

June 21, 2013

HUFF  
POST BOOKS

---

## How Do Wrong Economic Ideas Become Conventional Wisdom?

Posted: 05/ 9/11 09:41 AM ET

The ideas of Friedrich Hayek (1899-1992) are making a comeback, in large part due to Glenn Beck, who has touted the libertarian economist and philosopher's views on his TV show. The essence of Hayek's views -- spelled out in his most well-known book, *The Road to Serfdom* -- is that government stifles freedom and liberty. With a few exceptions, he viewed almost any governmental intervention in economic affairs as a slippery slope toward totalitarian socialism. No wonder that Beck has been hawking Hayek.

Now comes Francis Fukuyama, the neoconservative political scientist, who uses the pages of the *New York Times Book Review* to hawk his own version of government-bashing. Unfortunately, Fukuyama, who claims to be something of a student of Hayek's ideas, hasn't done his homework.

In his [review](#) of the new edition of Hayek's *The Constitution of Liberty*, published in the *Review* on Sunday (May 8), Fukuyama off-handedly comments that three of Hayek's ideas "have become broadly accepted by economists." But it so happens that economists don't agree on these three ideas. Moreover, the policy conclusions that Fukuyama draws happen to be untrue.

First, Fukuyama claims that "labor unions create a privileged labor sector at the expense of the nonunionized." It is true that unionized employees earn better wages and benefits than their nonunion counterparts, even those with comparable experience and education. But economists know that it is also true that [unions raise wages and benefits for nonunionized workers](#). The higher the "density" of union workers in an industry or area, the more likely it is that employers will increase the wages and benefits of nonunion employees in order to stave off a union drive. Thus, unions lift the floor for everyone, not just union members, contrary to Hayek.

Second, Fukuyama claims that economists agree with Hayek that "rent control reduces the supply of housing." Economists differ on the wisdom of price controls in general, but it helps to test economist theories in the real world. There is absolutely no empirical evidence for the statement that rent control -- which some cities use to maintain a supply of affordable housing -- reduces the housing supply in general or even rental housing in particular. Every study of rent control in U.S. cities (except those funded by the real estate industry) -- including those that compare similar cities with and without rent control -- shows that rent control has no impact on either the level of new housing construction or the level of housing abandonment. Local rent control laws exempt new construction and allow landlords to raise rents annually based on expenses. Cities with various forms of rent control are often in "hot" markets in which developers want to build rental and other forms of housing. The evidence is clear that rent control does not dampen private investment.

Finally, Fukuyama claims that economists agree that "agricultural subsidies lower the general welfare and create a bonanza for politicians." Again, there is no evidence for this statement. The impact of farm subsidies depends on who gets them, what they are used for, and the general economic condition of the period. During the Depression, subsidies saved many family farmers from going under, helped stabilize prices, and kept entire farm communities, and the nonfarm jobs that depended on agriculture, alive. Today, the vast majority of federal farm subsidies go to large agribusiness conglomerates like Archer Daniels Midland and Cargill that don't need them rather than small family farmers. President Obama campaigned on a pledge to limit individual farm payments to \$250,000 to ensure family farms and not "corporate agribusiness" got the money. This is still a good idea. But food stamps, which are an indirect subsidy to farmers, clearly improve the general welfare by dramatically reducing the incidence of hunger and malnutrition.

Hayek's ideas may be making a comeback, as Fukuyama asserts, but it is not because his economic ideas have been proven correct by empirical research, but because they've been promoted by the likes of Glenn Beck to justify a conservative ideological and political agenda.

If conservatives don't like labor unions, they are entitled to their opinions. But when they attack unions by arguing that they actually hurt working people, they don't have the facts on their side. They are [crying wolf](#).

Echoing Hayek and Beck, the U.S. Chamber of Commerce, House Speaker John Boehner, Rep. Darrell Issa, and the Tea Party can fulminate all they want that government policies to make corporations behave more responsibly -- such as the minimum wage, consumer and environmental protection laws, rules to improve workplace safety, regulations to restrain Wall Street abuses, and health care reform -- are "job killers." But repeating this libertarian mantra doesn't make it true.

**Peter Dreier is E.P. Clapp Distinguished Professor of Politics, and chair of the Urban & Environmental Policy**

Department, at Occidental College. He is affiliated with the [Cry Wolf Project](#), a non-profit research initiative.

41 people are discussing this article with 75 comments

## Comments are closed on this entry.

[Highlighted](#) [Most Recent](#) [Oldest](#) [Most Faved](#)

**procrustes13**

POLITICAL PUNDIT · 510 Fans

1 8

How do wrong economic ideas become conventional wisdom? The answer is so simple. It is very profitable. People with lots of money pay to propagate the propaganda and their investment pays off enormously not only in terms of money, but also in power, power used to gain even more money and more power and to propagate more propaganda to that end. This also results in the increasing powerlessness of most people and as these are wrong economic ideas, they become citizens of a country in decline.

Fave Share [9 May 2011 11:41 AM](#) [Flag](#)

[In reply to: procrustes13](#)

**Re-thinkit**

803 Fans · We hold these truths to be self-evident. . .

2

Ala the Koch Brothers.

Fave Share [9 May 2011 1:42 PM](#) [Flag](#)

**jhNY**

1,309 Fans · Mercy.

