Murphy Answers Questions I
Guest: Robert P. Murphy
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WOODS: There will be plenty of stuff in the news that we'll want to discuss on this program, but for this first time, I just put out a general request for questions to listeners. I had them Tweet me questions [TW note: I am @ThomasEWoods on Twitter]. I have a thread on my website. I haven't even looked at the Facebook thread. I'm too afraid, because we've got so many now. I just want to do one after the other. They won't necessarily have anything to do with each other. They're things people are curious about, and they're of varying levels of difficulty? So are you ready?

MURPHY: I'm ready.

WOODS: Let's start off with a super-basic one: "I hear this term 'monetizing the debt' all the time, but I understand it only in a very vague way."

MURPHY: The classic definition of it means that the government wants to spend more than it can take in in tax receipts, and it wants to issue bonds to be able to run a deficit to cover its spending shortfall. But no one wants to lend money to the government, either, so the government says, I know, we have a printing press, so we'll print the money. That's the way we'll cover it. So we'll monetize the debt that way. Or in an alternative way, if we have all these outstanding bonds, we can't possibly raise taxes enough to pay what we owe people from the money we've borrowed in the past. So the way we'll pay them off is we'll just print that money, and that's the way we'll come up with the funds with which to pay off the previous bondholders. Everybody can agree, "Oh yeah, if the reason the government is printing money is that it needs to spend more, it's in a budget pinch, then clearly that's the route of the collapse of the currency. That's what happened in historical examples of hyperinflations."

In our time, many Austrians and others who are worried about what Bernanke has been doing, they're saying, hey, isn't this monetizing the debt? Because they're creating money with which to buy Treasuries. Apologists for the regime will say no, no, no. See, those are two separate things. On the one hand you've got the Treasury running a deficit for fiscal reasons, and they could borrow the money from the rest of the world if they wanted to, because everyone wants to lend money to the government. And then Bernanke and the other people in the Federal Open Market Committee, they're deciding completely independently how much government debt they want to absorb for reasons of quantitative easing. So they're completely separate things. It's not that the government wanted to run a trillion-dollar deficit, and that's why the Fed's buying so much debt. So that's where the crux of it is, and if you're like me, you're going to say no, the two *are* related, and there's a reason Bernanke is buying so much debt. They are right now monetizing the debt and thus all those negative consequences follow.

WOODS: All right, Bob, let's move on to the next one. Somebody asks, "We sometimes hear in our circles that the Fed enriches the rich at the expense of the poor. Is that an overstatement, and if it's not, if that really is true, can you describe exactly what is the mechanism by which wealth is transferred from the less politically well-connected to the more politically well-connected via the Fed?"

MURPHY: Sure. I think it's crystal clear that the Fed is enriching the politically well connected at the expense of everybody else, so it doesn't line up perfectly to say rich versus poor. But certainly the people that are benefiting I think would happen to be fairly wealthy compared to the average. The mechanism is pretty simple. The Fed creates new money. We all agree on that. Then how does the money get into the economy? It's not because Ben Bernanke gets in a helicopter and drops it around. It's that they buy specific assets, and it would certainly matter to your listeners if Bernanke said, "You know what? Instead of our spending $85 billion a month on Treasuries and mortgage-backed securities, we're going to buy houses owned by listeners of the Tom Woods radio program, and we'll pay whatever we have to to induce them to be willing to sell it to us."

You could sell your house for $1 million to the Federal Reserve. They would put your house on their balance sheet and give you a million dollars in electronic reserves, a check that you go and deposit in your bank, and now you have $1 million in your checking account. That certainly would help you. And yeah it's true: in the long run prices would adjust, blah, blah, blah, and there are rational expectations. But you don't get around the fact that if the Fed's creating new money, and is going to give it to people in voluntary transactions, right? It's not that the Fed is forcing the holders of mortgage-backed securities to hand it over to them at gunpoint. No, they're entering the market with this newly printed money and getting people to voluntarily turn it over.

Just one last one: everybody—even the proponents of what Bernanke did—agrees that they bailed out the financial sector, and that had the Fed not intervened, all those investment banks would have gone down. That was the whole reason for the alleged bailout. So how can you possibly say that he's not helping them if everyone agrees the whole point of this was to prevent them from collapsing? So clearly it was not the average person who would have been really hurt by that. It was mostly the people who made these really bad bets on mortgages and related securities in the housing-bubble years.

