And so, by emancipation, what I meant by that is that the long history of liberty is one of winning these hard-earned victories over the dogma of the church, the subjugation by the crown, the violence of the sword, the drudgery of the plow, and the bondage of slavery. And I think this is extremely important. The special privileges of the mercantilist class. Adam Smith, after he published The Wealth of Nations, wrote in a letter to someone describing the book, he said that his most recent book is an aggressive assault on all of British commercial life. And of course it was because all of British commercial life at the time he was writing it was dominated by mercantilism, and the book is a criticism of mercantilism. Economic liberalism is born in the same way that political liberalism is, which is overcoming the obstacles created by privileges and power.

Steven: So I think it's fair to say that Hayek and Rawls are perceived by many as the key champions of liberalism in the last 75 years or so, even though they have obviously profound differences along many dimensions. And so I wanted you to say a bit about how you perceive the commonalities and the differences in the way that they conceptualize liberalism. And then I want to have follow up when thinking about empirics.

Pete: So one of the things that's fascinating about that, we at George Mason have Buchanan's archives. And I've also worked a lot in Hayek's archives, and Hayek and Buchanan were in correspondence with each other. And one of the really fascinating finds is their correspondence about Rawls and their interactions with Rawls. And so this is, in particular, based on an article that Rawls published in 1963 in Nomos on the theory of constitutions, basically, is what he's talking about. And Rawls lays out in that early 1963 piece basically the forerunner of the theory of justice, but it's focused on the first principle, the maximin principle, which is a generality norm. And Hayek thought that he had followed generality in The Constitution of Liberty, that's his rule of law-based approach. And Buchanan and Tullock thought they had done generality in The Calculus of Consent and the whole idea of having the veil of ignorance. And so now they found a kindred spirit in Rawls. And I think it's important to remember is that Rawls was part of the original committee on non-market decision making. That included, you know, not only Buchanan and Tullock, but Vincent Ostrom and then later Elinor Ostrom, but Vincent Ostrom first, then James Coleman, Bill Riker and all the people that led to the rational choice revolution in political science. And they all thought they were doing rational choice theory in all these different disciplines in sociology, in economics, in political science. And they saw Rawls as doing it in philosophy because again, he's behind the veil of ignorance, it's still rational agents, right? And so I think one of the fascinating questions is how Rawls's own ideas shift from ‘63 to ‘71. Because during that period of time, not only does he become more primarily focused on the issue of egalitarianism and the difference principle, but also on the practicality of the difference principle, right? So he really believes it works. And so one way to think about this, and I don't know how you'll react to it, is to think of Rawls as shifting from being a Knightian to a Meadian. He becomes a James Mead. And I think you can see this in kind of the history of the footnotes on the theory of justice, actually, if you dig into it. It's fascinating that the Knight influence on Rawls has been documented, as he was very influenced by Knight early in his career. And so was Buchanan, and one of the main things in night that Buchanan always used to talk about in class was this poker game analogy, right? So Knight wanted to know what would make a good poker game. And so what makes a good poker game is actually that there are discrepancies in the outcomes, but he also recognized you can't have permanent losers, because they'll quit the game. And so then the game won't start. So he had to kind of have some way in which you could have the benefits of a true poker game while also ensuring that the game continued. And I think it's that kind of negotiating with addresses in some loose way, kind of the questions that you're asking about in terms of how do you build the kind of program to make sure that the least advantaged and most vulnerable among us are always going to feel participants in the democratic process of collective decision making, rather than alienated from it.

Steven: Now it's interesting to bring that up because one of the defenses Rawls ended up giving for the difference principle is that it is how you could justify inequalities to the least advantaged, which is that it was producing distributions that were monotonically better for the worst off. But I think what is very striking in the poker game analogy is this issue of over time, everybody benefiting. So it's a little bit you see almost that in some of Richard Posner's writings about wealth maximization as an implicit principle of judicial decision making, which is so long as there isn't excessive persistence and relative status. The overall size of the pie, as it were, becomes a dominant consideration.