8

In a plutocracy, any idea containing benefits for plutocrats will be repeated earnestly by those in the employ of plutocrats, whether the employed work in the press, the schools or the government, as all these sectors of the society are controlled by the plutocracy. Hence the re-emergence of Hayek et al.

Fave Share [9 May 2011 9:36 AM](#) [Flag](#)

**jsgaetano**

POLITICAL PUNDIT · 3,860 Fans · "Conservative" is not a political party, genius.

7 8

The fewer facts conservatives have, the more they bluster that they're correct.

It is indeed quite a system they've set up in the media, where the less credibility one has, the more they're promoted as the ONLY credible people on an issue. For example, President Obama finally brings OBL to justice, despite the Goopers giving up the search in 2005. Yet they were on all the Sunday Bobblehead shows bragging about how George Dubai Bush caught OBL, not Obama, and that his torture program which produced zero results was what lead George Dubai Bush to OBL's door.

Fave Share [9 May 2011 9:11 AM](#) [Flag](#)

[In reply to: jsgaetano](#)

**new beginning**

SUPER USER · 3,373 Fans · Practice random acts of kindness-change the world

6 2

Panetta said that the information leading to the courier came from the

enhanced interrogation techniques which Obama has stopped. Your credibility when you say they produced zero results is just plain wrong.

From your post it appears that factual errors are not limited to conservatives!

Fave Share [9 May 2011 11:05 AM](#) [Flag](#)

[In reply to: new beginning](#)

**fugmo** 3

227 Fans · Reality leaves a lot to the imagination.

I read in the NY Times article that Kalid Sheik Mohhamed (sp) provided that info long after the torture stopped.

Fave Share [9 May 2011 11:56 AM](#) [Flag](#)

8 COMMENTS BY 5 PEOPLE

[Read Conversation →](#)

**addisonsteele** 6

636 Fans

Given that most people have heard of Fukuyama only because he was stupid enough to claim "The End of History," it is hard to take anything he says seriously.

Fave Share [9 May 2011 11:23 AM](#) [Flag](#)

**thebigbike** 5

568 Fans · ran away to be a cowboy

talking heads like fukuyama ( "The End of History" remember???) are not "crying wolf." They're LYING!

Fave Share [9 May 2011 1:52 PM](#) [Flag](#)

**troutster** 3 5

SUPER USER · 720 Fans · Fish fear me. Otherwise, I'm pretty harmless.

a lie repeated a thousand times is still a lie.

Fave Share [9 May 2011 12:01 PM](#) [Flag](#)

[In reply to: troutster](#)

**Tekkdude** 2 3

SUPER USER · 204 Fans · Battling Republican lies one post at a time.

True but 900 Americans will believe it.

Fave Share [9 May 2011 12:41 PM](#) [Flag](#)

[In reply to: Tekkdude](#)

**AG creative** 2

SUPER USER · 594 Fans · Ba Gawk!

+99

Fave Share [9 May 2011 2:40 PM](#) [Flag](#)

4 COMMENTS BY 4 PEOPLE

[Read Conversation →](#)

**ScaredAcademic**

742 Fans · The GOP: Peddling Hate Since '68

5

Unions have noneconomic benefits that are completely missed and these benefits are perhaps highest for public sector unions. Whistleblower laws are, I think, generically a good thing. Public sector unions are a method for protecting workers that might blow whistles about fraud, abuse, and corruption in the public sector. When every public sector employee is a "free agent", there is no... [Read More](#)

Fave Share [9 May 2011 11:41 AM](#) [Flag](#)

**joedenver60**

123 Fans

23 3

I can agree, unions are in part good for the working people when a country is becoming a nation, but when unions become an institution that represent a philosophy of spreading the wealth, then they make decisions that will control the spirit of capitalism, and everybody loses

Fave Share [9 May 2011 9:07 AM](#) [Flag](#)

[In reply to: joedenver60](#)

**aldo**

59 Fans · My 2 Cents

9 4

Businesses consist of Worker, Capital, and Management. All deserve their fair share.

Fave Share [9 May 2011 9:58 AM](#) [Flag](#)

[In reply to: joedenver60](#)

**aldo**

59 Fans · My 2 Cents

10 1

and another thing: All unions are institutions that represent a philosophy of spreading the wealth. That is in the spirit of capitalism and everybody wins.

Fave Share [9 May 2011 10:04 AM](#) [Flag](#)

24 COMMENTS BY 11 PEOPLE

[Read Conversation ->](#)

**Peanut Santiago**

1,030 Fans

2

If you tell a lie long enough, people begin to believe it.

Even if common sense tells them otherwise.

Fave Share [9 May 2011 2:43 PM](#) [Flag](#)

**John Atlas**

195 Fans · Author, Seeds of Change. The Story of Acorn, Ameri

2

Thanks Peter. I too was angry, especially Fukuyama's claim that rent control stifles new construction. All he had to do was check out some of these articles that discuss the studies on rent control. See John Atlas and Peter Dreier, "The Phony Case Against Rent Control," The Progressive April 1989. Kiplinger's Personal Finance, April 1981; Richard Applebaum, John Atlas, and Peter Dreier, "Scapegoating Rent Control," Shelterforce 12 March/April 1990, "Thirty Years of Rent Control: A Survey of New Jersey Cities." John Gilderbloom with Lin Yi, Journal of Urban Affairs, Volume 29, 2007.

Fave Share [9 May 2011 12:05 PM](#) [Flag](#)

Load 10 more conversations

1-10 of 23