WOODS: Bob, I think that's a really good transition into another question. Somebody asks, "In the economic crisis of 2008, banks lost millions to so-called bets, and the government felt the need to inject capital into banks to 'save the economy.' Who actually won these bets? And if that money was still in the economy, just out of the hands of the original banks, why is that a problem?"

MURPHY: That's a good question. First of all, it's true that it's not that money disappears when someone makes a bad investment. The quantity of dollars—or whatever specific measure you're using—that money doesn't literally disappear just because someone makes a bad investment. So that's one thing to get straight before we think more about it. But having said that, we shouldn't commit the *opposite* mistake. Even though the total quantity of dollars in the economy isn't directly affected by whether investments are made wisely or foolishly, that truism does *not* mean it's all a zero-sum game; we shouldn't be thinking, "Oh, it doesn't matter whether people make good forecasts about the future and make wise investments or not. It's all just a wash because if one person wins another person loses." You do want to avoid that mentality. So it certainly is true that, for example, we in the Austrian tradition think artificially low interest rates distort the price mechanism and reduce the ability of prices to help coordinate activity. And so that leads entrepreneurs to commit more errors or a cluster of errors compared to what we'd think the free-market baseline would be.

It's true that you can have, in general, more mistakes being made than not. It's not that the thing's perfectly washed. But I do agree with the person who wrote the question. What you are supposed to do in a market economy, if you have a bunch of people making bad investment decisions, you want them not to have access to capital. That's how the market works: when people make a bunch of mistakes, they have less influence over the future allocation of capital, and it's favored to the ones who made the right decisions. That's the very process that the Fed and TARP and so forth tried to circumvent and say no, no. We want to do a reboot.

WOODS: We have a quick question here about the 2013 long-term budget outlook published by the Congressional Budget Office. It cites technological advancement as one of the primary reasons for increased health-care costs. And the question is, "Is there any other industry that even claims that technological advance increases their cost? Doesn't technology always decrease cost?"

I don't want to take away your opportunity to answer, but my own thought on this is that health care happens to be one of the sectors that government is most involved in. So it may not exactly be the biggest coincidence in the history of the world that healthcare costs are rising substantially.

But there's more to be said. In some cases, when we're dealing with a technological advance in medicine, it's not as if in the past we had a really clunky and expensive way to treat you, and now thanks to technology we have a cheaper way. Couldn't it be that before we had *no way to treat you whatsoever*, and now, thanks to this technology, we have a very expensive way to treat you, but at least we have a way to treat you? In other words, could there be a more benign explanation for the relationship between technology and rising health-care costs?

MURPHY: Yeah, everything you just said is fantastic. Let me just paraphrase very succinctly, but I'm just making the same points you did there. I think we all agree that the reason health-care costs keep rising, or prices for given medical services, are rising so much more compared to other categories, is primarily government involvement, and if you didn't have the government involved then I do think basic standard treatment and so forth would get cheaper over time. But you also are right that what you expect technological improvements to make cheaper would be the delivery of some quantified level of medical care. So you're right they didn't spend much on healthcare in ancient Rome probably, but people's life expectancy was also a lot lower.

Now part of what's happening is that they've come up with ways if somebody would have been dead at age 68 a few decades ago that person might end up living to 85 or 90. But they spend a lot on medical care in the last few years of their lives. Those things, too. This is where this whole issue of death panels and stuff comes in. Yeah, you get the issues where it's not clear: does it make sense to spend another $100,000 to keep this guy who's 85 living to 87? And that's the kind of decision that it's not up to you or me to make. It's up to that person and his family or whoever the heirs would be, if they want to make decisions, come up with a living will. The more the government takes over the health-care sector, the more government officials are going to have to make those decisions. Even if they weren't evil. If you're in charge of scarce resources, you've got to make decisions in certain places. That's the death panel thing for which everyone ridiculed Sarah Palin. That's clearly going to happen if the government keeps taking over more and more of the health-care sector.

WOODS: Bob, I've had you on the Peter Schiff Show many times. You know that as an interviewer I don't just come in with a list of questions that I just ask you one after the other. It flows like a conversation. But today it really is a list of questions.

