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Another Kochanack Falls From the Tree

The economic ignorance spewed at George Mason University continues to stun me. I feel sorry for the students.

The latest example of multi-directional confusion comes from Bryan Caplan, an Associate Professor of Economics at Koch-controlled GMU and an adjunct scholar of the Koch-controlled Cato Institute.

In a blog post, Caplan tells us that Tyler "Scan Me Naked" Cowen, at lunch, "asked us to name the most important lesson we learned from the crisis of 2008."

Caplan's answer reveals more naked cluelessness than a TSA backscatter machine ever could.

First he tells us that:

> The Fed is much worse than I thought....
>
> In all fairness, you might object, "Didn't you always hate the Fed?" But in all honesty, my answer is No. Yes, the Austrians - especially Rothbard - taught me to loathe the Fed in my late teens, and blame it for all macroeconomic evils. By grad school, however, I came to see the flaws in the Austrian theory of the business cycle. And while grad school taught me about mainstream and public choice critiques of central banking, it also persuaded me to consider the possibility that the Fed turned over a new leaf after the 1970s.

The flaws in Austrian Theory!! The Fed turned over a new leaf after the 1970's!!!!

The next paragraph explains how well he understands Austrian Theory:

> At first, the evidence was modest: By 1995, the U.S. had enjoyed a decade of historically low inflation, low inflation volatility, stable output, and tolerable unemployment. Maybe just a fluke, right? But the good times kept rolling. By 2005, I looked back and saw two decades of increasingly impressive results.

Look, Caplan could have been describing in 1920's just before the Great Depression. Rothbard in America's Great Depression outlined the situation in the 1920's:

> The fact that general prices were more or less stable during the 1920's told most economists that there was no inflationary threat, and therefore the events of the great depression caught them completely unaware.

In other words, if Caplan really understood Rothbard's teaching about Austrian economics (or even just the damn history of the period leading up to the Great Depression), he would never justify thinking the Fed was getting things right just because there was a period of low inflation. If there ever was an example of the warning that

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> Those who fail to learn from history are doomed to repeat it.

Caplan has sure delivered that. Let's move on.

It's obvious monitoring Bernanke from a distance that he's insane. Yet, Caplan couldn't pick this up sitting in front of the guy:

> My first-hand acquaintance with high-ranking Fed officials like my teacher Ben Bernanke lulled me further into a false sense of security. I spent a semester in the front row of his class, and while he was no libertarian, he struck me as a reasonable, thoughtful, decent, market-oriented economist. With guys like him running the Fed, I figured, nothing outrageous is going to happen.

What Caplan is describing here is a clear case of what Brad DeLong calls "Greenspanism".

It can get pretty severe. Caplan writes:

> ...the Fed's performance seemed so close to optimal that I lost interest in the topic.

His comment that the Fed was close to optimal came in August 2008 just when it became clear to anyone who would have applied Austrian economic monetary analysis that the Fed was on course to drive the entire economy into crisis.

He then shows us he doesn't understand technical monetary policy:

> Instead Bernanke became a key accomplice for the disgraceful series of bailouts, fiscal stimulus, and **obfuscation** about the zero nominal bound. The latest round of quantitative easing makes Bernanke's doublethink plain; if he thinks it's going to work in 2010, why wouldn't it have worked in 2008?

I don't want to defend Bernanke's QE1 or QE2 operations, but Caplan doesn't understand the difference between the two. A trillion dollars of QE1 ended up as excess reserves, which I point out that even the opthamologist Rand Paul understands. This occurred largely because of the way it was funneled directly to the money center banks. QE2 is nothing like this. By purchasing Treasury securities in the open market via primary dealers, the money will get in the system and used. These sellers don't have access to the Fed, and if they are selling Treasury securities, it is certainly because they have plans for the money. QE2, then, is completely different than QE1. For Caplan to ask:

> The latest round of quantitative easing makes Bernanke's doublethink plain; if he thinks it's going to work in 2010, why wouldn't it have worked in 2008?

It means he doesn't understand the significant differences in the two easings.

Bottom line: From start to finish, Caplan doesn't seem to understand the intricacies and subtleties of the topics he is commenting on. Before he attacks Austrian economics for its "flaws," he should really try and understand what Austrain economics is. He clearly didn't get it right in his first go round. Maybe after the next round, it won't take him decades to understand the destruction the Fed does to the economy.

Posted by Robert Wenzel at 3:46 PM

2 comments:

Anonymous said...

The GMU economics department is the home for the lame, the halt, the blindm and the bought off.

I've had the opportunity to review and critique a few of their studies for private clients over the years, and have found them to be second-rate polemicists.

November 20, 2010 5:04 PM

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