Pete: One of the things that's very vital to understanding Buchanan's writings is that he was a very committed small-D Democrat. One of the main reasons why he has that strong commitment is turn-taking. He's a big believer in the idea that turn-taking is what makes democracy sort of work because his biggest fear is a permanent winning coalition. And so, a free society in his idea can't really persist if we have a permanent winning coalition. And so it has to be one that the coalition constantly is shifting. And that way, we can actually have peace and compromise, which is the conversation which he cares about having.

Steven: So the perspective of Hayek and Buchanan, and what is your view of what the appropriate safety is. And so I bring that specifically since I discuss that, if memory serves me correctly, in constitution of Liberty. And also in the road to serve them. His colleagues at the London School of Economics were his discourse community when he was writing The Road to Serfdom. Not only Lerner, who was a student of his, but also H.D. Dickinson, Durbin, and other individuals who were all around. Not just Laski or Beveridge or whatever it was, these economists were fascinating to him. And they all argued that they were socialists in their economics because they were liberal in their politics. So the problem that they saw was the instability of macroeconomic volatility, and the market power of monopoly privileges undermines the ability to have a liberal democratic society. And so Hayek is offering a warning to them in The Road to Serfdom. That's why it's dedicated to socialists of all parties, because he's trying to say that, well, you guys are going to have a hard time squaring these socialist economic policies with democratic principles. But that aside, one of the things that Hayek was constantly trying to do was find common ground with all of them. And so if you could pass a series of social policies that could meet the generality norm, then they would be accepted. Later on Milton Friedman became famous for it, but Hayek has an idea of this in the negative income tax kind of idea. Or these kinds of basic income policies that he has. And he lays them out starting in The Road to Serfdom, but he provides even more examples of that in The Constitution of Liberty. Then, when you get to lawfulization and liberty, he gives a little bit of us to be a little concerned about because when we try to pass these policies, rather than them being held within the boundaries of the generality norm, generality meaning no policies shall be passed, which benefits some at the expense of others. If it's passed, it has to benefit all potential parties. So it's this non-discrimination, non-domination sort of ideal that they're trying to think about. That actually is what Buchanan's last book was. The title of the book is Politics by Principle, Not Interest. And the subtitle is Towards Non-discriminatory Politics. Public choice people and Hayek and other classical liberals are very concerned, going all the way back to Adam Smith and Mercantilism of interest groups being able to curry favor from the central government, such that you concentrate benefits on the well-organized and well-informed. And disperse the costs on the unorganized and ill-informed. That nature of the political process not only undermines economic well-being, but in their mind it undermines the democratic process. And so they want to fight against it. To sum up their position, and you can argue that they have the wrong institutions to achieve it. I think that's a very healthy conversation, but what their aspiration is is to have a non-discriminatory politics and a politics that exhibits non-domination. And that's how they're trying to figure out the rules that will achieve that.

Steven: So perhaps we can turn to the other dimension from normative to positive and discuss the, I'll say, substantive differences in beliefs about how economies, societies run between different perspectives. And what you would define as the Austrian perspective, classical liberal perspective, in contradistinction for the sake of argument, I'll say the median within economics.