I'm going to jump immediately to something totally different, because I want people to feel like they got their questions answered by us. Sometimes we hear this claim that government spending has a multiplier effect. The government spends $100 million on something, and the recipient of that spends it on hamburgers, etc., and this stimulates economic activity.

The person wants to know two things. Number one, surely there's something kind of fanciful and magical about this, and this can't be quite right that all we need to do is have the government spend some money and just the movement of that money from one hand to another yields us prosperity. There's got to be something wrong with the thinking, so what is it? Secondly, wouldn't taxation just as readily have a negative multiplier effect? In this case you take money from the hamburger guy. Now he has less money to spend on magazines or whatever. How do you sort all this out for the layman?

MURPHY: Great question. First, empirically, if you had no preconceptions about economic theory and how the world works, and you just wanted to look at what the numbers tell us, they have done econometric studies, and the estimated multipliers are all over the map, ranging from ones that are negative to highly positive ones. Not surprisingly, the people who tend to be right-wingers favor the studies that show a really low impact. Then the people who tend to be real interventionists favor the studies that show bigger ones. Part of what happens is that the Keynesians, the pro-interventionists, pro- high multiplier people, they'll say, oh, well, the studies that come up with a low figure include periods where the economy was already at full employment. So of course that's where you're going to see crowding out. They want to just look at an economy that's already depressed, where the government comes in and does a spending multiplier.

But even there you run into trouble. It was hilarious: who was it? I think it was Barro, or some mainstream guy, but a big name. He looked at World War II and said, okay, let's look at the multiplier there, and he found that there wasn't one or a low one. Then Paul Krugman bit his head off, saying there was wartime rationing, so of course you wouldn't see a multiplier there. What an idiot this guy is!

Even with the Obama stimulus, they have *ex post* indicated, "See, the multiplier is just what we said, because if we hadn't spent that money, the economy would have been much worse. Instead, we staved off the second Great Depression." When as we all know, the economic baseline suddenly got worse once the Obama stimulus package kicked in. That's why the Romer-Bernstein forecasts of unemployment were so laughably wrong.

My point is that with all this stuff *even on their own terms* we could easily make our case just relying on the measured outcomes, and say, "What are you talking about? Huge government deficits always go hand in and with awful economies." Keynesians then have to engage in speculation and say, "Well, they would have been even worse had we not intervened."

There are resources. If the government spends money, those resources get diverted into political ends and not what the market wants to do with them.

If the Keynesians ask what happens if there are idle resources, we ought to reply, "Why are they idle?" There's a reason that the owners in a market are holding them off if it's after an unsustainable bubble, and now there's a crash. It takes time for the economy, to speak metaphorically, to recalculate and figure out where these resources need to go. And the government doesn't make us richer by short-circuiting that process and saying, "Oh, I know where they need to go. They need to go build some more highways or build some bridges or go build some more wind turbines that don't make economic sense." So no, both in theory and empirically the case for a high government multiplier to me is bogus.

WOODS: Let's shift gears to something directly in your wheelhouse. I've been waiting for years to use that word, by the way. So here it is: "There seems to be a decent amount of chatter in some circles in regard to a forthcoming energy boom in the U.S., and an associated manufacturing renaissance. Since Dr. Murphy is engaged in energy issues and policies, it would be great to hear his take on the subject. Is it all just hype, or is there a possibility that there will be some meaningful economic growth?" Does this ring any bells with you, Bob?

MURPHY: Yeah, it's definitely true. It really is amazing the innovation in the natural gas sector from hydraulic fracturing—what people call fracking—and horizontal drilling. I don't have the numbers at the tip of my fingers here, but the ability of people to deliver natural gas has become much easier, and prices have fallen. What's funny is that even the federal government just issued a Climate Action Report, and it's part of the UN Convention on Climate Change. Even the government's own report admits that emissions dropped significantly from 2005 to 2011. The two reasons were (1) the recession; the economy in general is not as active, and so therefore total greenhouse gas emissions are lower, but also (2) the boom in natural gas. On its own, without government prodding, the electricity-generation sector has switched from coal-fired plants over to natural gas just because it's cheaper. So, yeah, it is certainly true; that's not hype. And also, if you look at the states with the lowest unemployment rates, there are states with natural gas booms and so forth and shale development and very low unemployment rates, the lowest in the country.

