

## Deirdre McCloskey interview with *La Tercera*, a Chilean newspaper

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Mauricio Rodriguez asked the questions

### *The US economic situation*

The Federal Reserve left interest rates unchanged this week. In your view, was that an appropriate decision or is policy tightening already due?

My reply will be unconventional. But scientifically correct! The Fed has no influence over interest rates. None. Long ago, in the 1950s, when almost all countries had capital controls and high tariffs, and the Fed had piles of government bonds left over from its financing of World War II, the Fed's open market operations might have influenced US interest rates, and economic activity. But now the Fed is one very small portfolio in a massively larger world market for interest-bearing assets. The Fed has no more control over world, and therefore US, interest rates than Chile has over the price of copper---no, worse, wine.

What is your call regarding the fed funds rate after the November and December FOMC meetings?

I have no idea. Nor do I care, or think anyone should. That journalists and many economists focus on this ridiculous flea on the end of the tail of the interest-bearing asset dog pretty much makes my case. The flea does not wag the dog. You know what the fed funds rate is. It is an absurdly small part of the loanable funds of the world.

The potential effects of an interest rate hike have been largely debated. Do you expect any market impact (even a correction) following the tightening?

No, for reasons given above. We have had low interest rates for years, mainly because the Chinese save 50% of their income, now the second largest income (not income per head!) in the world. The so-called "hikes" are meaningless.

Also, should short term market rates increase following the tightening, thus creating funding problems?

No, ditto.

Other than policy decisions, what is the main risk for the US economy?

None. It is all a little drama that we like to talk about, signifying nothing.

A few weeks ahead of the presidential election in the US, who do you think will be the next US president?

Hillary Clinton. I wish it would be Gary Johnson, the quite intelligent libertarian candidate, but the first-past-the-post way we elect people in the USA means that it has to be one of the major parties, however much they seem to be disintegrating. Thank the Lord, not The Donald.

What do you think will be the economic effect of a Trump win?

The end of civilization. Well . . . perhaps not, because the US political system has so many centers of power, which will not cooperate with Trump. And if he wins, he will not want to do the job. He tried in August to give the actual work of the presidency to a Republican governor and former candidate, John Kasich, by asking him to be the vice-presidential candidate and then promising to let Kasich take care of domestic *and* foreign policy. No joke. Trump's people actually made such an offer to Kasich, who as a man of sense and principle refused.

What do you think will be the economic effect of a Clinton win?

More of the same, and new wars. But that's better than Trump.

Do you think the TPP is going to be passed by this Congress?

Yes, in the so-called "lame duck" term, which happens between the election and the actual nomination of the new president. Clinton actually wants TPP, but can't say so because of Trump's absurd anti-trade populism.

### *Freedom*

You describe yourself partly as a libertarian and free-market. After 40 years of policies and institutions founded on such principles, many groups in the Chilean society have turned against them.

+ Why do you think that is happening?

Because people believe in magic. They want to believe that government expenditure can make us all richer (thus Hillary Clinton), that everyone can be subsidized (thus Argentina), that price gouging instead of supply and demand is what business is about (thus Venezuela). Our great libertarian journalist early in the 20<sup>th</sup> century, H. L. Mencken, wrote, "Democracy is the theory that the common people know what they want, *and deserve to get it good and hard.*"

+ Should there be limits imposed to free-market so as to protect society from potential abuse?

No. The "limits" are imposed by exercising the government's monopoly of violence to compel people to do things. A better society is one in which people agree to things, not in which they are forced by a threat of jail. And the "limits" are imposed by bureaucrats who have no obvious interest in doing well for the citizens, and are anyway not all-knowing. The Food and Drug

Administration in the USA prevents good drugs from getting to cancer patients. The better system is to let the economy proceed, and then sue people in the courts if they engage in force or fraud. It is extremely unlikely that force or fraud is prevented in advance. Look what happened to the Securities Exchange Commission under Bush II. It was told about the well-named Bernie Madoff making off with investors' money in a Ponzi scheme, but did nothing about it. The publicity after the event did more to prevent future Ponzi schemes than all the serried ranks of bureaucrats.

+ Is there any way to fix society's disappointment and in turn re-enchanted people with free market policies?

The battle lines are in newspapers and movies and TV. There is no reason at all that Chile should not have a real per capita income equal to that of, say, Hong Kong. Hong Kong's per capita income is higher than that of the USA. It was achieved by leaving people alone. If people come to believe in the creative power of ordinary people when left alone, then Chile will achieve it. In about two decades.

Among the many pieces and books that you have written there is your book on crossing and the topic of transgenderism. Things in Chile for the LGTB community are not easy, let alone for transgenders.

+ How should the latter be considered in public policy?

As human beings entitled to dignity equal to that of other people in the society. There's no religious issue here. The Bible has not a single word about changing gender, and the very few passages that are supposed to be about homosexuality are dubiously in fact about it. And if their mere existence is supposed to be decisive, I wonder why the people quoting them are not orthodox Jews, avoiding also, say, the mixing of wool and linen. I am a Christian, an Anglican. My fellow Christians will remember what Our Lord said on the matter: "Do unto others as you would have them do unto you." (The saying is actually from Rabbi Hillel, and ultimately Moses, and anyway it is an obvious principle of morality; but Jesus repeated it.)