Pete: First of all, I think that the best answer to social ills of poverty, ignorance, squalor, disease, and idleness is economic growth. And I see economic growth resulting from wealth creation through entrepreneurial creativity and innovation, so want to have rules that encourage the creativity and novelty of individuals within the economy. But I think that, first and foremost, I want to stress that Austrians don’t engage in a Jedi mind trick of there are no externalities or no public goods, you know, kind of anything like that. They're not doing that; we live in the Panglossian fallacy, the best of all possible worlds. The world is rife with inefficiencies and injustice. And the issue is, how can we address the institutional changes that would be required to repair a broken world? That's sort of their idea. This driver of this in terms of economic growth and development, I think, making us wealthier is sort of their key in their mind. When I, during the pandemic, one of my favorite books that I read, it's not really an academic book, but it's an intellectual book. It's by Matt Ridley, and it's called How Innovation Works. And he has a line in it that I think is just wonderful. He says, “Innovation is the child of freedom and the parent of prosperity.” And I want to unpack that and mix it with people like McCloskey and Mokyr to try to understand how it is that you go from, all of us being poor to the world to this great fact of human history, which improves our lives tremendously. Another book that I read during the pandemic that I'd recommend to everyone is by Emma Griffin. She's a social historian, and it's called Liberty's Dawn, which is about the living conditions of the average person in England between 1750 and 1890. She finished that book. It's an amazing documentation of how lives were made better off. But then she followed it up, and this is relevant to some of the work you've done. She wrote a follow-up book, which is called Breadwinners, which is about the people who were left behind, mainly wives who were abandoned or children and this kind of thing. So what are the consequences of that? So I think this social history is not something that's smooth and easy to tell. It's a very jagged and difficult history to tell. But I think that's the question we have to do is how is it that we get the entrepreneurial innovation in society such that we are wealthier and wealthier and the wealthier we are, the easier it is for us to maybe address some of these questions that are, I think modern economics, I'm not as extreme as Deirdre McCloskey on the idea that modern economists can explain economic growth. I don't think that's right. I think there's a lot of great work that's going on, even the work that I recognize by people that are not necessarily, share my methodological or analytical lenses. But at the same time, I think there are gaps in the difference between the way, say, someone that's following Hayek or Buchanan would see the world versus the way that they see the world, even though they think they've adopted aspects of what they've had to say. Two years ago, I guess now Chris Coyne, my colleague, and I have a survey in the Annual Review of Economics on Austrian Economics. And one of the things that the referees first said to us was, doesn't everyone now know that prices convey information or whatever. And so right in the beginning, we had to try to explain why is it that, yes, it's true that everyone understands this sort of aspect of what Hayek was saying, but not completely the way that Hayek wants us to understand it in terms of seeing prices not as sufficient statistics for an equilibrium, but instead as guides to future action. And therefore, the market is this discovery procedure and whatnot, like that. And so, to me, I think there's a lot of work to be done in economics to clarify the way in which the channels of economic development happen through entrepreneurship and innovation.

Steven: So I think that that actually is a success of your perspectives in terms of where economic growth is going. So if I think about the work of Philippe Aghion, Peter Howitt, Ufuk Akcigit, that a key feature in all that really, when they talk about creative destruction and the churnian process of knowledge generation, it is through the mechanisms of entrepreneurship. Further, as I perceive the contemporary debates on why per capita income in the United States has begun to diverge from Europe, much of the discussion has to do with the differences in processes of innovation. And so one simply does not see anything that's the equivalent of the Silicon Valley in Germany in Britain, France, et cetera. And so you're measured in just in terms of the contributions to overall gross domestic product, the magnitudes of the largest organizations, corporations that do information technology work. It's really quite remarkable that that strikes me as a case where the idea is at least even if they're not explicitly referenced, they clearly have been very deep conversions. I think the other thing if I just wanted to highlight with something you brought up in your discussion of thinking about essentially the extraordinary achievements of the industrial revolution. And so there has been centuries of discussion about the distributional consequences of the industrial revolution. And my perception for what is, as an outside economic history is that the optimists have largely prevailed. In other words, that the studies of wage growth after 1820 are consistent with the vision of widespread increases in prosperity. I will mention my colleague Jim Robinson has recent work looking at intergenerational mobility in the United Kingdom, using information from wills, combined which tells you something about the transmission of wealth and there he finds substantial levels of churning. All that juxtaposes, however, with exactly what you said, which is that in this process of overall massive increases in per capita income with widespread prosperity consequences, there were people left out. And so, the economic historian Jane Humphries has emphasized, you can talk about, you know, those statistics, but then there is the issues of child labor, the treatment of women, et cetera. And so I think you highlighted a very important juxtaposition, and that is not to dismiss economic growth as being concentrated in the hands of a few, but rather as a fact, quite widespread, but widespread is not everybody. And then understanding, in my own work what I've called the decoupling, who gets broken off from this massive prosperity becomes essential.