So that stuff is all true. And just more generally, I think if people look at the amount of fossil fuel resources in the United States and then more broadly North America, there's enough there to power current usage for centuries, depending on which fuel type you're looking at. It's this idea that I certainly was taught, and probably many of your listeners: "Oh my gosh, we're running out of energy in the U.S., and we have to conserve. You need the government to implement all these controls and wean ourselves off these scarce fuels, because we're going to run out next week." It's a complete lie, and it's just another excuse for the government to come in and regulate everything. As usual, the way to bring down prices in the energy sector is get the government out of the way and let the entrepreneurs develop everything.

WOODS: Now I want to shift away from one area in which you're an expert to another area, and that's the Great Depression. Of course, after the experience of Ben Bernanke, we all cower and cringe when we hear that somebody's an expert on the Great Depression, but we're going to make an exception in your case. And I strongly recommend Bob's book *The Politically Incorrect Guide to the Great Depression and the New Deal*. If you haven't read a book on this subject this is the one, because you'll get through it very quickly. He explains it in a way that you can grasp immediately.

Somebody wants to know: suppose you're dealing with the man on the street. The man on the street probably doesn't have a super-elaborate theory as to what caused the Great Depression. He may not really know anything about it at all except some vague sense that probably unbridled capitalism had something to do with it. But he probably couldn't flush that out if he was asked to. Suppose now you're just dealing with the man on the street, and you want to give a brief explanation. You're not going to be able to get the Austrian Business Cycle Theory out. How would you try to explain it to the average person as briefly as possible?

MURPHY: First, I would say the conventional story doesn't make any sense. The conventional story is that there was this big stock market crash, and the reason that turned into the decade-long Great Depression is that Herbert Hoover sat back and did nothing. But wait a minute. Even according to the conventional textbooks, everybody before Herbert Hoover did nothing also. It wasn't until FDR came in with all the wise things of the New Deal and the SEC and Social Security and all that other stuff that we then made ourselves safe from another depression, but there were plenty of financial panics and stock market crashes before 1929, so even on its own terms, the official story makes no sense.

It's like if an airplane crashes and 100 people die, and the FAA comes out and says, okay, we've investigated, and the reason is gravity. Well, okay, but that doesn't explain why that plane crashed and not others. Same thing here. So the conventional story makes no sense. What would make sense, though, is if Herbert Hoover did something different from what all his predecessors did. And then you can quote from his own memoirs explaining the things that he did, and those quotes are in my book, or in Rothbard's book, or on the Internet there's plenty of articles debunking the Herbert Hoover myth that says he was a do-nothing president. You can go to the official website of the government's spending statistics and see what happened with federal spending and the deficit and so on. They increased under Herbert Hoover. The conventional story is the opposite of what happened, so what I try to do when I'm talking to a regular crowd is to get them to realize that the conventional story makes no sense, and give them some facts that are irrefutable, because they're coming from the government's own website. It can't be that I'm making these numbers up. I think that's a good way to open up that Herbert Hoover clearly did something different, and what he did that was different is that he actually intervened.

WOODS: Then that opens their minds to consider alternative possibilities. Now you've softened them up, and the next time you talk to them they're ready to go.

MURPHY: Yeah, exactly.

WOODS: Somebody asks, "I've heard it said that the Dow and the price of gold are going to meet. Why would this occur, and what would it mean?”

MURPHY: There are people who are really into trading gold—“goldbugs,” as they call them. There are theories that there’s this relationship, and they can diverge for a while, but that ultimately the fundamental forces kick in. In our case, what would happen if the economy is fundamentally unsustainable right now, and there’s been a lot of inflation that Bernanke’s pumped into the system that hasn’t yet quite manifested itself? What would you expect to happen over the next decade or so? You’d expect there to be a stock market crash, and the price of gold would rise above its current level.

In other words, if people are thinking, “Oh my gosh, I’d better get gold, because all of all the crazy stuff Bernanke’s doing,” implicitly they’re thinking there’s at least a strong possibility that the price of gold measured in dollars is going to go up in the near future, and that also if you’re really worried about the stock market and think no, this is just all propped up by Bernanke’s money pumping, implicitly what you’re saying is that the stock market’s poised for a crash. I’m just showing why they would move in the directions that would have to happen, but whether there’s some natural reason they ought to meet, people just look empirically and can make that claim that they do it, and they diverge and come back. I’m not going to say that that’s a law of nature or something, but I have seen that claim being made.