+ Same-sex marriage is not permitted in Chile—are there rational/moral arguments to oppose such choice?

Of course not. Follow Spain, which of course has long had gay marriage, if Chile wants to be a country respected in the world. If you want on the other hand to be thought of as an ignorant backwater, follow what the conservatives in the Church say, the ones who do not seem to have noticed the Golden Rule.

What is your call on abortion?

At last, an actual ethical issue. Both sides are right.

Overall, populism is rising in many countries and it comes from the right and the left. Why do you think that is happening?

I suspect it has to do with 24-hour news and the internet. And obviously the Great Recession. The best way to stop it is to get growth going again. In fact, world growth has been quite vigorous, even during the Recession. And in countries with liberal economic policies, such as China, India, Australia, it has been strong enough that the imitators of Juan Peron can't make much headway.

#### *Academic work*

Please tell us why do you propose that *The Cult of Statistical Significance: How the Standard Error Costs Us Jobs, Justice, and Lives*.

Numbers, like words, do not come with their own interpretation. They need to be judged for importance. Of course. Astonishingly, however, so-called "tests of statistical significance" assume the opposite. Many, many statisticians have pointed out for a hundred years that the procedure is idiotic, and last spring a report issued by the American Statistical Association agreed. I have been saying so since the 1980s, and since the 1990s Professor Ziliak and I have been saying it increasingly loudly.

Please explain what is Economic Rhetoric and why it is important.

All science is persuasive. The point has been a cliché in the philosophy and history and sociology of science since the 1950s. My only contribution was to get the news to economists. They did not appreciate it!

#### *Other*

During your time at the University of Chicago you probably trained many Chileans--if so, could you mention a few?

I can't remember their names. My class in graduate microeconomics was about 100 by its end in 1979 (I taught it for ten years). But I usually say that I probably taught as many Chicago Boys as, say Milton Friedman did, and only fewer than Alito Harberger did. None of us told them to put leftists in sports stadiums and murder them. We told the Chicago Boys that prices are governed by supply and demand, that money causes inflation, that a free society is better than central planning. I think they got it. I wish Chileans in general did.

On the Fed's lack of power to control interest rates... .. We have seen very often that the Fed exercises its forward guidance tool that indeed leads market participants to adjust asset prices without the central bank even touching interest rates—How does this phenomenon reconcile with your views?

I think the Fed follows what world markets say is the interest rate. In the very short run the financial markets, which believe so irrationally in the power of this tiny institution, can be fooled into “following” the Fed. But the interest rate depends nowadays on the world.

On your abortion answer... .. But shouldn't one be free to choose?

One is not free to choose to murder someone. A free society is not nihilism. There is a serious ethical case to be made that abortion is murder. I don't agree with it, but I respect the seriousness of the ethical reflection. I come down solidly on the mother's right to choose. But of course I would prefer—and I wish the Catholic Church preferred—to deal with unwanted children with effective contraception, or morning-after pills.

On leaving people alone to create growth and wealth... .. Your two-decade answer resounds with the two decades of Chicago-style policymaking in Chile after which in the 90s the country was undoubtedly better-off than in the 70s but still whatever trickle down there was wasn't enough to prevent a 40% plus poverty rate in the 90s. People in Chile believe this, so what do you think could rebuild trust in free markets?

The theory of the Chicago Boys, and of all true liberals, has nothing whatever to do with “trickle down.” The left accuses the libertarians of believing that wealth trickles down from rich people building mansions and buying yachts. The accusation merely shows that the left has no idea what the actual economic argument is. I think it is partly because the left has its own trickling theory, trickle up from Keynesian-type expenditure. All this trickling needs to stop! A free economy, based on voluntary exchanges among people, produces the right things and produces them cheaper and invents new things vastly more than a regulated economy or a centrally planned economy. The poverty rates were relative, I suppose. They usually are. And so there is always a lower 40%. I prefer a poverty line that is absolute, based on what is a dignified amount of basic goods. I explain this in my review of Piketty's book. If there remained poor people I expect it is because the substantial residue of statist policies kept people from getting jobs. I don't know for sure, because, as I said, I do not know the Chilean situation, and would have to learn Spanish to be seriously informed. But that's the pattern in many partly liberal countries, such as South Africa, which I know more about, or for that matter the United States. The government in many countries, with leadership from my own, has outlawed recreational drugs, with predictable effects, one of which has been the ruin of neighborhoods in the big cities, and many people in the countryside with different drugs, all made profitable by their illegality. Job protections, which most countries have even if they are in many ways, such as for tariffs on imports, quite liberal, deny poor people the chance to compete. At Chicago back in the 1970s we joined with the new left historians in pointing out that regulation is almost always taken over by the industries to be regulated. We called it in a bitter parody The Golden Rule---those who

have the gold, rule. We hated it. So should you, and not give big government the violent tools to enrich its clients.