Pete: I wanted to sort of also point out. So I think it's a great time to be an economist right now, actually. And I think that Acemoglu and Jim Robinson and Simon Johnson are a good part of that, you know, giving us, you know, ideas, but there's several other political economists as well that have done benchmarks of the time. So I think that we've done benchmarks over at the LSE and Philippe Aghion, as you mentioned, and you know, the economics profession is really opening up the historical economic history work by Joel Mokyr, Deirdre McCloskey, and others in that vein. And so I think it's really valuable to see the points of juxtaposition and conversation opportunities between, say, classical liberals and more modern political economics kind of idea. But I think it also relates to work, of course, that you've done and work on inequality, and in particular, structural inequality. Obviously, Raj Chetty and yourself and others are really busy studying this social mobility issue and the consequences of that. And I think that we need to really learn from that. And I think one of the most important things from a political economy point of view, which you've highlighted, is incarceration rates. And the consequences of incarceration and recidivism, that's a key aspect that just destroys the lives of young people. This is a factoid. It's not a real statistic. I read it in a criminal justice ethics journal, probably 15 years ago or whatever. But what it was doing was comparing black teenage boys and white teenage boys who get in trouble for non-traffic-related and non-violent offenses. So basically, that means underage drinking or drugs. And what the consequences are for these two groups. So there, the idea that the police bus the one group and not the other group. That's not actually quite right, according to the data. Both groups, teenage boys, are both being busted. What happens is the justice system puts the white teenage boys in community service and things like that. Whereas the black teenage boys, they get arrested, they get put into the system. Well, once you know that then that means that all kinds of life options are now going to be cut off in a way. And this is that this is, I think, one of the main sources of a lot of structural inequality that we have, failing schools. But also the consequences of this kind of environment on people's mental models of young people about what it is they think their imagined possibilities can be. And so I think that we need to do a much better job of one, eliminating these sources of structural disruption in the life, life passes of people. And then also giving people a better sense of the win-win non-zero sumness and their ability to be architects of their own life. I know that that's easier said than done, but I think that's one of the things that I would like to see a lot more social discourse about. And I think that this is very helpful in the way that people like yourself and Chetty are working on social mobility issues and bringing very much attention to that question.

Steven: So there are a couple of points. I'll take the liberty of mentioning that one of them is that the conventional understandings of intergenerational ability have, I think, overall, changed simply because the persistence of status across generations has proven to be higher than was previously understood. A lot of that I think, comes from the fact that we have better data. So we have better, basically have better measurements of it, and his classical measurement error problems, which plagued the earlier literature, have diminished. The second though does seem to be that there are some nonlinearities in the mobility process that the linear lens that has been used to study mobility didn't pick up. So I raised that because by implication, that has important links to this issue about everybody sharing and growth. And so the poker game, as you said, is presupposing there's enough stochasticity randomness in the system so that the winners and losers are shifting over time. And so the averages dominate. But in environments that have poverty traps is a very different story one would tell. And so that seems to me a case where the optimistic vision that you've articulated interacts in an important way, and asking what —how do we think about things given the, the evidence he's not linearities. I think I'd also mentioned that something I was very struck by in your comments about imagination is the relationship between that and works such as by Christopher Avery and Caroline Hoxby where they, in essence, identified thousands of high test score, academically outstanding high school seniors that were not applying to colleges outside the one that was local. And so they called it the under-match hypothesis. And I think you said something very deep there, which is that it has to do with the fact that from people who are isolated socially, economically thinking about colleges thinking about trajectories is an active imagination, which, you know, somebody like you got to know your family background, but for me, a low, in middle class background, of course, these are all within the space of imagination. And so this issue of communicating opportunity, the knowledge of opportunity, seems very important. And there's a remarkable work in psychology where they find that essentially interventions in freshman orientation, where you talk about potentials have very demonstrable effects on things such as the black–white gap in college. So I think that there are some very, very important issues there.

Pete: Just as a matter of background, both my wife and I grew up in New Jersey. And we both came from families in which we are first-generation college kids, but the difference is quite striking, actually, because there's not a moment in my life when I can remember that my parents didn't expect me to go to college. Because they saw it was the key to the American dream, right? That was their idea. So their kids were going to go to college. They didn't go to college, but their kids were going to go to college. But in my wife's family, especially for women, that just wasn't like, why do you have to go to college? Like get a good job, get married, have kids or whatever, it's quite fascinating. This idea of what is put in your head as an imagination of what it is that you can achieve, and how that affects you. And I 100% agree that that matters, and that is socio-economics. One of the things that I would stress is the old economic sociology idea that relations are before transactions. So these are a major part of things. I'm very fortunate in this regard. I have taught for most of my career at George Mason University. And at George Mason University, we get the students that are exactly what you were just talking about, a lot of population of our students are kids that probably could go to a better school maybe, but they don't have because they're from the area or they don't have the money or they got a scholarship to George Mason or they're nontraditional students women who have raised their kids and then come back to school. You can work in that environment, where you're teaching undergraduates in particular, to have them see possibilities that they might not have seen. I think that in my case I had professers that were transformative in my life, and I think that that's one of the best parts of our job if we could do it.

