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Book Reviews

The Economists Hour: False Prophets, Free Markets, and The Fracture of Society by Binyamin Appelbaum (2019)

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Appelbaum's book, *The Economists Hour*, is the latest in a long line of books questioning free market economics. *The Economists Hour* is a noteworthy addition since, unlike other critics, Appelbaum notes what economists have gotten right and he just does not criticize free market economists, but the profession in general. Indeed, critics of free market economists note that economics, as a profession, is far more free market than critics and commentators recognize. There was very little difference between John Maynard Keynes and Milton Friedman on stimulating the economy; one preferred the fiscal and the other monetary. In fact, Friedman praised Keynes as an economist, noting that on macro matters he was vastly superior to Hayek and Von Mises. In fact, at a convention of free market economists, Friedman stated unequivocally that Keynes was the better economist.

Appelbaum's book is well-written and erudite. At telling a story, Appelbaum succeeds brilliantly. In fact, his book could be seen as a rebuttal to Daniel Yergin's and Joseph Stanislaw's book, *The Commanding Heights*. Appelbaum's book was written after the financial crash of 2008, a crash that has eroded confidence in markets worldwide and has begun the process of eroding confidence in the post-war consensus. At its best, the book has some extremely insightful and thought-provoking points. Unlike other writers, Appelbaum attempts to strive towards even-handedness. For example, he notes that Friedman's ideas caused the 2008 crash, but also prevented a prolonged depression. Another strength in Appelbaum is that he asks the correct questions, for example, has economics placed us in a bad position. Mostly, I respect Appelbaum's willingness to attack a profession with as much prestige as economics. While economics is no longer the imperial science of my early adulthood, it remains the crown jewel of social science, in that economist's opinions still matter more than those of psychologists and sociologists.

Unfortunately, Appelbaum's book is flawed. In fact, Appelbaum's paradoxical idealistic cynicism limits his judgement. For example, Appelbaum writes that economics have threatened democracy. This is an idealistic viewpoint. The United States has never been a democracy. It has always been a republic. I would also suggest that Appelbaum would probably disapprove of many policies that the people would support. After all, Donald Trump was elected President and the public supports tax cuts. He is also cynical in that he fails to recognize changes in economic theory - at one-point central planning and price controls were good economics. But thanks to Hayek and Keynes(!) we went with a more market approach. One wished that Appelbaum consulted the work of Alan Brinkley to discover how far liberalism left central planning because of the experience of World War II.

Also, Appelbaum cannot understand that even free market economists believe in the welfare state. Take Hayek, one would assume that he would oppose social security, welfare, social insurance, environmental protection, protection from fraud, and certain production standards. But he supported each. Friedman supported the federal withholding tax and a universal income scheme. In fact, economists of nearly all stripes have opposed price controls and have let the market use prices to coordinate and signal abundance or shortages. Looking at left-wing or salt-water economists, such as Paul Samuelson or even a young Paul Krugman, one would be shocked how much they embraced free market viewpoint. Whether or not a country is free market is not a dichotomous choice, rather it is a range. A completely controlled society, like North Korea, makes South Korea appear like a completely open society.

This is an economics book written by someone who does not understand economics - for example, his chapter on income taxes. Writers, such as Appelbaum, have decried tax rates changes for over 40 years now. Yet, they do not understand how the tax code works. The American tax code is a complex system with numerous loopholes. Therefore, a tax rate could be extremely high but also collect zero taxes, due to these loopholes. Appelbaum fails to note that deficits emerged not from tax revenue (which increased), but from expenses incurred due to entitlements. In fact, most of the

federal deficits are caused by legacy entitlements such as social security which are still based on erroneous assumptions. Likewise, Appelbaum scoffs at the notion that taxes change behavior. If Appelbaum was correct, people would be moving to high tax states. They are not. Of course, the Democrats have had numerous opportunities to return to higher tax rates, but they have not.

Worse still, Appelbaum gets historical documents wrong. For example, Adam Smith did not write about the industrial revolution - the term was not even in existence - but about the issues of mercantilism. Smith understood something that the modern liberal still does not grasp, the state is about rent-seeking behavior controlled by elites. The reason is that the elites have power. Another example would be Alchian's and Demsetz's 1972 article, which Appelbaum claims the corporation is the apotheosis of capitalism. They never argue that. What they argue for is that the corporation is better at creating certain types of transactions than the market and that corporations should use the market to reduce shirking. Furthermore, how could we dub this the economists' hour? What happened to the period of Keynes's influence? After all, Time magazine had Keynes on the cover nearly 20 years after he died.

Finally, there is a lack of judgement. Appelbaum does not understand that, despite whatever issues of income inequality, the poor have never had it so good. Nearly everyone has televisions and the internet in modern America. Most have access to central heating and cooling. They live better lives than 99.9 percent of people in history. Furthermore, he fails to recognize that technology has taken jobs, not just policy. Many of the jobs of the 1940s have disappeared and what they have been replaced with are jobs that require high human capital. Besides, it was not government policy, as Appelbaum claims, but products of the market, such as Fordism and improved healthcare, that produce bounties for the lower classes.

Appelbaum repeats a common error among the clerisy - the assumption of market failure. This assumption has dominated writings on economics since at least the 1930s. However, what often appears to be market failure is really the failure of government policy. For instance, even Appelbaum would recognize the failure of the Federal Reserve's monetary policy during the 1920s. Likewise, Appelbaum argues that issues with anti-trust law have led to corporate mergers. However, scholars, such as Peter Klein, argue that mergers and acquisitions emerge from an uncertain regulatory movement. There is also considerable evidence, including from editor in chief Gould of this august journal, that the 2008 crash was caused by policy.

However, while my review is a negative one, I also believe there is real insight in the book. I believe that free market economists and law and economics need to reconsider their policies. The major issue and the driver of inequality is the use of patents to protect intellectual property, creating a legal monopoly. This is *exactly* the type of issue that Smith would have decried against. In fact, had Appelbaum dug deeper, he would have asked the question that Thomas Philippon asked - is this even a market economy? The answer might shatter Appelbaum's viewpoint. That is the book I wished he wrote.