Steven: So I thought we might turn to questions associated with socialism. You really are the leading scholar of the socialist calculation debate. And I do want to tell readers about a recent monograph you published with Rosolino Candela and Tegan Truitt, which I thought was just a terrific summary of where the literature is. Contemporary discussions, at least in the United States, I would say interest in socialism has grown. And so rather than talk about all the

—and obviously, it would take about five years to talk about all the dimensions—I wanted to focus on the socialist calculation debate and ask you to talk a bit about its history and its contemporary significance.

Pete: The socialist calculation debate, what they mean by the socialist calculation is that socialists in the late 19th century, early 20th century, believed that in order to solve the problems of the world, we needed to move from the kingdom of necessity to the kingdom of freedom, which required, and this is their terms, rationalizing the processes of production. They didn't want the invisible hand operating behind our back, instead, we were going to move it so the inner key of production would be moved in front of us. We'd be able to orchestrate the economic system. We’d have production for direct use rather than production for profit. And the way we would do that is through collective ownership and the means of production and planning of the economic system, and they took great success that they saw in war planning, and they thought you could take war planning and then apply it to peacetime, and you'd be able to orchestrate this goal of moving from the kingdom of necessity to the kingdom of freedom. And so what Ludwig von Mises did and what Max Weber did a year before that was to raise a challenge to these ideas by saying that, well, in order to rationalize production, which all of us as economists know, means that you're going to produce more than less, right? That's the goal. The question is, how are you going to allocate these scarce resources such that among their competing ends, without the aid of a price system to help us do that? That is the crux of the debate. It talks about property rights as incentivizing us, prices as guiding us, profits as luring us, and losses as disciplining us. And in the absence of that grouping of property prices and profit loss, how are we going to achieve these outcomes of rationalization of production? And that debate takes place over the next 100 years, and our monograph tries to go through that and see the various, different twists and turns. And as I point out in a second, one of the things that's most amazing about it, since I don't want to, again, we don't want to talk for five hours here, but is how much theoretical fruit was born from that debate. So, for example, the Bergson-Samuelson social welfare functions are coming out of that debate. Mechanism design theory, Hurwicz, and whatnot are all coming out of that debate. But it's also the case that what comes out of that debate is the counter-revolution of institutional economics, Armen Alchian and Harold Demsetz on property rights economics. Jim Buchanan and Gordon Tullock on public choice economics, Ronald Coase on law and economics, and then this focus on entrepreneurship that you see in Mises, Hayek, and Israel Kirzner. And so those kind of ideas. And so these are kind of the economic issues. But you raise a bigger issue, which is about, why is it that the current generation seems to have a renewed concern about this? The way I like to think about this is actually a thing I call the tacit presuppositions of political economy. Those are the, the sort of theoretical priors that we have in our head that we don't even think about. I just turned 65. So that puts me in college in 1978, 1979, right? What was life like for a young teenager in 1978? What was the economy like in the background? What was politics like in the background? And I try to capture this, and the idea that you don't remember is that the Vietnam War, you lost faith in the government on that, Watergate, you lost faith in the government on that, the economy was suffering from stagflation, right? Prospects for jobs were pretty low. So we were in a sort of a general malaise economics in a large part, it was blamed on the dysfunctions and corruption in a lot of ways of the government. So the idea that if you said, oh, I'm from the government, I'm here to help you, that would not have been a good thing, right? Now, compare that to a kid who's a freshman right now, right? This kid, the collapse of communism, and those kinds of questions were very real in my life. The Soviet problems were a major issue that people understood and wrestled with. To these kids, that's all like an old Charlie Chaplin film, right? It's not part of their lived reality. And it's also the case that they weren't even born when 9/11 hit. Like, you know, it's hard for us to think about that. So what did they grow up? They grew up, they knew that we were in a permanent war economy. They knew that they had a global financial crisis. And then probably when they were in the beginning of high school or whatever they got or freshman or sophomore year, they got hit with the global pandemic. And the only answer to those kinds of questions is, in fact, to rely on more government rather than on these other things. And so in their head, the narrative that the government is critical to being able to solve social ills is very much ingrained in them. And so that's where I think we must start if we're going to have a hope of communicating with them to be able to address these issues about the nature of which government as a corrective. In this regard, Steve, I like to always, point to Lincoln Abraham Lincoln in 1854 has a piece called Fragments on Government. And he says the following thing, “Government should do those things, and only those things which private citizens cannot do or cannot do well for themselves, and government can do well.” So that's an empirical question all the way around. And it invites we economists to dig in and study those things and not have just imagine correctives, right? We have to actually study them in real time. And I think that's what I hope we can get young economists sort of examining those questions. And then that will be a real part of the discussion over whether or not socialism can substitute for that. There's technical issues associated with computers and things like that. That's part of the debate. But there's also a practical aspect of it. I was blown away when I first started studying these issues by a review that Milton Friedman wrote in 1947 of Abba Lerner's The Economics of Control. I recommend it to everyone to read it, because what Friedman says is that there's literally nothing logically wrong with everything that Lerner says. It's logically unassailable. Math is math. Lerner and get any mistakes, right? But he says that the book is practically irrelevant because it assumes that policy is done inside of a vacuum. And then Friedman, you can remember, Friedman is an assistant professor in 1946, right? He's already beginning. And he lays out in this review of Lerner's book. He lays out all of his later arguments about a long, invariable leg, all these kind of things that became part of this—It's all sort of laid out in that, but it's all about making sure that he takes into account the administrative costs of engaging in these policies rather than just doing the policy in a vacuum. And I think once we do that, we can have a better understanding of the comparative institutions.

Steven: So I thought we could then segue from the socialist calculation debate, leaving aside the specifics of Hayek and information aggregation of prices, which is one of the great ideas, in my opinion, in the history of economics, and a really profound insight that Sam Bowles, Alan Kirman, and Rajiv Sethi tried to take. Hayek's insight about the role of information and prices, but to turn it into a more interventionist perspective. And something I know that you and Roger Koppl thought about. So I thought it would be nice if you could say something about that debate.

Pete: First off, brilliant economic thinkers, people that anyone can learn a lot from and should be learning from them all the time. I think there's several differences in their understanding of what Hayek is trying to argue. Again, I would kind of argue that Hayek is not really saying that we aggregate up preferences through the price system as much as we communicate preferences. So that we can constantly adapt and adjust to the changing circumstances within which we find ourselves. And so in this regard, and you'll know this paper by Brian Arthur that came out about a year ago, a little bit more on economics and nouns and economics and verbs. And I think it's really difficult to try to fit Hayek's economics in the economics of nouns because what I was trying to get us to think about is economics in verbs. And so, therefore, it's all about the activity about the generation of knowledge, not necessarily that knowledge is out there and I have to mobilize it. But instead, I have to actually generate, discover it, utilize it. And it guides us in this constant changing of our circumstances. This is maybe too far field, but like on the technosocialism kind of idea, the idea that now we have large-scale computers, Oskar Lange said, why can't we just put it on a supercomputer. More recent individuals also believe very strongly that large language models will be able to solve this. You know, Sunstein has a book coming out in which he kind of addresses the Hayek position against algorithms and society. But the issue that I would put is captured in this social epistemology literature of the difference between a wicked learning environment and a kind learning environment. The kind learning environment is like chess, in which it's a very complicated game, but it has only so many moves on the chessboard, and the pieces on the chessboard have very strict rules about how they move, as opposed to a wicked environment in which the parameters are relatively free. That the pieces on the board can have a will of their own, and the way they move. And that's going to mean that we have a different kind of knowledge problem that we face in both of those issues. So, rather than a complex computational problem, how is it that we generate the knowledge that guides us to adapt and adjust not only quickly, but in a direction that's more correct than it was previously? And I think that's kind of what Hayek was trying to get us to think about this adaptation and adjustment to constantly changing circumstances, that is still kind of not quite there in the way that other people talk about the idea of Hayek's idea of the price system. You know, that's me. I'm more comfortable with plausible reasoning as opposed to demonstrative reasoning. And we economists like demonstrative reasoning. And so it makes it, difficult to fit those things in there.

Steven: So I think those observations lead to the general question of the predictability of the effects of policies, and another dimension I perceive that is in Hayek and Gerald Gaus in his later writings, focused on was that the complexity of the economy made the capacity to predict the consequences of policy low. And so Gaus, in particular, I would say, is the inheritor of the position that once you condition on that, normative considerations have to be rules-based in the way they wouldn't be if predictability was high.

Pete: Yeah, so I think Gauss's public reason liberalism, that he's trying to put forth, is very consistent with Hayek and Buchanan. In fact, he is building on their ideas.

Steven: Yes, he is very explicit about that.

Pete: So I see them as the political philosophy of the work, the more recent building up about him and Dave Schmidtz, Dave Schmidtz is another person that would be in that same camp of what they're doing. I'm going to use a very sort of bizarre story right now. I know if you've ever seen it, but it's with the Capuchin monkeys. The experiment with the Capuchin monkeys, where the monkey is asked to perform a task, and the central distributor will give them a grape or a piece of cucumber. And there are two monkeys. They're right next to each other. And you do a task, and they're in the first monkeys given a cucumber. Cucumbers and grapes have the same nutritional content to the monkey, but they prefer the grapes to the cucumbers because of the sweetness. But they get the cucumber. The first monkey eats it quite nicely. The second monkey does the same task, but it's given a grape. Okay, so this monkey over here looks, it's like he's expecting that he's going to get a grape. It does the task, and he gets given a cucumber again. And he throws the cucumber back out at the distributor. And then the distributor does the experiment again, gives this monkey again another grape. And now this monkey is very angry. Okay, but what this monkey does, he doesn't express envy. If he expressed envy, he would jump at the other monkey. Instead, what he does is he expresses his anger at the distributor because the distributor is being unfair. And so I think from a Hayekian point of view, the real question is, is whether or not we have a distributor there, right? This is what Gaus is asking us to think about as well. And that's the mirage of social justice kind of idea, right? That we anthropomorphize the economy such that we have the central distributor. But we do have many reasons to think when government does get involved and puts its thumb on the scale, go back to the earlier conversation about the structural inequalities, why it is that we would be angry at this because they've been putting their thumb on the scale. They've been playing their own way. And so this is why we have to talk about rules, right? And now those rules, because that thumb shouldn't go down on that scale. That thumb should be tied behind their back. And therefore, then it's just the general rules, and then you have a more fair game. And so the fairness is in the rules rather than in the outcomes in that regard. And I think if we had that, we might move towards more of what I've talked about. People can be self-architects of their life, their personal rights and moral community can all be given to them. And we can go from there. I don't know if this metaphor works, but when I talk to more mainstream economic graduate students, I always try to talk to them about Hayek and Buchanan as looking through a prism that is sort of the neoclassical prism but slightly twisting it, right? So they look through the same prism that you have. And then they just slightly twist it. When they twist it, they get different colors. And you can go there. So that's the kind of question I'm thinking about here.

Steven: It's a lovely metaphor. So Pete, I can't thank you enough for just a fantastic conversation. Very, very grateful.

Pete: Well, I appreciate the opportunity.

Steven: The Inequality Podcast is a production of the Stone Center for Research on Wealth Inequality and Mobility at the University of Chicago. I want to end the podcast with thanks to the people who really make it happen. First, I want to thank our producer and engineer Shane McKeon. Second, I'd like to thank our assistant director Gerardo Espinal Franco for really the production oversight and doing everything that is required to bring the podcast to fruition. And finally, I'd like to thank our executive director Grace Kolavo for her support, not just for the podcast, but for every activity at the Stone Center. You may get in touch with us at stonecenter.uchicago.edu. Thank you so much for listening.

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